

ALERT

Cost-Effective Climate Plan in Governor's Budget

Focus on Affordability While Cutting Emissions



Last week as part of his revised budget plan, Governor Gavin Newsom

proposed extending California's cap-and-trade climate change program without any structural changes.

The California Chamber of Commerce praised the proposal as a prudent approach that maintains a focus on affordability for Californians while materially reducing emissions.

Balance

"A clean reauthorization of the cap-and-trade program through 2045 means that California will continue to balance compliance costs for businesses and consumers while encouraging investments into the state," said CalChamber President and CEO Jennifer Barrera. "The Governor's proposal serves as a reminder that economic growth and climate action can advance together."

California's climate strategy ensures the state's leadership in the move toward a low-carbon future without onerous mandates that impede economic progress.

Governor Newsom's announcement is consistent with his January budget that noted an extension of the program will "provide the market with greater certainty, attract stable investment, further California's climate leadership and set the state on a clear path to achieve its 2045 carbon-neutrality goal."

"While the cap-and-trade program is not without its costs, it's become a reli-

able way to make both climate progress and clean-economy investments," said Barrera. "It includes the kind of flexibility that ensures industries continue to grow in California and supports emerging technologies which drive California's economy."

Cap-and-Trade Program

California's cap-and-trade program, implemented in 2013, applies to major industrial facilities, power plants and fuel suppliers. The program sets a statewide cap on greenhouse gas emissions that declines each year and applies to slightly more than 400 entities.

Covered entities must hold allowances (permits) for every ton of carbon they emit. They may obtain these allowances by buying at quarterly auctions, trading on the open market, or through free industrial allocations designed to prevent "emissions leakage" which occurs when environmental rules push companies to move production (and the associated jobs and CO₂) to areas with weaker or no carbon emission protections.

Companies also can use a limited number of carbon offsets from approved projects, such as reforestation or methane capture from dairy farms.

By putting a price on carbon and allowing market flexibility, the cap-and-trade program encourages cost-effective emissions reductions while generating billions of dollars for California climate investments, supporting clean energy, high-speed rail and other transportation, plus programs for climate resilience and disadvantaged communities.

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Project to Improve California Water Supply Part of Budget Plan



Governor Gavin Newsom's revised budget plan, introduced last week,

included a package to streamline a project central to securing California's water future.

The Governor unveiled a budget trailer bill to streamline approval processes for the Delta Conveyance Project (DCP), which will modernize the infrastructure used to move water from the Sacramento-San Joaquin Delta to other areas of the state.

The proposal will help streamline administrative processes that add costs and delays to the project while balancing the environmental protections to help protect the Delta's habitats and communities.

"Modernizing California's water supply is not only vital to our economy but also long overdue," said Jennifer Barrera, president and CEO of the California Chamber of Commerce. "We appreciate the Governor's proposal to remove barriers to innovation while both protecting the environment and meeting both regulatory and operational requirements."

Delta Conveyance Project

The Delta Conveyance Project will

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[Podcast on Furloughs and Layoffs: Page 3](#)

Labor Law Corner

Reducing an Exempt Employee's Salary? Proceed with Extreme Caution



Sharon Novak
Employment Law
Expert

We have an employee who is classified as an exempt administrative employee and is paid \$70,000 a year. He wants to work four days per week, and we are willing to authorize this reduction in work hours if he takes a proportional 20% pay reduction. Does this create any problems?

It may. Employers need to be cautious when reducing the salary of an exempt employee. With one exception, exempt employees cannot be paid less than the minimum salary amount set by law with-

out losing their exempt status. This is true even if the employee is working part-time.

Overtime Exemptions

Employees may be classified as exempt from overtime if they satisfy a duties test and earn a minimum salary mandated by statute. The most common exempt categories are executive (managerial), administrative, and professional.

Although it can be challenging to apply the duties tests to determine whether a particular position is exempt, the minimum salary test is straightforward, strict and easy to apply.

Salary Threshold

Under Labor Code Section 515(a), a properly classified exempt employee must earn a "monthly salary equivalent to no less than two times the state minimum wage for full-time employment."

Section 515 defines "full-time employment" as 40 hours per week. This does not mean, however, that the exempt employee must work 40 hours per week; it means the minimum annual salary is calculated by multiplying the state minimum wage by two and then multiplying that figure by 2,080, which is the total hours worked in a year based on a 40-hour workweek.

As of January 1, 2025, with Califor-

nia's minimum wage at \$16.50 per hour, the required annual salary for the administrative exemption is \$68,640.

In exchange for being relieved of its overtime obligation, the employer guarantees a fixed and regular sum to an exempt employee. "A salaried employee is compensated not for the amount of time spent on the job, but rather for the general value of services performed." (*Abshire v. County of Kern*, 908 F.2d 483, 486 (9th Cir.1994)).

Reducing Salary for Reduced Hours

With one exception discussed below, the minimum salary requirement for an employee classified as exempt under the administrative exemption is two times the state minimum wage. This is the minimum amount which must be paid to an exempt employee, and *this amount cannot be prorated for part-time work*. (Division of Labor Standards Enforcement Manual, Section 51.6.3 (d)).

You cannot reduce your exempt employee's salary of \$70,000 by 20% to reflect the fact that he is working 80% of the workweek yet maintain his exempt status. The reduction will lower his salary below the required minimum of \$68,640,

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More information at www.calchamber.com.
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International Trade

Access Africa Now: Empowering Africa's Financial Future — Exploring Fintech's Role in Growth and Opportunity. Webinar Series. U.S. Commercial Service. April 29-June 24, Online. [Webinar website.](#)

11th Annual Orange County World Trade Week. Southern California District Export Council. May 28, Irvine. [Event website.](#)

14th World Chambers Congress. World Chambers Congress. September 2-September 4, Melbourne, Australia. <https://wcc.iccwbo.org/>

CalChamber Calendar

California Business Outlook and Dinner:
June 4, Sacramento

Board of Directors:
June 4-5, Sacramento

Next Alert: June 13

The Workplace

Furloughs, Layoffs, Reducing Work Hours During Economic Uncertainty



In **Episode 224** of The Workplace podcast, CalChamber Associate General Counsel Matthew Roberts, Senior Employment

Law Counsel Erika Barbara and Employment Law Subject Matter Expert Vanessa Greene discuss employers' questions about furloughs, layoffs and reducing employees' work hours to manage workforces during times of economic uncertainty while still being able to conduct business.

When making these decisions, employers need to be aware of not only California law but also local and federal laws. It can get complicated!

On the podcast, our employment law experts tackle questions that include:

- Can employers reduce an employee's work hours and if so, what notice is required?
- What to consider when reducing exempt or salaried employees' work hours?
- If an employer keeps employees on their payroll but temporarily reduces their work hours to zero — known as a furlough — what should they be aware of?
- Is there a time limit for when a furlough becomes a layoff?
- What are the rules around layoffs?
- Are employees entitled to be rehired after they're laid off?

Navigating economic downturns can be challenging for employers so it's important to be thoughtful and measured

when evaluating and implementing different actions, to make sure not to inadvertently create compliance issues. Employers need to be aware of their wage and hour obligations as well as meeting any final pay requirements.

It's also important to think about how employers are communicating changes to their teams because it can have an impact on the company's morale. Trying to be empathetic, being honest with workers about what's happening and giving employees as much advance notice as possible are just a few things to do.

CalChamber Preferred Members and above can reach out to our [Labor Law Helpline](#) for any compliance questions, including furloughs, layoffs, reducing work hours and more. Not a member? See how CalChamber [can help you](#).

Project to Improve California Water Supply Part of Budget Plan

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support and enhance the State Water Project's operation as the backbone of California's water infrastructure network, providing a reliable supply of affordable, high-quality water for homes, farms, and businesses.

The project involves constructing a tunnel system to transport water from the Sacramento River to the southern Delta, where it can be delivered using existing infrastructure for supplying water to areas 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.

Estimates show that 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.

The most recent DCP benefit-cost analysis shows that doing nothing will cost California billions of dollars and jeopardize the water source for millions of state residents and more than 750,000 acres of farmland.

The significant challenges to future water supply reliability from failing to move forward on the DCP include:

- More frequent and larger water shortages;
- More mandatory restrictions;
- Higher water rates due to more expensive alternative supplies;
- More land fallowing;
- Higher food prices;
- Loss of jobs.

Californians for Water Security

To secure the state's water supply, the CalChamber is a longstanding member of [Californians for Water Security](#), a growing coalition representing more than 12,000 California citizens and more than 80 organizations comprised of business leaders, labor, family farmers, local governments, water experts, infrastructure groups, taxpayer associations, and others who support the plan to fix California's broken water distribution system.

The coalition is waging an active advertising, grassroots lobbying, social media and public advocacy campaign to support this important project to fix California's aging water distribution infrastructure and improve water reliability and security throughout the state.

Staff Contact: [Kristopher Anderson](#)

UK Ready to Do Business with California

**Tammy Sandhu**

The British Government promised to make the United Kingdom the best country to do business. We are delivering. This month, our economy received three huge votes of confidence.

- First, the UK struck a landmark Free Trade Agreement with India — the fastest growing economy in the G20. The agreement is the most generous in India's history and it will make trade between our countries cheaper, easier and quicker.

- Second, the UK became the first country to secure a landmark economic deal with the Trump administration. This will reduce tariffs across a range of sectors, from steel and aluminium to automotives, and cuts costs for businesses operating in the UK.

The deal is great news for businesses in California. As Europe's premier destination for tech investment and as the largest foreign direct investor by jobs created in California, this deal will only further strengthen the deep ties between UK companies and their American customers and businesses.

What we have agreed will provide the foundation for a new reciprocal trading partnership between the United States and the UK, as well as secure actions that will protect jobs across the country and protect British businesses. The U.S. has committed to further negotiations, including on the 10% tariffs introduced on April 2 across our economy.

This deal is also a springboard to a transformative tech partnership between the UK and U.S. so we can harness technology and create future industries together that will strengthen both our nations for many years to come.

- And earlier this week, we struck a deal with the European Union which will deliver on the UK government's growth agenda, slashing red tape and opening up access to EU markets for British businesses — making it easier for them to import and export food and drink. This deal will give U.S. companies based in the UK, greater access to the EU market.

Guest Commentary By Tammy Sandhu

Strong Foundations

Some said these deals would never be done. But the truth is the U.S., India and the EU saw in the UK a country with strong economic foundations. A trusted partner ready to negotiate constructively. An innovative economy embracing new emerging technologies like AI, quantum, fusion, and engineering biology.

Britain has always been an open, outward-looking trading nation. We believe that markets and free trade are fundamental to building prosperity at home and abroad.

We have one of the largest economies in the world, with cutting-edge businesses, brilliant universities, and a talented workforce. That's why global CEOs recently ranked the UK as the second most attractive country to invest

in. It's why our growth rate is one of the highest in the G7.

And this government is building on these strengths. Earlier this year the UK announced \$17 billion of capital investment over the next five years to deliver the projects needed to catalyze private investment, boost growth and drive forward the UK's modern industrial strategy. This follows \$133 billion of capital investment announced last autumn.

We are ripping up unnecessary regulation to cut the administrative costs on business by a quarter over the next five years. There are already hundreds of businesses from California in the UK. But with the offer of certainty, stability, and simplicity, we will give more firms the confidence to expand and invest in the UK.

Just the Beginning

Ultimately, the U.S., the EU, and India recognized the huge potential of closer trading relations with the UK under this government. These deals are just the beginning. We will continue to seek new agreements with our closest partners and the emerging markets of the future in order to make the British people safer and put money in their pockets.

We are in a new era of trade, with global instability threatening UK jobs and prosperity. This government is determined to look after the country's national interest.

Our message to California business is this: We are open and ready to do business with you.

Tammy Sandhu MBE is the British Consul General in San Francisco.

Cost-Effective Climate Plan in Governor's Budget

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Auction Returns

Over the last decade, the quarterly allowance auctions have pumped nearly \$30 billion into the state's Greenhouse Gas Reduction Fund, backing everything from wildfire-hardening to transit modernization. The fund returns billions

of dollars to households through the California Climate Credit on their utility bills.

The current program provides strong protections for containing costs and preventing emissions leakage.

The CalChamber and others have pointed out to lawmakers that reauthorizing the cap-and-trade program in its existing form will provide the long-

term clarity that investors and employers need, sustain the steady flow of auction proceeds into climate investment programs and ensure that California continues to prove that climate action and economic prosperity can advance hand in hand.

Staff Contact: Jon Kendrick

Foundation Hosts Briefing on Real-World Uses of Open Source AI

The real-world uses of open source artificial intelligence (AI) in health care, public services, national security and small business operations were the focus of a special briefing this week hosted by the California Foundation for Commerce and Education (CFCE) for state legislators and their staffs.

The CFCE brought experts in the field directly to the legislative policy makers for an information-packed, 90-minute discussion.

“It was a great educational opportunity to bring together renowned experts in artificial intelligence to discuss how AI is impacting and changing the fields of health care, national security, and small business,” said CFCE President Luis Quiñonez.

Legislators attending included Assemblymembers Jacqui Irwin (D-Thousand Oaks) and Patrick Ahrens (D-Sunnyvale), co-chairs of the California Technology and Innovation Caucus, and Assemblymember Stephanie Nguyen (D-Elk Grove).

Irwin commented, “The tools of artificial intelligence — once siloed within a few major labs or gated behind proprietary walls — are increasingly open, collaborative and accessible.”

Open source AI, Irwin said, is “enabling a broader range of developers,

researchers and companies — large and small — to experiment, to build and to compete.”

Briefing Topics

The subjects covered at the May 20 briefing included:

- Driving Innovation and Competitiveness through Open Source AI.



Assemblymembers Jacqui Irwin (D-Thousand Oaks) and Patrick Ahrens (D-Sunnyvale), co-chairs of the California Technology and Innovation Caucus, join legislative staffers and AI experts at a California Foundation for Commerce and Education-hosted briefing and discussion on open source AI on May 20.

- AI in Health Care.

Cameron Carlin, manager of data science for City of Hope, explained how his organization is using open source AI to help with real-time clinical decision support systems that improve patient care.

- National Security Applications.
- Cindy Gonzales, deputy director of

the Data Science Institute at Lawrence Livermore National Laboratory, offered insights from her experience overseeing AI model capability assessments, including the Large Language Model Laboratory (LLML) project. She leads efforts to evaluate and adapt AI tools for government missions.

- Empowering Small Businesses.

Dhruv Diddi, founder of Solo Tech, described his journey from Silicon Valley engineer to starting his own company — just one example of how AI is helping local enterprises scale and succeed. Diddi is advancing Physical AI Inference — offline, multilingual tools that empower underserved rural communities. His work is backed by Meta’s Llama Impact Grant and includes projects in agriculture, education, and health.

More to Come

Briefing participants were energized by the exchange of ideas and future possibilities.

“CFCE looks forward to hosting more briefings on a variety of topics to increase knowledge and dialogue on the various issues facing the fourth largest economy in the world — the state of California,” Quiñonez said.

Contact: Luis Quiñonez

Reducing an Exempt Employee’s Salary? Proceed with Extreme Caution

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and he can no longer be classified as exempt.

Intermittent/Reduced Leave

One exception allows an exempt employee’s salary to be reduced below the minimum amount of two times the state minimum wage.

Both the federal Family and Medical Leave Act (FMLA) and the California Family Rights Act (CFRA) allow employers to reduce the salaries of exempt employees below the minimum

threshold if they are taking protected intermittent or reduced-schedule leave (Code of Federal Regulations, Title 29, Section 825.206; California Code of Regulations, Title 2, Section 11090 (e) (4)). Reductions in salary under these regulations do not jeopardize an employee’s exempt status.

Only if your employee is asking to reduce his schedule for a reason covered by CFRA/FMLA, and he is eligible for these leave protections, can his salary be reduced below the minimum salary requirement for the duration of the

protected leave. Otherwise, to maintain his exempt status, you must pay him at least \$68,640 annually, even if he is working part-time.

Column based on questions asked by callers on the Labor Law Helpline, a service to California Chamber of Commerce preferred members and above. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at www.hrcalifornia.com.

Travel Outlook

California Tourism Projected to Decline Following Strong 2024



May is California Tourism Month – a time to recognize one of the most

dynamic engines of the state's economy: the travel and tourism industry.

In 2024, visitor spending in California reached \$157.3 billion, supported 1.16 million jobs and generated \$12.6 billion in tax revenue for the state and local governments.

Visit California Forecast

The industry continues to demonstrate resilience, but this year brings new challenges that accentuate just how vital this sector remains. A [new forecast](#) from Visit

California anticipates overall visitation in the state to decline by 0.7% in 2025 to 268 million visits – the first projected year-over-year decline in visitation since the pandemic.

Despite global uncertainty and worsening international travel sentiment, California remains the No. 1 travel destination in the United States. International travelers spent \$26.2 billion here in 2024 – a 16.4% increase over the prior year.

However, 2025 forecasts predict a 9.2% decline in international trips, reflecting a potential slowdown driven by weakening consumer sentiment, economic and geopolitical pressures, including a strong U.S. dollar that makes travel more expensive for visitors from other countries, and reduced airlift from key global markets.

These headwinds are real – but so is California's unmatched appeal. Decades of investment in strategic brand building continue to pay dividends, as travelers from around the world maintain a strong connection to the Golden State.

California Travelers

Travel is more than just welcoming guests from another state or country – California's 40 million residents are important contributors to the state's tourism economy. Visit California is urging Californians to take the opportunity to explore our own backyard. By choosing to travel in-state, Californians can help support local businesses, sustain jobs and boost local economies.

Learn more about the impact of tourism in California [here](#).

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Upcoming Events

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