CalChamber

CALIFORNIA

Leading the Way to a More Prosperous California

2025 CalChamber Business Issues and Legislative Guide

2025–26 Legislative Session
119th Congress, First Session

CalChamber

Dear Reader:

Public policies can have a profound effect on whether businesses succeed. Accordingly, this issues guide highlights how state policy makers can be part of **Leading the Way to a More Prosperous California**.

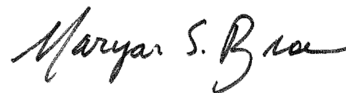
Affordability issues in areas ranging from housing to energy and taxation threaten progress on any prosperity agenda. This guide offers sensible, workable ideas to move forward, such as the following:

- Reject new taxes, suspension of tax incentives, and hidden taxes that penalize employers for investing, hiring or producing in California, and that increase costs or reduce availability of products or services.
- Mitigate future employer costs and hiring disincentives by repairing the Unemployment Insurance Fund deficit and reforming the program going forward to reduce costs and increase efficiencies.
- Reform the California Environmental Quality Act (CEQA) to reduce time-consuming and costly litigation that discourages or prevents construction of new housing, renewable energy projects, and critical water storage.
- Ensure that further greenhouse gas mitigation measures are technology-neutral, cost-effective, and include system reliability and public safety as guiding principles.

We invite you to be part of the collaborative effort to make living and working in our state a good choice for more people.

Please follow us on LinkedIn, Facebook or Twitter to stay informed on what your elected representatives are doing about California's prosperity and to learn how you can influence the discussions.

Together we can make sure that Californians share in the prosperity produced by our collective efforts.



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2025 Chair, Board of Directors

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Leading the Way to a More Prosperous California

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Pictorial Rosters of Elected Officials

The pictorial rosters of state elected officials and the California congressional delegation are available as downloadable PDF files at ***www.calchamber.com***.

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Way to a More Prosperous California

High Cost of Public Policies Shadows Post-Pandemic Recovery

The Golden State has arguably generated more economic success and opportunity than any society on earth.

California's total economic output, ranking fifth globally, tops India and rivals Japan. On a per capita basis, California's output is ninth, just behind Switzerland. Over the past 60 years, California has grown a third faster than the rest of the United States, and our economy has grown from 10% to 14% of the overall U.S. economy.

THREATS TO GROWTH

But the state's ability to maintain this trajectory of growth is severely threatened by the related issues of affordability and population growth.

Since 2018, California's economic, employment and income growth have all trailed the nation. After a decent bounce back from the pandemic, California has underperformed economically.

California's population has decreased by about a half million residents since 2020, or about 1.4%.

California may be one of the greatest prosperity generators the world has ever seen. But even so, it's often no match for the toll that the state's relentless cost of living takes on affordability for working and middle-income families. This crisis of affordability — much of it a result of or exacerbated by public policy — is the clearest and most immediate threat to continuing the California dream.

AFFORDABILITY CRISIS

In some ways, the great success of California sowed the seeds of the affordability crisis. Economic growth, the international renown of our high tech, biotech, entertainment and agricultural sectors, and our world class higher education systems, to name a few — these accomplishments can cloud the judgment of elected leaders, leading them to treat California as a "luxury good," deluding them to believe residents are willing to pay an ever-increasing cost to live here. This attitude can give rise to expensive and divisive policy initiatives that serve political constituencies and cultural trends, but which do not necessarily register with residents and taxpayers.

It costs a lot to make a life in the Golden State.

The good news is that California family income growth has kept up with the nation. Since 2011, median inflation-adjusted household income increased by 68% in California, compared with 61% nationally. Hourly wages in California for private sector workers are about one-sixth higher in California than in the nation, and have climbed by 40% over the past decade, compared with a 35% increase nationally.

The typical family and worker is making more in California, which is a good thing, because it sure costs more to live here.

HOUSING COSTS GROWING

The biggest expense for most Californians is housing, and every year costs grow for both prospective homeowners and renters. California housing costs are infamous nationally and are perhaps the biggest selling point for workers when workplaces are expanded or moved outside of the state.

According to the Public Policy Institute of California (PPIC), since 2014, California has experienced net losses of almost 700,000 adults who cite housing as the primary reason. The PPIC Statewide Survey has found that 34% of Californians have seriously considered leaving the state because of high housing costs.

But most dispiriting is that the cost of housing is among the greatest contributors to poverty in California. Homeownership rates in California are among the lowest in the country. Owning a home is the leading source of wealth for

most families, and over the long run provides families with more stable and lower housing costs compared to renting. Yet — primarily because of the state's high housing prices — homeownership is out of the reach of many Californians.

The modest efforts to increase supply that have been enacted at the state level have been more than offset by sharp increases in state and local regulations. These well-intentioned but misguided mandates include limits on rental price increases, a widespread use of eviction moratoriums, a failure to prioritize market rate units for permitting, and even going so far as taxing the supply of new housing (so-called linkage fees) to subsidize incredibly expensive affordable housing units. Fortunately, voters have rejected statewide rent control authority three times over the past decade, cognizant that this policy is far more likely to shrink housing supply than expand it.

ENERGY COSTS

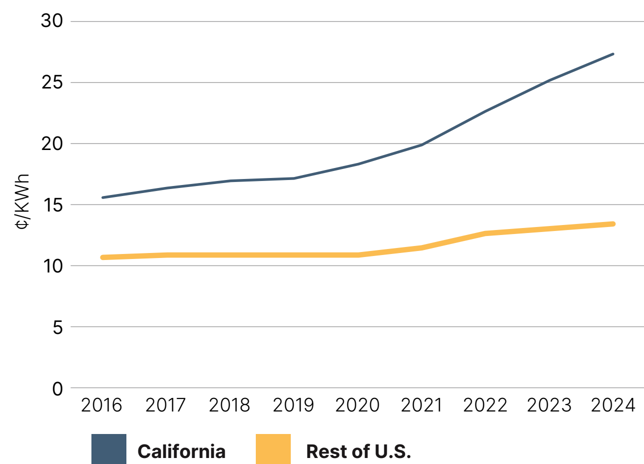
In addition to the high cost of housing, Californians also face a "luxury tax" on other essentials. The state has among the highest utility rates and gasoline prices in the nation, much of it a direct result of public policy. The bill is coming due for the two-decade long push by California's elected officials to make California a world leader in addressing the sources of climate change. The resulting policies have created real-world costs for Californians.

Californians pay the second-highest retail prices for electricity in the nation in every sector, trailing only Hawaii. For the residential and commercial sectors, California's end-use electricity rates are twice as high as the national average. Rates for industrial uses are nearly three times the national average.

State leaders recognized this phenomenon in 2024, although substantive action has been taken to address costs. Governor Gavin Newsom issued an executive order at the end of October 2024, directing executive and regulatory agencies to examine the benefits and costs to electric ratepayers of programs they oversee with an eye toward "modifying or repealing any statute that would reduce costs to electric ratepayers without compromising public health and safety, electric grid reliability, or the achievement of the state's 2045 clean electricity goal and the State's 2045 economywide carbon neutrality goal." Many legislators also are raising the alarm over the affordability of energy costs.

As of November 2024, California motorists paid about 55 cents per gallon in hidden "carbon" fees, on top of the state's nation-leading gasoline and diesel taxes. The carbon fees will likely increase substantially from changes to the "Low Carbon Fuel Standard" recently adopted by the Air Resources Board.

ELECTRICITY RATES - ALL SECTORS



Source: U.S. Energy Information Administration

The Board originally estimated the new regulations would increase the price of gasoline up to 47 cents/gallon but withdrew that estimate and has not updated it.

The clock is ticking toward the prohibition on sales of new gasoline-powered cars in 2035, and many cities are moving to ban the construction of new gasoline stations, as well as limiting new use of natural gas for residential heating and cooking, and for restaurants.

In addition to targeting the internal combustion engine, state and local officials want to reduce vehicle use no matter the fuel technology. Local governments and regional planning agencies are considering tools to discourage automobile use like fees on housing based on homeowners' projected road use, as well as "road diets" to reduce street lanes. The Air Resources Board's Scoping Plan for carbon reduction eyes reducing vehicle miles traveled per capita by 25% below 2019 levels by 2030, and 30% by 2045.

TAXATION

California's tax burden includes the highest income and sales taxes in the country, and very high corporate and gasoline taxes.

Meanwhile, the cost of employing workers continues to rise.

Employers are responsible for 100% of taxes to pay for unemployment insurance and assessments to support administration for workers' compensation, worksite health and safety and labor law enforcement programs. In addition, employers are responsible for paying premiums for mandatory workers' compensation insurance coverage.

The costs to support these programs are becoming … insupportable.

Massive unemployment (16.1% in California) from business closures during the 2020 pandemic forced the unemployment insurance (UI) fund into insolvency. California was one of only a handful of states in the red that chose not to use federal relief funds to offset the UI debt, which peaked in late 2021 at approximately $20 billion. As a result, employer taxes have been increasing annually by $21 per employee per year and will continue to do so until the debt is repaid — likely through at least 2030.

The costs to employers to support the administration and enforcement of state labor agencies have increased even more quickly. In the seven years since 2016–17, assessments for these programs have increased four-fold, and in just the past four years assessments have doubled.

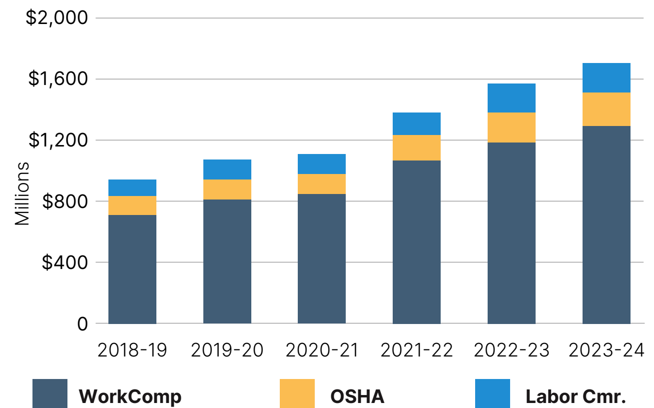
Of particular note is the once-obscure Subsequent Injuries Benefits Trust Fund (SIBTF) program, which provides supplemental benefits for injured workers with pre-existing conditions. Favorable court rulings and aggressive trial lawyers have pushed up spending for these benefits almost five-fold in only six years.

POPULATION DECLINE

According to the Department of Finance, the past fiscal year marks three straight years of population decline, during which California's population has decreased by more than 430,000 residents — the equivalent headcount of Long Beach or Oakland.

Domestic migration from California is not a new phenomenon; the state has been losing residents to other states for two decades. Most of the out-migration are adults without a college degree, although California also suffers a net loss of college graduates. As well, net out-migration was reflected in all income levels, from the wealthy to those with lower and middle incomes.

EMPLOYER ASSESSMENTS FOR LABOR LAW ADMINISTRATION

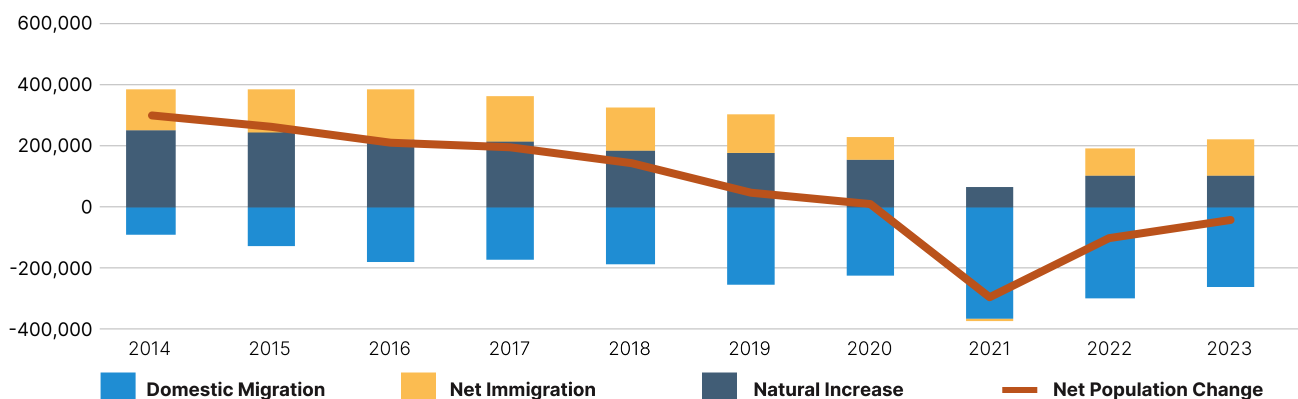


Source: California Department of Industrial Relations

California once maintained its population growth with natural increase and foreign immigration. But with foreign immigration only now recovering from its pandemic-era crash, and the birth rate falling as the state's population ages, domestic out-migration is taking an even higher toll.

The slower population growth will place a burden on the available labor pool, hindering its ability to fuel economic growth and generate tax revenues needed to support the state's growing elderly population. The ratio of prime working-age persons (age 25–64 – the ages when labor force participation peaks) to retirement-age persons (age 65+ when labor force participation declines rapidly) is expected to decline rapidly from 3.2 right now to 2.6 in 2030 and to 1.6 by 2070, less than 50 years from now.

CALIFORNIA POPULATION CHANGE



Source: California Department of Finance

Without migration, California and the United States will experience population losses as people age and deaths outnumber births. Fewer children will mean declining K–12 enrollment and more school closures. Longer term, the population decline will weaken demand for infrastructure, including housing and transportation. It also will mean fewer working-age adults to care for an aging senior population. Lower birth rates, however, also could allow for more investment per child and may spur environmental gains that accrue from a lower population. As California's population declines, it is essential to keep these longer-term effects in mind to create better outcomes for the future of the state.

PATH FORWARD

The picture painted by these trends illustrates the economic challenges faced by many lower- and middle-income Californians. The California private sector generates opportunity throughout the income spectrum, but without public policy changes that favor growth over redistribution, that opportunity will be locked away for many. Taxes on businesses, entrepreneurs and wage earners sustain hundreds of billions of dollars in state and local government spending.

The Legislature has at hand any number of sensible, workable ideas to reverse the unaffordability trend and promote growth. To name a few:

- **Remove barriers to more family-friendly, worker-empowering workplaces** by allowing individualized alternative work schedules, removing regulatory obstacles to work-from-home arrangements, and widening opportunities for freelance and start-up small businesses.
- **Reject new taxes, suspension of tax incentives, and hidden taxes** that penalize employers for investing, hiring or producing in California, and that increase costs or reduce availability of products or services, including employment-related, jobs-discouraging fees.
- **Mitigate future employer costs and hiring disincentives** by repairing the Unemployment Insurance Fund deficit and reforming the program going forward to reduce costs and increase efficiencies.
- **Reform the California Environmental Quality Act** (CEQA) to reduce time-consuming and costly litigation that discourages or prevents construction of new housing, renewable energy projects, and critical water storage.
- **Cap local mitigation fees** and other unproductive burdens on housing.
- **Remove self-imposed barriers to self-imposed goals**. California has the most aggressive carbon reduction goals in the nation, if not globally. California also has the most expensive and time-consuming rules to develop the infrastructure or approve new technologies to meet these goals.
- **Ensure that further greenhouse gas mitigation measures are technology-neutral, cost-effective, and include system reliability and public safety as guiding principles.**

REALITY CHECK

California retains significant competitive advantages as a place to start or grow a business. Employers, alongside many elected and community leaders, toil diligently to make California home for their enterprises. But continued economic growth and opportunity for Californians of all incomes and education is hobbled by the reality of just how much it costs to live in California. Public policies that have created these luxury taxes on essentials for living make the state increasingly unaffordable for California residents and unattractive to those who might otherwise invest in our economy.

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The People's Voice

Annual Poll Shows Voters' Priorities for Legislature

Key takeaways for state policy makers are evident in the California Chamber of Commerce poll *The People's Voice 2024*, the 10th in a series of annual surveys of California voters.

- Voters want more focus on growing jobs in the state, protecting our economy, and prioritizing spending on housing, law enforcement, homelessness, public education and economic development.
- Voters like direct democracy through the state's initiative process but remain concerned about costs, including the cost of homeownership and energy policies.
- Voters remain steadfast in their opposition to new taxes and polices that would advance single-payer health care.

GROWING JOBS

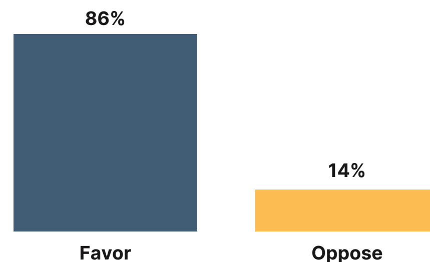
More than 90% of voters agree that California needs to do more to attract and retain businesses in the state. By a 71% to 12% margin, voters say that "good paying jobs are hard (versus easy) to find," and a plurality (45%) report that "major employers or businesses have left their community in recent years to relocate to another state (that is, outside California)."

VIEWS ON SACRAMENTO POLICIES

Only 37% of voters agree that the policies from Sacramento have improved their lives, leaving an opportunity for the new Legislature to step in and change outcomes.

Voters were asked to judge the Legislature on how effectively they are spending on various priority programs. Trust was wide-ranging.

CALIFORNIA VOTERS VALUE DIRECT DEMOCRACY ENABLED BY INITIATIVE AND REFERENDUM



Source: CalChamber People's Voice, 2024.

Opinions were about evenly split on the effectiveness of wildfire prevention and response and water supply and conservation, while public safety and addressing climate change received a 43% approval on effective spending. At the far end of the spectrum was the effectiveness of spending on homelessness, which received overall negative reviews from 85% of voters.

SPENDING PRIORITIES

In assessing policy priorities in a possibly tight state budget context, voters were asked to select which programs should or should not be protected against cuts.

Top priorities for keeping in place (based on the percentage of those polled choosing them) were programs for housing, law enforcement and homelessness, with economic development and public schools in the next tier. On the other side, voters pointed to benefits for undocumented residents, prisons, courts and climate change programs as lowest priority for spending.

NO NEW TAXES

The venerable citizens' initiative that stabilized property taxes, Proposition 13 from 1978, continues its nearly five-decade run of popularity — viewed favorably by 85% of voters.

Voters also are highly skeptical of weakening Proposition 13. In 2020, Californians rejected a ballot measure that would

have enacted a split roll property tax to raise billions in new taxes on property used by businesses and farmers. It's possible that California voters will consider this measure once again in a future election.

By a 3-to-1 margin, voters want to hold the line on new taxes rather than raise taxes for essential programs.

HOUSING

The cost and availability of housing remains top of mind for Californians, whether homeowners or renters. Voters support several policies that could reduce costs or spur more housing construction:

• **89%** support reducing the amount of fees on new housing levied by local governments.

• **79%** support limiting litigation over housing projects that have already been approved by local officials.

• **74%** support enacting laws such that if a housing project passes all the state's strict building and environmental impact requirements, then local activists and local laws cannot block that project.

• **73%** support using tax dollars to increase subsidies for low-income housing and local housing and shelters for homeless individuals and families.

• **69%** support reforming regulations that add expensive and time-consuming roadblocks to building new housing units.

CLIMATE CHANGE

Voters generally support the state taking an active role in addressing climate change, but they are concerned by the cost and impact on their lifestyle. Californians have become much more sensitized to inflation and affordability, and embrace fuel and utility costs as an avatar of the overall cost of living. Nearly four out of five voters (79%) believe new policies to reduce carbon emissions are more likely to cause prices and costs in California to increase.

• **84%** oppose intentionally designing roads or highways to be more congested to discourage driving.

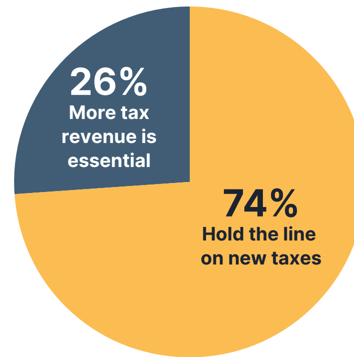
• **78%** oppose new fees for driving gasoline-powered vehicles.

• **71%** oppose banning the sale of gasoline-powered vehicles by 2035.

• **68%** oppose taxing vehicles based on how many miles they drive.

• **65%** oppose phasing out the use of natural gas cooking in homes and restaurants.

VOTERS DO NOT WANT PROPOSITION 13 DISRUPTED AND WANT TO HOLD THE LINE ON NEW TAXES



Source: CalChamber People's Voice, 2024.

• **64%** oppose banning construction of new gas stations.

• **62%** oppose phasing out the use of natural gas for home heating and water heating.

ARTIFICIAL INTELLIGENCE

The Legislature dove into the artificial intelligence (AI) subject area in 2024, considering more than 50 bills, including some that would have deeply regulated the development of AI models and tools. Voters are clearly aware of this new technology, and since surveyed on it in 2023, have an increasingly positive attitude about AI.

Asked about the impact that AI will have on their lives over the next few years, 37% of voters indicated it would be positive, versus 29% saying it would be negative. This is a reversal from the previous year, when the same question was 27%–35%, positive/negative.

Voters similarly reversed their opinion on the effect of AI on their children's lives over the next several decades, with 47% believing it will be positive, and 36% negative.

HEALTH CARE

Single-payer health care is an evergreen issue in the Legislature, no matter the partisan tilt in the federal government. With this in mind, 91% of voters report that they are satisfied with their health insurance (asked of those with insurance), and 49% report that they are "very satisfied."

Among those with private health insurance, 81% respond that they would rather keep their private insurance, as opposed to switching to a government-run single-payer approach.

DIRECT DEMOCRACY

California voters value direct democracy enabled by initiative and referendum. By a hefty 6-to-1 (86%–14%) margin, voters favor the ballot measure process that allows California voters to directly create new laws or repeal existing laws.

METHODOLOGY

The CalChamber poll was conducted by Bold Decision and Pierrepont Consulting & Analytics with online interviews from November 6–9, 2024, with 1,014 online interviews of California 2024 general election voters. The margin of error for this study is +/- 3.1% at the 95% confidence level. This is the 10th year CalChamber has published The People's Voice survey.

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Antitrust

Robust Market Competition Under Fire

Is the California free market sufficiently competitive, or should the Legislature and courts make new rules governing the state's $4 trillion economy? This complex question is under investigation by a state commission and may be the subject of legislation in 2025.

National advocacy organizations have mobilized to change federal and state antitrust laws to increase government oversight and regulation of markets and competition. California has initiated a commission-based policy development process, stacked with anti-market and pro-regulation activists, that will issue legislative proposals in the near future.

Congress has so far resisted calls to upend existing competition laws, and the Federal Trade Commission and U.S. Department of Justice have failed to consistently advance new antitrust theories. Advocates like the American Economic Liberties Project and its supporters, including labor unions and trial lawyers, have thus turned their attention to statehouses to get a foothold to adopt these new theories, including importing European theories of market competition. Most notably — and expansively — have been efforts in New York state, Minnesota, Pennsylvania and Maine, which are pending before their legislatures.

The posture of the Trump administration on antitrust litigation remains to be seen. During his first administration, federal agencies continued to pursue some high-profile holdover cases, and initiated new actions, but certainly nowhere near the scale of the Biden administration. No doubt there are antitrust hawks among Republicans, including Vice President JD Vance when he was a senator.

CALIFORNIA LAW REVISION COMMISSION

In August 2022, the California Legislature enacted ACR 95, a resolution directing the California Law Revision Commission (CLRC) to study "new prescribed topics relating to antitrust law and its enforcement." The CLRC is organized to study selected laws to discover defects and anachronisms and recommend legislation to make needed adjustments and revisions. Seven of the Commission's 10 members are appointed by the Governor, two are members of the Legislature, and one is the Legislative Counsel. This study is among the most far-reaching projects the Commission has undertaken, as measured by its potential effects on the California economy.

Jointly authored by Buffy Wicks (D-Oakland), current chair of the Assembly Appropriations Committee, Lorena Gonzalez, now head of the California Labor Federation, and former Republican Assemblymember Jordan Cunningham (San Luis Obispo), ACR 95 directed the CLRC to examine whether California should, among other things:

- Outlaw "single company monopolies."
- Expand definition of monopolistic behavior regarding tech companies.
- Evaluate industry "concentration" in the marketplace for the purpose of supporting new antitrust rules.
- Revise law regarding mergers and acquisitions, exemptions.

The California Chamber of Commerce has been closely monitoring and providing comments on this policy development effort and has urged the Commission to refrain from recommending any new legislation without first establishing a unique need for a separate state legal framework and conducting a cost-benefit analysis of the economic effects of such far-reaching proposals.

The Commission assembled and directed eight working groups to provide insight on subjects identified by ACR 95, and several others. Most controversial were reports by the working groups on Single Firm Conduct and Concentration in California.

The CalChamber strongly urged the Commission to reject separate regulation of single firms, since its proposal fails to distinguish between what is and what is not anticompetitive and rejects more than a century of federal and state precedent designed to identify truly anticompetitive conduct.

The Single Firm Conduct Working Group legislative proposal is based on anecdotal and unsupported beliefs that competition in California could be more robust, and it does not provide any economic analysis of the likely impact of the reforms. The proposal's imprecision and lax standards will chill competition and will lead to increased litigation that will result in inconsistent rulings among courts, together with rulings restricting pro-competitive conduct, making doing business in California more expensive, riskier, and less desirable — all of which is bad for California consumers and workers.

Every corner of the California economy would be affected by changes in antitrust and competition law. After all, that's the intent of the advocates for change. The headline targets will be technology, finance, health care, media and entertainment, energy, pharmaceuticals, and biotechnology; however, based on proposals in New York and what we have seen from the CLRC so far, we expect legislation to be so far-reaching that it could have an impact on every industry here in California.

The intended and unintended consequences of these profound changes in the legal framework will capture small and legacy businesses and long-established industries. For example, establishing an aggressive definition of industry concentration could destabilize historic relationships within supply chains. Prior approval of mergers and acquisitions by the Attorney General could fundamentally transform the investment and growth climate in California.

ECONOMIC IMPACTS

Other industry groups have been intensely interested in debate over the regulation of competition as framed by the CLRC.

The Motion Picture Association released an economic report that repudiated the Concentration Working Group's conclusion that the audiovisual sector is implicitly uncompetitive because it is "overly concentrated." In fact, the report found, "The audiovisual industry is a dynamic and highly competitive industry with numerous participants providing an increasingly diverse array of content across new and innovative delivery platforms, benefitting consumers."

California's technology industry has been a particular target of the Legislature for regulation on many fronts. The tech sector was called out uniquely in ACR 95 for examination by the Law Revision Commission.

Representatives of the tech industry have provided testimony to the Commission demonstrating the devastating effects that, say, a California version of the European Digital Markets Act, would have on the industry. Hamstringing the technology sector would have serious implications for the California economy and investment climate.

According to a study published by the California Foundation for Commerce and Education, on its own, the tech sector accounts for 19% of California's gross regional product (GRP), contributing $623.4 billion to the state's economy in 2022. The full breadth of its impact is even larger when considering the activity it drives in other industries via business-to-business interactions and through personal consumption spending among tech sector workers. Factoring in these ripple effects, the tech sector contributed nearly $1 trillion to California's GRP, accounting for 30% of the state's economy. In terms of employment, the tech sector supported 4.2 million jobs, or 20% of all jobs statewide.

Another report by NERA, a national economics firm, undermines a key argument by the Concentration Working Group that attempted to define the "monopoly problem" in California. The report cites a "deeply flawed" principal talking point used by those who advocate for new, sweeping regulation of business organization. According to experts with NERA, the mistaken premise of "industrial concentration" is a misleading and an unworkable benchmark of monopoly power. These experts assert that trends in industrial concentration "should play no role in guiding antitrust policy in California, any other state, or the United States" because concentration is neither a growing phenomenon, nor has been demonstrated to itself reduce competition in markets or harm consumers.

The NERA report dug deeply into the trend by advocates to point to industrial "concentration" as evidence that markets are not competitive. Far from it, concludes NERA. The experts found that:

- No evidence exists suggesting that concentration in the United States has risen to "excessive" or "harmful" levels.
- Industrial concentration is not a useful benchmark of monopoly power.
- No empirical evidence exists demonstrating industrial concentration trends in California.

The authors conclude that trends in industrial concentration should play no role in guiding antitrust policy in California,

any other state, or the United States. The CalChamber also cautions that anecdotal or ad hoc claims regarding concentration are not a substitute for rigorous empirical analysis and should be rejected. Basing policy decisions on unfounded claims of increasing and excessive concentration has the potential to do serious harm to the California and U.S. economies.

In 2024, no anti-competition bills survived the legislative process. A proposal (AB 2230) to subject large residential housing purchases to scrutiny under the Cartwright Act failed in the Assembly. A proposal to subject purchases of health care businesses by private investors (AB 3129) to burdensome antitrust regulation was vetoed by the Governor.

CALCHAMBER ACTION

To address this looming issue, the CalChamber has organized a coalition of industry associations and individual businesses, Californians for Fair Competition, which could have far-reaching implications for the competitive marketplace in the state.

The coalition will enlist a full suite of services to improve the California business community's capacity to engage on this issue before the Commission, and ultimately before the Legislature.

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January 2025

Education

California Students Remain Behind After COVID-19

As we mark five years since the COVID-19 pandemic began, and roughly two years since California's official COVID-19 state of emergency ended, few visible signs of the pandemic remain across California. But, upon closer examination, the damage of COVID-19 remains clearly visible in California's educational pipeline.

Student test scores took a sharp dive as schools closed – and have yet to recover. Comparing statewide standards from last year (2023–2024) to pre-pandemic scores (2018–2019) paints a stark picture.

Across all ages, the percentage of California students meeting statewide goals in education and math dropped approximately 4%, with only 35.5% and 51.1% of students meeting math and English language arts standards in the 2023–2024 academic year, respectively. This across-the-board drop also hides more nuanced differences among populations and subject matters. Focusing on 11th grade test scores (the highest age at which standardized tests are conducted), the percentage of students meeting state standards rises to 55.7% for English, but falls sharply for mathematics, with *only 27.9%* of students meeting state math standards. And this severe lack of mathematics is even more extreme for students of color; passage rates for Latino, African American, and Native American students were *all below 14.1%* in the 2023–2024 academic year. Moreover, data from the Northwestern Evaluations Association (a not-for-profit focused on student testing) suggests that the gap between pre-COVID and post-COVID test scores *widened* in 2023-2024 in nearly all grades.

Thankfully, more and more academic research is focusing on this learning loss – and helping policymakers understand its implications.

Recent research coming out of Harvard and Stanford's joint "Education Recovery Scorecard" suggests that, though students are learning once again, they cannot be expected to catch up to prior percentages without increased classroom time.

"Children have resumed learning, but largely at the same pace as before the pandemic. There's no hurrying up teaching fractions or the Pythagorean theorem."

— Stanford Professor Thomas Kane

These decreases in test scores have real-world implications for the economic health of young Californians. Researchers at Harvard University found that there was a real-world correlation between middle school mathematics scores and lifetime earnings, and therefore project that pandemic-affected students may see decreased lifetime earnings.

TIDAL WAVE OF RETIREMENTS EXPECTED IN 2025-2027

Just as our educational pipeline is faltering, California's employers are looking at a looming wave of retirements and an anticipated need to replace employees with those critical skills. Approximately 4.1 million Americans will turn 65 this year — and every year through 2027 — meaning that the economy is likely to experience a wave of retirements. And this aging trend is going to continue. In 2022, 15.8% of the state's population was 65 or older, but the California Department of Finance projects that about one in four (23.1%) Californians will be 65 or older by 2040. Although long-term workers have certainly earned their retirement, the question confronting employers is: who will replace them? Hopefully, the answer is: a new generation of qualified Californians.

But will they be ready? If policy makers do not take seriously the COVID-19 learning gap — as well as longtime deficiencies in science, technology, engineering, and mathematics (STEM) education, then California's employers and California's economy may be hamstrung by a lack of skilled and educated workers. And if young Californians are not ready to fill these critical roles, where are these workers to come from?

PRESENT WORKFORCE ISSUES: YOUTH DISCONNECTION AND COVID-19 DEPARTURES

Even before the expected retirement tsunami hits California in 2025–2027, California's economy is already being hampered by a lack of qualified workers, particularly in blue collar jobs. Many of the workers who left the economy during the COVID-19 pandemic never returned — and younger workers have not filled those gaps.

Youth unemployment rates remain strikingly high. In August 2024, the unemployment rate for 16–19-year-olds was 21.4% — approximately four times the all-ages statewide rate of 5.3%. And the issues don't stop at age 20; a new report from Beacon Economics suggests that 90% of the newly unemployed between January 2023 and June 2024 were under 35.

As a matter of policy, these trends suggest that young Californians are not gaining the workplace skills they need in critical early years, and that their lifetime earnings will be lower than their predecessors. In short, they are losing a piece of their American dream because the education pipeline and economic realities are not putting them on the right path.

POLICY SOLUTIONS NEEDED, DESPITE TIGHT BUDGETS

Policy makers must look to cost-effectively streamline and improve educational pipelines to help young Californians build the skills necessary to join the workforce. These solutions will not be easy considering the lean 2024–2025 budget and the anticipated lean budget cycles in subsequent years.

California's youth — and diverse immigrant population — must be given the skills needed to fit into California's workforce by California's educational pipeline. This is an imperative, not just for California's employers, but for California's workers as well. Looking at the situation from the perspective of individual workers, each Californian deserves a chance to earn the training and skills needed to support themselves and their families and enjoy the opportunities of a rewarding career path.

California's economy needs all kinds of labor — including workers with technical skills, college degrees, and even post-graduate degrees. Although advanced degrees and technical training statistically improve incomes, not all Californians have the same opportunity for those improved outcomes. According to the Public Policy Institute of California (PPIC), low-income, first-generation Latino and African American students — who make up most of the state's public high school attendees — are less likely to graduate from high school, enroll in college, and graduate from college than their peers. And even brief college participation can change a worker's prospects. PPIC estimates that one-third of all jobs in California require some college, but not a full bachelor's degree, and see this share holding steady in the future.

Recent legislative and gubernatorial action do provide some signs of positive action in this area. In 2021, The California Chamber of Commerce supported then-Assemblymember Eloise Reyes's (D-San Bernardino) AB 469, which required high schools to help students complete federal student aid (FAFSA) applications beginning in the 2022–2023 academic year. As a result of that legislation, more Californians have applied for available federal funds to support their education — at no cost to the state budget or California employers.

More recently, in the fall of 2023, Governor Gavin Newsom created his "Governor's Council for Career Education," with the intention of developing a master plan to cost-effectively improve career readiness and help connect students to high-paying and fulfilling careers. Throughout 2024, working groups with stakeholders were held, and this effort eventually may succeed in articulating the workforce needs of employers and capabilities of education and training institutions. The key challenge will likely be ensuring that potential workers can be provided in a timely manner with the skills and competencies identified by employers.

The 2023 batch of legislation also showed some promising bills focused on simplifying and facilitating high school students' transition into the workforce, into training programs, or into higher education. For example, in 2024 the CalChamber supported Assemblymember Marc Berman's (D-Palo Alto) AB 2057, which implemented high-impact expert recommendations to improve California's Associate Degree for Transfer program, helping transfer students and improving equity gaps in STEM majors.

Similarly, in 2024 the CalChamber supported SB 1244 by then-Senator Josh Newman (D-Fullerton), which allowed more school districts to operate dual enrollment programs with local community colleges — and therefore should allow more California students to get a taste of higher education

while still in high school. This kind of legislation is critical — but more is needed to help Californians gain the necessary education and prepare for productive and well-paying careers.

EMPLOYER INVOLVEMENT

California's businesses also must play a role in filling California's skills gap and replacing retiring workers by coordinating with educational programs to identify the skills that California's economy will need to grow and must help students develop those skills.

Rather than waiting for training and workforce agencies to deliver prospects with hoped-for skills, companies should treat their workforce needs like they would any supply chain: project workforce demands, identify and clearly define the necessary skills, and partner with education or training providers to develop curriculum tailored to specific jobs. This coordination allows people to enter these training programs knowing that they will lead to employment and employers can rely on a steady pipeline of talent, ready to fill open positions.

For example, successful high schools often use Linked Learning programs, integrated curriculum, and partnership academies that use career-oriented academics and career technical education (CTE) courses to increase student engagement and performance. Through these programs, schools engage employers as partners to offer work-based learning opportunities, such as internships, mentorships, job shadowing and other workplace exposure experiences. In exchange for their time and efforts, employers can help train their own future workforce and guarantee that their employment needs will be met.

CALCHAMBER POSITION

California's economy is the envy of the world — but it cannot continue to thrive without an effective educational pipeline to support a skilled workforce. For the sake of economic growth, social cohesion, and personal fulfillment of individual Californians, California's leaders must address the damage of COVID-19 to our students' learning and ensure our schools are providing the necessary skills for tomorrow's workforce.

The goal should be to ensure that every student graduates from high school prepared for the next step — whether that's college or career. Although college can provide the most immediate boost to economic mobility, graduates also can profit from postsecondary choices other than a four-year college. In addition, work-based learning, such as internships and apprenticeships, as well as credentialing and certificate programs, also can prepare students for fulfilling careers. California's educational pipeline must recognize the diverse needs of our economy — and adjust to fill those needs despite the storm of COVID-19 learning loss, upcoming retirements, and youth unemployment.

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Single-Payer Health Care

Government-Run Health Care Reduces Choice, Increases Costs

During the 2024 legislative session, a contingency of California legislators led by Assemblymember Ash Kalra (D-San Jose) reintroduced a bill that attempted to implement a government-run, single-payer health care system in California. This convoluted and extremely expensive system eradicates personal choice by eliminating health care coverage options and forcing all Californians into the state-run system. Over the years, polls have found that voters preferred keeping their own health care coverage rather than switching to a government-run program propped up by astronomical taxes. The Legislature should respect the will of those they represent and allow for personal choice when it comes to health care coverage.

SINGLE-PAYER HEALTH CARE DEFINED

In an authentic single-payer health care system, private and employer-provided health insurance is nonexistent. Rather, health care is delivered through public or private hospitals and health care providers. The expenses associated with the care are paid for by public financing, which means the government obtains the money by taxing employers, employees, and individuals. While the health care is typically delivered at low-to-no cost at the point of use, it is in no sense "free," since higher taxes and consumer copays foot the bill for the care.

SINGLE-PAYER HEALTH CARE IS NOT FREE HEALTH CARE

There's nothing free about a government-run health plan. During the 2024 legislative session, AB 2200 was introduced by Assemblymember Kalra with a number of co-authors. This was similar to SB 562 which was introduced by then-Senator Ricardo Lara (D-Bell Gardens) in 2017, and AB 1400 introduced by Assemblymember Kalra in 2021. According to SB 562's Senate Floor analysis, a single-payer proposal in California was estimated to cost more than $400 billion annually.

More recently, the Healthy California for All Commission estimated that total health care costs annually exceed $500 billion in California. This amounts to one-seventh of our gross state product and would more than double our state's budget.

In 2019, the Committee for a Responsible Federal Budget conducted a Medicare for All analysis and found that a single-payer model would potentially be funded by payroll tax increases, income surtaxes, value-added taxes, mandated public premiums, doubling individual and corporate income tax rates, or a combination thereof.

In 2008, the Legislative Analyst's Office (LAO) analyzed the cost of a single-payer system in California and concluded that more than $210 billion would be needed in the first year to sustain such a system and the cost would increase up to $250 billion in subsequent years. Even with a 12% payroll tax paid both by employers and employees under that measure, the report predicted a net shortfall of $42 billion in the progran's first full year of implementation and even higher thereafter. Just to cover the shortfall, a 16% tax on employers and employees was estimated by the LAO, resulting in a multibillion-dollar-tax increase on Californians.

Vermont attempted to enact a single-payer system in 2011, but the efforts were derailed in 2014 when the Legislature failed to approve an accompanying 11.5% payroll tax on all employers and an individual income tax increase of up to 9.5%. Vermont's plan would have doubled the state budget and then-Governor Peter Shumlin said the burden would have posed "a risk of economic shock." When asked about the failed single-payer effort, Governor Shumlin said, "What I learned the hard way, is it isn't just about reforming the broken payment system. Public financing will not work until you get costs under control."

HEALTH CARE COVERAGE ALREADY AVAILABLE

When health care data is examined, it is clear that coverage is available in California. In 2022, 35.9 million Californians were enrolled in health care coverage — a record number. Of this number, 13 million were enrolled in Medi-Cal managed care coverage, 14.1 million were commercial enrollees and 5.8 million people were covered by a self-insured plan. Covered California reported that 1.74 million people enrolled in their plans in 2023.

According to a March 2023 Policy Brief by the University of California Los Angeles Center for Health Policy Research and University of California Berkeley Labor Center, after the January 1, 2024 Medi-Cal expansion, California's uninsured population will decrease to a record low of 2.57 million people under the age of 65. California continued to expand Medi-Cal coverage for undocumented residents over the last several years.

GOVERNMENT-RUN HEALTH CARE LESS EFFICIENT, LESS EFFECTIVE

The goal to provide health coverage for all Californians is laudable but establishing a state health care bureaucracy is the wrong approach. The California Chamber of Commerce fundamentally disagrees that government systems are more efficient than private businesses and that a single-payer system would be less costly than the current private system.

Single-payer health care will reduce the level and quality of health care and benefits currently enjoyed by millions of Californians. It will lead to increasingly long wait times to see a physician and will take away choice — not just choice in physicians, but choice in coverage. Under current law, those who wish to buy more, less or different coverage than others often can make those choices, just as those who have other priorities can exercise them in the market. Under single-payer, one size fits all, no matter what an individual's preference might be.

CALIFORNIANS HAVE REJECTED GOVERNMENT-RUN HEALTH CARE

California voters have twice rejected a government-run health care system at the ballot box — in 1994 and 2004. Additionally, CalChamber polling has found that voters overwhelmingly preferred to keep their current health insurance over switching to a single-payer approach.

Voters strongly support subsidies for people who cannot afford their own health care and for those who have preexisting health conditions but were not ready to embrace government-run health care.

CONSTITUTIONAL AND FEDERAL CHALLENGES

The state constitutional barriers to a single-payer system include the Proposition 4 appropriations limit and the Proposition 98 education finance guarantee. The Proposition 4 limit constrains overall state spending to growth based on population and inflation factors. The large tax increase required by a single-payer system would push spending above the limit.

California's Proposition 98 creates a school finance formula that requires a portion of any new general revenues to be dedicated to schools. The tax increases necessary to pay for single-payer health care would require a companion amendment to the California Constitution that exempts the new revenues from both the Proposition 4 appropriations limit and the Proposition 98 school finance formula. The constitutional amendment would require voter approval.

Even if state constitutional amendments were approved, California would have to obtain approval from the federal government to allocate federal Medicare and Medicaid funding to a California government-operated, single-payer health care system. Given the incoming Republican administration, such a waiver is not likely. Without the necessary federal funding, California could not afford to proceed with a single-payer system.

CALCHAMBER POSITION

Californians need to have affordable, accessible, quality health care. While Californians experience premium increases on an annual basis, hundreds of billions of dollars in new taxes and complete restructuring of the health care system is not the answer to insuring the uninsured and making unaffordability affordable. A single-payer system abrogates the freedom individuals have to pursue health care coverage of their choosing.

Single-payer health care does not equate to free health care, and the exorbitant taxes and costs associated with this system will systemically eradicate new jobs while driving out existing industries. The consequences associated with adopting a single-payer health care model should give the Legislature serious pause in pushing forward any proposal in California.

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Pharmaceutical Spending

Cost Containment Tools Include Pharmacy Benefit Managers

Health care spending in the United States is on the rise and a major component of that increase is escalating prescription drug costs. By no means is California immune from this spending surge. Health plans pay more money, year after year, for prescription drugs, which is a major element in explaining why employer-sponsored health plan premiums are increasing.

Stemming the rise of pharmaceutical costs falls largely on the shoulders of the federal government. However, the state of California and employers have tools that can assist in this task. Namely, California requires reporting for pharmaceutical spending and the recently created Office of Health Care Affordability tracks health care cost drivers. Additionally, health plans and employers typically utilize pharmacy benefit managers to manage their prescription drug spending.

CALIFORNIA'S PRESCRIPTION DRUG SPENDING

According to the Department of Managed Health Care (DMHC), health plans paid about $12.1 billion for prescription drugs in 2022, an increase of almost $1.3 billion or 12.3% from 2021. On a per-member-per-month (pmpm) basis, health plans paid $79.82 in 2022, which is an increase of $8.36 pmpm or 11.7% from 2021. Since 2017, prescription drug costs paid by health plans increased by $3.4 billion or 39%. Prescription drugs accounted for 14.2% of total health plan premiums in 2022, an increase from 13.3% in 2021.

The DMHC found that while specialty drugs accounted for only 1.6% of all prescription drugs dispensed, they accounted for 64% of total annual spending on prescription drugs. Generic drugs accounted for 88.9% of all prescribed drugs but only 14.4% of the total annual spending on prescription drugs. These figures demonstrate how important it is for employers and plans to offer a wide range of options when it comes to filling specialty drug prescriptions. This could include mail pharmacies, white bagging options, or certain pharmacy network restrictions. This model helps keep ever-rising prescription drug costs manageable for all of us.

"Prescription drug costs are a major contributor to the overall cost and affordability of health care," said former DMHC Director Shelley Rouillard. The 2023 Kaiser Family Foundation Employer Health Benefits Survey indicated that the average annual premiums for employer-sponsored family health coverage reached $23,968, with workers on average paying $6,575 toward the cost of their coverage.

When looking at national trends, The Centers for Medicare & Medicaid Services' National Health Expenditure Data indicates that prescription drug spending increased 8.4% to $405.9 billion in 2022, faster than the 6.8% growth in 2021. The Centers for Medicare and Medicaid Services previously projected that such spending will continue, climbing to $1,635 per capita by 2027, an increase of 60%. The price of prescription medications rose 62% between 2011 and 2015.

While pharmaceutical spending continues to grow, employers and health plans utilize tools such as pharmacy benefit managers to minimize economic impacts.

PHARMACY BENEFIT MANAGERS

A pharmacy benefit manager (PBM) is a company that helps manage prescription drug benefits for employers, health plans and health insurers. The primary function of a PBM is to act as an intermediary between health insurers, drug manufacturers, and pharmacies to make sure that prescription medications are covered and cost-effective under a health plan.

PBMs negotiate with drug manufacturers and pharmacies to get lower prices on medications. The PBMs use the economies of scale and their purchasing power to procure better prescription drug deals, which then are passed on to, primarily, the health insurance plan and consumers.

PBMs create and manage formularies, which are a list of covered drugs under the health plan. The PBM and the health plan will decide which drugs will be covered by the plan and how much patients will need to pay for them.

When California employers provide prescription drug coverage to their employees, PBMs typically are retained to manage that coverage. This is true for self-insured plans, health plans, or health insurance.

After a health plan or employer contracts with a PBM, they negotiate lower prices for medications. Drug benefits are extremely complicated, so employers outsource the management of this benefit to PBMs, since that is their primary function.

LEGISLATION DIRECTED TOWARD PBMs

In 2024, there were federal and California efforts to control and regulate PBMs. Federally, Congress has proposed legislation to increase PBM transparency by requiring disclosures related to how PBMs set drug prices and assess fees. The congressional efforts also propose to limit or eliminate certain rebates and expand formularies.

In California, Senator Scott Wiener (D-San Francisco) introduced SB 966, which ultimately was vetoed by Governor Gavin Newsom. SB 966 attempted to establish a licensing requirement for PBMs overseen by the California Department of Insurance. The bill also proposed to require PBMs to comply with certain reporting requirements, prohibit certain pharmacy practices related to claims, and ban spread pricing models. While the California Chamber of Commerce certainly supports the proposition of obtaining greater transparency, the provisions within SB 966 would have acted as a health care cost driver.

The Pharmaceutical Care Management Association estimated that PBMs will save Californians $110.55 billion from 2020–2029. The provisions of SB 966 would have weakened the tools that assist in keeping drug costs down for patients and employers. While the transparency goals within the bill were laudable, the overall structure of the legislation eroded the methods PBMs use to manage prescription drug spending for California businesses.

CALCHAMBER POSITION

There is no disagreement that health care costs are rising and making it more difficult for employers and their employees to afford quality, accessible care. Maintaining a viable health insurance market with affordable and accessible pharmaceuticals is important. However, legislation that targets PBMs, rather than the manufacturers who produce the drugs and set pricing, will ultimately increase premiums on employers and employees.

The CalChamber will continue to promote efforts to contain health care costs and improve access to high-quality care while avoiding added burdens and higher costs on employers.

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California Housing in 2025

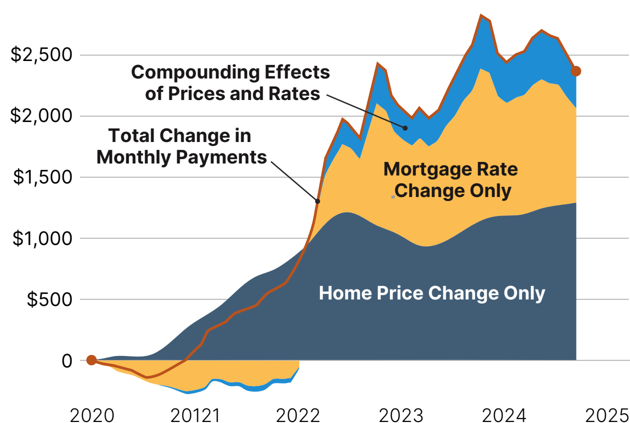
Comprehensive Environmental Law Reform Can Spur Housing Development

Despite near-universal acknowledgement of a crisis, years of debate and numerous policy efforts in the California Legislature, the state continues to set record home prices year after year with demand far outweighing supply. The transformative policy changes needed to spark a housing construction boom remain illusory.

Median home prices in the Golden State hit $868,150 in 2024, giving California (again) the unwanted accolade of being the most expensive housing market in the nation. Mid-tier homes in California — those in the 35th to 65th percentile range — are now more than twice as expensive as the typical mid-tier home in the rest of the United States. Additionally, the prevailing mortgage rate on a 30-year fixed rate mortgage skyrocketed from 2.7% in January 2021 to 7.6% in October 2023, dropping only slightly to 6.2% in September 2024. This increase in mortgage rates coupled with increased home prices have only compounded California's housing affordability crisis.

GROWTH IN MONTHLY HOME PAYMENTS SINCE 2020 DRIVEN BY BOTH HOME PRICES AND MORTGAGE RATES

Cumulative change in monthly payment for a newly purchased mid-tier home in California



Source: LAO• Get the data • Created with Datawrapper

RARE BRIGHT SPOT: RENTS CAME DOWN IN SOME CITIES

Although California remains one of the most expensive states in the country for renters, the state surprisingly saw reductions in median rents in 2024 across many major cities — opposite of what most cities around the country were seeing. For example, in San Diego County, the average rent decreased from $2,338 in 2023 to $2,170 in 2024, a more than 7% drop. And in the city of San Diego, the average rent fell from $2,266 in spring 2023 to $2,189 in spring 2024, a decline of more than 3%. (Southern California Rental Housing Association) The most significant drops in rental prices were observed in Oakland and Sacramento, where rates fell by 9.1% and 8.1%, respectively, compared to 2023. Los Angeles saw a 5.0% decrease, San Jose about 2.3% decrease, and San Francisco 1.7% decrease. (California Apartment Association)

Whether this trend will continue remains to be seen. It is unclear whether the decreases were in part due to rents reaching all-time highs post pandemic and coming back down to more healthy levels, whether renters were moving out of the state or a more macro sign of California's economy.

IS CALIFORNIA EXODUS OVER?

At the start of 2024, the Public Policy Institute of California (PPIC) warned that California "appears to be on the verge of a new demographic era, one in which population declines characterize the state." Lower levels of international migration, declining birth rates, and rising deaths contributed to this trend. However, PPIC identified the primary driver of

population loss as Californians relocating to other states. Between 2000 and 2020, California experienced a net loss of 2.6 million residents to other parts of the United States. Since 2010, 7.5 million people have left California for other states, while only 5.8 million moved in. According to the U.S. Census Bureau, the state's population fell by 114,000 between 2021 and 2022.

Despite these concerning trends, California began to see a shift in 2023, marking the first population growth since 2020. According to the California Department of Finance, California added 67,000 residents last year, bringing the total population to 39,128,162. The growth largely stems from a rise in legal immigration and natural population increases. While counties like Los Angeles continued to see resident losses, areas such as Riverside, San Bernardino and Sacramento experienced notable population gains. Similarly, cities like Bakersfield, Fresno and Sacramento grew as more people moved away from urban centers such as San Francisco and Los Angeles, where both home prices and rental prices are some of the highest in the nation.

WHAT LEGISLATURE SHOULD ADDRESS IN 2025 RELATING TO HOUSING

CEQA Abuse

The California Environmental Quality Act (CEQA) is not the sole cause of the housing shortage, but it often is a major impediment to housing development in California — no matter the size of the project. CEQA requires local governments to conduct a detailed review of discretionary projects prior to their approval. CEQA protects human health and the environment by requiring lead agencies to analyze the impacts of projects and then requires project developers to mitigate any potentially significant environmental impacts. But unlike most environmental laws and regulations in California, CEQA is enforced through private litigation, which has mushroomed over time. The litigation can substantially slow or even stop housing projects when opponents do not want added density in their neighborhood, do not want a competitor locating in the area, or want to leverage the project developer for unrelated considerations, like union labor, preferential hiring, or additional environmental mitigation.

CEQA can add significant cost and time to the housing development process. Even the threat of litigation can discourage developers or substantially raise the costs to develop housing, as developers expend significant resources preparing for and defending their projects from opponents. And because housing costs ultimately are borne by future home buyers, CEQA inevitably raises housing prices in California *even if* the project is unchallenged. It may be no coincidence that California's cost of housing began to increase significantly the same decade in which the California Legislature passed CEQA and increased community resistance to new homes got stronger. Between 1970 and 1980, California home prices went from 30% above U.S. levels to more than 80% higher, according to a report from the Legislative Analyst's Office.

Streamline Planned Communities

California needs to prioritize and streamline the construction of master-planned communities to address the critical housing shortage and create resilient, sustainable growth throughout the state. Large-scale developments offer a unique opportunity to build tens of thousands of new homes while integrating essential infrastructure like roads, schools, infrastructure and utilities from the outset. Unlike smaller piecemeal projects, master-planned communities can strategically reduce vehicle miles traveled (VMTs) by incorporating job centers, schools and retail within the community, promoting walkability and reducing the state's reliance on long commutes. These types of developments can make substantial investments in sustainability — such as energy-efficient design, water conservation systems, and renewable energy integration — that smaller developments simply cannot achieve at scale.

While infill development plays a crucial role as part of California's overall housing policy, it alone cannot meet the state's overwhelming housing shortage. Infill projects often face significant limitations, including high land costs and intense community opposition. With millions of new units needed in California to stabilize the housing market, master-planned communities can complement infill housing policies by delivering housing at scale while addressing critical gaps in affordability, infrastructure, and environmental sustainability. Combined with targeted infill efforts, these developments provide the scale and flexibility California desperately needs to tackle the housing crisis.

CALCHAMBER POSITION

California's housing crisis is driven by a clear lack of supply that is driving residents out of state and discouraging new people and investments from coming in. Unaffordable housing forces many Californians into extra-long commutes, adding more air pollution and traffic congestion while reducing worker productivity and quality of life.

Comprehensive reforms of environmental and zoning laws

are necessary to remove obstacles that hamper housing construction, add delay and raise home prices and rental prices. A comprehensive reevaluation and reform of CEQA is a critical step to spurring housing development in California as abuses continue to plague timely development of housing.

Maintaining CEQA's legacy of protecting human health and the environment is not incongruent with more streamlined housing development. The state can no longer afford to play on the margins — it must take bold action by passing policies that spur critically needed supply.

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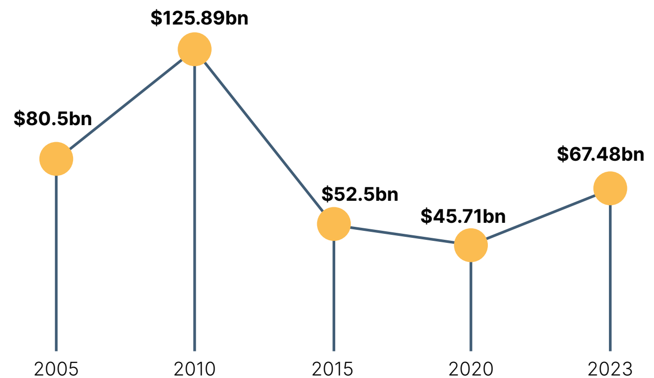
Sub-Saharan Africa Trade Relations

Sub-Saharan Africa Expected to See Growth in 2025; Needs More U.S. Engagement

- Sub-Saharan Africa will have 25% of the world's population by 2050.
- Sub-Saharan Africa is home to the world's second largest rainforest and 30% of the world's critical minerals.
- California exported $727 million to the region in 2023.

TWO-WAY TRADE IN GOODS BETWEEN UNITED STATES AND AFRICA



Source: U.S. International Trade Commission; U.S. Department of Commerce.

The World Trade Organization (WTO) reported in October 2024 that the sub-Saharan African region is expected to have a 3.3% increase in gross domestic product (GDP) growth for 2024, the third strongest export growth of the WTO regions. Sub-Saharan Africa resiliency continues as exports are expected to grow by 2.5% in 2024, with imports expected at only 1%, due to a predicted "larger-than-expected" drop in imports from one of its major trading partners, Europe. This is also despite many economic and social risks in the region.

According to the *Economist*, no other country comes near the depth and breadth of China's engagement in Africa. It is Africa's largest trading partner, bilateral creditor and a crucial source of infrastructure investment. Chinese firms account for an estimated one-eighth of the continent's industrial output. Chinese-built digital infrastructure is critical to the platforms on which Africans communicate. Political, military and security ties are becoming closer.

AFRICAN GROWTH AND OPPORTUNITY ACT

The African Growth and Opportunity Act (AGOA) is a trade preference program that has been the model behind U.S.-African trade and investment since it was enacted in 2000. The AGOA provides duty-free entry into the United States for almost all African products. This has helped to expand and diversify African exports to the United States. In 2015, the U.S. Congress renewed AGOA; it will be up for renewal in 2025.

In 2023, U.S. imports under AGOA totaled $9.3 billion. This consisted of approximately $4.2 billion in crude oil and $5 billion in other products, including $1.9 billion in motor vehicles and more than $1.1 billion in textile and apparel.

The AGOA embodies a trade and investment-centered approach to development. Enactment of the AGOA has stimulated the growth of the African private sector and provided incentives for further reform. The AGOA is aimed at transforming the relationship between the United States and sub-Saharan Africa away from aid dependence to enhanced commerce by providing commercial incentives to encourage bilateral trade. Since 2000, AGOA has helped increase U.S. two-way trade with sub-Saharan Africa.

AFRICAN CONTINENTAL FREE TRADE AREA

The African Continental Free Trade Area (AfCFTA) was brokered by the African Union in 2018, with the pan-African free trade zone taking effect on January 1, 2021.

The AfCFTA will have far-reaching benefits for the region, representing the opportunity for countries in sub-Saharan Africa to boost long-term economic growth, reduce poverty and broaden economic inclusion. The AfCFTA creates the largest free trade area in the world by area and number of

participating countries, connecting more than 1.4 billion people across 55 countries with a total GDP of $3.4 trillion. As of February 2024, 54 of the 55 African Union member states have signed the AfCFTA agreement and 47 have deposited their instrument of ratification.

Supporters hope that the agreement will lift 30 million people out of extreme poverty and boost income in Africa by $450 billion by 2035, a 7% gain. The World Bank also estimates that the AfCFTA could raise Africa's exports to the world by 32% by 2035. Over the next 5 to 10 years, 90% of tariffs for goods traded within the bloc will be liberalized.

U.S.-KENYA TRADE AGREEMENT

In 2020, the first Trump administration notified Congress of the intent to enter into negotiations for a U.S.-Kenya trade agreement.

A trade agreement between the United States and Kenya would be the first between the United States and a sub-Saharan African country and would complement Africa's regional integration efforts, which include the landmark AfCFTA.

From its location on the eastern coast of Africa, Kenya serves as a gateway to the region and opportunities for U.S. consumers, businesses, farmers, ranchers and workers.

In July 2022, the Biden administration launched the U.S.-Kenya Strategic Trade and Investment Partnership (STIP) to take the place of the U.S.-Kenya Free Trade Agreement that never materialized.

U.S.-Kenya bilateral trade currently exceeds $1.38 billion annually. In 2023, U.S. exports to Kenya totaled $485 million, while imports into the United States from Kenya totaled $894 million.

U.S.-AFRICA POLICY TOOLS

- **Power Africa** aims to add more than 30,000 megawatts of cleaner, more efficient electricity generation capacity and 60 million new home/business connections through private public partnerships. As of September 2024, Power Africa has afforded nearly $26 billion for 154 power projects across the continent for 14,311 megawatts of new electricity that will power more than 43.1 million households and businesses.
- **Millennium Challenge Corporation** (MCC) provides large grants (in the hundreds of millions of dollars) to promote economic growth, reduce poverty and strengthen institutions.
- The **U.S. International Development Finance Corporation** (DFC) replaced the Overseas Private Investment Corp. in 2021 and has an expanded mandate and greater resources. The DFC marked its largest fiscal year in 2023 with $9.3 billion committed across 132 transactions to address the world's greatest challenges.
- **Prosper Africa** is a one-stop shop to facilitate increased trade and investment between U.S. and African businesses.

AGENDA 2063

Agenda 2063 is Africa's blueprint and master plan for transforming itself into the global powerhouse of the future. AfCFTA is one of the flagship projects. Agenda 2063 has been described as "a concrete manifestation of the pan-African drive for unity, self-determination, freedom, progress and collective prosperity pursued under Pan-Africanism and African Renaissance."

In affirming their commitment to Agenda 2063, African leaders called for reprioritizing Africa's agenda from the struggle against apartheid and attaining political independence for the continent, to inclusive social and economic development, continental and regional integration, democratic governance, and peace and security, among other issues.

In February 2022, the African Union released the Second Continental Report on the Implementation of Agenda 2063, noting the continent performed strongly and has made progress since 2019. The Second Ten-Year Implementation Plan is set to cover 2024–2033.

ANTICIPATED ACTION

It is crucial for the U.S. Congress to renew the African Growth and Opportunity Act to continue to invest and grow trading relationships in Africa. It is hoped that the second Trump administration will continue with negotiations for a U.S.-Kenya Strategic Trade and Investment Partnership, and that the African Continental Free Trade Area will continue to reap benefits for the region.

CALCHAMBER POSITION

The California Chamber of Commerce believes that it is in the mutual economic interest of the United States and sub-Saharan Africa to promote stable and sustainable economic growth and development in sub-Saharan Africa and that this growth depends in large measure upon the development of a receptive environment for trade and investment.

The CalChamber is supportive of the United States seeking to facilitate market-led economic growth in, and thereby the

social and economic development of, the countries of sub-Saharan Africa.

In particular, the CalChamber is supportive of the United States seeking to assist sub-Saharan African countries, and the private sector in those countries, to achieve economic self-reliance.

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Indo-Pacific Trade Relations

U.S. Works Toward Relations in Indo-Pacific; Region More Important Than Ever as China Influence Looms

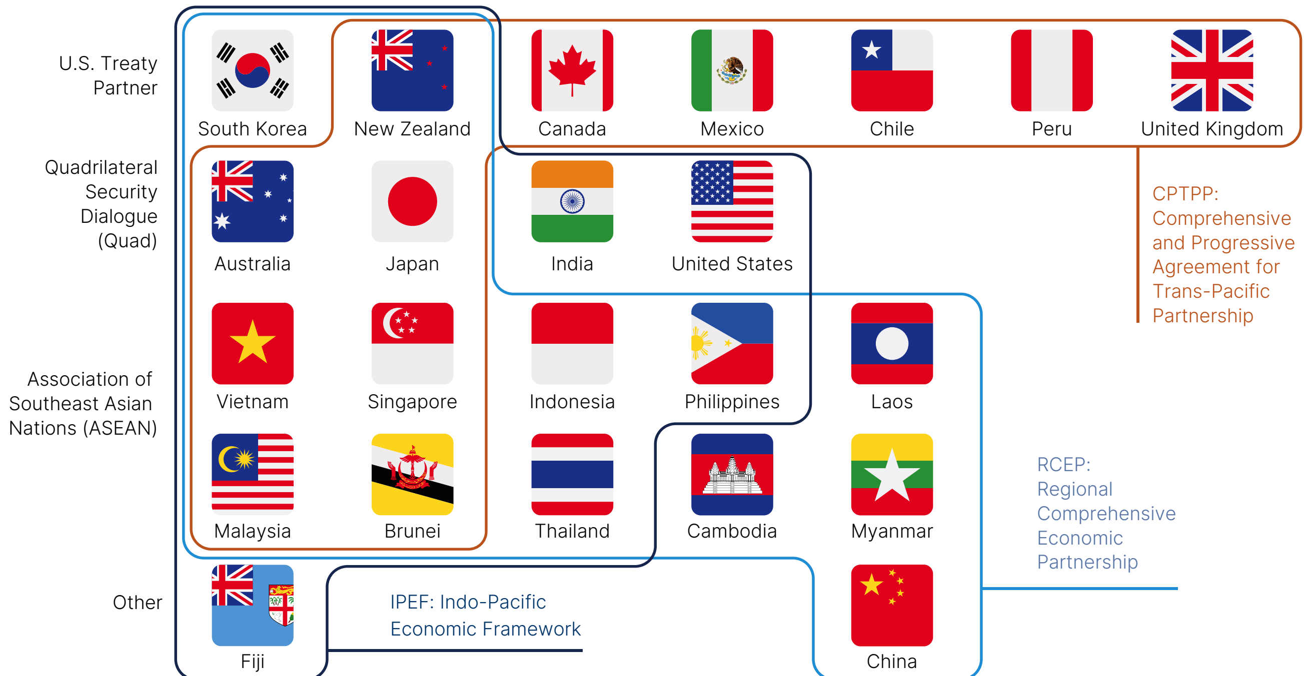
- Trade with the Indo-Pacific supports almost 4 million U.S. jobs and is the source of nearly $956 billion in foreign direct investment in the United States.
- The 14 partners of the U.S.-Indo-Pacific Economic Framework (IPEF) represent 40% of global gross domestic product (GDP) and 28% of global goods and services trade.

BACKGROUND

The Indo-Pacific comprises 40 countries and economies, and is the most populous, fastest-growing and most economically dynamic part of the world. By 2030, it will represent 66% of the world's middle class, and 59% of all goods and services sold to middle class consumers will be sold in the region — which is expected to drive two-thirds of global economic growth in the years ahead.

Developing nations in the region will need about $1.5 trillion in investment every year for the next decade to develop the infrastructure necessary to sustain their growth. Despite the Indo-Pacific region's growth, over the last decade, growth in U.S. exports has lagged. The United States is gradually

MAJOR ASIA-PACIFIC STRATEGIC AND TRADE ALLIANCES



Source: China Briefing/Asia Briefing Ltd graphic.

losing market share in trade with Asian countries. Meanwhile, Indo-Pacific countries have signed more than 150 bilateral or regional trade agreements, while the United States has just five trade deals in the region — with Australia, Singapore, South Korea, the Philippines, and Japan.

IMPACT

Two-way investment and trade in the Indo-Pacific region totals roughly $2.18 trillion, supports almost 4 million jobs in the United States and more than 5 million jobs in the region as of 2023. The United States has made foreign direct investments of almost $1.07 trillion into the Indo-Pacific region in 2023. The region contains seven of the world's 30 freest economies — Singapore, Australia, New Zealand, Taiwan, Malaysia, South Korea and Japan. The sea routes of the Indo-Pacific facilitate 50% of world trade.

STATUS OF FREE TRADE AGREEMENTS IN INDO-PACIFIC REGION

• **U.S.-Korea Free Trade Agreement**. In 2018, President Donald J. Trump renegotiated the U.S.-Korea Free Trade Agreement (KORUS), which originally entered into force in March 2012. The renegotiated deal went into effect on January 1, 2019, and included an extension to phase out U.S. tariffs on trucks, as well as harmonized vehicle testing requirements, Korean recognition of U.S. standards on parts, and improvements to fuel economy standards. There also were modifications to Korea's customs and verification processes, and its pharmaceutical pricing policy.

South Korea is the eighth largest export partner for both the United States and California, exporting $65.06 billion and $9.39 billion to the country, respectively.

• **U.S.-Singapore Free Trade Agreement**. The U.S.-Singapore Free Trade Agreement went into effect in January 2004. All tariffs have been phased out now. Singapore is a strategic partner for the United States in the Indo-Pacific region and is the 11th largest U.S. export partner. In 2023, U.S. exports totaled $42.45 billion. Singapore is California's 12th largest export partner; state exports exceed $4.41 billion. Singapore has consistently ranked among the top countries for doing business, according to the World Bank, and is regional headquarters for hundreds of U.S. companies. As of 2024, Singapore ranked as the freest economy in the world.

• **U.S.-Australia Free Trade Agreement**. The U.S.-Australia Free Trade Agreement came into effect in January 2005 and eliminated tariffs on 99% of U.S.-manufactured goods exported to Australia at the time. Two-way trade between the United States and Australia was $49.51 billion in 2023. Australia is one of the United States' oldest and closest allies due to sharing common values and major interests in each other's economies. The United States is the largest investor in Australia.

In 2023, the United States exported $33.57 billion worth of goods to Australia, making Australia the 15th largest U.S. export partner. The United States enjoys a trade surplus with Australia that reached $14.4 billion in 2023. Australia is the 13th largest export partner for California, which exported $3.87 billion to the country in 2023.

• **U.S.-Japan Limited Trade Deal**. The United States and Japan have a limited trade deal, which went into effect in January 2020. The deal opened market access in Japan for certain U.S. agricultural and industrial goods. The agreement helped to give U.S. farmers and ranchers the same advantages as Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) countries selling into the Japanese market. In return, the United States reduced or eliminated tariffs on agricultural and industrial imports from Japan. A high-standard digital trade agreement also was reached separately, but concurrently, and went into effect in January 2020, as well.

In November 2021, the United States and Japan agreed to establish a new Japan-U.S. Commercial and Industrial Partnership on trade. The two countries are agreeing to collaborate more closely on trade issues, including labor, the environment, digital commerce, and confronting other countries.

Japan is the sixth largest export partner for the United States, and the fourth largest export partner of California; exports total $75.68 billion and $10.6 billion, respectively. Japan is one of the largest markets for U.S. agricultural products. The country also is the second largest investor into California through foreign-owned enterprises as of 2023.

The Japanese and U.S. markets together cover approximately 30% of global gross domestic product (GDP). The trade deal is an important step in furthering the long-shared partnership between the United States, Japan and California.

• **U.S.-Taiwan Trade.** The United States and Taiwan first signed a Trade and Investment Framework (TIFA) in 1994. Under the Trump administration in 2020, the U.S. showed more support for a possible trade agreement with Taiwan, relaxing some regulations to show good faith in starting talks. A trade agreement has bipartisan support and is popular among some members of the U.S. Congress. Taiwan's September 2021 bid to join the CPTPP remains on track and has received vocal support from other CPTPP members. The move to join the CPTPP is important to the country's

long-term economic growth and stability in the region. Taiwan was notably left out of the China-led Regional Comprehensive Economic Partnership (RCEP).

In May 2024, the United States and Taiwan met for an inaugural trade meeting in Washington to continue talks on the agreed-upon U.S.-Taiwan Initiative on 21st Century Trade, meant to strengthen ties as a counter to China's influence in the Indo-Pacific region. The talks covered proposed texts, including areas of agriculture, labor, and the environment. These talks were under the auspices of the American Institute of Taiwan and Taipei Economic and Cultural Representative Office.

Taiwan was the 13th largest export partner for the United States in 2023, with a total of $39.96 billion in goods exported to Taiwan. For California, Taiwan is the sixth largest export partner with $8.85 billion in goods being exported, including $2.9 billion in computer and electronic products.

INDO-PACIFIC ECONOMIC FRAMEWORK

In May 2022, the Biden administration launched the Indo-Pacific Economic Framework (IPEF) with Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The IPEF is a non-traditional trade agreement that seeks to improve trade relations by reducing "behind-the-border" trade barriers; leaves enforceability intentionally vague; and does not guarantee that the agreement won't be voided when the new administration takes over in 2025.

The official statement states this framework is intended to advance resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness and aims to contribute to cooperation, stability, prosperity, development, and peace within the region.

ASIA-PACIFIC ECONOMIC COOPERATION

Formed in 1989, the Asia-Pacific Economic Cooperation (APEC) serves as a multilateral forum in which Asian and Pacific economies can solve economic problems and cooperate in developing key economic sectors. The United States (San Francisco) was the 2023 host for APEC. The 21 APEC economies are home to 2.9 billion people and represent approximately 60% of world GDP, and 48% of world trade as of 2018.

CHINA, THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS, AND THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

The tariffs in the first Trump administration were applied to a very broad range of Chinese products, such as semiconductors, steel and aluminum products, electric vehicles, batteries and battery parts, natural graphite and other critical materials, medical goods, magnets, cranes, and solar cells. The Biden administration kept most of those tariffs in place and added another $18 billion on Chinese goods (semiconductors and EVs). The Biden administration continued to use Section 301 tariffs as part of its strategy to compete more effectively with China.

Early in the campaign, President-Elect Trump suggested he would add tariffs of 60% on Chinese imports. Later he indicated he would add 10 percentage points to existing tariffs on China. There has also been discussion about revoking China's permanent normal trade relation status (PNTR) — resulting in much higher tariffs — which would put China in the same basket as North Korea, Cuba and Belarus.

While China and the United States have a complex relationship, China's relationship with Association of Southeast Asian Nations (ASEAN) countries continues to deepen.

The Regional Comprehensive Economic Partnership (RCEP) deal officially went into force on January 1, 2022, encompassing the 10 member nations of the ASEAN, as well as China, Japan, South Korea, Australia and New Zealand. The RCEP deal covers nearly one-third of the global population and about $25.8 trillion of global GDP, making it the largest trading bloc in the world.

The nations in ASEAN, established in 1967, have the goal of creating an ASEAN economic community (AEC) by 2025, with many participants seeing gains even with growing U.S.-China tensions. The region's combined GDP topped $3.6 trillion in 2022. AEC already has eliminated 99% of intra-ASEAN tariffs and continues to strive for deeper economic integration. In October 2024, the Biden administration at the 12th U.S.-ASEAN Summit celebrated 47 years of U.S.-ASEAN relations. The United States noted that it has helped to spur $1.4 billion in private sector investments. ASEAN represents the world's fourth largest market, and the United States is ASEAN's largest source of foreign direct investment, with two-way trade exceeding $417.86 billion in 2023.

COMPREHENSIVE AND PROGRESSIVE AGREEMENT FOR TRANS-PACIFIC PARTNERSHIP AND THE ORIGINAL TRANS-PACIFIC PARTNERSHIP

The original Trans-Pacific Partnership (TPP) was signed in February 2016 and included the United States as a member. When President Trump took office in 2017, however, he pulled the United States out of the TPP. The remaining countries formed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which then came into

force on December 30, 2018, for Australia, New Zealand, Canada, Japan, Mexico and Singapore, followed by Vietnam on January 14, 2019, Peru in August 2021 and Malaysia in November 2022. For the United Kingdom, the CPTPP came into force on December 15, 2024. The agreement will come into force for Brunei and Chile 60 days after they complete their ratification process.

The CPTPP retained all the tariff reductions and eliminations from the original agreement signed in 2016; however, it suspended 22 other provisions, including some intellectual property rules. The CPTPP will reduce tariffs in countries that together amount to more than 13% of the global economy — a total of $10 trillion in GDP. With the United States, the agreement would have represented 40% of the world economy. Even without the United States, the deal will span a market of nearly 500 million people, making it one of the world's largest trade agreements.

In September 2021, China applied to join the CPTPP, preempting Taiwan's own bid six days later. The dueling bids have created opposing sides within the trading bloc; the outcome remains to be seen. Meanwhile, South Korea also has expressed interest in the possibility of joining the CPTPP.

ANTICIPATED ACTION

The California Chamber of Commerce is hopeful that the Trump administration will continue to develop relations in the Indo-Pacific region and strengthen partnerships within the region— including consideration of multilateralism rather than bilateralism.

CALCHAMBER POSITION

The CalChamber supports expansion of international trade and investment, fair and equitable market access for California products abroad, and elimination of disincentives that impede the international competitiveness of California business.

The CalChamber opposes protectionist-oriented actions that will result in higher prices to the consumer for the specific product protected and limited choices of products for consumers. Protectionist measures cause a net loss of jobs in related industries, retaliation by our trading partners and violates provisions of the World Trade Organization, as well as free trade agreements.

The CalChamber seeks commercially meaningful outcomes in negotiations with regions around the world and supports, bilateral, regional, and multilateral trade agreements which are critical to consumers, workers, businesses, farmers and ranchers, and would allow the United States to compete with other countries that are negotiating agreements with each other.

The Indo-Pacific region represents nearly half of the Earth's population, one-third of global GDP and roughly 50% of international trade. The large and growing markets of the trans-Pacific already are key destinations for U.S. manufactured goods, agricultural products, and services suppliers.

Following the U.S. withdrawal from the Trans-Pacific Partnership, a highlighted trans-Pacific relationship is welcome, as this is a key area in geopolitical, strategic, and commercial terms.

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North / South America Trade Relations

Region More Important Than Ever with Review of USMCA in 2026, Growing Chinese Influence

- The Western Hemisphere accounts for almost 34% of global gross domestic product (GDP).
- Almost 30% of total California exports are sent to the Western Hemisphere Central totaling $41.34 billion in 2023.
- The United States is the largest trading partner for all Latin America, but China is now South America's largest trading partner due to investments in infrastructure throughout the region.

UNITED STATES-MEXICO-CANADA AGREEMENT

The four-year anniversary of the U.S.-Mexico Canada Agreement (USMCA) entering into force was July 1, 2024. In 2023, the United States exported more than $677.1 billion to USMCA countries, while California exported more than $52.64 billion.

The United States, Canada and Mexico comprise more than 500 million people (6.3% of the world's population), a $29.15 trillion GDP (27.6% of world GDP), and $4.38 trillion in goods and services exports (nearly 14% of global goods and services exports). Under the USMCA, U.S. bilateral goods trade totaled $1.57 trillion in 2023.

U.S. FREE TRADE AGREEMENTS IN THE AMERICAS

• The **U.S.-Chile Free Trade Agreement** (FTA) entered into force in 2004, eliminating tariffs and opening markets and allowing all goods originating in the United States to enter Chile duty free. Since the implementation of the FTA, U.S. goods exports to Chile have increased more than 421%. Chile is the 22nd largest export partner of the United States with exports totaling $18.7 billion in 2023.

In 2023, Chile invested $6 billion into the United States, an 8.8% increase, according to the Bureau of Economic Analysis, making it the seventh fastest-growing source of foreign direct investment (FDI) in the United States. California exports to Chile totaled $1.4 billion in 2023.

• The **U.S.-Central American Free Trade Agreement** (U.S.-DR-CAFTA) was signed by President George W. Bush in 2005. The governments of El Salvador, Guatemala, Nicaragua, Honduras and the Dominican Republic implemented the agreement in March 2007, followed by Costa Rica in 2008.

The United States and the five Central American countries share roughly $80.24 billion in total (two-way) trade in goods. U.S. goods exports to Central America totaled $45.15 billion in 2023. The United States is the main supplier of goods and services to Central American economies. Approximately 40% of total goods exports to Central America come from the United States.

California is the fourth largest state exporter to the DR-CAFTA market with exports totaling $2.87 billion in 2023.

In March 2024, Vice President Kamala Harris and the Partnership for Central America (PCA) announced more than $1 billion in new private sector commitments. As part of Central America Forward (CAF), the fund will go to invest in jobs, connecting people to the digital economy, providing training and education, and expanding financing. This brings total investment from new commitments to $5.2 billion since May 2021.

• The **U.S.-Colombia Trade Promotion Agreement** was signed by President Bush in 2006. It was approved by the Colombian Congress in 2007, but not approved by the U.S. Congress until 2011 and entered into force in May 2012.

Colombia is an emerging economy that is providing California with a quickly expanding export market and opportunity for future collaboration. Since 2006, both U.S. and California exports to Colombia have nearly doubled. In 2023, the United States exported $17.68 billion of goods to Colombia, with total trade amounting to $33.79 billion. In

2023, California exports to Colombia exceeded $514 million.

- A **U.S.-Ecuador "mini" trade deal** was signed in December 2020, bringing the two countries a step closer to achieving a free trade agreement. Ecuador is the only Latin American country along the Pacific Ocean that does not have a free trade agreement with the United States.

The United States exported $7.9 billion worth of goods to Ecuador in 2023 and imported $8.6 billion the same year. California is one of the top five exporting states to Ecuador, exporting $503 million of goods in 2023.

- The **U.S.-Panama Trade Promotion Agreement** went into effect in October 2012. The agreement significantly increased the ability of U.S. companies to export their products to one of Latin America's fastest-growing economies. Half of U.S. agricultural goods became duty free at the time, with all tariffs on industrial goods to be eliminated by the 10-year anniversary and most of the remaining tariffs on agricultural goods to be eliminated by the 15-year anniversary in 2027.

In 2023, the United States exported $11.07 billion to Panama, making it the 32nd largest U.S. export partner. California exported $761 million worth of goods to Panama in 2023.

- The **U.S.-Peru Trade Promotion Agreement** entered into force in February 2009. U.S. exports to Peru have more than tripled since then, totaling $11.86 billion in 2023. California exports to Peru more than doubled during the same period, totaling $554 million in 2023.

ANTICIPATED ACTION

It is hoped the Trump administration will continue to engage with Mexico and Canada, together with the nation's trade and investment partners in Latin America — especially in light of China's growing influence in the region.

It is also hoped that the continued success of the USMCA may serve as a foundation for future trade agreements.

Per a push by the first Trump administration in 2020, the USMCA will be up for review in 2026. Per the Brookings Institute, the 2020 USMCA will terminate 16 years after the date of its entry into force (that is, by July 1, 2036) unless each party confirms that it wishes to continue the agreement for a new 16-year term. The parties are to confirm their ongoing support for USMCA at a "joint review" by the Free Trade Commission, which comprises minister-level government representatives from each party. The first joint review is to take place on the sixth anniversary of entry into force of USMCA — which will be on July 1, 2026. At the joint review, the Commission will review the operation of USMCA.

The Commission can also "review any recommendations for action submitted by a party and decide on any appropriate actions. Each party may provide recommendations for the Commission at least one month before the Commission's joint review meeting takes place." Should the parties confirm in writing that they want to continue with the USMCA, then the agreement will be extended for another 16 years.

If the parties do not extend the agreement at the first joint review in 2026, then the Commission is to conduct a joint review each year for the remainder of the term of the agreement (that is, until 2036). During these subsequent joint reviews, the parties can confirm in writing their wish to extend the agreement for another 16 years. Failure to extend the agreement during the first or subsequent joint reviews will lead to USMCA termination on July 1, 2036.

CALCHAMBER POSITION

California Chamber of Commerce support for the USMCA and other FTAs in the Americas is based on an assessment that they serve the employment, trading and environmental interests of California, the United States, and our partner FTA countries, and are beneficial to the business community and society as a whole.

The objectives of the trade agreements are to eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection of intellectual property rights, establish effective procedures for implementing/applying the agreements and resolving disputes, and to further regional and multilateral cooperation.

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Trade Promotion Authority

Reauthorization Needed to Expand Markets for U.S. Exporters in Times of Global Economic Uncertainty

- Trade Promotion Authority allows the United States to compete with other countries that are negotiating agreements with each other.
- Trade Promotion Authority ensures that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

BACKGROUND

Trade promotion authority (formerly called fast track trade negotiating authority) is the process by which Congress gives authority to the President and/or U.S. Trade Representative to enter trade negotiations to lower U.S. export barriers. Traditionally, trade promotion authority follows the conclusion of negotiations for a trade agreement; enabling legislation is submitted to Congress for approval.

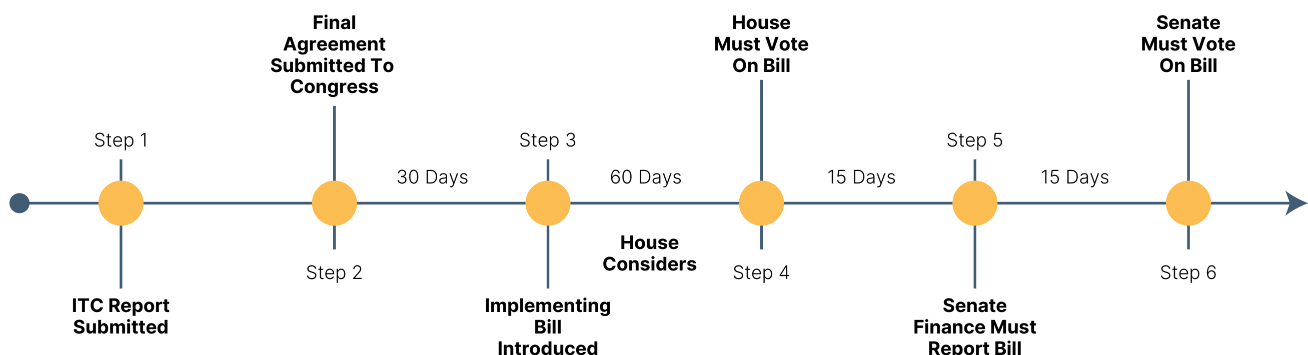
Once legislation is submitted, under trade promotion authority, both houses of Congress will vote "yes" or "no" on the agreement with no amendments and do so within 90 session days (not to be confused with a treaty, which is "ratified" by the U.S. Senate). During negotiations, however, there is a process for sufficient consultation with Congress.

President George W. Bush signed the landmark Trade Act, H.R. 3009, on August 6, 2002. This renamed the previous "fast track authority" granted via the Trade Act of 1974. The act helped put U.S. businesses, workers and consumers back in the game of international trade by granting the president trade promotion authority.

At the request of President Donald J. Trump, trade promotion authority was renewed in July 2018 for three years. Congress was tasked with reauthorizing trade promotion authority in 2021; unfortunately, the Biden administration did not request renewal of trade promotion authority, and it expired on July 1, 2021.

After the expiration, a few U.S. House Republicans called on President Joe Biden to end his trade moratorium and begin consulting with Congress to renew the authority. The last time trade promotion authority expired, in 2007, it took Congress eight years to renew it. It is hoped that with the new Republican majority, a trade promotion authority bill might be possible in 2025.

TRADE PROMOTION AUTHORITY PROCESS TIMELINE



Source: U.S. Senate Republican Policy Committee

IMPACT: U.S. COMPLETED AGREEMENTS

Since the Trade Act of 2002 granted the President trade promotion authority, the United States has completed the following free trade agreements: U.S.-Australia; U.S.-Bahrain; U.S.-Chile; U.S.-Colombia; U.S.-Dominican Republic/ Central American; U.S.-Israel; U.S.-Jordan; U.S.-Mexico-Canada Agreement; U.S.-Morocco; U.S.-Oman; U.S.-Panama; U.S.-Peru; U.S.-Singapore; and U.S.-South Korea.

Financially, these free trade agreements translate into the removal of billions of dollars in tariffs and nontariff barriers for U.S. exports.

FUTURE AGREEMENTS

Major U.S. trading partners are participating in numerous agreements, and trade promotion authority is a prerequisite to meaningful U.S. participation.

Without trade promotion authority, the United States has been compelled to sit on the sidelines while other countries negotiate numerous preferential trade agreements that put U.S. companies at a competitive disadvantage. Trade promotion authority not only opens markets and broadens opportunities for U.S. goods and firms; it keeps the United States a leader in global trade.

By reauthorizing trade promotion authority, Congress can help strategically address any range of U.S. trade negotiations which might be pursued under the Trump administration.

The United States is among the world's leading exporters due to increased market access achieved through trade agreements. Trade promotion authority is vital for the President of the United States to negotiate new multilateral, bilateral and sectoral agreements that will continue to tear down barriers to trade and investment, expand markets for U.S. farmers and businesses, and create higher-skilled, higher-paying jobs for U.S. workers.

ANTICIPATED ACTION

It is hoped that the trade promotion authority might be reauthorized in 2025, and Congress will once again take up a trade-focused agenda.

Historically, renewal of trade promotion authority has been tied to other trade-related legislation such as the Trade Adjustment Assistance program, which provides job training assistance to workers who were displaced as a result of trade.

CALCHAMBER POSITION

The California Chamber of Commerce, in keeping with longstanding policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business.

The CalChamber, therefore, supports the extension of trade promotion authority so that the President of the United States may negotiate new multilateral, sectoral and regional trade agreements, ensuring that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

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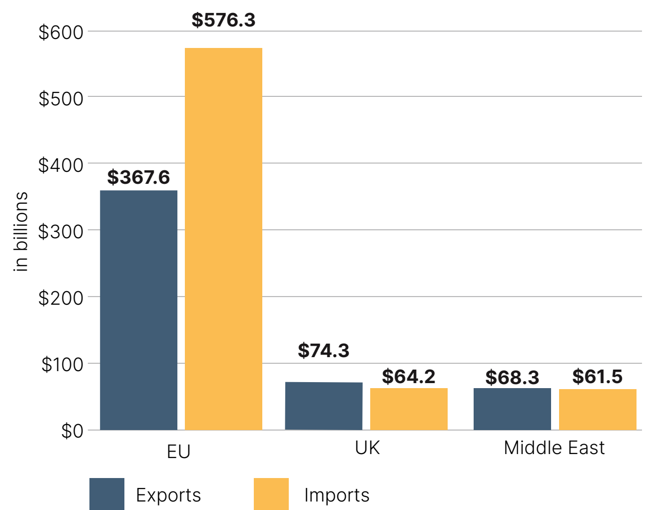
Trans-Atlantic Trade Relations

Longstanding Trading and Investment Relationship More Important Than Ever in Times of Global Uncertainty

- Trans-Atlantic trade in goods reached an all-time high of $1.2 trillion in 2023.
- 44 out of 50 states, including California, export more goods to Europe than to China.
- California has more jobs supported by European investment than any other state, totaling 459,700 in 2021 and accounting for just over 56% of foreign affiliate jobs in the state.
- Over the last decade, Europe has attracted 55.9% of total U.S. global investment. In 2023, Europe's share of U.S. foreign direct investment outflows increased to 59.1% of the total, reflecting a redirecting of U.S. investment away from China.
- The trans-Atlantic economy accounts for $6.9 trillion in commercial sales a year, makes up one-third of global GDP, and accounts for half of total global personal consumption.

U.S. TRADE WITH UNITED KINGDOM, EUROPEAN UNION, MIDDLE EAST



Source: U.S. Department of Commerce

BACKGROUND

The trans-Atlantic economic partnership is a key driver of global economic growth, trade and prosperity, and represents the largest, most integrated and longest-standing regional economic relationship in the world. The many reasons to support this relationship come from an economic perspective, a geopolitical perspective, a company benefit perspective, as well as regulatory cooperation, and technological innovation perspectives.

The United Kingdom officially left the European Union on January 1, 2021, and entered into the EU-U.K. Trade and Cooperation Agreement, which has now been in force for more than four years. In addition, the United Kingdom has embarked on a plan entitled "Global Britain." It has entered into trade deals and agreements with 71 countries since leaving the EU, including entering the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP, formerly the TPP), which it officially joined December 15, 2024.

The U.K. also has signed agreements with Australia and New Zealand, in December 2021 and February 2022, respectively, is negotiating an agreement with India, and still is hopeful for a U.S. deal.

Post-Brexit, the EU now consists of 27 countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Mediterranean Island of Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

The EU-27 market represents an estimated 451.82 million people and has a total gross domestic product (GDP) of $25.18 trillion, as of 2023, while the United Kingdom has an estimated population of 68.3 million people and a GDP of $3.34 trillion. The United States has 334.91 million people and a GDP of $27.36 trillion as of 2023 (World Bank).

The EU presidency rotates, with each member country taking turns for six months at a time as chair of EU meetings and representing the EU at international events.

U.S.-EUROPEAN UNION RELATIONS

Under the first Trump administration, there was intent to start a U.S.-E.U. Free Trade Agreement (FTA). Negotiating objectives published in January 2019 included removing tariff and nontariff barriers and creating more balanced, fairer trade. In 2021, the Biden administration held a U.S.-EU Summit where the two parties renewed their trans-Atlantic partnership. A U.S.-EU Trade and Technology Council has been established to advance trans-Atlantic cooperation and democratic approaches to trade, technology, and security.

Total bilateral trade between the European Union and United States was more than $1.1 trillion in 2023, with goods trade accounting for $762.14 billion. The United States exported $367.62 billion worth of goods to EU member nations. The U.S. and EU are each other's primary source and destination for foreign direct investment (FDI) with the $2.7 trillion invested by the U.S. in the EU in 2022. The EU invested $2.4 trillion in the U.S in that same year (AmCham Europe). California exports to the EU were $25.7 billion in 2023, making up nearly 14% of all California exports.

U.S.-UNITED KINGDOM RELATIONS

The Biden administration inherited the U.S.-U.K. Free Trade Agreement that President Donald J. Trump had initiated in October 2018 and chose to shelve the agreement. The two countries then agreed to establish the U.K.-U.S. Small and Medium-Size Enterprises (SME) dialogue, which has been ongoing.

According to Select USA, the U.S.-U.K. investment relationship is one of the largest in the world, valued at more than $1.05 trillion as of 2023 and creating more than 1.22 million jobs. Moreover, U.K. FDI into the United States in 2023 totaled $635.6 billion, while FDI from the United States into the United Kingdom topped $1 trillion. Two-way trade between the United States and the United Kingdom was $138.53 billion in 2023 and the United Kingdom was the 12th largest importer of U.S. goods; the total value was $74.31 billion. The United Kingdom is California's ninth largest export destination, with more than $5.68 billion in exports. In California, the United Kingdom is the largest source of FDI through foreign-owned enterprises (FOEs). British FOEs in California provide more than 113,292 jobs through 1,946 firms, amounting to $10.637 billion in wages (World Trade Center Los Angeles 2024).

FREE TRADE AGREEMENTS IN MIDDLE EAST

The United States has five free trade agreements with countries in the Middle East, along with Trade and Investment Framework Agreements (TIFAs).

- The **U.S.-Bahrain Free Trade Agreement** (FTA), first enacted in 2006, is now responsible for $2.84 billion in bilateral trade, of which $1.68 billion is U.S. exports to Bahrain. California is one of the top exporting states to Bahrain with $63 million in goods exported to Bahrain in 2023.
- The **U.S.-Israel Free Trade Agreement** was the first U.S. FTA. Since it entered into force in 1985, exports to Israel have increased ten-fold. In 2021, Israel was the 27th largest export destination for U.S. exports, which topped $13.98 billion. In the same year, California exported $1.68 billion to Israel, making it the 22nd largest export destination for California goods. Israeli FDI into the United States totaled $22.4 billion in 2023, while U.S. investment into Israel totaled $45.9 billion.
- The **U.S.-Jordan Free Trade Agreement** went into effect in 2010. In addition to increasing trade, the agreement also aimed to improve labor standards in Jordan. The United States is one of the largest exporters to Jordan, having exported $1.55 billion of products in 2023. The United States imported $2.92 billion worth of goods in 2023. California is the largest exporting state to Jordan, exporting $251 million worth of products in 2023.
- The **U.S.-Morocco Free Trade Agreement** entered into force in 2006 to support economic and political reforms in Morocco and give improved opportunities for U.S. exports to Morocco. In 2023, goods exports to Morocco totaled $3.84 billion, compared to $79 million in 2005, the year before the FTA went into force. The United States also is one of the largest importers of Moroccan goods, importing $1.69 billion in 2023. California exported $209 million worth of goods to Morocco in 2023 and imported $390 million the same year.
- The **U.S.-Oman Free Trade Agreement**, enacted in 2009, continues to promote trade and investment liberalization and

openness in the region. The United States exported $1.86 billion to Oman in 2023. California exports to Oman totaled $111 million in 2023.

ANTICIPATED ACTION

The California Chamber of Commerce is hopeful that via the Trump administration, the United States and trans-Atlantic region will continue to strengthen relations in 2025 to deepen the world's largest trading and investment relationship, with a focus on trade and investment initiatives.

CALCHAMBER POSITION

The CalChamber, in keeping with longstanding policy, supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business.

Strengthening economic ties and enhancing regulatory cooperation through agreements with our top trading partners that include both goods and services, including financial services, is essential to eliminating unnecessary regulatory divergences that may act as a drag on economic growth and job creation.

Free trade agreements can ensure that the United States may continue to gain access to world markets, which will result in an improved economy and additional employment of Americans.

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World Trade Organization

Global Uncertainty Challenges World Trade as Inflation Cools

- The global economy continues to improve gradually as inflation cools, while notable differences in economic performances persist across economies and regions. World merchandise trade is expected to increase by 3% in 2025 with an expected increase overall of 2.7% for 2024
- Notable risks to global economic growth continue to be escalation of geopolitical conflicts in Europe and the Middle East, regional conflicts, and policy uncertainty.

BACKGROUND

California is the fifth largest economy in the world with a gross state product pushing $4 trillion. International trade and investment are major parts of our economic engine that broadly benefit businesses, communities, consumers and state government. California's economy is diverse, and the state's prosperity is tied to exports and imports of both goods and services by California-based companies, to exports and imports through California's transportation gateways, and to movement of human and capital resources.

Although trade is a nationally determined policy issue, its impact on California is immense. In 2023, California exported to 227 foreign markets. Trade offers the opportunity to expand the role of California's exports. In its broadest terms, trade can literally feed the world and raise the living standards of those around us.

In 2023, California exported $178.71 billion to 227 foreign economies. California's top export markets are Mexico, Canada, China, Japan and South Korea.

WORLD TRADE ORGANIZATION

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations, and ratified or approved in their parliaments or legislatures.

The WTO is a multilateral treaty subscribed to by 166 governments, which together account for 90% of world trade (with more than 20 nations negotiating their accession).

The basic aim of the WTO is to liberalize world trade and place it on a secure foundation, thereby contributing to economic growth and development, and to the welfare of people around the world.

ANTICIPATED ACTION

The WTO is expected to stay on the path to attempt to achieve a functioning dispute settlement system. Its discussion on the Agreement on Fishery Subsidies and Strategy 2023 also is expected to continue. Director General Ngozi Okonio-Iwea-la was re-elected for a second term in 2024, with conversations on WTO reform expected to continue in 2025. The 14th Ministerial Conference (MC14) will take place March 26–29, 2026 in Cameroon —– the second MC to be hosted by an African country.

In the United States, the White House is required to send a report to Congress evaluating U.S. membership in the organization every five years. Following the report, members of Congress may introduce legislation opposing U.S. membership. This is due in 2025. Multilateral organizations like the WTO are under increasing pressure from President Donald Trump, as they appear to hold little significance for him.

CALCHAMBER POSITION

The California Chamber of Commerce supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad, and elimination of disincentives that impede the international competitiveness of California business,

The CalChamber promotes subnational diplomacy, as it builds more layers and durability into the fabric of the United States' international partnerships and thickens the country's global diplomacy by building lasting relationships among leaders at many levels.

The CalChamber supports a National Free Trade Agenda with trade being a priority:

- **Support U.S. engagement in the World Trade Organization** to make it a meaningful forum — while ensuring an adequate dispute settlement mechanism and confirming that our trading partners adhere to fair and transparent trade practices while being held accountable if they violate international rules.
- **Support renewal of Trade Promotion Authority** so that the President of the United States may negotiate new multilateral, sectoral and regional trade agreements, ensuring that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.
- **Seek commercially meaningful outcomes in negotiations with regions around the world**: the Americas, Europe, Asia-Pacific, and Africa. Support bilateral, regional, and multilateral trade agreements — which are critical to consumers, workers, businesses, farmers and ranchers and would allow the United States to compete with other countries that are negotiating agreements with each other.
- **Continue focus on lowering tariffs and nontariff barriers to support the expansion of American exports**. While strategic use of tariffs or the threat of tariffs may be a meaningful negotiation tool, support efforts to reduce taxation and regulatory burden as a means to create jobs and economic growth.
- **Support full funding of the federal international affairs budget** to advance U.S. economic interests, national security, and humanitarian values.

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Labor and Technology

Striking the Right Balance Key to Allow Innovation, Adoption of New Technologies

Recent focus on artificial intelligence and automation has revived policy discussions regarding the role of technology in the workplace. While these discussions are not new and have been happening for decades, there has been a growing trend amongst state legislators to regulate technology at a more granular level in the workplace context. It is critical that any such regulations strike the delicate balance between maintaining a robust, safe workforce and not discouraging innovation and adoption of new technologies.

RECENT INDUSTRY-SPECIFIC LEGISLATION REGARDING AUTOMATION

Two recent legislative proposals aimed to slow or even eliminate automation within specific industries.

The first was SB 1446 (Smallwood-Cuevas; D-Los Angeles; 2024), which would have significantly restricted the circumstances under which self-checkout machines and other new technologies could be used in certain grocery and retail stores. While held out as an anti-retail theft measure, the bill (notably not part of the Legislature's retail theft package) in fact was about store staffing and limiting technology adoption. The bill would have imposed staffing ratios, placed a legal limit on the number of items that could be scanned at self-checkout, and mandated how many staffed checkout lanes must be open. The precedent of regulating operations at such a granular level that stores could not decide when and how to staff their machines or how many items could be taken through a machine was of concern to the business community at large.

The bill also included a provision that would have required a "worker and consumer impact assessment" any time new technology was introduced in the store along with a 60-day waiting period. As drafted, the assessment would have captured only the negative consequences of the technology, not the benefits. The assessment would have been required for everything from self-checkout machines to equipment detecting refrigerator leaks to product scanners and would have deterred implementation of new technology.

Another bill was a second attempt at stopping the use of autonomous vehicles over a specified weight from operating on public roads, even for testing purposes, unless a person was physically present in the vehicle. The bill, AB 2286 (Aguiar-Curry; D-Winters; 2024), ultimately was vetoed, as was its predecessor AB 316 (Aguiar-Curry; D-Winters; 2023). In his veto message, the Governor committed to working with stakeholders to further efforts regarding safety and jobs, and importantly noted the need to balance innovation with workforce protection:

"Recognizing that our workforce is the foundation of our economic success, California leads the nation with some of the strongest worker protection laws. Our state also is renowned globally as a leader in technological innovation. We reject that one aim must yield to the other, and our success disproves this false binary. But advancing both priorities requires creativity, collaboration, and a willingness to work together to identify pragmatic solutions."

This statement encompasses the issue well — any efforts to regulate technology in the name of jobs must be done through balanced policy.

USE OF TECHNOLOGY IN HIRING

Similarly, there has been increased discussion regarding the use of automated systems in employment, with a particular focus on hiring and recruitment. According to a recent survey by the Society for Human Resource Management (SHRM), about 26% of organizations use artificial intelligence in some way to support HR functions. More than 60% of those users utilize it for hiring and recruitment purposes.

The survey demonstrated that the majority of those who use technology in their hiring processes said it improved their efficiency and that it also helped them recruit a more diverse workforce. The technology helped them locate and recruit candidates that may not otherwise have applied and human resources (HR) personnel saved time in reviewing applications, meaning organizations were able to offer jobs more quickly. For industries with high application volumes, the ability to use technology is critical.

As with the automation of job functions, there has been a rush to impose limitations and obligations on the use of this type of technology. Two separate agencies, the California Privacy Protection Agency and the Civil Rights Council, both are undertaking rulemaking regarding automated decision tools at the same time. Concerningly, they are not coordinating with each other.

At the same time, the Legislature considered but did not pass legislation, *AB 2930 (Bauer-Kahan; D-Orinda; 2024)*, that would have required assessments to be performed on automated decision tools, certain opt-out opportunities, and notices to employees. For an industry with a large applicant pool like a national retailer or staffing industry, mandating an opt-out of certain screening processes or mandating individualized notices could upend hiring and make it far more difficult and slower to fill positions. It is anticipated that AB 2930 will be reintroduced in 2025.

To the extent there is concern about the use of these tools screening out certain applicants, remedies exist under current law. Both federal and California law provide a means for a plaintiff to file a disparate impact case under existing anti-discrimination laws. Indeed, the Equal Employment Opportunity Commission (EEOC) has started bringing cases against organizations utilizing software that it alleges are screening out protected groups. (*See* EEOC v. iTutorGroup) The existence of these laws like the Fair Employment and Housing Act and Unruh Civil Rights Act underscore the importance of careful and precise rulemaking rather than rushed attempts to overcomplicate issues that already are accounted for in existing statutes.

CALCHAMBER POSITION

It is critical that technology regulation be thoughtful and carefully crafted. Regulations or legislation that overreaches will deter the creation or use of technologies that have demonstrated positive impacts on HR functions.

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Private Attorneys General Act

Business Community Secures Historic PAGA Reform

California's labor and employment laws are complex and burdensome in comparison to the rest of the nation. There is no better example of California's distinction in this area than the Private Attorneys General Act (PAGA). PAGA allows an aggrieved employee to file a representative action on behalf of themselves, all other aggrieved employees, and the state of California for alleged Labor Code violations.

THE NEED FOR REFORM

During its 20-year history, it became clear that PAGA was failing both employees and employers. PAGA lawsuits have increased over 1,000% since the law took effect in 2004. By 2014 and every year since, the Labor and Workforce Development Agency (LWDA) has received approximately 4,000 PAGA notices. *See* 2019 Budget Change Proposal, *PAGA Unit Staffing Alignment*, 7350-110-BCP-2019-MR (hereinafter PAGA BCP). The popularity of these lawsuits is due to the significant monetary awards that can be levied against an employer. Under the original law, the default penalty for a violation of the Labor Code was $100 per employee per pay period for an initial violation and $200 per employee per pay period for each subsequent violation. The threatened penalties are therefore often very high, especially in relationship to the actual alleged harm, if there was any harm at all.

PAGA also failed to protect employees. The average payment that a worker receives from a PAGA case filed in court is $1,264, compared to $3,956 for cases adjudicated by the state's enforcement agency. Even though workers are receiving higher awards in state-adjudicated cases, employers are paying out less per award. This is likely because of the high attorney's fees in PAGA cases filed in court. Attorneys usually demand a minimum of 33% of the workers' total recovery, or $372,000 on average, no matter how much legal work was actually performed. In addition to receiving lower average recoveries in PAGA cases, workers also wait almost twice as long for their owed wages. The average wait time for a PAGA court case is 23 months compared to 12 months for the state-decided cases.

Even the LWDA recognized PAGA abuse. In its 2019 budget proposal for PAGA, the LWDA stated "the substantial majority of proposed private court settlements in PAGA cases reviewed by the Unit fell short of protecting the interests of the state workers." The analysis continues, "Seventy-five percent of the 1,546 settlement agreements reviewed by the PAGA Unit in fiscal years 2016/17 and 2017/18 received a grade of fail or marginal pass, r*eflecting the failure of many private plaintiffs' attorneys to fully protect the interests of the aggrieved employees and the state*." (emphasis added).

Despite this analysis, the California Legislature had consistently rejected PAGA reform bills except for two unionized industry carveouts. Notably, in support of one of those carveouts, the author acknowledged that PAGA put: "enormous pressure on employers to settle claims regardless of the validity of those claims." *See* Assembly Appropriations Analysis of SB 646 (Hertzberg; D-Van Nuys) (2021).

THE FIXPAGA COALITION

Because the Legislature consistently declined to reform the law despite acknowledgement from the LWDA that it was broken, The California Chamber of Commerce, New Car Dealers Association, California Restaurant Association, California Grocers Association, California Retailers Association, California Manufacturers & Technology Association, and Western Growers Association qualified a ballot initiative titled "The California Fair Pay and Employer Accountability Act" for the 2024 ballot. It would have replaced PAGA with alternative enforcement mechanisms in the hands of the Labor Commissioner.

As part of a parallel effort, those organizations also started the FixPAGA coalition, a diverse group of business groups, nonprofits, and public entities that raised awareness within the California Legislature about the need for PAGA reform. Local business owners and nonprofit leaders met with their

representatives and testified in legislative committees about the shakedown lawsuits they were experiencing that diverted monies away from workers and patients and into attorneys' pockets. As a result of this effort, Governor Gavin Newsom convened business and labor together to draft reforms that took effect on June 19, 2024. The initiative was subsequently removed from the ballot.

OVERVIEW OF REFORMS

On July 1, 2024, the Governor signed SB 92 (Umberg; D-Santa Ana) and AB 2288 (Kalra; D-San Jose). Those bills together formed the PAGA reform and are retroactive to any case where a PAGA notice was filed on or after June 19, 2024. That effective date was significant because there was a sharp increase in PAGA notice filings immediately following the announcement of reform — nearly three times as many PAGA notices were filed within the first 10 days than during the same time period in 2023.

For the business community, the goal of the reforms was to curtail the abuse of PAGA litigation by limiting exposure and resolving cases more quickly. Those reforms include:

- **Raises the bar for standing**: The PAGA reform requires that the plaintiff experienced all the alleged violations, superseding the *Huff v. Securitas*, 23 Cal. App. 5th 745 (2018) decision. The only exception is for narrow circumstances where the plaintiff is represented by a qualifying nonprofit organization. The plaintiff must also have experienced the alleged violations within the one-year statutory period, superseding *Johnson v. Maxim Healthcare Servs., Inc.*, 66 Cal. App. 5th 924 (2021).
- **Caps maximum penalty**: The PAGA reform imposes caps on the maximum penalty that can be awarded where the employer can either show that it took reasonable steps to comply with California law or where a specific type of claim is alleged. The law specifies that this is a maximum and that the court still retains discretion to award a lesser amount. Further, the PAGA reform codifies that the $200 penalty applies only where the employer received a finding or determination that their conduct was illegal from a court or agency or their conduct was fraudulent, malicious, or oppressive.
- **Provides procedural tool for manageability**: The PAGA reform provides employers with a procedural tool to limit the scope of the PAGA claim so that it can be tried effectively.
- **Expands right to cure**: The PAGA reform expands the list of alleged violations that can be cured, provides additional means of curing wage statement violations, and provides both a more robust agency cure process for smaller employers and an early evaluation conference option once at the litigation stage.
- **Changes penalty allocation**: The PAGA reform allocates more penalties to employees as opposed to the state.

COURT CASES

Around the time of the PAGA reform, employers received more good news in the form of court cases:

- *Naranjo v. Spectrum Security Services, Inc.*, 15 Cal. 5th 1056 (2024): The California Supreme Court held that an employer's objectively good faith, reasonable belief for its actions precluded the award of statutory penalties. While the case did not deal explicitly with PAGA penalties, the court made clear that the goal of "civil penalties" (for example, PAGA) is not to punish actors "who proceed on a reasonable, good faith belief that they have conformed their conduct to the law's requirements."
- *Turrieta v. Lyft, Inc.,* 16 Cal. 5th 664 (2024): The California Supreme Court held that one plaintiff does not have the right to intervene in another's PAGA matter and object to the settlement.
- *Stone v. Alameda Health System*, 16 Cal. 5th 1040 (2024): The California Supreme Court held that public employers cannot be sued under PAGA.

CALCHAMBER POSITION

The CalChamber is proud to have played a key part in the PAGA reform and will continue to monitor the law to ensure it is operating as intended. The PAGA reform demonstrated that a unified business effort on important issues can bring leaders to the table to tackle necessary reforms.

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California Privacy Protection Agency

Seeks to Advance Proposed Regulations That Clearly Exceed the Actual Statutory Authority Granted to Agency by Voters Under Proposition 24

- In 2018, the Legislature enacted the California Consumer Privacy Act, creating eight core privacy rights for consumers.
- In 2020, voters approved the California Privacy Rights Act via Proposition 24, expanding upon those rights, including a new right to opt out of "sharing" personal information (PI), where sharing includes "*cross-context* behavioral advertising." Voters did not create any right to opt out of behavioral advertising (or first-party advertising) more generally.
- Voters also approved the creation of the new California Privacy Protection Agency (CPPA) and expressly authorized the CPPA to adopt certain implementing regulations. These included provisions on issuing regulations requiring certain businesses to conduct cyber audits and to submit a risk assessment to the agency on a regular basis with respect to their processing of personal information (PI), and a narrow provision on issuing regulations governing access and opt-out rights with respect to businesses' use of automated decision-making technology (ADMT). Nowhere in statute did voters grant the agency authority over artificial intelligence (AI) or have reason to believe that a privacy agency would have general authority over AI.
- Nonetheless, on November 8, 2024, the CPPA voted to advance a set of proposed regulations to formal rulemaking that far exceed their authority, as recognized by Board member Alastair Mactaggart, who was also the proponent of Proposition 24. These regulations create significant uncertainty and pose significant risk to California's economy, harming businesses and consumers alike, and getting ahead of both the Legislature and Governor in the process.

HISTORY OF CALIFORNIA CONSUMER PRIVACY ACT

In 2018, the Legislature unanimously passed AB 375 (Chau et al., Chapter 55, Statutes of 2018), enacting the California Consumer Privacy Act (CCPA), to increase transparency and consumer control over the collection and sale of their personal information (PI), and to supplant a pending ballot measure, as discussed below.

Modeled in part on the European Union's General Data Protection Regulation (GDPR), which took effect in May 2018, the CCPA was the first comprehensive, technology-neutral, and industry-neutral consumer privacy statute of its type in the United States, establishing eight general privacy rights, with limited exceptions. The law applies to businesses of all sizes (for example, not only capturing businesses with an annual revenue above $25 million, but also those with revenue lower than $25 million that sell or share significant amounts of consumer PI), across all industries, irrespective of the specific technology (if any) used to collect or sell consumer PI — brick-and-mortar businesses, and technology companies alike.

These new CCPA rights included: the right to be told certain information, including their CCPA rights and the

categories of PI that a business collects about its consumers; the right to know / request access to the certain categories of PI that the business collected from the consumer, including the right to access specific pieces of information collected about that consumer; the right to request deletion; the right to opt out of the sale of their PI (or opt in, if under 13); the right against discrimination for exercising their rights; a limited private right of action for certain data breaches; the right to know and be given an opportunity to opt out of any further sale of PI that was sold to a third party; and a right of portability. (*See* Civil Code Section 1798.100 et seq.)

A major element of the deal that led to the passage of the 2018 legislation and agreement to pull the alternative measure from that year's ballot was that the law would be subject to a single enforcement entity that would also be charged with establishing implementing regulations and have authority to provide guidance to businesses for compliance purposes: the Attorney General's office.

Just two years later, that agreement was undone in a new initiative run by the same proponents. That new initiative, Proposition 24, created a new administrative enforcement entity and regulatory body for the privacy law, to be known as the California Privacy Protection Agency.

PROPOSITION 24'S CHANGES TO THE CCPA AND CREATION OF PRIVACY AGENCY

In November 2020, voters adopted Proposition 24, "the California Privacy Rights Act of 2020" (CPRA) adding to and otherwise revising various consumer privacy rights under the CCPA, establishing demanding new standards regarding the collection, retention and use of consumer PI. Relevant to the Agency's current rulemaking activities, the proposition expanded the consumer's existing right to opt out of the sale of his or her PI (where "sale" included any form of disclosure for valuable consideration, and not just disclosures made in exchange for monetary value) to also include the right to opt out of any "sharing" of their PI. "Sharing," in turn, was specifically defined to include any form of dissemination or disclosure of PI for "cross-context behavioral advertising" — effectively, targeted advertising of a consumer across third-party platforms based on the consumer's PI obtained from tracking their activity across businesses, websites, apps or services, as opposed to advertising from a (first-party) business to its own customers.

Notably, in passing Proposition 24, voters also established a new regulatory and administrative enforcement entity within state government vested with full administrative power, authority and jurisdiction to implement and enforce the CCPA, called the California Privacy Protection Agency.

Governed by a five-member board appointed by the Governor, Attorney General, Senate Rules Committee and Assembly Speaker, comprised of Californians with expertise in areas of privacy, technology, and consumer rights (Civil Code Section 1798.99.10), the Agency was given specific responsibilities, such as providing consumers guidance about their rights, providing technical assistance to the Legislature upon request with respect to privacy-related legislation, and monitoring relevant developments relating to the protection of PI and, in particular, the development of information and communication technologies and commercial practices.

Most notably, the Agency was charged with assuming rulemaking responsibilities from the Attorney General (Civil Code Section 1798.99.40) and required to adopt a mandatory set of final regulations on or before July 1, 2022, that would flesh out and operationalize 15 new requirements imposed by the law, subject to a one-year moratorium that would have provided businesses time to ramp up implementation and come into full compliance prior to the law becoming enforceable (Civil Code Section 1798.185).

The Agency did not begin any formal rulemaking activities until July 8, 2022, and even then, split its regulations into separate rulemaking packages. The first set of regulations was finalized and approved by the Office of Administrative Law (OAL) at the end of March 2023, but covered only eight of the 15 regulatory areas for which regulatory guidance was required, leaving a significant number of missing regulations on topics such as cybersecurity audits, risk assessments and automated decision-making technology (ADMT).

The express authority granted by voters, however, was limited to certain issues within those topics. Meaning, the voters did not elect to give authority for the Agency to adopt regulations on automated decision-making technology, on risk assessments, or on cybersecurity audits in general. Instead, they gave specific authority to regulate *specific issues* relating to automated decision making, risk assessments, and cyber audits. For example, they granted authority to issue "regulations governing access and opt out rights with respect to businesses' use of automated decision-making technology" as opposed to "regulations governing automated decision-making technology." By that same token, while the enumerated list is not necessarily exhaustive (as indicated by the "including, but not limited to" phrase), it is not unlimited. Any "implied"

authority is limited to "regulations to further the purposes of the title" (the California Consumer Privacy Act).

Notably, nowhere in that title was there any mention of AI when the voters passed Proposition 24 creating the Agency and charging it with adopting regulations on issues relating to ADMT, risk assessments, or cyber audits. Even if personal information somehow is connected to AI, and even if ADMT involves AI, that does not give the Agency implied authority over AI. Imagine if the Agency were to argue that they have implied authority over the Department of Motor Vehicles (DMV), all cars, and California highways simply because there can be PI in DMV records or cars traveling on California highways where there may be surveillance.

PROPOSED CYBER AUDIT, RISK ASSESSMENT AND ADMT REGULATIONS ADVANCE TO FORMAL RULEMAKING DESPITE SIGNIFICANT FLAWS, INCLUDING LACK OF STATUTORY AUTHORITY

On November 22, 2024, the CPPA entered a major rulemaking effort related to cybersecurity audits, risk assessments, and automated decision-making technology (ADMT). This rulemaking, alarmingly, includes regulations for which the CPPA has no legal authority (or questionable legal authority at best) and stands to devastate the California economy.

Since the Agency first circulated the draft regulations more than a year ago, the California Chamber of Commerce and the business community at large have testified on several key points ad nauseam, including that the Agency has far exceeded its authority, going beyond the bounds of the CCPA and even what is commonly understood to be privacy regulations. In fact, at times the Agency has veered into issuing general AI regulations, getting ahead of the Legislature and Governor in doing so.

At other times the Agency has effectively rewritten law, such as by creating overly broad requirements for first-party behavioral advertising when they exist only for cross-context behavioral advertising under the plain letter of the law approved by voters. In doing so, the Agency is effectively creating a new opt-out right of first-party advertising between a business and its own consumers, as opposed to the type of targeted advertising that voters had in mind, which tracks a consumer across businesses, distinctly branded websites, apps or services "other than" the business, distinctly branded website, app or service that the consumer intentionally interacted with (Civil Code Section 1798.140).

And there is also, of course, the issue of the Agency ignoring the voters' directives by issuing regulations that do not adhere to the parameters that the voters specifically set. For example, the Agency fails to ensure that the regulations are focused on significant risk and consider not only the size of a business, but also the size and complexity of the business, and the nature and the scope of their processing activities. Notably, similar issues regarding the Agency exceeding the scope of its statutory authority have been raised for months by various CPPA Board members — including former board member Lydia de la Torre and sitting member Alastair Mactaggart, particularly when it comes to issues around AI.

Unfortunately, the Agency held meeting after meeting to hear these concerns, only to do nothing time and time again. This was true even after the July board meeting, when the Agency surprisingly decided not to proceed to formal rulemaking and gave the impression that staff would come back with options to address board member concerns at the next meeting. Once again, no changes were made by the time the board reconvened in November 2024.

At that meeting, the business community showed up in droves to testify, making it known under no uncertain terms that the Agency's proposed rules had gone too far, would hurt businesses, and should not advance to rulemaking. The board's response, however, was to dismiss the regulated community's comments. Their comments ranged from confusion over why the public felt the rules were rushed when they had been at this for so many months (Board member Jeffrey Worthe, missing the point that the Agency had sat on its hands for 90% of those months when it could have fixed these issues); espousing that the Agency has conducted "far more intense, careful, deliberative work here than [they] could ever expect [their] colleagues at the Legislature to do" (Board member Drew Liebert); and misrepresentations of law and fact, stating they had no choice but to proceed to formal rulemaking (Chair Jennifer Urban "and it is public record that we have in fact been sued on a theory that we have been too late in promulgating these regulations. So this is not a question of us just deciding to do this. This is a question of us being mandated to do it."). (*See* CPPA Transcript, November 8 Board Meeting (November 8, 2024) pp. 92, 94, 127, available at Transcription, Audio 11-08-2024 as of December 10, 2024.)

Ultimately, the Agency voted 4-1 to advance the proposed rules to formal rulemaking, with Mactaggart voting against moving forward, and subsequently issued the notice of rulemaking to do so on November 22, 2024, starting the public comment period and formal rulemaking process.

WILDLY INACCURATE ECONOMIC IMPACT ANALYSIS

Since 2011, any major regulation subject to Office of Administrative Law (OAL) review that has an economic impact exceeding $50 million, as estimated by the agency, requires that the agency conduct a Standardized Regulatory Impact Assessment (SRIA) consistent with regulations adopted by the Department of Finance. (*See* SB 617 (Calderon, Chapter 496, Statutes of 2011)).

In this case, the CPPA's SRIA concluded that the regulations will result in direct costs to California businesses of $3.5 billion in the first full year; average annual business costs of $1.08 billion over the first 10 years; and employment losses peaking at 126,000 in 2030. Similarly, it estimated annual state revenue losses reaching $2.8 billion in 2028. And yet, the SRIA claims long-term benefits will exceed these costs.

An independent economic analysis by experts at Capitol Matrix Consulting, including a former Director of Finance, however, reflects that that the Agency's SRIA is off by billions of dollars, having vastly underestimated the costs and overestimated the savings and even included a mathematical error in its calculations. Commissioned by CalChamber, the report analyzes anticipated savings detailed in the CPPA's SRIA and concludes that businesses, consumers and governments in California will suffer net economic losses, translating into reduced jobs and tax revenues, from the Agency's proposed rules. Specifically, it details errors in the SRIA that include:

- Underestimating external auditor and employee compensation rates paid by businesses;
- Excluding from its economic analysis out-of-state businesses that sell into California markets; and
- Ignoring the massive ongoing costs and business productivity losses resulting from behavioral changes by businesses and consumers following adoption of the regulations.

In addition, the SRIA overstates the savings from the proposed regulations by:

- Grossly overestimating baseline cybercrime losses due to an arithmetical error and other factors, including a flawed approach to estimating future cybercrime losses; and
- Overestimating savings from audits and risk assessments based on assumptions not supported by the literature, including articles listed in the SRIA.

The analysis warns that there are major implications for California jobs and state budget revenues from the Agency's erroneous estimations.

The CalChamber submitted this report to the Agency and each of the CPPA Board members prior to their vote to advance the rules to formal rulemaking. Not unsurprisingly, one of the reasons for not revising their draft regulations despite the objections of a Board member that the regulations exceeded their scope of authority, was that they would have to redo the SRIA. (*See* CPPA Transcript at pp. 116-118: "MR. LE: So say we decide for example, say, we take out behavioral advertisement … What would happen if we did it now versus when we did it in formal rulemaking? […] MR. LAIRD: …If we do that now, we would need to update a number of these requirements. We would also need to update our standardized regulatory impact analysis.")

At this point, it is painfully obvious that the Privacy Agency does not have sufficient checks on its authority. Furthermore, it is almost certain that the Agency will follow the same path it did for its last rulemaking — meaning it can be expected to amend its proposed regulations upon the conclusion of this formal comment period, release modified proposed regulations for comment but decline to make further revisions, and then seek approval and immediate effect from OAL. OAL's review, unfortunately provides little check on the Agency's actions. And while the budget remains the Legislature's primary method for executing checks on agencies, such a check — while helpful — would not unwind or stop the damage done by these regulations.

CALCHAMBER POSITION

It is becoming increasingly imperative that California's elected officials rein in a state agency that is seemingly intent on writing public policy for the state on critical matters that far exceed its legal authority and have the ability to bring California's economy to a grinding halt, all while downplaying the impact that their regulations will have on the regulated community. The California Privacy Protection Agency cannot be permitted to adopt regulations for which it has no legal authority or otherwise extend beyond the explicit statutory authority voters granted the Agency in Proposition 24 — least of all in situations where they have the ability to damage the economy and prevent the state from harnessing technology for the benefit of society, undermining clear directives from the Governor; and where they would be getting ahead of the Legislature on issues on which they know elected officials intend to act in the immediate future.

The California Chamber of Commerce will continue to shine light on the issue and participate in any available public process to represent the interest of members and outline the ways in which the Agency has exceeded its express voter

mandate and what is commonly understood to be privacy regulations. The CalChamber will also support legislative proposals or other actions to add checks and balances and otherwise prevent the Agency from usurping what is clearly within the bounds of legislative authority in regulating artificial intelligence (AI) more generally, and in effectively rewriting the California Consumer Privacy Act (CCPA) by substituting their judgment for the voters' actual mandate.

The CalChamber supports proposals to address concerns over rogue agencies and to add additional layers of checks and balances on those agencies, such as additional review of certain major regulations that have particularly significant economic impact, the potential to fall within the authority of multiple state agencies, or new issues that have yet to be addressed in statute first wherein the Legislature and Governor also can decide the appropriate regulatory authority on those issues. The CalChamber also supports proposals that would enforce independent review or analysis of certain economic assessments for major regulations.

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Artificial Intelligence

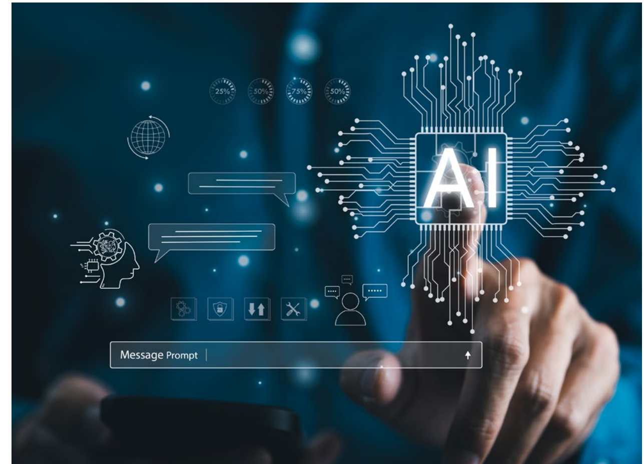
Risk-Based Regulatory Framework Permits Safe Innovation of AI

The California Chamber of Commerce takes responsible and safe innovation of AI seriously and generally shares in the Legislature's and Governor's overarching goal in promoting reasonable safeguards in AI innovation. Unfortunately, the only 2024 legislation on the matter, SB 1047 (Wiener; D-San Francisco), went far beyond establishing safeguards, seeking to make certain developers guarantee that their models would never result in certain harms, subject to significant liability.

While the bill was a moving target, constantly changing requirements and making it difficult to analyze the full impact of the legislation, in the end, the CalChamber's major concerns, including concerns around liability, open source, the impact on the AI ecosystem, unworkable requirements such as full shutdowns, cloud compute, and more, remained unaddressed.

Although the CalChamber agrees that regulatory efforts to promote AI safety are critical, SB 1047 missed the mark entirely in how it chose to get there, fixating on demanding unrealistic guarantees, imposing untenable liability risks regardless of culpability, prescribing extremely intrusive and industry-killing "know your customer" requirements, as well as kill switches and full shutdown mandates. Unfortunately, there was no amount of fixing or fine tuning the bill that would have adequately addressed concerns because the bill was broken at its core in the approach it chose to take.

The CalChamber instead would support reasonable safety frameworks that do not regulate the AI systems or models



themselves. The focus should be on requiring certain best practices and/or prohibiting certain applications and punishing bad actors, not regulating the development of the actual technology.

ISSUE

At the Joint California Summit on Generative AI held at the University of California, Berkeley in May 2024, Governor Gavin Newsom aptly summarized what is at risk with AI regulations when he stated: "if we over-regulate, if we overindulge, if we chase a shiny object, we could put ourselves in a perilous position."

No bill better embodied that statement than SB 1047 in 2024. Regulating a technology that does not yet exist, for threats that in no way appear to be imminent, over the objections of the widest range of stakeholders to have banded together on any single AI bill to warn about the perils that will befall the AI ecosystem, is confounding at best. From a safety standpoint, from a technological innovation standpoint, and from an economic standpoint, California cannot afford to get this wrong.

At several points, the author of the bill pointed to congressional inaction on any number of issues from social media to data privacy, drawing false equivalencies to this policy issue to justify forcing the policy forward. First, these are global issues warranting federal solutions. Second, the federal government not only has a responsibility to act, but they also are actively

taking action. Fracturing the regulatory landscaping and undermining federal efforts does not make California any safer. In fact, it does the oppose.

Many CalChamber members have actively supported Governor Newsom's Executive Order and the Biden White House Executive Order, as well as the White House voluntary commitments, and other voluntary commitments around the world to help move toward safe, secure, and transparent development of AI technology, because they support these goals. Along these lines, the CalChamber is open to supporting similar commitments via an executive order or bill in 2025, perhaps building on the safety standards that were just released by the National Institute of Standards and Technology (NIST) U.S. AI Safety Institute pursuant to the White House executive order.

RUNNING RISK OF MAKING CALIFORNIA MORE VULNERABLE TO GLOBAL THREATS, UNDERMINING ECONOMIC AND TECHNOLOGICAL INNOVATION

The importance of ensuring consistency in the AI regulatory landscape nationally, and the need to follow federal guidance on certain issues that transcend national borders cannot be overstated. However well-intentioned, SB 1047 would have done precisely what the business community has warned against doing when legislating AI: regulating the technology itself, threatening California's footing as the home of the world's leading AI companies. By weakening California's competitive advantage, SB 1047 would have opened the door for other countries to dominate the future of AI — countries that may not play by the same rules that SB 1047 sought to force upon developers in California.

Regulatory inconsistency and uncertainty, high compliance costs, and significant liability risks imposed on developers for failing to guarantee against harmful uses of their models by third parties ultimately will have a dramatic and potentially devastating impact on the entire AI ecosystem, discouraging economic and technological innovation. Instead of making Californians safer, the bill would only hamstring businesses from developing the very AI technologies that could protect against dangerous models developed elsewhere.

RISKING DISRUPTION, DEVASTATION OF ENTIRE AI ECOSYSTEM

During an incredibly challenging budget year, SB 1047 risked significant costs to the state in the realm of tens of millions of dollars just in terms of the incredible potential for future tax revenue that the AI ecosystem can bring to California alone — meaning, not simply from AI companies, but also from all the industries and businesses looking to leverage AI to increase their efficiency and profitability.

Again, it would be a mistake to enact legislation that regulates the development of technology itself instead of the implementation and uses of it. Such legislation creates a hostile environment for innovation and drives investment to other tech hubs, both inside and outside the United States, with far-reaching implications for state revenues.

Even if AI legislation such as SB 1047 seeks to target only "Big Tech," SB 1047 demonstrated how the realistic impact of that legislation may not be so limited. AI startups, small businesses, researchers, independent labs, academics, and federal policy experts all spoke out against SB 1047, detailing the ways in which their own interests would have been hurt.

These are entities that stand to lose the possibility of building on the latest, more capable AI models in order to enter into the market or to stay competitive in the market. These are entities that rely on access to those models to apply them toward society's biggest challenges. Interestingly, they also are entities that often do not all align on the same side of an issue.

Even after numerous amendments, in the end, SB 1047 merely touched on certain problems on the periphery of the bill, such as the removal of a penalty of perjury. On the whole, the amendments failed to address the vast majority of the concerns, including that the bill (1) placed untenable liability risks on developers and effectively foreclosed open-sourcing large models; (2) imposed an intrusive and unreasonable Know Your Customer Obligation and kill switch requirements; and (3) created regulatory uncertainty, suffering from vagueness issues as well as overbreadth.

CalChamber Concerns with SB 1047

- First, **CalChamber supports holding bad actors accountable for their bad acts — which existing law already does**. Unfortunately, that was not what SB 1047 did. Instead, it would have held developers liable for any potential harm caused by a model built off their original model, even if they had no role in building that other model and regardless of the acts of intervening third parties. For instance, a third party could fine tune a model on Chemical, Biological, Radiological, and Nuclear (CBRN) data that the original developer did not. Yet the original developer is being asked to make guarantees about what the third party may or may not do, years, if not decades, down the line.

Imagine requiring designers or developers of engines of a certain horsepower to guarantee that no one can use or

misuse the engine to build a car or other product developed in the future that would be unreasonably dangerous, and then holding them automatically liable for any resulting harm from the end product, even if the engine component was not defective and they had no role in developing the end product.

• Second, **the bill imposed significantly problematic obligations on operators of computing clusters** (for example, data centers or companies that provide cloud computing for frontier model training), requiring them to collect personally identifiable data from their prospective customers, predict if a prospective customer "intends to utilize the computing cluster to deploy a covered model," and then implement a kill switch to enact a full shutdown in an emergency. These obligations violate customer privacy and security, creating significant risk that customers will move away from U.S.-based cloud providers.

• **Finally, among the many examples of the regulatory uncertainty and vagueness or overbreadth issues, were the definitions of "critical harm," "reasonable care" and "covered model."** Specifically, "critical harms" was so broad that it would have included not only weapons of mass destruction, but also automated phishing campaigns. And when mandating "reasonable care" in the context of speculative CBRN risks, it was unclear in what scenario it might ever be reasonable to move forward with a model if a developer could not totally eliminate the possibility of a critical harm based on future intervening acts of a third party.

By using *computing power* and cost, rather than *capability*, to define covered models, the bill equated model size/cost to risk and managed to be simultaneously both overly broad and too narrow. That means critical harms caused by less costly and more efficient AI models can continue to be developed, unchecked.

In the end, such deficiencies were much more likely to hamstring developers from innovating the technologies that can protect Californians and discourage the growth of the AI economy in a state that currently houses 35 of the 50 leading AI companies in the world, 21 of them in San Francisco.

GOVERNOR'S VETO MESSAGE

In vetoing SB 1047, Governor Newsom stated:

"California is home to 32 of the world's 50 leading Al companies, pioneers in one of the most significant technological advances in modern history. We lead in this space because of our research and education institutions, our diverse and motivated workforce, and our free-spirited cultivation of intellectual freedom. As stewards and innovators of the future, I take seriously the responsibility to regulate this industry. […]

"SB 1047 magnified the conversation about threats that could emerge from the deployment of Al. Key to the debate is whether the threshold for regulation should be based on the cost and number of computations needed to develop an Al model, or whether we should evaluate the system's actual risks regardless of these factors. […]

"By focusing only on the most expensive and large-scale models, SB 1047 establishes a regulatory framework that could give the public a false sense of security about controlling this fast-moving technology. Smaller, specialized models may emerge as equally or even more dangerous than the models targeted by SB 1047 — at the potential expense of curtailing the very innovation that fuels advancement in favor of the public good.

"Adaptability is critical as we race to regulate a technology still in its infancy. This will require a delicate balance. While well-intentioned, SB 1047 does not take into account whether an Al system is deployed in high-risk environments, involves critical decision-making or the use of sensitive data. Instead, the bill applies stringent standards to even the most basic functions — so long as a large system deploys it. I do not believe this is the best approach to protecting the public from real threats posed by the technology.

"Let me be clear — I agree with the author — we cannot afford to wait for a major catastrophe to occur before taking action to protect the public. California will not abandon its responsibility. Safety protocols must be adopted. Proactive guardrails should be implemented, and severe consequences for bad actors must be clear and enforceable. I do not agree, however, that to keep the public safe, we must settle for a solution that is not informed by an empirical trajectory analysis of Al systems and capabilities. Ultimately, any framework for effectively regulating Al needs to keep pace with the technology itself.

"To those who say there's no problem here to solve, or that California does not have a role in regulating potential national security implications of this technology, I disagree. A California-only approach may well be warranted — especially absent federal action by Congress — but it must be based on empirical evidence and science. The U.S. Al Safety Institute, under the National Institute of Science and Technology, is developing guidance on national security risks, informed by evidence-based approaches, to guard against demonstrable risks to public safety. Under an Executive Order I issued in September 2023, agencies within my Administration are performing risk analyses of the potential threats and vulnerabilities to California's critical infrastructure using Al. These are just a few examples of the many endeavors

underway, led by experts, to inform policymakers on AI risk management practices that are rooted in science and fact. And endeavors like these have led to the introduction of over a dozen bills regulating specific, known risks posed by AI, that I have signed in the last 30 days.

"I am committed to working with the Legislature, federal partners, technology experts, ethicists, and academia, to find the appropriate path forward, including legislation and regulation. Given the stakes — protecting against actual threats without unnecessarily thwarting the promise of this technology to advance the public good — we must get this right."

GOVERNOR'S WORKING GROUP

On the same day he vetoed SB 1047, Governor Newsom issued a press release announcing a new working group, building on the partnership created after his 2023 executive order. Among the working group members are leading experts on GenAI, including the "godmother of AI," Dr. Fei-Fei Li, as well as Tino Cuéllar, member of the National Academy of Sciences Committee on Social and Ethical Implications of Computing Research, and Jennifer Tour Chayes, dean of the College of Computing, Data Science, and Society at UC Berkeley. Stating that "[w]e have a responsibility to protect Californians from potentially catastrophic risks of GenAI deployment," the Governor made clear that they will both quickly and thoughtfully move toward "a solution that is adaptable to this fast-moving technology and harnesses its potential to advance the public good." To that end, the Governor asked the group to help California develop workable guardrails for deploying GenAI, focusing on developing an empirical, science-based trajectory analysis of frontier models and their capabilities and attendant risks.

On December 11, 2024, the group issued an update, stating that it is beginning its work by developing a draft report that draws upon academics and experts from a variety of disciplines and is anticipated to be shared in the first quarter of 2025. That report will include a review of recent literature and research, outlining the latest scientific understanding about frontier model capabilities and risks. To encourage feedback and input from a wide range of expertise, they plan to convene a series of stakeholder activities which may include structured workshops, in-person or remote sessions, and an open opportunity for interested parties to submit written comments about the topics covered in the draft report. That feedback will be incorporated, and they will publish a final report for the Governor's and Legislature's consideration, anticipated by summer 2025.

At the same time, the working group indicated that they will facilitate an open call for additional comments, reflections, and ideas for partnership moving forward to "further advance scholarship and multi-sector collaboration". (*See* Update from the Co-Leads of the Joint California Policy Working Group on AI Frontier Models.)

CALCHAMBER POSITION

Ultimately, as with all AI legislation, any regulatory framework should be risk-based and avoid regulating the technology itself. Accordingly, the CalChamber is open to supporting reasonable safety frameworks that do not regulate the AI systems or models themselves, or supporting voluntary commitments via an executive order or bill in 2025.

Recognizing, however, that the Governor has expressed a clear intention to take a thoughtful — yet swift — approach to issuing workable guardrails that will be informed by his working group experts, and sharing in that same goal of supporting reasonable and workable guardrails, the CalChamber will engage in any processes and stakeholder opportunities made available by that working group.

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Automated Decision-Making Tools

Existing Law Guards Against Algorithmic Discrimination

One of the biggest issues that the California Legislature has taken on since it started to regulate artificial intelligence (AI) in the last several years relates to the topics of "algorithmic discrimination" and bias and discrimination in automated decision-making tools (ADMTs). While the business community shares in the central underlying goal identified in that legislation, it has been unable to support the legislation due to the inclusion of impractical, if not infeasible requirements that would not only make compliance unmanageable, but also undermine both the utility and development of the technology.

Under existing law, businesses can be held responsible for algorithmic discrimination under anti-discrimination statutes such as the Fair Employment and Housing Act and Unruh Civil Rights Act, which are rights based and not technology specific. The California Chamber of Commerce takes seriously the responsibility of California businesses to not discriminate and to avoid bias when making consequential decisions affecting people, including when they are deploying new technologies such as ADMTs. To be clear, however, risks of bias and discrimination exist whether decisions are human made from start to finish or a byproduct of using or incorporating new technologies into the decision-making process. By that same token, the responsibility to avoid those outcomes exists regardless of whether these decisions are made via a human employee or an AI tool.

The CalChamber would support reasonable legislation recognizing that existing anti-discrimination laws provide protections against algorithmic discrimination or seeking to ensure that developers and deployers take certain precautionary steps to identify and avoid biased or discriminatory outcomes in using ADMTs. That said, it is critical that such legislation be sufficiently narrow in scope, risk-based, and balanced, not only to ensure that the law can be operationalized as a practical matter, but also to avoid overregulation that could interfere with the responsible advancement of these tools, which have the potential to reduce, if not one day eliminate, human bias.

Generally, this will require that any legislation, at minimum:

- **Have a well-defined, manageable and reasonable scope** in terms of the technology it captures, the types of decisions affected, the size of the businesses captured, and range of industries implicated in any "one size fits all" approach;
- **Provide sufficient confidentiality protections** from public disclosure both to protect trade secrets and to avoid other concerns, such as impact assessments getting used as fodder for litigation and undermining the level of candor necessary for accurate assessments;
- **Not include ancillary and unrelated obligations** that are unnecessary to achieve the actual objective of ensuring that these tools are developed and deployed in a manner that is not discriminatory. Such obligations can include the enforcement of new consumer opt-out rights, individual notice requirements, rights to appeal, and more;
- **Ensure enforcement by a single enforcement entity** without any private right of action to ensure uniform application of the law and, again, to encourage candor; and

• **Include preemption not only of local jurisdictions, but also of state entities** to avoid overregulation and to avoid increasingly fragmented regulatory schemes with conflicting or confusing requirements.

RISKS OF BIAS, DISCRIMINATION, OVERREGULATION

Although ADMTs can pose risks of bias and discrimination and care must be taken to avoid such outcomes, these risks and problems exist whether decisions are human made from start to finish or a result of using or incorporating new technologies in the decision-making process. ADMTs also present significant benefits. Just to name a few, this technology can: enable quick approvals and access to credit that would take much longer if decided solely by human processes, provide broader access to credit, protect consumers against fraudsters by assisting in the identification of uncharacteristic account activity, automate repetitive tasks (such as entering data in two places at once), and minimize errors by comparing current work to past work. Perhaps one of the more beneficial uses of ADMTs is their potential to reduce the instances and effects of human bias. Overregulation, however, can block all those current and future benefits.

Starting with AB 331 in 2023 and AB 2930 in 2024, both introduced by Assemblymember Rebecca Bauer-Kahan (D-Orinda), the California Legislature has been considering legislation that would require impact assessments for ADMTs to help avoid bias and discrimination in the development and deployment of those tools. Presented as simple legislation requiring businesses to conduct impact assessments of ADMTs making consequential decisions to avoid or reduce instances of bias and discrimination, the bills went much further. For example, AB 2930 also required businesses to do all the following:

• Provide an opportunity to opt-out of the use of the ADMTs *regardless of whether the business is in full compliance with AB 2930*, if "technically feasible" — even if the alternative could be rife with more biases, or when it would be technically feasible but completely unreasonable.

• Provide consumers specific notices, both pre-and post-use, including consumer-specific notices that in some cases would be completely impractical if not infeasible, rendering the use of ADMTs pointless and slowing down any number of business processes.

• Establish, document, implement, and maintain governance programs, which is particularly difficult for smaller businesses that may have one employee with human resources responsibilities, but who has no experience establishing such programs for a sophisticated technology like ADMTs.

MINIMUM REQUIREMENTS FOR FUTURE LEGISLATION

Although the problems in the bills were not limited to these issues, in opposing AB 331 and AB 2930, the CalChamber was able to identify five major priorities for the business community that had to get addressed at a minimum. These priorities would not resolve many of the practical problems with the bills (such as redundancies, confusion between "developers" and "deployers," retroactivity, etc.), but they provide a good guide as to the major elements of any compromise legislation moving forward, both for impact assessment-related legislation and other AI-related legislation. For example, with all AI legislation, the CalChamber has taken a position that the proposal should not regulate the technology itself, but should take a risk-based approach, legislating high risk use cases or applications of the technology where appropriate.

Specifically, the CalChamber will be looking to ensure that any legislation on these issues meet certain requirements.

• **Have a well-defined, manageable, and reasonable scope**, both in terms of the technology it captures (if overly broad, it defeats the utility of these tools, with direct impact on other consumer interests) and in terms of the types of decisions affected (that is, being sufficiently risk based in order to differentiate between decisions that pose a low versus high risk to a person's rights), as well as in the size of the businesses captured (especially as impact assessments have to get outsourced to experts and small businesses may not be able to absorb significant costs) and industries implicated in any "one size fits all" approach.

• **Provide sufficient confidentiality protections** from public disclosure both to protect trade secrets and to avoid other concerns, such as impact assessments being subject to Public Records Act requests and getting used as fodder for litigation. This would ultimately undermine the candor necessary for accurate assessments.

• **Be reasonably tailored to the objective and not involve ancillary and unrelated obligations** that are unnecessary to ensure that these tools are developed and deployed in a manner that is not discriminatory.

For example, an impact assessment bill should be limited to impact assessments and not include other obligations, such as the enforcement of new consumer opt-out rights which do not make a tool less discriminatory. In fact, because tools learn on the data fed into them, adding another requirement could

make them more discriminatory. In some instances, the right would be nonsensical, such as in an emergency room when treating a patient requiring lifesaving procedures.

Other examples include the pre-use and post-use notice requirements that would significantly undermine the utility of these tools (for example, it would be impossible to explain to each person how their credit score was calculated by the tool, let alone enforce a nebulous right to correct information they felt was incorrect). Resolving such public policy issues is not necessary to conduct ADMT impact assessments.

• **Ensure enforcement by a single enforcement entity without any private right of action** to ensure uniform application of the law and, again, to encourage candor. Providing for a single enforcer (the Attorney General) will promote consistent interpretation and application across the state.

• **Include preemption not only of local jurisdictions to avoid increasingly fragmented regulatory schemes with conflicting or confusing requirements, but also of state entities to avoid overregulation** and getting ahead of the Legislature and Governor on issues that have the ability to devastate the California economy. Already two state entities are conducting a formal rulemaking process on these same issues. These issues are too important to Californians across the state and the struggling economy to significantly delegate and defer policy decisions to unelected officials.

CALCHAMBER POSITION

The CalChamber would support reasonable legislation that would ensure the responsible development and deployment of ADMTs to help reduce, if not prevent, incidences of algorithmic discrimination without creating confusion as to what is and is not unlawful. Legislation must not regulate the technology itself; rather, it must be focused on specific use cases, and high-risk applications of the technology. It must be sufficiently risk-based and narrow in scope (ADMTs captured, businesses, types of decisions) and balanced, both to be operable and to avoid overregulation.

Other elements that must be included are: reasonably-tailored obligations (no opt-out rights, overly broad and cumbersome notice and right to correct requirements), confidentiality protections, no private right of action, a single enforcer, and preemption of localities and of state agencies.

Keeping in mind that anti-discrimination laws are technology neutral and are not obviated by the use of tools, the focus should be practices that would help develop and deploy the technology responsibly to avoid bias and discrimination, not discourage the advancement or application of the technology.

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Product Regulation

Broad Bans on PFAS Will Affect Almost Every Major California Sector

California's ongoing legislative efforts to impose sweeping bans on per- and polyfluoroalkyl substances (PFAS) risk creating far-reaching economic, regulatory, and environmental consequences in the state.

SB 903 (Skinner; D-Berkeley), which was rejected last session by the Legislature, proposed prohibiting all products containing PFAS unless a "currently unavoidable use" determination was granted by the Department of Toxic Substances Control (DTSC). Such a policy would have affected clean energy, aerospace, agriculture, medical devices, computers, semiconductors, manufacturing, building materials and much more. While this legislation failed, proponents are likely to reintroduce similar proposals in the next session.

OVERGENERALIZATION OF PFAS CHEMISTRY

PFAS are not a singular chemical but a diverse family of compounds with unique properties and applications. These substances play vital roles in industries ranging from medical devices and clean energy to electronics and aerospace. Fluoropolymers, a critical subset of PFAS, are indispensable for products like electric vehicle batteries, solar panels, conduits and surgical devices. SB 903 treated all PFAS as equally harmful, ignoring differences in their health and environmental profiles. This "one-size-fits-all" approach disregards scientific distinctions and fails to recognize the essentiality of certain PFAS in supporting California's economic and environmental goals.

Further, relying upon a state agency to process tens if not hundreds of thousands of petitions seeking an exemption is not an implementable or efficient solution. Policies that ban products in California first while DTSC combs through exemption applications will devastate the California economy. The Legislature should take a closer look at which PFAS chemistries are actually unnecessary and contaminating drinking water supplies and then direct DTSC to prioritize regulatory action for those chemistries.

IMPLEMENTATION CHALLENGES IN OTHER JURISDICTIONS

Attempts to enforce similar bans in other regions underscore the practical difficulties of such overly broad legislative policies. In Maine, for example, a 2021 PFAS ban has led to extensive delays and confusion across sectors. The Maine Department of Environmental Protection has issued more than 2,400 extensions for compliance with its PFAS reporting requirements due to challenges such as complex supply chains, limited testing capacity, and inadequate protections for confidential business information. A number of companies also announced that if no exemptions or changes were made, they would be forced to leave the state altogether. These logistical hurdles have resulted in suspended rulemaking and multiple legislative amendments to address the policy's shortcomings.

The European Union has faced similar obstacles. A broad PFAS restriction proposal sparked thousands of industry comments highlighting the lack of viable alternatives and the potential for significant economic and sustainability disruptions for key priorities like clean energy deployment. Delays in implementation across jurisdictions, both domestically and abroad, reflect the complexity of regulating such a diverse group of chemicals and the unintended consequences of overly broad bans where its application is vital.

IMPACT ON CALIFORNIA'S CLIMATE GOALS

A blanket PFAS ban would conflict directly with California's ambitious climate policies. PFAS materials are critical for the performance and reliability of clean energy technologies such as solar panels, wind turbines, and electric vehicle components. Eliminating these materials without adequate substitutes would jeopardize the state's ability to transition to renewable energy and electrify its transportation sector.

Moreover, such a policy could stifle innovation and economic growth in green industries where California is a national leader. For example, PFAS are essential in manufacturing hydrogen fuel cells, a key technology in decarbonizing heavy industries. PFAS is also being used in heating, ventilation, and air conditioning (HVAC) in the United States to substantially lower the global warming potential (GWP) of refrigerants, which in turn reduces greenhouse gas (GHG) emissions while also maintaining energy efficiency. The most used refrigerants today, known as hydrofluorocarbons (HFCs), have a much higher GWP and need to be replaced if the state is serious about addressing climate change.

By imposing unnecessary barriers to these applications through bans, California would undermine the state's progress in reducing greenhouse gas emissions and advancing a net zero carbon economy.

REGULATORY UNCERTAINTY AND ECONOMIC RISKS

Proponents of SB 903 outlined a petition process requiring

manufacturers to prove that PFAS use in their products is "unavoidable," but provided no clear criteria or timelines for DTSC's determinations. This vagueness risked inconsistent enforcement, exposing businesses to regulatory uncertainty and litigation. In addition, the sheer volume of products affected — spanning medical devices, electronics, and industrial applications — would overwhelm DTSC under vague guidelines to process tens if not hundreds of thousands of exemption applications, not to mention impose significant compliance costs on industries as products are forced out of the market pending approval.

California already possesses robust tools under its Safer Consumer Products Program and can leverage recent federal PFAS reporting requirements to regulate these substances in a more targeted and effective manner.

CALCHAMBER POSITION

While the responsible management of PFAS is essential, California should pursue policies grounded in science and practicality. Instead of an indiscriminate ban, the state should focus on targeted measures that address specific risks, prioritize high-exposure applications, and encourage the development of safer alternatives. Leveraging existing federal and state programs would ensure a more efficient and scientifically sound approach to regulating PFAS without undermining economic and environmental priorities for California.

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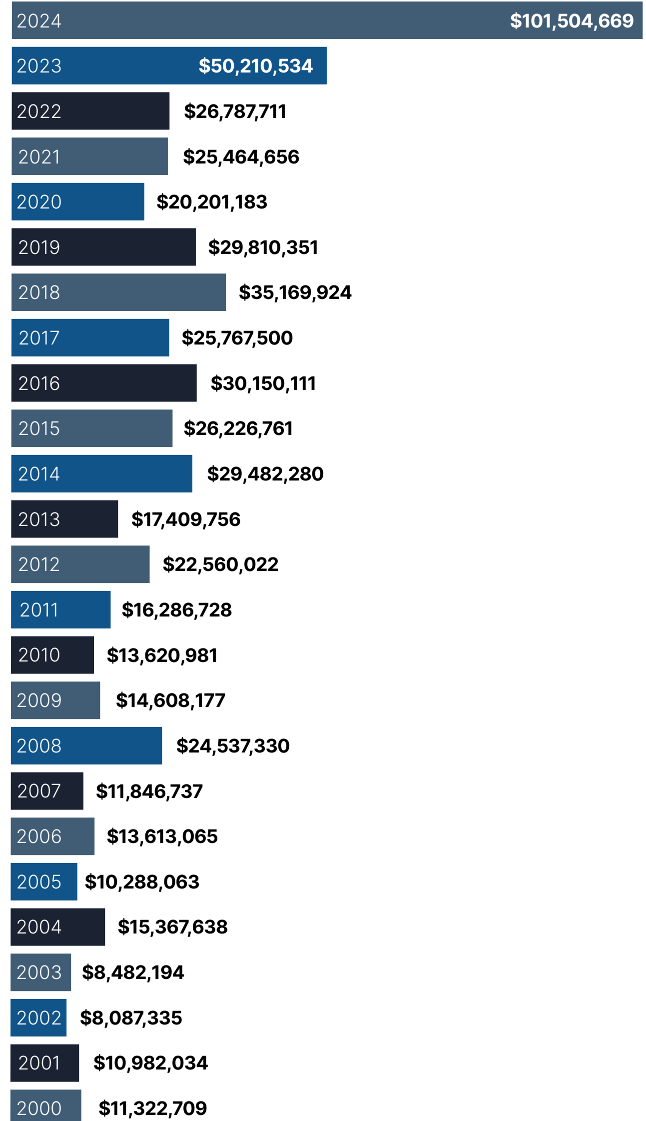
Proposition 65

CalChamber Backs Legislative, Regulatory, Judicial Efforts to Restore Law's Original Intent

Proposition 65, the Safe Drinking Water and Toxic Enforcement Act of 1986, is the most far-reaching consumer "right to know" law in the nation. Proposition 65 requires California businesses with 10 or more employees to provide a clear and reasonable warning before knowingly and intentionally exposing individuals to chemicals known to cause cancer and/or reproductive toxicity. And contrary to centuries of Anglo-American law, Proposition 65 dispenses with the "innocent until proven guilty" legal maxim, thereby facilitating a growing bounty hunter environment where businesses must decide whether to defend costly lawsuits or settle.

Unfortunately, the simple and supportable goals of Proposition 65 continue to be undermined by some attorneys who use the law for personal financial gain. Proposition 65 contains a private right of action, which allows private persons or organizations to bring actions against alleged violators of Proposition 65 "in the public interest." This has led to the growth of a multimillion-dollar industry of "citizen enforcers" or "bounty hunters" who often enrich themselves by using the statute's warning label requirements as an excuse to file 60-day notices and lawsuits to exact settlements under Prop 65's unique legal regime that leaves a defendant "guilty until proven innocent."

The business community's concern regarding Proposition 65 litigation abuse is supported by statistical data from the California Attorney General's Office in its Annual Summary of Proposition 65 Settlements. Every year, tens of millions of dollars are extracted from businesses by bounty hunters looking for easy settlements. In 2022, there were more than



890 Proposition 65 settlements totaling more than $26 million. By 2024, that number exploded to more than 1,300 settlements totaling just more than $101 million.

MULTITUDE OF LAWSUITS, WARNINGS

Rampant Proposition 65 "shakedown" lawsuits harm California consumers by driving up costs, creating confusion, and undermining the law's original intent to protect public health. Businesses facing frivolous or excessive lawsuits must allocate significant resources to legal fees, settlements and compliance costs, which ultimately are passed on to consumers in the form of higher prices. This financial burden disproportionately affects small businesses, which struggle to absorb these costs and often have to limit product availability or raise prices even further.

Additionally, over-warning resulting from Proposition 65 misuse dilutes the effectiveness of the law. The proliferation of warning labels — many on products with negligible or no real risk — creates consumer fatigue and skepticism, reducing the impact of warnings on genuinely hazardous substances. Instead of empowering consumers to make informed decisions, this misuse confuses and misguides them, undermining the trust and credibility of Proposition 65. For the law to serve its intended purpose, reforms are needed to curb frivolous lawsuits and refocus its application on meaningful risks, ensuring genuine consumer protection without unnecessary economic harm.

CALCHAMBER SUES CALIFORNIA ATTORNEY GENERAL

On behalf of its members, the California Chamber of Commerce filed a lawsuit on October 7, 2019 to stop the multitude of Proposition 65 warnings for the presence of acrylamide in food.

The lawsuit filed against then-Attorney General Xavier Becerra, who is responsible for enforcing Proposition 65, asks the U.S. District Court, Eastern District of California to stop the Attorney General and private enforcers from proceeding with Proposition 65 litigation over acrylamide in food.

CalChamber's lawsuit seeks to limit this recent trend of shakedown lawsuits with regard to acrylamide that are exploiting Proposition 65 for financial gain, exacerbating over-warnings, and raising costs on food products in California. After CalChamber successfully secured a preliminary injunction by the Federal District Court, the case was appealed to the Ninth Circuit, where CalChamber again prevailed on the merits.

At the time of this article's drafting, CalChamber is seeking Summary Judgment on the matter. If successful, the precedent established by this case could help pave the way for further changes to Proposition 65.

OEHHA FUNDAMENTALLY CHANGES SHORT-FORM WARNINGS

For years, the Office of Environmental Health Hazard Assessment (OEHHA) has proposed regulatory amendment packages often described by the agency as "merely clarifying existing law," but which from the perspective of the business community, have often undermined existing protections provided for businesses.

Such was the case when on December 6, 2024, OEHHA fundamentally changed Proposition 65 regulations again under the guise of "clarifying amendments" to Article 6, Clear and Reasonable Warnings Short-Form Warnings. However, these "clarifying amendments" completely upended one of the most widely used and relied upon warning methods, known as "short-form warnings." The regulatory changes adopted require all short-form warning labels to include at least one chemical name. For many businesses that relied on the prior regulations, that change will upend entire warning regime structures on products.

The CalChamber led a coalition of 119 organizations, representing tens of thousands of companies, opposing the agency's major changes to Article 6 warning requirements on the basis that the proposed changes were not supported by substantial evidence, injected substantial confusion into the market, failed to consider reasonable alternatives, and imposed substantial financial burdens and additional litigation risks on businesses.

Although the business opposition did not stop the agency from making the changes, the coalition did persuade the agency to provide three years for businesses to make the updates to their warning programs, make explicit that short-form warnings may be used to provide safe harbor warnings for food products, and provide an additional 60-day transition period for retailers to update online short-form warnings after notice from a manufacturer.

CALIFORNIA PROPOSITION 65 LEGISLATION

As originally adopted by California voters, Proposition 65 prohibits any amendments by the California Legislature unless such amendments are approved by a two-thirds majority in both the Senate and Assembly. Further, any amendment must "further the purposes" of Proposition 65. These twin limitations have prevented any serious efforts at reform for decades.

Despite the long odds, from time to time a Proposition 65 reform bill will be introduced, as was the case in 2024 when Assemblymember Mike Fong (D-Alhambra) introduced AB 3004. The bill sought to make modest changes to Proposition

65 by requiring additional notice and the factual information underlying the basis of the certificate of merit be provided to an alleged violator. The bill ultimately was held on the suspense file in its house of origin, again illustrating that legislative reform of Proposition 65 is illusory.

CALCHAMBER POSITION

The CalChamber supports the underlying intent of Proposition 65, which is to ensure that consumers can make reasoned and informed choices when they purchase consumer products or enter certain establishments. Unfortunately, the intent of Proposition 65 has been undermined by ever-increasing attempts to use the law solely for profit, which has exploded into a multimillion-dollar cottage industry. For this reason, CalChamber ardently supports significant reforms to end frivolous, "shakedown" lawsuits, improve how the public is warned about dangerous chemicals, and strengthen the scientific basis for warning levels and initial listings.

Although achieving these goals legislatively has proven nearly impossible, CalChamber remains committed to initiating or supporting efforts to restore the original intent of the law. Whether proposed in the legislative or regulatory forum, or via changes through litigation, CalChamber will continue to lead the business community on this critically important issue to protect businesses from Proposition 65 abuses and to help restore Proposition 65 to its original intent of protecting California consumers.

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Income Taxes

High-Tax California Keeps Increasing Upper Tax Rate

California is notoriously associated with being a high tax state. During the first year of the 2023–2024 legislative session, California lawmakers proposed a staggering $203.5 billion in new taxes and fees. Additionally, Governor Gavin Newsom signed a budget bill that contained business tax provisions that the Legislative Analyst's Office estimated would raise $15.9 billion in state revenue from 2024 to 2029.

In 2012, Proposition 30 served as a state revenue raiser when it increased the personal income tax rate. Proposition 55 extended these provisions to 2031, and there is concern that proponents will want to keep the state's high income taxes in place with yet another proposition extension.

CALIFORNIA IS A HIGH PERSONAL INCOME TAX STATE

California's highest-income earners pay the largest share of the state's personal income tax. In 2019, the top 1% of income earners paid almost 45% of all personal income taxes. In 2012, Proposition 30 increased the personal income tax rate, and in 2015, Proposition 55 extended those provisions to 2031.

With an expiration date looming, there is concern California will, again, push for higher personal income taxes.

PERSONAL INCOME TAX RATES WILL INCREASE IN 2025

California has a graduated income tax rate, and high wage earners have long paid the country's highest state income tax rate of 13.3%. However, starting on January 1, 2024, that rate increased to 14.4%.

In 2023, California's state disability insurance program was funded by a payroll tax of 1.1% on wages up to $153,164. In 2024, this wage ceiling was lifted, and all wage income became subject to the payroll tax. The payroll tax expansion increases the state's top income tax bracket from 13.3% to 14.4%.

California also levies a 1% mental health services tax on income exceeding $1 million. The new total 14.4% tax rate applies to wage income over $1 million.

EFFORTS TO INCREASE PERSONAL INCOME TAXES

While state lawmakers have made unsuccessful revenue-raising proposals over the last several years that include wealth taxes and increased personal income tax rates, ballot initiatives have succeeded in this realm.

Proposition 30 in 2012

Proposition 30 was approved by voters in November 2012 and was sponsored by Governor Edmund G. Brown Jr. to address the state's budget deficit. The Governor highlighted the proposal as a "temporary" tax increase that was necessary to address California's fiscal crisis.

In combination with the 1% surtax on incomes over $1 million for mental health services, Proposition 30 increased the personal income tax rate to 13.3%. Specifically, Proposition 30 increased the personal income tax:

• For the portion of taxable income between $250,000 (filing single) and $300,000, the tax rate was increased from 9.3% to 10.3%;

• For the portion of taxable income between $300,000 and $500,000, the tax rate is 11.3%; and

• For the taxable income above $500,000, the tax rate is 12.3%.

These income tax increases were made retroactive to January 1, 2012, and were supposed to continue through the end of 2018. Proposition 30 also included a 0.25 percentage point increase in the state sales tax rate for four years, from 2013 through 2016.

According to the nonpartisan Legislative Analyst's Office (LAO), Proposition 30 on average raises about $6 billion a year from the personal income tax and $1.5 billion annually from the sales tax.

Proposition 55 in 2016

In 2016, voters approved Proposition 55, which extended the provisions under Proposition 30. Specifically, the initiative sought to extend for 12 years, until 2031, the higher personal income tax rates imposed by Proposition 30. Under Proposition 55, the proceeds of the tax increase are deposited in the state's General Fund, which is used primarily to maintain higher funding for K–14 schools and, to the extent schools and certain other budget priorities are fully funded, provide up to $2 billion for providers of health care services for the Medi-Cal program.

When Proposition 55 was pending, the LAO warned that the precise amount of revenue generated from the initiative would be difficult to predict because it is highly sensitive to the health of the overall state economy and, in particular, to the strength of the stock market and real estate market. The warnings have come to fruition and California's volatile budget climate has had wild swings between historic surplus and deficit years.

Proposition 55's Effect on Education Programs

California elected officials responded to the Great Recession in part by reducing per pupil spending by about 20% per pupil, resulting in teacher and support staff layoffs, deferred salary increases and drawing down of reserves. Since the recovery, in large part due to the Proposition 30 taxes, per pupil spending has bounced back to higher levels than before the recession.

Proposition 55 maintained a steady source of higher revenues for public schools and community colleges, enabling overall spending to approach or exceed the national average in per pupil resources. Because this is a volatile revenue source, any downturn in the business cycle affects school spending.

Proposition 55's Effect on Health Care Programs

Proposition 55 did deviate from Proposition 30 in a few ways, but the most apparent example was how money would be allocated to health care. Under Proposition 55, in certain circumstances, money is dedicated to health care providers for critical, emergency, acute, and preventative services to children and their families and to health plans that contract with the state to provide health benefits to Medi-Cal beneficiaries.

The Medi-Cal program is funded jointly by federal and state governments and has grown rapidly in recent years, covering more than 40% of Californians. This rapid growth is due to new eligibility requirements by the federal government, California's voluntary expansion of eligibility regardless of immigration status, and pressures from California's persistently high poverty rate. Because coverage and costs have grown far more rapidly than revenues, the state has responded by maintaining very low provider reimbursements.

California's 2024–2025 budget for Medi-Cal is estimated to be $161 billion. This rapid growth of the Medi-Cal program has stretched thin the state's existing network of providers and hospitals. At the same time, lawmakers have not yet reversed all the cuts they made to provider and hospital reimbursement rates during the recession, leaving them among the lowest in the country.

General taxes are not the only source of Medi-Cal revenues. In 2010, the Legislature enacted the Hospital Quality Assurance Fee (HQAF) which, when leveraged with federal matching funds, provides billions of dollars annually to supplement hospital reimbursements, support children's health care, and provide grants to public hospitals.

Proposition 55 contained a formula that dedicated supplemental revenues to Medi-Cal programs to the extent new revenues from the higher taxes exceeded what was necessary to fully meet the constitutional school finance mandate under Proposition 98 and some other state budget workload benchmarks. Up to $2 billion annually is dedicated to Medi-Cal providers from this tax increase. Any amount earmarked for Medi-Cal is matched by federal funds, effectively doubling its face value. Unlike school funding, however, these funds are not guaranteed.

Additionally, through a quirk in the federal reimbursement formula, any revenues dedicated to hospitals from

the Proposition 55 tax increase offset the HQAF described above. This provided a hedge against federal elimination of this revenue source (and concomitant reduction in hospital reimbursements).

CALCHAMBER POSITION

While California still offers ample economic opportunity, policymakers must remain cognizant and avoid abusing those that provide the state's General Fund with large contributions. High-wage earners provide a majority of the General Fund with their personal income taxes. The state personal income tax rate has increased to14.4% for earners making more than $1 million, which is by far the highest in the country.

The state must avoid incentivizing a California exodus, driving away large contributors to the state budget. Increasing personal income taxes or imposing additional taxes will further harm California's economy and depress business growth. The Legislature should avoid imposing new taxes and instead focus on limiting obstacles to the state's economic growth.

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Tax Tools for Business

Budget Deficit Means Businesses Lose Tax Tools as California Suspends NOL Deduction, Caps Business Tax Credits

When COVID descended upon the American economy in 2020, California fiscal experts prognosticated an imminent state budget deficit. In response, state lawmakers suspended net operating loss (NOL) deductions and capped businesses tax incentives. As it turned out, California enjoyed a $76 billion surplus and two years elapsed before the tax tools were reinstated.

Fast forward to 2024 and California's state budget suffered an actual deficit. In response, lawmakers turned yet again to California businesses to help close the revenue gap by suspending NOL deductions and capping business tax credits.

BUDGET BILLS

AB 167 (Committee on Budget) and SB 167 (Committee on Budget and Fiscal Review) suspended the net operating loss deduction for tax years 2024, 2025, and 2026, for businesses with annual revenue exceeding $1 million. The NOL suspension was enacted to apply retroactively to January 1, 2024. This means that until tax year 2027, companies seeking to offset past losses cannot utilize the NOL deductions they had planned on using.

These budget bills also prohibit businesses from claiming more than $5 million in most tax credits annually for the 2024, 2025, and 2026 tax years.

SB 175 provides for a potential early sunset of the NOL suspension period in either the 2025 or 2026 tax year if the Director of Finance and the Legislature agree that the General Fund over the multiyear forecast is sufficient without the revenue impact of the NOL suspension and credit limitation provisions.

NET OPERATING LOSS DEDUCTIONS

Typically, business revenues are cyclical with an ebb and flow relative to the annual calendar. Longtime tax policy regarding NOLs recognizes this concept and ensures that businesses are taxed on average profitability over time, since the carrybacks acknowledge that business revenues span multiple years. Losses during one business cycle should be recognized at a subsequent time in order to ease the tax burdens organizations face over time and to avoid penalizing businesses with varying profitability from year to year.

Limiting NOL carryforwards will have the most negative impact on start-ups as well as industries that were forced to shutter during the pandemic. Start-ups traditionally accumulate NOLs in the first years of operation; this tax policy is reflected in their business plans. A start-up's ability to use those NOLs when it becomes profitable is vital to its continued growth until it becomes net profitable over the span of its operations. Limiting these carryforwards will create inequities between companies with stable profits year-to-year and companies making significant long-term investments as well as other companies with annual volatility in profits. This inequity can create substantial differences in tax liability. Limiting these carryforwards will, over time, reduce innovation in California, as idea-based ventures see a more difficult path to economic success.

Many businesses operated at a loss over the past several years due to the pandemic and an NOL carryforward limitation will compound the economic harm companies have suffered. As companies have recovered, allowing an NOL carryover to future years reduces taxes owed once a business is profitable again, which can spur economic recovery. However, an NOL carryforward limitation ignores the devastating past losses experienced by many companies and makes these cash-strapped, recovering organizations pay taxes where they normally would not. In the aggregate, this could diminish economic recovery.

BUSINESS INCENTIVE TAX CREDITS

The budget bills also limited business incentive tax credits to a total of $5 million. This limitation would apply to all tax credits except Low-Income Housing and Pass-through Entity Elective tax credits. Most concerning, this limitation would be aimed at one of California's most coveted tools for businesses of all sizes — the Research and Development (R&D) credit.

R&D is the backbone of the California economy and the credit cap has the potential to stifle innovation and well-paying job growth. This particular tax credit has incentivized California employers to invest substantially within the state and create high-wage jobs in our communities.

According to the Milken Institute, since 1987 California's R&D tax credit has allowed companies to reduce their corporate income tax burden by 15% to 24% when they invest in three key areas. These include qualified research expenses, wages paid to those engaged in research or directly supervising or supporting research activities, and research supplies (other than land or land improvements).

Furthermore, the Milken Institute stated that "in California, businesses fund 94% of their own R&D activities — a higher proportion than the nationwide average (87%) — highlighting the vital role industry actors play within the state's innovation ecosystem. Private sector R&D spending grew an average of 13% year-over-year from $132 billion in 2017 (in total expenditures) to $212 billion in 2021." Four industries with strong ties to the R&D credit in California include computers and mathematics, architecture and engineering, life and physical sciences, and arts, design, and media.

The Milken Institute determined that while computers and mathematics jobs are the state's single largest industry workforce supported by R&D, the level of job concentration (the size of the industry workforce relative to the state's economy as a whole) is highest in arts, design, and media.

While the R&D tax credit supports a wide variety of industries, it also is dispersed throughout California geographically and supports a number of jobs on the income spectrum. R&D investments are most closely tied to San Diego and the Bay Area given the life sciences and information technology industries in those locations. In addition, while R&D jobs are concentrated most heavily in California's coastal areas, R&D-supported workforces can be found in the Central Valley and Inland Empire. According to the Milken Institute:

"Because R&D supports job creation across a broad variety of activities, investments in R&D don't just generate jobs for people with advanced degrees who are directly engaged in research activities (including analysts, engineers, and lab technicians). These investments also create opportunities for residents with different academic credentials, levels of experience, and industry affiliations, including jobs indirectly related to research outcomes (such as maintenance technicians, marketing and advertising professionals, office managers, and sales associates). Among the occupations requiring an associate's degree that are projected to grow fastest by the Employment Development Department (EDD), several are directly supported by R&D investments, including web developers, network support specialists, and technicians in health care and the life sciences."

California's innovation-based economy thrives in large part because of the R&D tax credit. High-wage job growth is contingent upon this tax credit's expansion. The concern this proposal evokes is intensified since it proposes to cap credits that businesses have already planned and budgeted to use.

Tax credits and deductions play a vital role for employers in generating employment, expanding operations, and increasing economic output. These benefits also serve the state's economic needs because they create multiple streams of additional tax revenue and stimulate added investment and development within the state.

CALCHAMBER POSITION

The California Chamber of Commerce will continue to support the restoration of the NOL deduction and lifting the cap on business tax credits. Tax credits and deductions play a vital role for employers in generating employment, expanding operations, and increasing economic output. These benefits also serve the state's economic needs because they create multiple streams of additional tax revenue and stimulate added investment and development within the state.

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Taxing the Digital Frontier

Litigation, Impact on Small Advertisers Among Concerns

There is a trending effort sweeping across state legislatures to tax digital advertising as a response to the rapidly expanding online advertising industry and its role in the global economy. Several states, including California, have introduced bills or are considering such taxes to address the fact that major digital platforms generate significant profits from online advertising.

DIGITAL AD TAX

A digital ad tax is a levy imposed by governments on companies that generate revenue through online advertising. Such a tax usually targets large digital platforms, such as social media platforms and networks, search engines, and other online service providers that profit from online advertising.

Typically, the tax is applied to the revenue that companies earn from advertising to local consumers. However, the implementation of digital ad taxes has sparked debate over constitutional issues, fairness, potential market distortions, and the challenges of regulatory oversight in an increasingly digital economy.

INTERNET TAX FREEDOM ACT

In 1998, the Clinton administration implemented the Internet Tax Freedom Act (ITFA); the Obama administration subsequently made the tax permanent in 2016. The ITFA prohibits discriminatory taxes on electronic commerce, defined as "any transaction conducted over the internet or through internet access, comprising the sale, lease, license, offer or delivery of property, goods, services, or information, whether or not for consideration."

Specifically, the ITFA prohibits federal, state and local governments from imposing taxes on internet access or online transactions. The ITFA's primary goal is to ensure that the internet remains an open and accessible platform for commerce and communication, without being handicapped or hindered by taxation. The law also bans discriminatory taxes targeting e-commerce, attempting to facilitate the growth of the digital economy.

While it has been extended and amended over time, the ITFA remains a foundational piece of legislation supporting the development of the digital economy by preventing restrictions that could hinder online activity.

DIGITAL AD TAX LEGISLATION

Maryland's Digital Ad Tax

The "Maryland Digital Advertising Services Tax" was enacted in 2021 and attempted to impose a tax on the gross revenue generated by digital advertising services in the state. The tax specifically targeted businesses with significant digital advertising revenue, including major platforms like Google, Amazon and Facebook. It applied to companies with annual global revenue exceeding $100 million and was calculated based on the revenue companies earn from digital ads directed at Maryland consumers. The tax rate was tiered, starting at 2.5% for businesses with between $100 million and $1 billion in global revenue, and increasing up to 10% for companies with revenue exceeding $15 billion.

Maryland's Subsequent Litigation

Maryland's digital ad tax resulted in lawsuits at both the state and federal levels. A coalition of industry groups, including major tech companies, filed lawsuits arguing that the tax was unconstitutional and violated the ITFA, the Commerce and Due Processes Clauses of the U.S. Constitution, and the First Amendment to the U.S. Constitution.

The litigation resulted in a federal court ruling in the plaintiffs' favor, agreeing that the tax violated the Commerce Clause by imposing unfair burdens on interstate commerce. The court concluded that the tax was discriminatory because it specifically targeted companies involved in digital advertising, primarily affecting out-of-state businesses.

Additionally, the state court ruled that the state tax violated the ITFA, which prohibits taxes on electronic commerce that discriminate against online services. As a result, the tax was prevented from being implemented.

California's Digital Ad Taxes

The California Legislature introduced two separate bills in 2024 attempting to implement digital ad taxes. AB 2829 was authored by Assemblymember Diane Papan (D-San Mateo), while SB 1327 was authored by Senator Steve Glazer (D-Contra Costa). Both bills failed to reach the Governor's desk, but they did communicate to the business community that the state legislature has the penchant to tax digital ad tax revenue.

AB 2829 sought to tax businesses with annual global revenue of at least $100 million at a rate of 5% of the revenue derived from digital ad services. The bill was nearly identical to Maryland's digital ad tax.

SB 1327 aimed to tax businesses 7.25% on the revenue generated from the sale of digital advertising. The tax increase proposed in SB 1327 would have been separate from and in addition to income taxes already paid from income generated from sales of digital advertising.

Opponents of both bills argued that they ran afoul of the ITFA, the Commerce and Due Processes Clauses of the U.S. Constitution, and the First Amendment to the U.S. Constitution — just like the Maryland legislation. Furthermore, opponents of the taxes stated that businesses already pay corporate income taxes on their profits from conducting business. Any revenue collected from a digital ad tax is already captured in their income. Additionally, much of the economic activity that results from consumer purchases of advertising result in the collection of sales and use taxes in the states on the products purchased. Thus, the revenue these bills sought to generate was already being taxed and captured by the state and there was no need for their implementation.

Opponents also asserted that a digital ad tax would increase costs for small California advertisers and raise prices for consumers. While the bills were aimed at large advertising providers, the economic burden of the digital advertising tax would have fallen squarely on California purchasers because it was limited to revenue from advertising services in California.

Advertising service providers subject to the tax would immediately raise prices for California advertisers or add the tax to their invoices, like a sales tax. The tax would make otherwise affordable and effective digital advertising channels prohibitively expensive. Small California businesses, nonprofits, places of worship, civic organizations and others that advertise on digital platforms would be priced out of the market in an already-inflationary economy. In addition, the tax would raise costs for small businesses buying digital advertising services, causing them to raise prices for consumers, where the ultimate burden of any tax always falls.

Also, the bills lacked language regarding the sourcing or apportionment of receipts for the tax. Rather, the Franchise Tax Board would have been responsible for prescribing "rules, guidelines, procedures, or other guidance" to carry out the provisions of the bill. Leaving important sourcing rules to the regulatory process ignores the important policy implications of a broad-based digital advertising tax.

CALIFORNIA'S EFFORT TO FUND TRADITIONAL MEDIA OUTLETS

While legislators failed to enact a digital ad tax, Assemblymember Buffy Wicks (D-Oakland) led an effort where digital media platforms agreed to pay struggling traditional media outlets.

Specifically, the deal outlines a five-year plan where $242.5 million will be distributed to California media outlets. $180 million will go to the University of California, Berkeley School of Journalism, with oversight provided by a board made up of diverse and independent media member groups. $110 million will be paid by Google and its partners, and $70 million will come from the state.

The plan outlines that Google will pay $15 million to the journalism fund in 2025 and a minimum of $10 million a year through 2029, for a total of $55 million. California will pay $30 million in 2025 and then $10 million a year through 2029, for a total of $70 million.

The funds will be distributed to qualifying California news organizations, with the intent of funding journalism jobs. Tech companies will pay $62.5 million, with the intent of creating a nonprofit organization to administer an artificial intelligence (AI) accelerator project.

CALCHAMBER POSITION

Implementing new taxes on digital advertising will result in interminable litigation for the state and likely affect California's small advertisers when the costs of the tax are passed on to them. The Legislature should avoid imposing new taxes and instead focus on limiting obstacles to the state's economic prosperity. This includes addressing housing shortages and high housing prices, unaffordable cost of living conditions, and persistently highest-in-the-nation gas prices.

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Tourism in California

An Uneven Recovery after COVID-19

As Californians, we know that our state offers a rare blend of economic opportunity, cultural diversity, and a huge variety of natural wonders. From the tranquil beauty of our sandy beaches, to the low point of Death Valley, and rising to our towering redwoods and the snow-covered mountains of Mammoth and Lake Tahoe, California's landscapes offer more adventure than most countries. Our vibrant cities and universities offer visitors a portal into other cultures and experiences about which most of the world can only dream.

The travel and tourism industry has been the flagship of California's economy for decades, sharing all that California has to offer with both domestic and international visitors — while employing more than a million Californians and generating billions in tax revenue for California's local governments. Many of these tourism-related businesses (such as seasonal attractions or restaurants) also provide entry-level or part-time jobs for Californians as they take their first steps on the economic ladder. Moreover, the hospitality industry provides employment opportunities at every stage of a person's career ladder — from entry-level to management.

CONTINUING STRUGGLE

But California's tourism industry continues to struggle with the aftermath of COVID-19. Key takeaways are:

- Total visitors to California in 2023 remained significantly below pre-pandemic levels, for both domestic and international travelers.
- International spending remains below pre-pandemic levels, with domestic spending finally catching up in absolute dollars. When adjusting for inflation, however, even domestic spending remains below pre-pandemic levels.
- The recovery is uneven across California's diverse regions.

STILL NOT RECOVERED FROM COVID-19

Tourism and travel were among the hardest hit industries during the COVID-19 pandemic, with many hotels and resorts completely shut down and air travel heavily restricted. Only now — years later — is the tourism industry beginning to return to its 2019-level business, but that return is unevenly distributed across sectors and industries.

Looking at macro-level indicators, there continues to be a sharp difference in international and domestic travel. In 2023, international travel spending remained below 2019's pre-pandemic numbers ($22.5 billion now vs. $28.13 billion then), while domestic travel spending finally returned to 2019's benchmark ($127.9 billion now vs. $116.7 billion then). (Data comparisons based on statistics from California's Travel and Tourism Commission (Visit California) and their "Economic Impact of Travel in California 2014–2023" report (May 17, 2021), available at https://industry.visitcalifornia.com/research/economic-impact.)

Visitor counts show even more troubling data. Total incoming international travelers in 2023 remained 15% below pre-pandemic levels (17.5 million in 2019 vs.15 million in 2023), and domestic travel remained 7.2% below pre-pandemic levels. (Based on statistics from Visit California's "California Travel-Related Spend & Visitation Forecast (October update)" report (October 2024) available at: https://industry.visitcalifornia.com/research/travel-forecast.)

In short, this data suggests that tourism in California is still seeing fewer visitors than in 2019, but each visitor is spending just enough to bring overall tourism revenue close to 2019's

absolute spending. Considering overall inflation between 2019 and 2023 was above 16%, it seems likely that this data actually means fewer consumers are spending the same amount, but inflation is pushing absolute numbers upward. (Estimate taken from Department of Industrial Relations, Consumer Price Index Calculator, measuring inflation from January 2020 to December 2023.)

REGIONAL DIFFERENCES REMAIN; MOST LARGE MARKETS AND BUSINESS-DRIVEN MARKETS STRUGGLING

Those macro numbers, however, conceal a more nuanced situation for individual markets and sectors. San Francisco and Los Angeles hotels continue to see hotel occupancy rates below 2019 levels, with correspondingly lower revenues. San Diego is in a slightly better place, with travel spending at hotels above 2019 levels — but even there, occupancy rates remain below pre-pandemic levels. (San Diego Tourism Authority, "San Diego Lodgings Forecast," October 2024.)

Markets which relied more heavily on business-related travel pre-pandemic continue to struggle. For example, tourism spending in San Francisco County remains below pre-pandemic levels — while personal travel-focused areas such as San Diego have returned to pre-pandemic levels of overall spending. But even among coastal areas, stark differences remain. Smaller markets, such as Monterey and Santa Barbara counties, generally remain well below their 2019 spending levels. Santa Cruz County is a rare bright spot, with almost 40% growth in travel spending compared to 2019.

TOURISM EMPLOYMENT REMAINS BELOW PRE-PANDEMIC LEVELS

These economic struggles translate to fewer jobs for Californians —particularly young Californians. Research from Visit California concluded that 38% of all first jobs in California are in the travel and tourism sectors. ("California's Resilient Workforce," available at: https://travelmattersca.com/issues-insights/jobs-and-workforce.) Despite providing an impressive 1.15 million jobs in 2023, overall employment in the sector remains slightly below its 2019 peak. The majority of these jobs are in the hard-hit sectors of accommodations and food services (approximately 658,000 jobs), with the next-largest sector being in Arts, Entertainment, and Recreation (290,000 jobs), and the remaining share spread across ground/air travel and retail.

TOURISM-DRIVEN TAX RECEIPTS SURPASS 2019, BUT LAG BEHIND INFLATION AND LIKELY TO DIP AFTER FIRES

Travel-generated tax revenue rose to $12.7 billion in 2023, which is good — but this is a measly 3% above 2019 — meaning that it hasn't kept pace with inflation and tax revenue actually remains down in real terms. Particularly in the anticipated difficult budget year of 2025, the tax revenues that tourism provides will be critical for state and local officials.

How much of this slower-than-expected recovery is potentially due to structural changes, such as the widespread adoption of video-conferencing technology and cost-cutting on business travel? How much is related to international factors, such as lower international demand from hotspots such as China? And what effect will the ongoing devastating wildfires in Los Angeles have on 2025's tourism to the LA area? Will rebuilding happen in time for the 2028 Summer Olympics? Only time will tell. But California's tourism and travel industry appears to be facing lingering headwinds as the rest of the economy is hitting its stride.

CALCHAMBER POSITION

The California Chamber of Commerce supports policies that will help California safely return to its status as a premier tourist destination both for domestic and international travelers, while also ensuring visitors and employees are protected from COVID-19. This includes supporting policies that promote tourism, including Visit California and tourism improvement districts, as well as new incentives to bring significant events or attractions to California.

As an example of these policies, the 2021–2022 budget included $95 million in funds for Visit California to promote tourism as California re-opened. (This push was championed by Senator Mike McGuire (D-Healdsburg) and Assemblymember Sharon Quirk-Silva (D-Fullerton) via their bill, SB 285, which was subsumed into the budget.) The 2022–2023 budget included another $15 million for this purpose.

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Unemployment Insurance Fund

UI Debt Means Ongoing Tax Increases for California Employers

Through federal and state cooperation, unemployment insurance (UI) benefits act as a stabilizer and safety net during economic downturns by providing temporary, partial wage replacement for workers who have become unemployed through no fault of their own and are looking for employment. To induce states to enact UI laws, the Social Security Act of 1935 provided a tax offset incentive to employers, if a state UI program complies with federal requirements, including fully funding benefits for state claimants.

In addition to maintaining federal standards, each state has primary responsibility for the content and development of its UI laws and administration of the program. California administers its UI program through the Employment Development Department (EDD).

HOW EMPLOYERS FUND THE PROGRAM

California's UI program is funded exclusively by employers, via state and federal taxes on wages. The only exceptions to this rule are temporary federal grants for administration and certain emergency and extended benefits that have been paid from federal general revenue — some of which were utilized during 2020 in response to COVID-19. Employees do not pay any UI taxes.

Employer contributions are deposited in the Unemployment Trust Fund (UI Fund) of the U.S. Treasury Department. States withdraw money from their accounts in the trust fund exclusively to pay UI benefits. If a state trust fund does not have adequate funds to pay benefits, a loan is made from the federal fund so that all claims are paid.

Generally, the federal UI tax is fixed at 6% of wages up to $7,000 per year per employee for all employers in the state (FUTA taxes), offset by a 5.4% credit in states that comply with federal UI laws (FUTA tax credit), resulting in a payable rate of 0.6%. Assuming the state is in compliance and the state's UI Fund is solvent, this comes to $42 per employee per year. FUTA taxes are due January 31 following the year in which the taxes are applied (for example, 2024 taxes are due January 31, 2025).

If a fund remains insolvent for two consecutive years, then FUTA tax credits are reduced annually and cumulatively by 0.3 percentage points until the fund returns to solvency, creating a steadily growing tax increase on the state's employers.

COVID-19 AND UNEMPLOYMENT INSURANCE

COVID-19 and the related economic shutdown brought unemployment insurance policy to the forefront in California and nationally. As COVID-19 crashed across the nation, and businesses complied with state-mandated safety precautions and shutdowns, unemployment rapidly rose to levels not seen since the Great Depression. Unemployment insurance was used to backfill this economic crater, keeping food on the table for many Californians and providing critical stability to the economy.

Unlike prior recessions (such as the recent Great Recession), entire sectors of the economy were forced to shut down or operate at severely reduced capacity, due to self-isolation by customers, mandates from government, or broken supply chains. This meant many employers were compelled to terminate much or all of their workforce, and then pay unemployment compensation for this compelled termination. Now, because those payments drained California's unemployment fund, employers are being forced to repay the resulting UI Fund debt.

The question in front of California policy makers is: given that the present debt was caused by California forcing employers to shut down on a statewide scale, how can the state help fix the present insolvency of the UI Fund and prevent tax increases on California employers?

By November 9, 2020, California had accumulated $15.7 billion in debt, and that debt has since risen to $20.5 billion as of November 1, 2024. That debt puts California three times higher than the next closest state (New York with less than $6 billion).

RECENT LEGISLATION AND BUDGET DISCUSSIONS

Although Governor Gavin Newsom proposed allocating $3 billion to the UI Fund in California's 2022 budget cycle, that payment eventually was reduced $250 million in 2022–2023, with commitments to make future payments and aid in subsequent budget years. Now, as leaner budget times have taken hold, those commitments have evaporated. Recent legislation also has offered no aid to California employers here, with proposals being discussed during the 2024 legislative session to raise taxes, but not to provide aid for employers.

Looking forward, there is no reason to expect any aid — either from California or federally. California's budget outlook in the coming years remains tight. The federal government also is incredibly unlikely to provide any relief for California's UI Fund, given that President Donald Trump and congressional Republicans will likely see little reason to provide funding that would aid only California's employers.

HIDDEN EMPLOYER TAX INCREASES DURING THE GREAT RECESSION AND NOW

Because the UI Fund remained insolvent for two years, employers across California have seen their payroll taxes rise by $21 per employee per year, and those taxes will continue to rise by this amount every year until the debt to the federal government is repaid. In 2023, this tax increase cost employers $396 million, and is projected to rise to $812 million in 2024 — and to rise more than $1 billion in the following years. Notably, because it is not a "new" tax, many employers will not see these increases coming and will discover them only when receiving a much higher-than-expected bill.

The critical question is — How long will employers be paying these increased taxes? And when will these increased taxes be sufficient to pay down the UI Fund's debt? It is hard to speculate how many years this will take, but the Great Recession provides a somewhat useful comparison.

During the Great Recession, California's UI Fund bottomed out at $10.3 billion in debt. This was a record at the time, and was not a result of a statewide shutdown, but a result of financial panic. The subsequent recession created massive unemployment, but nothing compared to the rapidity and extent of the pandemic economic crisis. Employers paid elevated per-employee taxes from 2011 to 2017, when the fund returned to solvency.

Presently, the UI Fund is significantly deeper into debt, with a total debt of more than $20 billion heading into 2025. Assuming no federal or state relief, California employers will face an increased tax burden on a per-employee basis — which will disincentivize hiring — for years to come. Although the duration of the debt (and increased taxes) will depend on economic circumstances and workforce participation, California employers will likely pay increased UI taxes through the year 2031.

What does that look like for a normal employer, as opposed to pre-pandemic times? In a normal year, employers pay $42 per employee for the UI Fund (with some adjustment depending on their past experience and industry). In 2023, an employer paid $21 more per employee, or $63 per employee … then that rose to $84 in 2024, and will rise further to $105 in 2025. Looking down the road to 2030, employers will be paying $210 per employee in FUTA taxes — an increase of 400% over a normal year.

There also is considerable concern about a nationwide recession, with significant belt tightening at the federal level to confront inflation. Should a recession develop, California employers will be even less able to absorb these tax increases, and decreased labor force participation (as businesses fail and close) will mean that California's UI Fund will remain in debt even longer.

FRAUD CONCERNS AND RECOVERY EFFORTS

The unprecedented surge of unemployment applicants caused by the state-mandated economic shutdowns also laid bare the technological and logistical shortcomings in the EDD. Outdated technology and organizational bottlenecks around claims processing caused a huge backlog of applications, with some claimants waiting months for their claims to be processed. The EDD also failed to catch significant fraud due to its rush to distribute benefits. EDD estimates that California paid around $20 billion in fraudulent payments, with at least $1 billion coming from California's UI Fund, although the Legislative Analyst's Office asserted that it disputes this number and believes the total fraud attributable to California's fund is lower.

Regardless of the exact amount, the core issue for California employers is the same: when EDD makes mistakes in its distribution of funds (either through fraud or unintentional overpayments), employers end up paying the bill to replace the mistakenly distributed funds. As a matter of fairness,

EDD must take proactive steps to improve its distribution process and minimize fraudulent (or mistaken) distribution of benefits. Notably, EDD has recovered approximately $6 billion of the $20 billion lost to fraud — but it is impossible to determine how much of that $6 billion recovery was allocated to federal overpayments, as opposed to losses from California's fund.

CALCHAMBER POSITION

California employers will face years of increased taxes due to the COVID-19 pandemic crashing the UI Fund. The California Chamber of Commerce supports future proposals to reduce the UI Fund's insolvency and aid employers with the rising taxes that they are facing, and opposes measures that would increase employer taxes without protecting solvency.

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Groundwater Management

Legislative and Executive Actions Seek to Address Groundwater Conditions

Last year marked the 10th anniversary of the Sustainable Groundwater Management Act (SGMA). A retrospective of SGMA implementation to this point reveals a bounty of success stories and an overall acknowledgment that the law has worked as intended. The law requires groundwater sustainability agencies (GSAs) in the state's high- and medium-priority basins to develop and implement groundwater sustainability plans (GSPs), which detail how groundwater basins will be sustainably managed. Each GSP must be approved by the Department of Water Resources (DWR), and as of 2024, the vast majority of plans have been approved. The herculean task of correcting decades of overdraft in many parts of the state will require a holistic approach to groundwater management, including a pronounced focus on strategies to replenish groundwater basins.

GROUNDWATER RECHARGE

Following extreme drought conditions from 2020 to 2022, California experienced consecutive years of above-normal precipitation, which filled reservoirs and led to a significant reduction in statewide groundwater extraction. Increased surface water supply led to total annual groundwater extractions dropping from 17 million acre-feet in Water Year 2022 to 9.5 million acre-feet in Water Year 2023.

In 2023, as storms were pounding California, Governor Gavin Newsom issued a series of executive orders that suspended permitting requirements so water users could divert floodwaters and recharge groundwater basins without being burdened by regulatory delays. The Legislature codified portions of the executive orders later that year, further enabling the ability of water users to take advantage of high flow events when they existed.

California was able to achieve 4.1 million acre-feet of managed groundwater recharge in Water Year 2023, with approximately 93% of this recharge occurring in the San Joaquin Valley. Under the Governor's executive orders, more than 400,000 acre-feet of flood waters were recharged. Some water users also took advantage of the state's temporary urgency permit, which authorizes diversions under certain conditions for 180 days. These permits resulted in more than 660,000 acre-feet of recharge in Water Year 2023. Overall, the state experienced an increase of 8.7 million acre-feet in groundwater storage.

Recharge Legislation

In 2024, as California experienced a second straight wet winter, the Legislature sought to build on its prior recharge efforts.

• **AB 2060** (Soria; D-Merced) sought to exempt temporary urgency permits for diversions to underground storage from Lake and Streambed Alteration Agreements (LSAA) requirements if certain conditions were met. While the 180-day temporary urgency permit helps streamline the process of obtaining authorization to divert water not subject to a senior water right, the LSAA process still can result in significant delays and nullify some of the benefits of the permit. AB 2060 passed the Assembly but ultimately died on the Senate floor.

• **SB 1390** (Caballero; D-Merced), among other things, sought to address concerns that diversions occurring under the authority granted by the Governor's executive orders continued even after risks of imminent flooding abated. For example, while the majority of diversions began in March, shortly after the executive orders were issued and many rivers were at or near flood stage, in many cases, diversions continued through August and September. Concerns grew that these diversions were infringing upon water rights of downstream users. Therefore, SB 1390 sought to place additional restrictions on when

flood flows could be diverted without a water right. The bill passed the Senate but died on the Assembly floor.

WELL PERMITTING

In 2022, in the midst of emergency drought conditions, Governor Newsom issued two executive orders that, among other things, imposed new requirements for issuing permits for a new groundwater well or the alteration of an existing well in a basin subject to SGMA. Specifically, the local agency responsible for permitting wells was required to obtain written verification from the local GSA that extractions by the proposed well would not be inconsistent with a sustainable groundwater management program in a local GSP and would not decrease the likelihood of achieving a sustainability goal for the basin. The executive order also required the well permitting agency to determine that the proposed well would not likely interfere with nearby wells and would not cause subsidence that would harm infrastructure.

In early 2024, the California Department of Water Resources (DWR) published a report detailing the methods local agencies used to implement the executive orders and the impact they had on well permitting throughout the state. The report concluded that the executive orders enhanced coordination between well permitting agencies and GSAs and provided guidance for how SGMA's requirements could be better integrated into the well-permitting process.

DWR noted, however, that the executive orders lacked a mechanism to ensure compliance. The report also concluded that the executive orders failed to achieve their desired results because permits were still issued in basins experiencing subsidence and well interference.

Legislative Restriction: AB 2079

DWR's report inspired the introduction of AB 2079 (Bennett; D-Ventura), which sought to prohibit approval of well permits under certain conditions. Specifically, the bill would have prohibited local agencies from issuing a permit if the proposed well was located within a groundwater basin that had experienced a half-foot of subsidence or more since 2015; or located within a quarter-mile of a domestic well.

The California Chamber of Commerce led a large coalition in opposition to the bill, arguing, among other things, that the widespread moratorium on new wells served as an end-run around SGMA. In an effort for basins to be sustainably managed, SGMA focuses on how much water is used and not on how many wells are in existence within a given basin.

A new well does not give a water user any entitlement to using a certain amount of water. The amount available to use is regulated by state law and the relevant GSP developed pursuant to SGMA. Thus, AB 2079's pure focus on new wells was misplaced. Continued focus on developing and implementing GSPs is necessary to ensuring that SGMA's goals are reached and negative consequences like subsidence are reduced. The bill would also impose a state mandate, which is inconsistent with SGMA's directive of managing groundwater at the local level.

Although the bill passed the Assembly, it ultimately failed to advance out of the Senate Natural Resources and Water Committee. It is too early to know whether bills seeking to restrict well permits will be introduced in 2025.

This was not the first bill attempting to place new restrictions on the well permitting process. In 2023, CalChamber opposed AB 1563 (Bennett; D-Ventura), which would have prohibited permitting agencies from approving well applications in critically overdrafted basins subject to SGMA, unless certain conditions were met. Although the CalChamber defeated this bill, continued attempts to amend the well permitting process illustrate the possibility for future legislation related to this issue.

CALCHAMBER POSITION

The CalChamber supports legislation to improve implementation of SGMA, while opposing legislation that would undermine core goals of SGMA, including, but not limited to, preserving local authority and groundwater rights. The CalChamber also supports policies that facilitate groundwater recharge and groundwater banking projects.

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Sacramento-San Joaquin Bay-Delta Watershed

State Water Board Poised to Act on Critical Water Management Plan

The Sacramento-San Joaquin Bay-Delta watershed is an intricate network of waterways, islands and wetlands located where California's two largest rivers — the Sacramento and San Joaquin — converge. Spanning roughly 1,100 square miles, it is the largest freshwater tidal estuary on the West Coast of the Americas and serves as the transition point between Northern California's water-rich regions and the drier central and southern parts of the state.

It provides critical habitat for fish and wildlife, including numerous endangered and threatened species, and is the central hub of California's two largest surface water delivery projects — the State Water Project and the federal Central Valley Project. These projects provide water to more than 27 million Californians in the Bay Area, Central Valley, and Southern California. The Bay-Delta watershed also supports California's highly productive agricultural sector, providing water that irrigates millions of acres of farmland.

COMPETING ALTERNATIVES BEFORE STATE WATER BOARD

The State Water Resources Control Board (State Water Board) is responsible for adopting and updating the Bay-Delta Water Quality Control Plan, which establishes water quality measures and flow requirements needed to provide reasonable protection of beneficial uses in the watershed. Currently, the State Water Board is nearing the final stages of completing an update to the Water Quality Control Plan for the Bay-Delta, a process that began in 2008 and that will have a significant impact on water availability for much of California. The update currently before the State Water Board involves the Sacramento basin and its tributaries, including the Feather River, Yuba River, American River and the Mokelumne River.

Before the State Water Board are two competing alternatives.

- One approach, proposed by State Water Board staff and referred to as the "regulatory pathway," would mandate that 55% of flows within the Sacramento Valley watershed be unimpaired, or, in other words, dedicated as environmental flows and not available for storage or diversion.
- Another possible pathway is the Agreements to Support Healthy Rivers and Landscapes (HRL) program — formerly referred to as the Voluntary Agreements — that reflect a suite of commitments among state, federal and public water agencies. The HRL would use both flow and non-flow measures that help support native species and the environment and create a governance structure that oversees implementation and assists in decision-making.

AGREEMENTS TO SUPPORT HEALTHY RIVERS AND LANDSCAPES

The California Chamber of Commerce, along with many associations representing important uses of water in California, has encouraged the State Water Board to incorporate and advance the HRL program in the updated Delta water quality standards. The CalChamber believes that the HRL program provides the balance necessary to protect all beneficial uses of water, while the unimpaired flows approach would have devastating effects on water users and California's economy.

The HRL program goes beyond simply adding flow to streams and reaching the underlying ecosystem functions needed to restore fish populations. One of the critical aspects of the HRL program is the dedication of significant flows for the environment coupled with strategically releasing this water through a "functional flows" approach. This approach, rather than restoring natural flows of a river, focuses on maintaining functions of a river that support ecosystem health, such as sediment movement, water quality, and timing flows based on species migration and reproduction.

Functional flows also rely on suitable physical habitat to promote the benefits to fish and wildlife, which is why the HRL program includes major investments in habitat restoration projects. Scientific study on the matter shows that a combination of habitat and flow provides substantial system-wide benefits.

Additionally, the Public Policy Institute of California (PPIC) has touted the value of a functional flows approach, stating that "[B]y coupling physical habitat improvements with key aspects of flow variability, functional flows offer a more effective means of improving ecosystem health than conventional approaches."

To ensure these efforts are having their desired effect on the Delta watershed, the HRL program would promote transparency and accountability through a collaborative science program that relies on the latest, best available knowledge and an inclusive governance structure that encourages conversation, collaboration, and rapid response to changing conditions. One of the key features of this program is adaptive management, which would allow parties to implement the program, monitor progress, and make real-time adjustments based on the latest data. Finally, the parties to the agreements are committing more than $2.9 billion to fund a robust science program, construct new habitat, water purchases, crop idling, and other actions.

The more reasonable flow measures in the HRL program would assist in ensuring that water users of all types can better predict water availability and plan accordingly. For example, developers can better model water availability to serve new housing developments, which are legally required to provide proof that water will exist to serve the planned project. Also, agricultural businesses can better plan for the appropriate acreage to plant, and this increased certainty helps support related businesses. Overall, this alternative minimizes negative impacts on the economy while achieving ecosystem benefits.

UNIMPAIRED FLOWS ALTERNATIVE

In contrast, the unimpaired flows approach would lead to significant adverse impacts on water supply reliability while failing to provide investments in necessary habitat restoration projects. For example, the State Water Board draft staff report analysis of the unimpaired flows approach estimates that the annual Sacramento/Delta water supply to the San Joaquin Valley region would be reduced on average by 96,000 acre-feet in wet years and by 707,000 acre-feet in dry years. This would mean an average reduction of more than 22% in deliveries to San Joaquin Valley urban users. Less water applied for irrigation of agricultural lands would in turn result in reductions of incidental groundwater recharge and decreased groundwater levels compared to baseline conditions. An average of 624,000 acre-feet of additional groundwater pumping would be necessary to make up for lost surface water deliveries under the unimpaired flows scenario, which would significantly undermine the ability of groundwater sustainability agencies to reach the sustainability goals of the Sustainable Groundwater Management Act (SGMA).

Unimpaired flows also would exacerbate water affordability challenges. Reduced water supplies would increase costs per acre-foot of Central Valley Project and State Water Project water. The reductions also would require water agencies to invest in more expensive alternative supply sources, increasing the cost of water.

Not only would the negative consequences of the unimpaired flows approach reverberate throughout local economies in California; that flawed approach would fail to improve the state of ecosystems in the Sacramento/Delta watershed. In the past, flow-only efforts to manage the Bay-Delta have not worked as desired.

In the intervening decades, both species and water supply reliability have declined in the Bay-Delta and, by extension, throughout the state. The HRL program changes course and offers a different approach that is innovative and aims to

improve environmental conditions more quickly and holistically than traditional top-down regulatory requirements.

NEXT STEPS

State Water Board staff have said they expect the Board to decide which option it will adopt in the updated Bay-Delta plan in the summer or fall of 2025. In the meantime, the State Water Board held a series of workshops in November and December 2024, and January 2025 to discuss both alternatives. In October 2024, the State Water Board released its latest update to the Bay-Delta plan, which focused on proposed implementation measures for the competing alternatives.

CALCHAMBER POSITION

The CalChamber supports the Agreements to Support Healthy Rivers and Landscapes because it will provide more certainty to communities, farms and businesses that depend on a reliable water supply. The CalChamber will continue to encourage the State Water Board to incorporate this alternative into the updated Bay-Delta plan.

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Water Infrastructure

California Continues to Make Progress on Important Water Supply Projects

California faces a multitude of water management challenges, brought on by droughts, floods and other natural disasters. While the state's weather patterns have always been variable, climate change has and will continue to exacerbate the weather whiplash that is intensifying drought and precipitation events. The past decade has been marked by intense swings between wet and dry years, which has underscored the urgency with which California must rethink the way it captures, stores and delivers water throughout the state. Much of California's water supply and flood control infrastructure was built a century ago. As existing infrastructure ages and weather patterns change, substantial new investments are needed to ensure California's water and climate resilience in the decades to come.

An aerial view of the proposed Sites Reservoir near Maxwell, California on September 5, 2014. Kelly M. Grow/ California Department of Water Resources

Local and state agencies are making generational investments in a holistic set of infrastructure projects, including above and below ground storage, water recycling, desalination, and more. The Newsom administration has played a leading role in two major projects that, if completed, would enhance water supply reliability for much of California.

SITES RESERVOIR

Sites Reservoir is a proposed off-stream water storage facility in California's Sacramento Valley, intended to provide additional water storage capacity for the state. This reservoir would use a mix of new and existing infrastructure to divert water from the Sacramento River during high-flow periods — after all other water rights and regulatory requirements are met — into a large basin for storage. Sites has a planned storage capacity of about 1.5 million acre-feet, making it one of the largest new water storage projects in California in recent decades.

The region of the state where Sites Reservoir would be located receives the majority of California's rainfall. So locating a new reservoir here means that Sites can collect excess winter storm flows from uncontrolled streams below the existing reservoirs in the Sacramento Valley and store that water for use during dry periods. By operating in conjunction with other California reservoirs, Sites Reservoir will substantially increase water supply flexibility, reliability and resiliency in drier years. Additionally, a portion of this water supply will be dedicated to support native fish, migratory birds and their habitats.

As an off-stream reservoir, Sites would avoid many of the

negative environmental impacts associated with on-stream dams. Capturing only excess flows during extreme storm events leaves water in the Sacramento River to support fish and wildlife. Sites will also contribute to the increased fresh-water flow into the Delta during drier periods to assist with salinity management.

The estimated cost of Sites Reservoir is approximately $4 billion. A significant portion of the funding for this project comes from conditional commitments by 30 local agencies from across the state which represent millions of Californians and thousands of acres of food-producing farmland. The California Water Commission also has set aside $800 million in state bond funds for Sites.

The project is currently in advanced planning and permitting stages. The project completed two major milestones in 2023 with the release of the Final Environmental Impact Report/ Environmental Impact Statement, which is the penultimate step for achieving California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA) approval.

Sites also benefitted from a recent legislative effort, championed by Governor Gavin Newsom, to streamline critical infrastructure projects. Specifically, SB 149 (Caballero; D-Merced), passed by the Legislature in 2023, requires courts to decide CEQA challenges within 270 days to the extent feasible. In 2024, this law allowed a lawsuit challenging whether the project complied with CEQA to be resolved in 256 days, with the appellate court ultimately rejecting the challenge.

The process of obtaining water rights for the Sites project is pending before the State Water Resources Control Board's Administrative Hearings Office. A decision is expected in 2025. Additional permits and approvals are expected to be completed in 2025, and construction is expected to begin in 2026.

DELTA CONVEYANCE PROJECT

In addition to capturing and storing more water, the state is seeking to modernize the infrastructure used to move water from north to south. The Delta Conveyance Project (DCP) involves constructing a tunnel system to transport water from the Sacramento River to the southern Delta, where it can be delivered using existing infrastructure that supplies water to areas throughout the state, including Southern California, the Bay Area, and the Central Valley. This essential climate adaptation project will capture and move water during high storm flows, allowing the state to store more water for use during droughts.

The Sacramento-San Joaquin Delta is central to an aging system of dirt levees, aqueducts and pipes that delivers water to homes, farms and businesses throughout the state. The system is at risk of collapse if there is a major earthquake or flood and salinity caused by sea level rise threatens water quality. The existing infrastructure of the State Water Project lacks the ability to sufficiently capture runoff from intense precipitation events, which are expected to become more common in an age of climate change. If the DCP had been operational in 2024, it could have captured roughly 941,000 acre-feet of water from January to June, enough to supply more than 9.5 million people or more than 3.1 million households for one year.

In May 2024, the California Department of Water Resources (DWR) released a cost-benefits analysis of the DCP, finding the project is a net benefit for Californians. DWR estimates the DCP will provide $2.20 in benefits for every $1 spent. While the cost of the project is estimated at $20.1 billion, "doing nothing" will cost California billions of dollars and jeopardizes the water source for millions of state residents and more than 750,000 acres of farmland, the report stated.

The State Water Board's Administrative Hearings Office is currently reviewing water right change petitions filed by DWR for the project. The permitting and planning phase of the project is expected to be complete by 2030 with hopes of the tunnel being in operation in the 2040s.

DEVELOPING NEW LOCAL WATER SUPPLIES

In addition to these forward-thinking projects designed to improve the state's ability to capture and convey water during and after high-flow weather events, sizable investments are being made in regional water resiliency projects. Regions of California that receive infrequent rainfall depend on imported water supplies to meet the water needs of homes and businesses. As climate change stresses water supplies, however, there is a need for these regions to reduce their reliance on important supplies and find ways to recycle the water being used.

In Southern California, the Metropolitan Water District (MWD) and Los Angeles County Sanitation District are partnering on Pure Water Southern California, a large-scale water recycling facility that would take cleaned wastewater currently sent to the ocean and purify it for high-quality drinking water. The project is expected to produce 150 million gallons of water each day, which would be enough to meet the demands of 1.5 million people, making it one of the largest water recycling projects in the world.

ASSEMBLY SELECT COMMITTEE ON PERMITTING REFORM

While California works to upgrade its water supply and flood

control infrastructure, it is an open question whether these projects can be built at the pace and scale necessary to keep up with a changing climate. As the wets get wetter and dries get drier, our water systems must be prepared to ensure California can continue to thrive. Building water infrastructure for the 21st century requires regulatory frameworks to move quickly to keep up. Although the need for these projects is evident, getting these projects approved and built in a timely manner can be a significant challenge.

In 2024, the California State Assembly formed the Select Committee on Permitting Reform, intended to examine existing permitting processes for housing, energy, water projects, and more. The California Chamber of Commerce joined a coalition of organizations representing water agencies, agricultural producers, and other industry stakeholders in submitting a letter to the select committee that highlighted instances where critical water infrastructure projects can become mired in delays. Even after the CEQA process is complete, the permitting process can be slowed by overlapping jurisdictions of state and federal agencies, confusion over what's required for a completed application, and state agency and project applicant staffing issues.

Local agencies have made, and will continue to make, significant investments in these projects; according to the Public Policy Institute of California (PPIC), local funding accounts for about 84% of the funding for water supply development projects, with the state and federal investments at 13% and 3% respectively. As delays occur, costs increase and depending on the size of the project, delays ultimately can cost water rate payers and taxpayers tens of millions of dollars. This regulatory gridlock also can lead to worse environmental outcomes and delay projects that will benefit the environment. It is imperative that permitting processes provide the needed protections they are intended to without unduly delaying or preventing these critical investments in California's future.

The select committee held a series of informational hearings over the fall of 2024 and will release a report of its findings and recommendations for permitting reform solutions early in 2025. It is expected that some of these recommendations will materialize as legislation in 2025.

CALCHAMBER POSITION

The CalChamber will continue to support construction of Sites Reservoir and the Delta Conveyance proposal promoting construction of one tunnel to convey water through the Delta.

The CalChamber also supports legislation that seeks to streamline the permitting process for water supply and flood risk reduction projects. Addressing unnecessary delays in the permitting process for critical infrastructure projects will reduce costs borne by ratepayers and better ensure California builds at the pace and scale needed to address climate change.

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January 2025

Cal/OSHA Regulatory Roundup

What's Coming for Businesses in 2024–2025

The California Division of Occupational Safety and Health (Cal/OSHA) continues to shape the business realities for California employers — and the next few years promise significant regulatory changes across the breadth of California's employers. Following is a summary of what the Cal/OSHA Standards Board has done in 2024, as well as what's coming in 2025 and beyond — and how it will affect California's workplaces.

2023–24 REGULATORY CHANGES: INDOOR HEAT, LEAD REGULATIONS, WORKPLACE VIOLENCE, AND MORE

In the last legislative session, Cal/OSHA's regulatory actions touched on almost every indoor workplace in California.

• **Indoor Heat**: The long-discussed indoor heat regulation (Title 8, California Code of Regulations (CCR), Section 3296) was adopted in July 2024, creating new heat-related obligations for any indoor space where temperatures reach 82 degrees at any point. This regulation applies across industries, but caused the most difficulty in industrial spaces, warehouses, and in restaurant kitchens, where temperatures may be hard (or impossible) to fully control. Substantively, it created new obligations for temperature monitoring, creation of "cool-down areas," and other heat-related precautions to protect employees.

• **Lead Standards**: Cal/OSHA also revised another long-pending regulatory update, California's lead regulation (Title 8, CCR Section 5198 et seq.) with significantly lower air- and blood-lead thresholds for testing and removal from the workplace.

• **Workplace Violence**: 2023's SB 553 (Cortese; D-San Jose; Chapter 289) put a workplace violence regulation into statute on a temporary basis, and compelled Cal/OSHA to conduct a subsequent rulemaking and release its draft proposal by December 2025, then vote to approve the final text by the end of 2026. Functionally, SB 553 created a host of new and ambiguous requirements for California employers, the full scope of which won't be clear until some of its broad (and vague) obligations are contested at the Cal/OSHA Appeals Board. What is evident for now is that employers are just beginning to grapple with new obligations around workplace violence training, reorganizing their workplace environments, potentially installing new security devices, and hiring additional personnel.

• **Residential Fall Protection**: In August 2024, Cal/OSHA adopted an update to the residential fall protection regulation (Title 8 CCR Sections 1671.1, 1716.2, 1730 and 1731), which disappointed many contractors and labor advocates because it rewrote California's already-existing fall protection regulation to match the federal Occupational Safety and Health Administration's (OSHA) 2017 regulatory update.

Some states (including California) have what is called "state plan" occupational safety systems, wherein they can adopt their own regulations that differ from federal standards, so long as their standards are "at least as effective" as federal regulations. Experts on both sides of the management/labor divide believed California's standard was safer than the new federal standards, but federal officials deemed California's existing standard to be insufficient. Although the Cal/OSHA Standards Board could have disagreed with federal OSHA and litigated the matter, the Board instead chose to adopt the new federal standards (though it delayed implementation until mid-2025). Now, only time and data will tell if California's construction sites are safer (or less safe) due to these changes.

WHAT'S COMING IN 2025?

Since COVID-19, Cal/OSHA has seen a remarkable public prominence, taking on a range of high-profile issues that affect workplaces across the state, and 2025 looks like it will be no different.

• **Permanent Infectious Disease Regulation for General Industry**: With California's COVID-19-specific regulation (Title 8, CCR Section 3205) set to expire in part on February

3, 2025 (and fully on February 3, 2026), labor advocates have been pressuring Cal/OSHA to create a broader "infectious disease regulation" to apply across all sectors and cover all diseases with COVID-like provisions. Notably, only the health care industry presently has an infectious disease standard in effect, due to that industry's obvious and unique risks (Title 8, CCR Section 5199).

Although there is no public text proposal at this time, discussions at Cal/OSHA suggest that the proposal for a "general industry" standard would apply broadly to all sectors of the economy with similar provisions to the present COVID-19 regulation. Employers are watching this one with great concern, as the burdens of the COVID-19 regulation (including recordkeeping, testing, forced "exclusion" from the workplace, and pay for that excluded time) remain fresh in employers' minds. As of December 2024, no draft has been released — but employers should continue to watch for a draft in 2025.

• **Autonomous Tractors**: Cal/OSHA's antiquated autonomous tractor regulation is another hot topic heading into 2025. In a world where self-driving cars can navigate San Francisco's treacherous streets, Cal/OSHA's autonomous tractor regulation (Title 8, CCR Section 3441) has stood as a bizarrely outdated barrier to a wider adoption of self-driving tractors. Notably, numerous other nations and states have used such technology — and have seen improvements in safety for workers. For example, autonomous tractors can minimize workers' exposure to pesticides (by removing the operator from the sprayed area) and can apply pesticides more precisely than an operator (thereby minimizing overall usage and environmental risks).

Despite Cal/OSHA's rejection of numerous petitions to update Section 3441 (most recently in 2018 and 2021), the tide appears to be turning. In the fall of 2024, Cal/OSHA's staff published a memorandum that provided two improvements for the agricultural industry: 1) it unequivocally stated that autonomous tractors are not prohibited in fields where no workers are present; and 2) it recommended an advisory committee be formed to consider updating the regulation and allowing for more usage of autonomous tractors. Although this memorandum proposes only a discussion of allowing a very limited subset of autonomous tractors, it still suggests a thawing of Cal/OSHA's long-term inaction on this issue. With these headwinds, this area is expected to be debated vigorously in 2025.

• **First Aid Kits**: Cal/OSHA also is likely to adopt an update to the requirements for first aid kits (Title 8, CCR Section 3441) in 2025–2026 to address two issues. First, a long-running push for textual improvements from industry has led to formal rulemaking to update the description of the contents of first aid kits. Second, concerns about increasing opiate overdoses across California have led to both a legislative push (AB 1976; Haney; D-San Francisco; Chapter 689, Statutes of 2024) and a petition to the Board to add naloxone (the rapid response inhaler to delay opiate overdoses) to workplace first aid kits. Based on the regulatory and statutory timelines at issue, it appears likely that Cal/OSHA may undertake two separate votes — and will likely address the long-delayed textual update first, then address naloxone in a separate rulemaking.

CALCHAMBER POSITION

The California Chamber of Commerce supports effective workplace safety policies and believes that such policies must be based on sound science, must be clearly drafted, and must be feasible to implement. The CalChamber also believes stakeholder input, even in times of crisis, is critical to drafting effective, successful regulations. Regarding COVID-19, the CalChamber supports a managed transition away from emergency-footing workplace precautions. The CalChamber will continue to advocate for sound, effective and feasible policy at Cal/OSHA in all rulemaking processes.

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Workers' Compensation

Subsequent Injury Benefits Trust Fund Ballooning Out of Control

California's workers' compensation system is rooted in an agreement between employers and employees, sometimes referred to as the "The Grand Bargain." Under the Grand Bargain, employers accept responsibility for all injuries and illnesses that occur in the course and scope of employment, even when they would otherwise have no legal liability. Employees, in exchange for the guaranteed coverage, relinquish the right to sue their employers in civil court.

In the early 20th Century, some states established a subsequent injury fund as part of their workers' compensation system. The intent was to compensate workers above and beyond the standard benefits where their injury was exacerbated by a pre-existing condition and their permanent disability (PD) rating is higher than it would have been absent that pre-existing condition. California created its fund, now called the Subsequent Injuries Benefits Trust Fund (SIBTF), in 1945. It was motivated in part by veterans who had been injured in the World Wars and were beginning to reenter the workforce. The SIBTF is funded by annual workers' compensation assessments paid by all California employers.

ELIGIBILITY REQUIREMENTS

Pursuant to Labor Code Section 4751, a worker is eligible for benefits from the SIBTF if they meet the following requirements:

1) The worker had one or more pre-existing permanent partial disabilities that were "labor disabling" at the time of the injury, meaning that it could have been the basis for a workers' compensation claim had it been caused by work.

2) The worker suffered a subsequent injury compensable under the workers' compensation system.

3) The PD resulting from the combination of the pre-existing disability and the subsequent injury is greater than the PD resulting from the subsequent injury alone.

4) The PD rating described in number 3 is at least 70%.

5) The PD rating resulting from the subsequent injury alone (without adjustment for age or occupation) was either: a) at least 35% or b) at least 5% and affected a hand, arm, foot, leg, or an eye that is "opposite and corresponding" to a body part with a pre-existing condition

So, for example, if a worker had a pre-existing injury to their back and subsequently suffered an injury at work that exacerbated their back injury, they may be entitled to benefits from the SIBTF if the PD rating of the two injuries combined is more than 70% and the subsequent injury rating was at least 35%.

CALIFORNIA'S SIBTF CLAIMS SKYROCKET

California's SIBTF has garnered attention in recent years due to sharp increases in claims filed and benefits paid. The number of annual SIBTF applications has tripled since 2015, with nearly 2,500 claims being filed in 2022. Benefits paid from the SIBTF rose from approximately $115 million per year to more than $600 million per year and it is estimated that the liability resulting from existing unresolved cases is greater than $5 billion. This growth has contributed to the skyrocketing of employer workers' compensation assessments each year.

Because of those significant increases, the California Department of Industrial Relations (DIR) contracted with RAND to examine the SIBTF and propose possible policy solutions. That report was released in June 2024. Several items of note include:

Common Conditions Being Claimed

Since the creation of the SIBTF, there has not been much limitation on what type of condition qualifies for an application. Although some states limit qualifying pre-existing conditions to

a specific list, California does not. Therefore, over time, there has been an increased trend in many of the pre-existing conditions claimed being common, chronic conditions that come with aging, such as arthritis, headaches, diabetes and obesity.

Change in Case Law Regarding PD Calculation

One reason for the trend was a 2020 decision in *Todd v. SIBTF*. That decision changed how the permanent disability rating was calculated for purposes of SIBTF claims, making it much easier to reach a 100% rating. When an applicant has a 100% rating, the amount of benefits to which they are entitled skyrockets. This has resulted in a significant increase in the benefits being paid out per case and a lack of parity between SIBTF fund recipients and applicants without a pre-existing condition. As RAND explains:

"In practice, the fact that workers can reach a 100-percent rating and receive generous PTD [permanent total disability] *benefits more easily through the additive method than through the combined values method means that workers who would be determined to be less severely disabled by other parts of the system (e.g., for their work injuries alone) will be receiving more generous benefits from SIBTF. In other words, a worker with multiple alleged PPDs* [permanent partial disabilities] *who is evaluated for SIBTF will likely receive far more generous benefits than a worker with the same set of alleged disabilities if they all resulted directly from an industrial injury."*

Increase in Volume of Medical Legal Reports Per Case

SIBTF cases also involve their own medical-legal process. Standard claims are subject to a regulated qualified medical evaluator (QME) process and SIBTF claims are not, resulting in costs being paid out to medical examiners and copy services. There are financial incentives to either order multiple reports or to use specific examiners, which is evidenced by the fact that certain vendors are used far more frequently. RAND estimates that about $1 of every $5 paid by the SIBTF between 2010 and 2022 went to medical-legal reports rather than workers. (RAND report, p. 88.) There also is no firm statute of limitations, so an SIBTF claim can be filed years after the subsequent injury occurs, complicating the ability to accurately evaluate a claim and reliability of medical reporting.

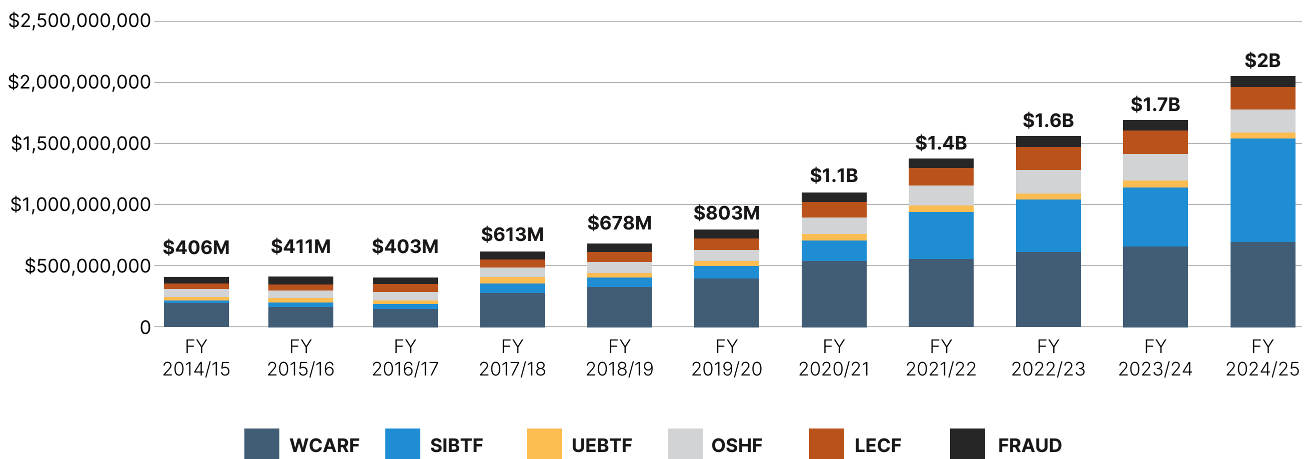
ARE CHANGES TO SIBTF ON THE HORIZON?

DIR's decision to commission the RAND study is telling that the administration sees this as a growing issue. Employers have noticed as well, especially as far as the impact of the fund on employer assessments. (*See chart*)

The RAND report demonstrates that the increased use of the fund is not because of a change in working conditions, but rather because of the relative ease of claiming chronic conditions and availability of increased benefits under *Todd*.

Interestingly, 18 jurisdictions, including Colorado,

EMPLOYER ASSESSMENTS 2014/154/15 TO 2024/25



- Workers' Compensation Administration Revolving Fund Assessment (WCARF)
- Subsequent Injuries Benefits Trust Fund Assessment (SIBTF)
- Uninsured Employers Benefits Trust Fund Assessment (UEBTF)
- Occupational Safety and Health Fund Assessment (OSHF)
- Labor Enforcement and Compliance Fund Assessment (LECF)
- Workers' Compensation Fraud Account Assessment (FRAUD)

Source: Department of Industrial Relations Annual Assessment Methodology

Connecticut, New Mexico, and the District of Columbia, have discontinued their funds or allowed them to sunset. Some have cited growing financial liability and some have cited a lack of evidence of the need of such a fund considering the enactment of anti-discrimination laws like the Americans With Disabilities Act of 1990.

CALCHAMBER POSITION

California will soon need to decide whether it too should eliminate the SIBTF or address some of the challenges highlighted by the RAND report. The California Chamber of Commerce supports system changes that will reduce employers' annual assessments, but also cautions that any reforms should be thoughtful so that there are no unintended consequences that drive up system costs elsewhere or encourage additional litigation.

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CalChamber Job Killer Tag Identifies Worst Proposals

Economic growth and job creation are the keys to making California a great place to live, work and do business. To help lawmakers focus on the full ramifications of proposed laws, the California Chamber of Commerce identifies each year the legislation that will hinder job creation. The job killer list highlights those bills that truly are going to cost the state jobs. The CalChamber policy staff is very judicious about the difference between legislation that merits opposition and a job killer.

The goal is to remind California policymakers to keep their focus on the No. 1 issue affecting their constituents—economic recovery and job creation. Each bill designated as a job killer would increase uncertainty for employers and investors, and lead to higher costs of doing business, which will undermine the economic health of the state. Individually, the job killer bills are bad, but cumulatively they are worse.

Jobs are killed when employers lay off workers or can't afford to hire workers to provide goods and services to consumers. Workers are laid off (or wages are reduced) if consumers do not buy goods and services from businesses, or because the cost of providing those goods or services has increased to the point where the business is not competitive. Consumers will not buy goods and services if they have less money to spend, or if the goods and services are a lesser value (higher cost/lesser quality) than alternatives in the marketplace. Lower wages and fewer jobs are the result of an employer not being successful in the marketplace—when an employer is not competitive and/or consumers have no money to spend.

Government kills jobs when it passes laws, rules and regulations that discourage investment and production, that add unnecessary cost and burdens to goods and services, or that make California employers uncompetitive.

Job killer bills make employers less competitive, forcing them to reduce employee benefits, or take resources from consumers.

CRITERIA

Factors that have earned job killer status for legislation include:

- imposing costly workplace mandates;
- creating barriers to economic development/economic recovery;
- requiring expensive, unnecessary regulations;
- inflating liability costs;
- imposing burdensome or unnecessary requirements that increase costs on businesses;
- expanding government at businesses' expensive;
- criminalizing inadvertent business errors;
- imposing new or higher fees and taxes;
- discouraging businesses from expanding their workforce in or to California.

BILLS STOPPED

Since starting the job killer bill list in 1997, the CalChamber has prevented 92% of these onerous proposals from becoming law. Every job killer stopped means the state will at least do no more harm to businesses and their ability to compete in the national and global markets.

Updates appear at *cajobkillers.com* and *calchamber.com/jobkillers*.

Job Creator Bills Help California Economy Grow

Alongside the California Chamber of Commerce list of job killer legislation is the job creator bill list. Since 2008, the CalChamber has identified and strongly supported legislation that will stimulate the economy and improve the state's jobs climate. The *Business Issues and Legislative Guide* explains the policies that would improve California's business climate and nurture our economy—the principles that determine which bills are job creators. If adopted, job creator legislation would encourage employers to invest resources back into our economy and their local communities rather than spend on unnecessary government-imposed costs. Job creating legislation promotes the following policies:

- Keeping taxes on new investment and business operations low, fair, stable and predictable.
- Reviving local economic development tools.
- Reducing regulatory and litigation costs of operating a business—especially when hiring and keeping employees.
- Reducing the cost and improving the certainty and stability of investing in new or expanded plants, equipment and technology.
- Investing in public and private works that are the backbone for economic growth.
- Ensuring the availability of high-quality skilled employees.

SIGNED INTO LAW

Among the 32 job creators signed into law to date are bills:

- Protecting employees and employers from being sued for defamation in sexual harassment cases simply for reporting and investigating harassment.
- Giving employers a limited opportunity to cure technical violations in an itemized wage statement before being subject to costly litigation.
- Reforming disability access requirements and limiting frivolous litigation related to disability access compliance.
- Expediting the environmental review process for projects related to energy or roadway improvements, repair and maintenance.
- Creating a predictable and easy-to-track schedule for implementing new regulations.
- Extending and expanding the film and television tax credit.
- Stopping drive-by Proposition 65 lawsuits for alleged failure to post specific required warnings.
- Repealing a retroactive tax on small business investors.
- Encouraging aerospace projects to locate in California.
- Restoring funding to the California Competes Tax Credit Program.
- Increasing loan access for small business.
- Helping businesses rebuild after disasters by allowing state agencies to establish a procedure to reduce licensing fees for businesses affected by a federal- or state-declared emergency.

Removing regulatory hurdles makes it easier for California employers to create the jobs needed to maintain the state's economic recovery.

Updates on the job creator bills appear at *calchamber.com/jobcreators*.

Policy/Executive Team

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Jennifer Barrera took over as president and chief executive officer of the California Chamber of Commerce on October 1, 2021.

She has been part of the CalChamber team since 2010 and stepped into the top position after serving as CalChamber executive vice president, overseeing the development and implementation of policy and strategy for the organization, as well as representing the CalChamber on legal reform issues.

Barrera is well-known for her success rate with the CalChamber's annual list of job killer legislation, efforts to reform the Private Attorneys General Act (PAGA) and leadership working with employers on critical issues, including most recently those arising from the COVID-19 pandemic.

In addition, she advises the business compliance activities of the CalChamber on interpreting changes in employment law.

She led CalChamber advocacy on labor and employment and taxation from September 2010 through the end of 2017. As senior policy advocate in 2017, Barrera worked with the executive vice president in developing policy strategy. She was named senior vice president, policy, for 2018 and promoted to executive vice president on January 1, 2019.

From May 2003 until joining the CalChamber staff, she worked at a statewide law firm that specializes in labor/employment defense. She represented employers in both state and federal court on a variety of issues, including wage and hour disputes, discrimination, harassment, retaliation, breach of contract, and wrongful termination. She also advised both small and large businesses on compliance issues, presented seminars on various employment-related topics, and regularly authored articles in human resources publications.

Barrera earned a B.A. in English from California State University, Bakersfield, and a J.D. with high honors from California Western School of Law.

EXECUTIVE VICE PRESIDENT AND CHIEF OF STAFF FOR POLICY

Ben Golombek joined the California Chamber of Commerce on January 17, 2022 as executive vice president and chief of staff for policy.

In this role, Golombek heads the CalChamber policy staff, providing strategic oversight and management of CalChamber's legislative and regulatory priorities.

Most recently, Golombek served as the West Region vice president for public affairs for AT&T, where he managed a team of 20 to create and implement legislative campaigns and media strategies to educate and influence lawmakers, regulators and consumers for eight states, including California.

Golombek has previous experience serving as chief of staff to three members of the California State Assembly, including the chairs of the Assembly Revenue and Taxation, and Assembly Appropriations committees.

Prior to his State Capitol experience, Golombek worked at Los Angeles City Hall, where he served as deputy city controller, communications director for a city councilmember and deputy press secretary for Mayor Antonio Villaraigosa.

Golombek graduated from Northwestern University, has an M.B.A. from the University of California, Davis, and completed the prestigious Coro Fellows Program in Public Affairs.

VICE PRESIDENT OF ADVOCACY AND STRATEGIC PARTNERSHIPS

Adam Regele joined the California Chamber of Commerce in April 2018 as a policy advocate specializing in environmental policy, housing and land use, and product regulation issues. He was named a senior policy advocate in April 2021 and in March 2023 was promoted to the newly created position of vice president of advocacy and strategic partnerships.

In that role, he works to expand CalChamber relationships to other businesses and associations in California and nationally as California state government continues its repeated attempts to expand oversight and regulation of the business community.

Regele was the lead negotiator for the business community in 2022 on SB 54, the circular economy law creating the nation's most complex extended producer responsibility program. He is the foremost expert on the ongoing implementation of the law.

He came to the CalChamber policy team after practicing law at Oakland-based Meyers, Nave, Riback, Silver & Wilson, PLC, where he advised private and public clients on complex projects involving local, state and federal land use and environmental laws and regulations. His extensive environmental and waste regulatory compliance experience includes defending in litigation related to the California Environmental Quality Act (CEQA), Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and Resource Conservation and Recovery Act (RCRA).

Before joining Meyers Nave, Regele handled state and federal environmental litigation and administrative proceedings as an associate at a Bay Area law firm that focused on environmental, natural resources, land use, labor and local government law.

He served as a federal judicial law clerk to the Honorable Edward J. Davila of the U.S. District Court, Northern District of California, and as a legal fellow with the Oakland City Attorney's Office prior to entering private law practice.

Regele earned a B.S. in environmental science at the University of California, Berkeley, and a J.D. from UC Hastings College of the Law, where he was symposium editor and research and development editor for the *Hastings West-Northwest Journal.*

***Staff to**: Environmental Policy Committee, Housing Committee*

SENIOR POLICY ADVOCATE

Ashley Hoffman joined the California Chamber of Commerce in August 2020 as a policy advocate specializing in labor and employment and workers' compensation issues. She was named a senior policy advocate starting January 1, 2024 in recognition of her efforts on behalf of members.

Before joining the CalChamber policy team, she was an associate attorney in the Sacramento office of Jackson Lewis P.C., representing employers in civil litigation and administrative matters as well as advising employers on best practices, including compliance with laws such as the California Labor Code, California Wage Orders, and the Fair Employment and Housing Act.

She previously worked as a litigation associate at Gibson, Dunn & Crutcher, LLP, Los Angeles, representing clients in a variety of matters, including employment discrimination, consumer protection class actions, trademark disputes, immigration matters, and other issues.

She also was a law clerk at the U.S. District Court for the Western District of Tennessee in Memphis and a judicial extern for the Ninth Circuit U.S. Court of Appeals in Pasadena.

Hoffman holds a B.A. with high honors in political science from the University of California, Santa Barbara, and earned her J.D. from the UCLA School of Law where she was a Michael T. Masin scholar, an editor at the *UCLA Law Review*, and staff member for the *Women's Law Journal.*

***Staff to**: Labor and Employment Committee, Workers' Compensation Committee*

SENIOR POLICY ADVOCATE

Robert Moutrie joined the California Chamber of Commerce in March 2019 as a policy advocate and was named a senior policy advocate starting January 1, 2024 in recognition of his efforts on behalf of members. He leads CalChamber advocacy on occupational safety, tourism, insurance, legal reform, immigration and unemployment insurance (UI), as well as representing employer interests on education issues.

As the CalChamber's expert on occupational safety issues, Moutrie also is an expert on Cal/OSHA's regulatory process and works closely with Cal/OSHA staff to make California's regulations more feasible for businesses. He represented employers' concerns with Cal/OSHA during the drafting of California's emergency and nonemergency wildfire smoke and COVID-19 regulations, and indoor heat regulation.

With the COVID-19 pandemic and legislation pushing UI issues into the spotlight, Moutrie has testified and lobbied extensively on topics including employers' UI tax rates, California's fund insolvency, and fraud prevention.

Before his work at the CalChamber, Moutrie represented clients on matters such as consumer fraud litigation, civil rights, employment law claims, tort claims, and other business-related issues in federal and state courts.

Moutrie earned a B.A. in political science from the University of California, Berkeley, and a J.D. with honors from the UC Hastings College of the Law. He is a volunteer instructor for the nationally ranked UC Hastings Trial.

Staff to: *Education Committee, Legal Reform and Protection Committee, Workplace Safety Subcommittee, Tourism Committee, Immigration Committee*

SENIOR POLICY ADVOCATE

Preston R. Young joined the California Chamber of Commerce in October 2019 as a policy advocate, specializing in health care policy and taxation issues.

Young came to the CalChamber from the Sacramento law firm of Schuering Zimmerman & Doyle, LLP, where he had been a partner. He specialized in multiple aspects of health care law, medical malpractice, the Health Insurance Portability and Accountability Act (HIPAA), product liability, and elder abuse litigation.

He previously was an attorney with Powers & Miller in Sacramento, specializing in insurance defense and product liability litigation. He also worked as an attorney at State Farm Insurance in San Francisco.

Young holds a B.A. in communications from Saint Mary's College of California, and earned a J.D. from Golden Gate University School of Law, where he was associate editor of the *Environmental Law Journal*.

Staff to: *Health Care Policy Committee, Taxation Committee*

POLICY ADVOCATE

Kristopher Anderson joined the California Chamber of Commerce in August 2024 as a policy advocate specializing in water issues.

Before joining the CalChamber, Anderson worked for six years at the Association of California Water Agencies (ACWA), which represents more than 460 public water agencies throughout California.

As a senior state relations advocate at ACWA, Anderson worked on issues related to water rights, groundwater, water rates, the California Environmental Quality Act (CEQA), the Endangered Species Act, and more.

Anderson was instrumental in building large coalitions of public agencies, business, and agricultural interests on water rights and groundwater reform legislation. He also has successfully advocated for reforms to permit streamlining for critical water infrastructure improvements and ratemaking processes for public water agencies.

Anderson is admitted to practice law in the state of California. He earned a bachelor's degree in journalism at the University of Oregon, and a J.D. from the University of California, Davis, School of Law, where he was a senior articles editor for the *Environmental Law and Policy Journal*.

Staff to: *Food and Agriculture Committee, Water Resources Committee*

POLICY ADVOCATE

Ronak Daylami, an experienced attorney, joined the California Chamber of Commerce in March 2022 as a policy advocate specializing in privacy issues.

She came to the CalChamber policy team from Nielsen Merksamer, where she served as senior counsel in the firm's government law section specializing in privacy issues, state regulation of business practices, consumer protection, and legislative process.

Before joining Nielsen Merksamer, Daylami worked for nearly 10 years in the Capitol. Most recently, she was the chief consultant of the Assembly Privacy and Consumer Protection Committee, where she provided expertise on privacy, cybersecurity, consumer protection, and deployment of technology by state government. As chief consultant, she provided counsel to Committee Chairman and AB 375 joint author Assemblymember Ed Chau during the negotiations and passage of the California Consumer Privacy Act.

Daylami previously served as senior counsel to the Senate Judiciary Committee, where she worked for nearly six years on various high profile, complex, and controversial issues involving constitutional and civil rights, corporate/securities laws, tort liability, and access to the justice system. She worked at the California Department of Technology during the Brown administration and at the Office of the State Chief Information Officer during the Schwarzenegger administration.

Daylami earned a B.A. in political science with a minor in English at the University of California, Berkeley, and a J.D. from University of California, Hastings College of the Law, where she was a senior articles editor for the *Constitutional Law Quarterly*.

Staff to: *Privacy and Cybersecurity Committee*

POLICY ADVOCATE

Jon Kendrick joined the California Chamber of Commerce in January 2025 as a policy advocate focused on energy, climate, and transportation policy issues.

Before joining the CalChamber policy team, Kendrick was senior counsel in the Sacramento office of Buchalter where he was a member of the law firm's Energy & Natural Resources and Real Estate Practice Groups. He regularly advised clients on transactional, regulatory and compliance issues for energy and real estate matters. Kendrick helped clients navigate California's ever-evolving regulatory environment and represented clients in matters before administrative agencies such as the California Energy Commission and the California Public Utilities Commission.

Kendrick previously served as in-house counsel for Pacific Coast Companies, Inc., a building supply company, as well as representing clients in power plant siting proceedings while at the law firm of Locke Lord, and real estate matters while at the Sacramento area law firm Murphy Austin.

Kendrick was also previously a judicial law clerk for the Honorable Robert Molloy of the Superior Court of the Virgin Islands and taught English as a Peace Corps volunteer in Ukraine.

Kendrick earned a B.A. in international political economy at the University of Puget Sound, and a J.D. from the University of California, Davis, School of Law.

Staff to: *Environmental Policy Committee, Transportation and Infrastructure Committee*

EXECUTIVE VICE PRESIDENT, PUBLIC AFFAIRS

Martin R. Wilson, executive vice president of public affairs, joined the California Chamber of Commerce in October 2011.

Wilson oversees all CalChamber public affairs and campaign activities, including the Public Affairs Council, a political advisory committee made up of the CalChamber's major members; its candidate recruitment and support program; and its political action committees: ChamberPAC, which supports pro-jobs candidates and legislators, and CalBusPAC, which qualifies, supports and/or opposes ballot initiatives.

He is the CalChamber liaison to JobsPAC, an employer-based, independent expenditure committee that supports pro-business candidates.

Wilson has more than 40 years of experience in California politics, playing leadership roles in the election and re-election of two governors, and a U.S. senator. He also has orchestrated numerous successful ballot measure and public affairs campaigns.

In addition to his campaign experience, Wilson has served in government as a senior staff member at the local, state and federal levels.

Before joining the CalChamber, Wilson was managing partner of Wilson-Miller Communications, where he also advised Governor Arnold Schwarzenegger as head of the Governor's political and initiative committee, the California Recovery Team. Before founding his own firm, Wilson was managing director for Public Strategies Inc. in Sacramento for five years and held a similar position with Burson-Marsteller for six years.

Wilson has served as senior fellow for the UCLA School of Public Affairs, board member for the California State Fair and director of the Coro Foundation, a public affairs training organization.

He graduated from San Diego State University with a B.A. in history.

Staff to: *Public Affairs Council, ChamberPAC Advisory Committee, ChamberPAC, CalBusPAC, Candidate Recruitment and Development Fund*

Also: *JobsPAC Executive Director*

SENIOR VICE PRESIDENT, INTERNATIONAL AFFAIRS

Susanne Thorsen Stirling has headed CalChamber international activities for more than four decades.

She is an appointee of the U.S. Secretary of Commerce to the National Export Council, and serves on the U.S. Chamber of Commerce International Policy Committee, the California International Relations Foundation, and the Chile-California Council.

In previous years, Stirling was an appointee of Governor Edmund G. Brown Jr. to the California International Trade and Investment Advisory Council, and served on the Board of Directors of the International Diplomacy Council, the World Affairs Council of Northern California (Sacramento), and the Danish-American Chamber of Commerce.

The CalChamber is a past recipient of the U.S. Presidential Award for Export Service, and received the Presidential Citation from the government of the Republic of Korea. In November 2019, Stirling was presented with the "Outstanding Woman of the Year in International Trade" award by the Women in International Trade, Los Angeles (WIT-LA).

In March 2021, Senator Bill Dodd named Stirling "Woman of the Year" for Sacramento County, praising her as having been an ambassador for international trade for many years.

Before joining the CalChamber, Stirling held positions in public affairs and public relations for Burmeister & Wain A/S, an international shipbuilding company based in Copenhagen.

Stirling, originally from Denmark, studied at the University of Copenhagen and holds a B.A. in international relations from the University of the Pacific, where she served as a member of the Board of Regents for nine years. She earned an M.A. from the School of International Relations at the University of Southern California.

Staff to: *Council for International Trade*

VICE PRESIDENT, COMMUNICATIONS

Ann Amioka has been a communications specialist at the California Chamber of Commerce since 1980. Since 1982, she has been editor of the CalChamber's legislative newsletter, *Alert*. She oversees editing and production of CalChamber communications and the corporate website.

Before joining the CalChamber staff as editor of the CalChamber's agricultural labor relations newsletter, Amioka was a reporter for a daily newspaper in Yolo County. She has a B.A. in history from Stanford University and an M.A. in history from California State University, Sacramento.

VICE PRESIDENT, CORPORATE RELATIONS

Naseem Moeel joined the California Chamber of Commerce in January 2025 as vice president of corporate relations, dedicated to working with CalChamber members to continue their engagement and opportunities for growth. She joins the CalChamber from Pacaso, a real estate brokerage, where she served as public affairs manager.

Before her three years at Pacaso, Moeel spent a decade as a business leader in California's wine industry, particularly in the Napa and Sonoma valleys. With a strong commitment to local economic growth, she led initiatives to expand wine projects with HALL Family Wines and Casey Flat Ranch, as well as managed business operations, hospitality teams, and events with Treasury Wine Estates.

In these roles, she prioritized building strong community relationships to support economic recovery and tourism, especially during the COVID-19 pandemic, Northern California wildfires, and the 2014 Napa earthquake. She developed collaborative partnerships with organizations like the Napa Valley Hospitality Forum and local chambers of commerce to increase brand engagement and visits to the area.

A passionate advocate for community service, Moeel is engaged with a number of local nonprofits, including serving as an ambassador for the Napa Chamber of Commerce in 2024 and working with Auction Napa Valley, Napa Valley Film Festival, Napa County Voting Centers, St. Helena Catholic Church, and Davis Community Meals and Housing.

She holds a B.A. in communications from the University of California, Davis.

California Foundation for Commerce and Education

PRESIDENT

Luis Quiñonez was named president of the California Foundation for Commerce and Education, effective February 18, 2025.

His knowledge of how regulations and laws at the local, state and federal levels affect individuals and businesses comes from more than 20 years of experience in public policy, public affairs, government relations and research in both the public and private sectors.

Quiñonez has expertise in policy areas ranging from economic development, budget and taxes, housing, transportation, insurance, climate change and renewable energy, to education, health care, international relations, immigration, and veterans affairs.

Most recently, Quiñonez served as chief of staff to California State Senator Anna M. Caballero since 2022. His previous State Capitol experience includes stints as chief of staff to former Assemblywoman Autumn Burke and former Assemblywoman Susan Bonilla, whom he served as chief of staff while she was a Contra Costa County supervisor, before her election to the Assembly. Furthermore, Quiñonez was a senior aide to longtime U.S. Representative Barbara Lee.

In the private sector, Quiñonez was vice president and West Coast director for Res Publica Group, a global public affairs firm. Before that, Quiñonez was manager of North America state and local government relations for eBay. He also led U.S. state government relations for Zenefits, a software-as-a-service platform.

Quiñonez holds a B.A. in political science and M.P.A. in public administration from the University of San Francisco.

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CalChamber Committees

California Chamber of Commerce policy committees draft and review policy and make recommendations to the Board of Directors on a range of issues. The CalChamber also establishes ad hoc committees as the need arises to address other policy issues. Committees range in size from eight to 100 members, and meet between two and four times a year (or, as needed) in virtual meetings or via telephone conference calls. Committee chairs generally are members of the CalChamber Board of Directors and work closely with CalChamber policy team members, permitting the CalChamber to act quickly as issues emerge. Membership in committees (other than those whose membership is by appointment) is open to managers, technicians and/or policy experts with member firms (Advocate level or higher). To get involved, contact Laurie Lively, *laurie.lively@calchamber.com*.

POLICY COMMITTEES

EDUCATION

Goal: Foster greater business involvement to improve both teacher and student performance, and administrative accountability in schools throughout California. (Membership by appointment.)
Staff Contact: Robert Moutrie, *robert.moutrie@calchamber.com*

ENVIRONMENTAL POLICY

Goal: Oversee issues related to the environment, such as air quality, climate change and AB 32 implementation, energy, the California Environmental Quality Act (CEQA), Proposition 65 and green chemistry, hazardous and solid waste, surface mining and land use. Recommend policies that meet the mutual objectives of protecting human health and the environment while conserving the financial resources of business to the fullest extent possible to help California businesses grow and promote their technologies/services.
Staff Contacts: Adam Regele, *adam.regele@calchamber.com*
Jon Kendrick, *jonathan.kendrick@calchamber.com*

FOOD AND AGRICULTURE

Goal: Shape policy impacting the entire food and agricultural supply chain, from growing and distribution to packaging, transportation, retail and end of life management.
Staff Contact: Kristopher Anderson, *kristopher.anderson@calchamber.com*

HEALTH CARE POLICY

Goal: Promote a sound and affordable health care system. Work to contain costs and avoid unnecessary and expensive regulatory controls, including mandates.
Staff Contact: Preston R. Young, *preston.young@calchamber.com*

HOUSING

Goal: Support housing policies that focus on increasing California's housing supply for the benefit of all Californians' quality of life.
Staff Contact: Adam Regele, *adam.regele@calchamber.com*

IMMIGRATION

Goal: Recommend policies on issues concerning immigration.
Staff Contact: Robert Moutrie, *robert.moutrie@calchamber.com*

LABOR AND EMPLOYMENT/WORKERS' COMPENSATION

Goal: Protect employers' rights to organize, direct and manage their companies' employees in an efficient, safe and productive manner. Promote legislative, judicial and regulatory actions that maintain an efficient workers' compensation system that provides adequate worker benefits while protecting the competitive position of California employers.
Staff Contact: Ashley Hoffman, *ashley.hoffman@calchamber.com*

LEGAL REFORM AND PROTECTION

Goal: Seek comprehensive tort reform that will halt runaway liability risk and promote greater fairness, efficiency and economy in the civil justice system.
Staff Contact: Robert Moutrie, *robert.moutrie@calchamber.com*

PRIVACY AND CYBERSECURITY

Goal: Proactively develop and promote privacy principles and policies that protect consumers without stifling innovation and that avoid costly and unnecessary legal liability and compliance burdens on businesses.
Staff Contact: Ronak Daylami, *ronak.daylami@calchamber.com*

TAXATION

Goal: Monitor legislation and regulatory activity to ensure that California tax laws are fair and can be administered easily. Review state spending plans to make certain that economy and efficiency are the primary goals of government.
Staff Contact: Preston R. Young, *preston.young@calchamber.com*

TOURISM

Goal: Encourage increased travel to California by fostering investment in advertising and improvements to tourism infrastructure, considering the important role of tourism in the state's economy and plans for economic recovery. (Membership by appointment.)
Staff Contact: Robert Moutrie, *robert.moutrie@calchamber.com*

TRANSPORTATION AND INFRASTRUCTURE

Goal: Develop and maintain a statewide transportation network that is adequate for the needs of business, agriculture and individual citizens.
Staff Contact: Jon Kendrick, *jonathan.kendrick@calchamber.com*

WATER RESOURCES

Goal: Encourage responsible water quality goals and water development policies to meet the increasing demand for reliable water supplies. (Membership by appointment.)
Staff Contact: Kristopher Anderson, *kristopher.anderson@calchamber.com*

SUBCOMMITTEE

WORKPLACE SAFETY

Goal: Advocate cost-effective and practical safety and health regulations while protecting the competitive position of California employers. (Subcommittee of Labor and Employment Committee.)
Staff Contact: Robert Moutrie, *robert.moutrie@calchamber.com*

SPECIAL COMMITTEES

PUBLIC AFFAIRS COUNCIL

Goal: Advise CalChamber on key political issues affecting the business community. (Must be CalChamber Advocate-level member to join.)
Staff Contact: Martin R. Wilson, *martin.wilson@calchamber.com*

COUNCIL FOR INTERNATIONAL TRADE

Goal: Work with state and federal administrations and lawmakers to support expansion of international trade and investment, fair and equitable market access for California products abroad, and elimination of disincentives that impede the international competitiveness of California business.
Staff Contact: Susanne T. Stirling *susanne.stirling@calchamber.com*

SMALL BUSINESS POLICY COUNCIL

Goal: Amplify the voices of small businesses in the State Capitol. The Council includes local chamber CEOs and CalChamber members and aims to ensure that the needs and priorities of small businesses are at the forefront of legislative discussions. (Membership by invitation.)
Staff Contact: Jennifer Johnson, *jennifer.johnson@calchamber.com*

WOMEN'S LEADERSHIP COUNCIL

Goal: Enhance the profile and contributions of California women business leaders and establish strong ties between them and elected officials, government appointees and other key decision makers in state government. (Must be a member of the CalChamber Board of Directors to join.)
Staff Contact: Ashley Hoffman, *ashley.hoffman@calchamber.com*

CHAMBERPAC ADVISORY COMMITTEE

Goal: Provide guidance and assistance to the CalChamber in its political fundraising efforts. (Must be a member of the CalChamber Board of Directors to join.)
Staff Contact: Martin R. Wilson, *martin.wilson@calchamber.com*

POLITICAL ACTION COMMITTEES

The California Chamber of Commerce has established two political action committees (PAC) to help focus business efforts to provide financial support to pro-jobs candidates or issues campaigns.

CHAMBERPAC

Goal: Provide financial support to business-friendly incumbent legislators and candidates for state legislative and local office.
Staff Contact: Martin R. Wilson, *martin.wilson@calchamber.com*

CALBUSPAC

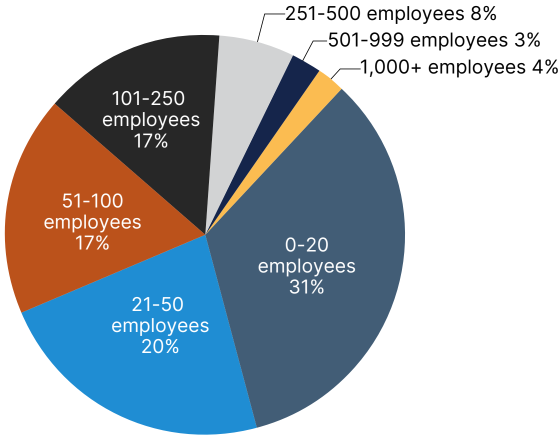
Goal: Provide funding to help qualify, support and/or oppose statewide ballot initiatives.
Staff Contact: Martin R. Wilson, *martin.wilson@calchamber.com*

THE CALIFORNIA CHAMBER OF COMMERCE IS THE LARGEST BROAD-BASED BUSINESS ADVOCATE TO GOVERNMENT IN CALIFORNIA.

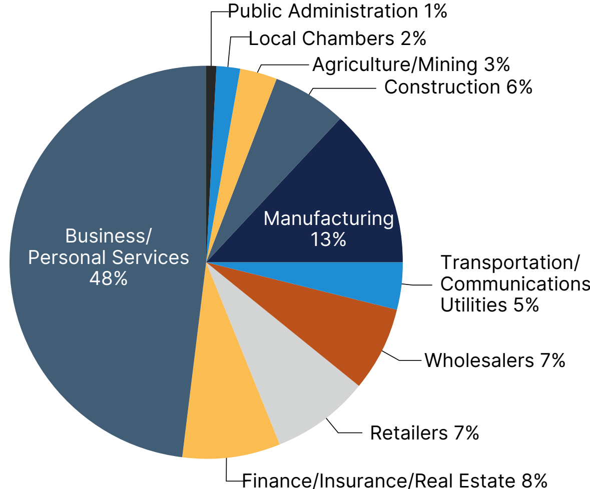
Membership represents one-quarter of the private sector jobs in California and includes firms of all sizes and companies from every industry within the state. Nearly 200 local chambers of commerce are affiliated with the CalChamber, and are solid partners in CalChamber efforts to promote business-friendly policy.

MORE THAN TWO-THIRDS OF CALCHAMBER MEMBERS HAVE 100 OR FEWER EMPLOYEES

By Employer Size



By Industry Classification



California Legislature

Elections Happen, Planning for Next Cycle Already Started

Benjamin Franklin is credited with the quote, "In this world nothing is certain except death and taxes." There likely are other certainties to add to Ben's list but another one might be: in two years there will be another election. In the case of the California Legislature, every two years the full 80-member Assembly and half of the 40 members of the Senate are on the ballot, which means there are 100 races for the California Legislature every two years. While voters may be breathing a collective sigh of relief that the most recent election is at last over, at CalChamber we are already making plans for the next election.

Both the 2022 and 2024 election cycles were especially consequential for CalChamber and the business community as there were an unprecedented number of open legislative seats. This past cycle alone there were 35 open legislative districts — a full third of the legislative seats were going to have new occupants. As the post-election dust settled, and new and returning members took the oath of office this past December, there are a lot of fresh faces with varying degrees of experience. In the Assembly, 65% of the members have two or fewer years of experience. In the Senate, approximately 30% have served two or fewer years, a smaller number due to a handful of Assembly members moving up to the Senate.

Had the California Chamber of Commerce not had in place a time-honored and robust process for candidate recruitment, many of the newly minted legislators would potentially be unknown to us and our members. Fortunately, that was not the case due in large part to our local chamber network plus our policy and public affairs units, which participated in candidate interviews and vetting as well as helping to marshal the campaign funds needed to support the candidates' legislative campaigns.

As mentioned above, CalChamber planning for the 2026 election cycle has begun. We already are eyeing 14 legislative seats that will be open due to term limits with six of those in the Senate and eight in the Assembly. This open seat number is sure to grow as incumbent legislators inevitably will seek new electoral opportunities. The CalChamber has a rigorous candidate recruitment process that involves interviews, background research and a thorough understanding of the district to ensure the candidate matches district demographics. This process is completed long before political action committee (PAC) dollars are expended on a race.

CALCHAMBER, LOCAL CHAMBER INVOLVEMENT

Many times, the CalChamber's introduction to a first-time legislative hopeful comes to us via our local chamber network. This unique and valuable resource provides us with on-the-ground intelligence about the quality of potential candidates and their willingness to work with the business community.

By being equipped with this information in an open legislative district, the CalChamber is in position to make the preliminary judgment on whether to support a candidate. Our local chambers are important partners in this process.

TRACK RECORD

Open legislative districts present the CalChamber with several new opportunities to recruit and elect business-friendly candidates from both political parties. It is through the political process that we can best affect policy outcomes by selecting and electing business-friendly candidates willing to stand with the employer community to defeat job killing legislative proposals. The CalChamber consistently has maintained a better than 90% kill rate on bills given the Job Killer tag.

Our success is attributable to our track record of electing legislators willing to stand up to the public unions and other liberal interests, and to defeat bills that will be harmful to the California economy.

CANDIDATE RECRUITMENT

Although not a political action committee, the Candidate Recruitment and Development Program provides the resources necessary to build a bench of electable, pro-jobs candidates for state legislative and local office. The CalChamber partners with our local chamber network, as well as state and local member businesses, to ensure the recruitment efforts are bipartisan and locally driven.

The primary component of this program is to identify potential candidates and put them on the path to elective office. The secondary component is training and developing candidates for their positions. The program has successfully recruited numerous local candidates who have won election to state legislative seats.

POLITICAL ACTION COMMITTEES (PACS)

The CalChamber's Political Action Network includes three political entities:

- **ChamberPAC** is a bipartisan political action committee that makes direct contributions to incumbent office holders and select candidates who promote and vote for an agenda of private sector job creation. Contributions to this committee are limited to $9,800 annually.
- **JobsPAC** is an independent expenditure committee, meaning it speaks directly to voters on behalf of the business community to elect pro-jobs candidates. JobsPAC may accept contributions in unlimited amounts.
- **CalBusPAC** is a CalChamber committee that is formed to primarily support or oppose ballot measures having an impact on the state's business climate. CalBusPAC may accept contributions in unlimited amounts.

CALCHAMBER POSITION

California's business community is under constant pressure due to the disproportionate influence that special interest and government employee organizations have on the legislative and regulatory process. CalChamber is committed to standing up for and speaking out on behalf of the state's employer community through political action, our advocacy network, and constant and direct contact with elected officials.

Staff Contact
Martin R. Wilson
Executive Vice President, Public Affairs

martin.wilson@calchamber.com
January 2025

Contacting Your Legislators: Protocol

California Senate and Assembly members want to hear from their constituents—you—the voters in their districts. At times, your association may call on you to do some grassroots lobbying. Often, the contact from a district constituent can sway a legislator's vote.

Here are some guidelines for you to follow in contacting your legislators in person, by phone or by letter.

- **Be thoughtful.** Commend the right things which your legislator does. That's the way you'd like to be treated.
- **Be reasonable.** Recognize that there are legitimate differences of opinion. Never indulge in threats or recriminations.
- **Be realistic.** Remember that most controversial legislation is the result of compromise. Don't expect that everything will go your way, and don't be too critical when it doesn't.
- **Be accurate and factual.** The mere fact that you want or do not want a piece of legislation isn't enough. If an issue goes against you, don't rush to blame the legislator for "failing to do what you wanted." Make certain you have the necessary information and do a good job of presenting your case.
- **Be understanding.** Put yourself in a legislator's place. Try to understand his/her problems, outlook and aims. Then you are more likely to help him/her understand your business and problems.
- **Be friendly.** Don't contact your legislator only when you want his/her vote. Invite him/her to your place of business or your group meetings. Take pains to keep in touch with him/her throughout the year.
- **Give credit where it is due.** If an issue goes the way you wanted, remember that your legislator deserves first credit. He/she has the vote, not you. And, remember also that many organizations and individuals participated on your side.
- **Learn to evaluate issues.** The introduction of a legislative bill doesn't mean that it will become law. Whether you're for it or against it, don't get excited about it until you learn the who, what and why of it.
- **Support your legislator.** If he/she is running for re-election and if you believe he/she deserves it, give him/her your support. He/she needs workers and financial supporters. Don't become aloof at the time when your legislator needs your help.
- **Don't, don't, don't even hint that you think certain bills, campaigns or politics in general are not worthwhile or may be dishonest.**
- **Don't demand anything.** And don't be rude or threatening. There is always "the future," and in many cases a legislator may disagree with you on one issue and be supportive on another.
- **Don't be vague or deceptive, righteous or long-winded, and please don't remind the legislator that you are a taxpayer and voter in his/her district.** (He/she knows it!)
- **Don't be an extremist.** Remember, your legislator represents all his/her constituents—those you consider liberal and those you consider conservative. Don't condemn a legislator just because he/she supports a piece of legislation that you think is too liberal or too conservative.
- **Don't be a busybody.** Legislators don't like to be pestered, scolded or preached to. Neither do you.
- **Be cooperative.** If your legislator makes a reasonable request, try to comply with it. You can help him/her by giving him/her the information he/she needs. Don't back away for fear you are "getting into politics."

Letter Writing

Following are guidelines for an effective letter:

- Be brief.
- Refer to bill numbers whenever possible.
- Make sure the legislator knows this communication is from a constituent who lives and/or does business in the legislator's district.
- Explain how the proposed legislation affects your business, and why you support/oppose it.
- Don't attempt to give "expert" opinions. Tell how the legislation would affect your business, based on your experience and knowledge.
- Ask for the legislator's support or opposition.
- Write the letter without copying any association-provided background information verbatim.
- Request that your legislator take a specific action by telling him/her what you desire. State the facts as you see them. Avoid emotional arguments. If you use dollar figures, be realistic.
- Ask the legislator what his/her position is.
- Keep all communications friendly and respectful. Be sure to thank your legislator for considering your views.
- Write on your personal or business letterhead if possible, and sign your name over your typed signature at the end of your message.
- Be sure your exact return address is on the letter, not just the envelope. Envelopes sometimes get thrown away before the letter is answered.
- Be reasonable. Don't ask for the impossible. Don't threaten. Don't say, "I'll never vote for you unless you do such and such." That will not help your cause; it may even harm it.
- Be constructive. If a bill deals with a problem you admit exists, but you believe the bill is the wrong approach, tell what the right approach is.

- Send your association a copy of your letter and a copy of the response you receive from your legislator.
- Address all letters in the following manner, unless you are on a first name basis:

State Legislature:

- *Assembly Member*
  The Honorable Joe/Jo Doe
  California State Assembly
  1021 O Street
  Sacramento, CA 95814
  Dear Assembly Member Doe:
- *Senator*
  The Honorable Joe/Jo Doe
  California State Senate
  1021 O Street
  Sacramento, CA 95814
  Dear Senator Doe:

Local Elected Officials:

- *Council Member*
  The Honorable Joe/Jo Doe
  Councilman/woman,
  City of—
  City Hall
  City, State and Zip Code
  Dear Mr./Ms./Mrs./Miss Doe:
- *County Supervisor*
  The Honorable Joe/Jo Doe
  Supervisor, —County
  County Seat
  City, State and Zip Code
  Dear Sir/Madam:
  or Dear Mr./Ms./Mrs./Miss Doe:

Guidelines for District Visits

The following guidelines may be helpful when you make district visits:

- Members of the state Legislature rely heavily on their staffs for a major portion of their responsibilities, i.e., scheduling, advice on specific legislation, constitutent problems, etc. This is why it is important to maintain some familiarity with the district office staff. However, you do want to become acquainted and develop a working relationship directly with the legislators in your district.
- Generally, the legislative schedule permits each legislator to visit the district office on Fridays and holidays.
- Always call in advance for an appointment and briefly explain the purpose of the meeting. As a business person, you are an important constituent and the politician and his/her aides are eager to get acquainted.
- If the meeting with the member of the Senate or Assembly is for the purpose of discussing specific legislation, review the background information and position statements available from your association and use the bill numbers when possible.
- Ask the legislator for his/her position on issues and how he/she will vote.

Other activities

We encourage you to consider other activities as ways of effectively maintaining liaison with your district legislators:

- Invite other members of your profession to join you and your legislator for lunch.
- Invite your legislator to visit your company. You may want to have a short meeting between your employees and the legislator. The legislator could make brief remarks, followed by a question-and-answer period.
- Offer to help organize an information business advisory group to meet regularly with your legislators to discuss business and key industry issues.

Telephone Procedures

- When the Legislature is in session, call the Capitol office; during recess and on Fridays, call the district office.
- Ask to speak directly to the legislator. If he/she is not available, ask to speak to the administrative assistant or legislative aide.
- When the legislator or his/her assistant is on the line, identify yourself and mention the name of your company and the fact that you are from the legislator's district.
- State the reason for the call. Use bill numbers whenever possible.
- Explain how the proposed legislation affects your business and why you support or oppose it.
- Discuss only one issue per telephone call.
- Ask the legislator's position.

✔ If the legislator's position is the same as yours, express agreement and thanks.

✔ If your position differs from the legislator's, politely express disappointment and offer some factual information supporting your views.

- Don't attempt to give "expert" opinions. Tell how legislation would affect your business, based on your experience and knowledge.
- Request that your legislator take a specific action by telling him/her what you desire. State the facts as you see them. Avoid emotional arguments. If you use dollar figures, be realistic.
- Keep all communication friendly and respectful.
- Thank the legislator or aide for his/her time and for considering your views.

The Legislative Process

- **Senate:** 40 members
- **Assembly:** 80 members
- **Regular Session:** Convenes on the first Monday in December of each even-numbered year and continues until November 30 of the next even-numbered year.
- **Special Session:** May be called by the Governor and is limited to a specific subject. Length is not limited and may be held concurrently with the regular session.
- **Effective Date of Laws:** January 1 of the year after enactment unless an urgency measure, which takes effect immediately upon being signed, or a different effective date is specified.

Procedure

- **Introduction:** The bill is introduced by a member of the Senate or Assembly, read for the first time, then assigned to a committee by either the Senate Rules Committee or the Assembly Speaker.
- **Committee:** Hearing(s) are held in committee and testimony is taken from proponents and opponents. Generally, the committee will then amend, pass or fail to pass the bill.
- **Second Reading:** Bills that are passed by committee are read a second time and sent to the full floor for debate.
- **Floor Debate (in house of origin):** The bill is read a third time, debated and voted on. Most bills need a majority to pass (21 for the Senate, 41 for the Assembly). Bills with urgency clauses, appropriation measures and some tax-related bills need a two-thirds majority (27 for the Senate, 54 for the Assembly). If the bill is passed, it is sent to the second house.
- **Second House:** Procedures for a bill to pass the second house are similar to consideration and passage in the house of origin.
- **Amendments:** If the second house passes a bill with amendments, then the bill must be passed a second time by the house of origin for concurrence. If the amendments are rejected, a conference committee is formed to iron out the differences between the two houses.
- **Governor:** The Governor must act on (sign or veto) any bill that passes the Legislature within 12 days during the legislative session. However, the Governor has 30 days in which to act at the end of each year of the legislative session. Bills not acted on by the Governor automatically become law. A two-thirds vote of the Legislature is required to override a Governor's veto.

How to Write an Effective Lobbying Letter

Address lobbying correspondence to the author of the bill with copies to members of the committee hearing the bill and to your local legislator.

Indicate immediately which bill you're addressing by its bill number (AB__ if it originates in the Assembly, SB__ if it originates in the Senate), by an identifying phrase and whether you support or oppose the bill. This will help legislative staff in routing your letter.

Be sure to make clear for whom you're speaking.

Be sure to be clear about what action you want the legislator to take.

If you have a personal relationship with the legislator, take a moment to write a quick, handwritten note to draw his or her attention to your letter.

Be sure to send a copy of your letter to the Governor. Also please send a copy to the CalChamber staff members assigned to the bill so they can include information on your support or opposition in their committee testimony.

Use your business letterhead when communicating your position on a bill.

April 16, 2024

TO: Members, Assembly Education Committee

FROM: Robert Moutrie, Senior Policy Advocate

SUBJECT: AB 2927 (MCCARTY) PUPIL INSTRUCTION: HIGH SCHOOL GRADUATION REQUIREMENTS: PERSONAL FINANCE
SUPPORT – AS INTRODUCED FEBRUARY 15, 2024
SCHEDULED FOR HEARING – APRIL 24, 2024

The California Chamber of Commerce is pleased to **SUPPORT AB 2927 (McCarty),** as introduced February 15, 2024, because it would ensure that California's students enter their adult lives with an understanding of personal finance via a one-semester course to be completed during high school, beginning with the class of 2030.

When a student graduates from high school, they are already making very significant financial decisions about their lives – including whether to start working (if they haven't already), whether to take out a loan for additional education, or whether to purchase a car. All of these decisions will affect their financial future for years (if not decades) to come – and yet, many students do not understand the basics surrounding personal finance. This includes such basics as: how does debt (such as on a credit card or a car loan) work? How can they build good credit? How should they look towards saving for the future? What's the difference between a savings account, a checking account, or a money market account? Simply put – they are unprepared for the commercial waters which they are about to swim in.

We believe that **AB 2927** helps to address that need. Though we admit that additional coursework is a cost in this difficult budget climate, we see the life-long dividends for California's youth from such knowledge as exponentially exceeding the costs.

For these reasons, we **SUPPORT AB 2927 (McCarty).**

cc: Legislative Affairs, Office of the Governor
Garrett Jensen, Office of Assemblymember McCarty
Consultant, Assembly Education Committee
Bob Becker, Assembly Republican Caucus

RM:ldl

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Keep your letter short. A succinct, one-page letter will have more impact than a longer one. If you have documentation of the bill's impact on your business, enclose it, but keep the letter short.

In many committees, staff members file correspondence according to the date of the bill's next hearing. If you know the date, be sure to include it. Including such information will help ensure your letter is read in time to have an impact.

Get to the point of your letter quickly: your support for or opposition to the bill.

Provide concrete, credible information on the impact of proposed legislation on your business.

Elected officials prefer to hear from persons in authority rather than just from staff members. A letter will have more impact if the business owner or person in a management position signs the letter.

Use boldface type, underlining or italics sparingly to emphasize important points.

Act promptly. Too many good lobbying letters arrive after a vote already has been taken.

Later…If the legislator does what you ask, be sure to send a thank you letter.

Impact California
Make a difference by using easy-to-edit sample letters and links to more information about bills and legislators at **www.impact-california.com**.

Guide to Reading a Bill

AMENDED IN SENATE JUNE 13, 2024

AMENDED IN ASSEMBLY APRIL 30, 2024

CALIFORNIA LEGISLATURE—2023–24 REGULAR SESSION

ASSEMBLY BILL **No. 2927**

Introduced by Assembly Member McCarty
(Principal coauthors: Assembly Members Petrie-Norris, Schiavo, Soria, and Ting)
(Coauthors: Assembly Members Alanis, Alvarez, Chen, Gipson, Low, Joe Patterson, Wallis, and Wilson)
(Coauthors: Senators Alvarado-Gil, Min, and Niello)

February 15, 2024

An act to amend ~~Section 51225.3~~ *Sections 44257, 51225.3, and 51284.5* of, and to add Section 51225.32 to, the Education Code, relating to pupil ~~instruction.~~ *instruction, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.*

LEGISLATIVE COUNSEL'S DIGEST

AB 2927, as amended, McCarty. Pupil instruction: high school graduation requirements: personal finance.

(1) Existing law requires a pupil to complete designated coursework while in grades 9 to 12, inclusive, in order to receive a diploma of graduation from high school. These graduation requirements include, among others, the completion of 3 courses in social studies, including a one-semester course in economics. ~~Existing law requires the Instructional Quality Commission to consider including age-appropriate information on financial literacy when the history-social science curriculum framework is next revised after January 1, 2017.~~

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Indicates house of origin.

Date introduced.

Legislative Counsel drafts all legislation and writes a summary.

Date noted each time bill is amended.

Bills are introduced in sequential number in each house.

Code section being added or amended.

Strikethrough text indicates language that is being deleted; italics highlight language that is being added by an amendment.

The actual language that will be a part of the state code when the bill is enacted into law appears following the line: "The people of the State of California do enact as follows."

California Government Glossary

Legislature

The two "houses" that pass or reject proposed new laws.

Assembly: 80-member lower house of the Legislature. Its members serve two-year terms. 80 members are elected every two years.

Senate: 40-member upper house of the Legislature. Its members serve four-year terms. 20 members are elected every two years.

Legislation

Bill: A proposed law or statute that amends or repeals existing laws or proposes new laws. Most bills require a majority vote. If there is a fiscal impact, a bill requires a two-thirds vote.

➤ AB 0000—Assembly Bill
➤ SB 0000—Senate Bill

Constitutional Amendment: A proposed change in the state Constitution, which, after approval of two-thirds of the legislators, is submitted to the voters, who also must approve the change.

- ACA 0000—Assembly (authored) Constitutional Amendment.
- SCA 0000—Senate (authored) Constitutional Amendment.

Concurrent Resolution: A legislative proposal that commends individuals or groups, adopts legislative rules or establishes joint committees.

- ACR 0000—Assembly Concurrent Resolution.
- SCR 0000—Senate Concurrent Resolution.

Joint Resolution: A legislative opinion on matters pertaining to the federal government, often urging passage or defeat of legislation pending before Congress.

- AJR 0000—Assembly Joint Resolution.
- SJR 0000—Senate Joint Resolution.

Assembly and Senate Resolutions: An expression of sentiment of one house of the Legislature. Resolutions usually ask a committee to study a specific problem, create interim committees or amend house rules. Resolutions take effect upon adoption.

- AR 0000—Assembly Resolution.
- SR 0000—Senate Resolution.

Spot Bill: Bill introduced that usually makes nonsubstantive changes in a law. The spot bill is substantially amended at a later date. This procedure evades the deadline for the introduction of bills.

Legislative Process

Legislative Counsel: A staff of more than 80 attorneys who draft legislation (bills) and proposed amendments, review, analyze and render opinions on legal matters of concern to the Legislature. The Legislative Counsel's Digest is a summary of a bill's content contrasting existing law with proposed law (in lay language) and appears on the face of each bill.

Legislative Analyst: Provides advice to the Legislature on anything with a fiscal implication, which can cover virtually every major bill. The analyst annually publishes a detailed analysis of the Governor's budget, which becomes the basis for legislative hearings on the fiscal program.

Author: Member of state Senate or Assembly who submits or introduces a bill and carries it through the legislative process.

Floor Manager: Speaks as author when the bill is being heard in the second house. (Assembly members are not allowed to present bills on the Senate floor and vice versa.)

Sponsor: Interest groups or constituents from the legislator's district who bring suggested legislation to the attention of the prospective author (legislator).

Standing Committee: The forum used in the Senate and Assembly for studying bills and hearing testimony from the author, proponents and opponents.

- Many bills are heard by two or more committees in each house.
- If a majority of the committee members approve the bill, it is sent to the floor (or, if it has fiscal impact, to the Senate or Assembly Appropriations Committee) with a recommendation "Do Pass." It takes a majority vote of committee members present to amend a bill.
- Your association's legislative advocate and other members often testify before such committees.

Committee Consultants and Aides: Every legislator has a personal staff plus the assistance of specialists assigned to committees and to the party caucuses. This research staff is responsible for analyzing the pros and cons of the proposed legislation.

Introduction and First Reading: Bill is submitted by member of Senate or Assembly, numbered and read. It is assigned to a committee by the Senate Rules Committee or Assembly Speaker and printed.

Second Reading: When the bill passes the policy committee, it is read on the house floor for a second time.

Third Reading: Bill is read a third time and debated. A roll call vote follows. If passed or passed with amendments, the bill is sent to the second house (or, if it already is in the second house, it is returned to the house of origin) for consideration of amendments.

Enrollment: Legislation that has passed both houses is sent to enrollment for proofreading for consistency before being sent to the Governor for approval.

Veto: The Governor's formal disapproval of a proposal passed by the Legislature. The Governor also may exercise a line item veto to reduce or eliminate an appropriation while approving the rest of the bill. A veto may be overridden by a two-thirds vote of each house.

Chaptered: A bill that has passed both houses and has been signed by the Governor is said to be "chaptered." The bill becomes law January 1 of the following year unless it contains an urgency clause (takes effect immediately) or specifies its effective date.

Sunset Clause: Acts of the state Legislature that expire after a certain date unless renewed by the Legislature.

Voter Responses

The techniques of direct democracy enable citizens to bypass elected government bodies and act directly on policy matters.

Initiative: A local or state measure that is placed on the ballot after a certain number of registered voters sign petitions supporting its placement on the ballot. Initiatives often are used by groups or individuals when the Legislature fails to pass a law they want to enact.

Referendum: A procedure whereby the voters may approve or disapprove proposals recommended by a legislative body, such as a proposal for an increase in the tax rate.

Recall: A procedure whereby petitions are circulated calling for removal of a public official from office. If a sufficient number of signatures is obtained, an election is held in which voters decide whether to keep the official in office.

PAC: A Political Action Committee is a nonprofit committee that provides a lawful means to help elect and re-elect political candidates selected on the basis of their positions on industry-related issues, committee assignments and leadership in the Legislature. PACs make contributions to candidates or in support of or opposition to ballot measures.

California State Government — The Executive Branch

The executive branch administers and enforces the laws of California. Led by the Governor, the California executive branch is made up of more than 200 state entities.

The executive officials of the branch—such as the Governor, Lieutenant Governor, Secretary of State and Attorney General, to name a few—are elected by the people of California. Each of these officers is elected to serve a four-year term, and may be elected to an office a maximum of two times.

Within the executive branch there are four types of entities: agencies, which are headed by a secretary; departments, which are headed by a director; and boards and commissions, which are headed by an executive officer or board member.

A number of entities, such as the Regents of the University of California and the Public Utilities Commission, are intended to be independent of direct control by all three branches of the state government. Most of the leaders of these entities are appointed by the Governor and confirmed by the California Senate.

The Governor also is responsible for appointing the secretaries/directors of 11 Cabinet-level state agencies/departments: Business, Consumer Services and Housing; Corrections and Rehabilitation (department); Environmental Protection; Finance (department); Food and Agriculture (department); Natural Resources; Government Operations; Health and Human Services; Labor and Workforce Development; Transportation; and Veterans Affairs (department).

Each Cabinet-level agency includes multiple departments, whose leaders also are appointed by the Governor and usually subject to confirmation by the Senate. The Cabinet-level Natural Resources Agency, for example, includes the Department of Water Resources, the Department of Parks and Recreation, and the California Energy Commission, to name three of 13 entities within that agency.

Each state entity wields significant power and plays a large role in interpreting and applying the laws of the state.

To find a state agency, department, board or office, visit *www.ca.gov/agencysearch/*.

The organizational chart is available at *https://www.gov.ca.gov/orgchart/*.

Referral number for state agencies: (800) 807-6755.

2025 BUSINESS ISSUES AND LEGISLATIVE GUIDE

The California Chamber of Commerce is the largest broad-based business advocate to government in California. Membership represents one-quarter of the private sector jobs in California and includes firms of all sizes and companies from every industry within the state. More than two-thirds of CalChamber members are companies with 100 or fewer employees.

The CalChamber's full-time lobbying staff meets with legislators, regulators and other key government staff members year-round to ensure they consider employer concerns when proposing new laws and regulations. Supporting this lobbying team are representatives from member firms who serve on CalChamber standing committees, 118 member trade associations, nearly 200 affiliated local chambers of commerce and a statewide network of more than 100,000 small business owners. The CalChamber promotes international trade and investment to stimulate California's economy and create jobs. In addition, the CalChamber participates in many coalitions working together on policy issues of concern to businesses. Updates on coalition activities are available on the CalChamber website.

Leveraging its expertise on employment laws and regulations, the CalChamber provides products and services to help businesses comply with federal and state law, plus select local ordinances. The CalChamber is the authoritative source for California labor and employment law and safety resources. Each year, the CalChamber helps thousands of California employers understand laws and regulatory issues, and alerts employers when changes happen. In addition to California and federal, local ordinance, and out-of-state labor law posters, the CalChamber offers online tools, print and digital publications, harassment prevention training and other compliance seminars/webinars to help businesses stay ahead of evolving employment law requirements.

CalChamber members enjoy access to time-saving benefits such as ***HRCalifornia.com***, a continually updated website for answering tough human resources questions. The Labor Law Helpline gives Preferred and Enterprise members with specific employment law and workplace safety questions a chance to talk directly to experienced employment law experts for an explanation of laws and prompt guidance.

For more information about membership benefits, call 1-800-331-8877 or visit ***www.calchamber.com***.

The CalChamber is a not-for-profit organization.

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