ALERT

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CalChamber
CALIFORNIA CHAMBER OF COMMERCE

CalChamber Supports Job Creator Proposal

Opposes Problematic Tax Bills from Special Session

job creators

The California Chamber of Commerce is **supporting** a job creator bill passed as part of the emergency special session of the Legislature called by the Governor to deal with the state's budget crisis.

The CalChamber also is asking the Governor to veto two special session proposals that revise state tax law in ways that harm businesses.

Job Creator

SBX8 34 (Padilla; D-Pacoima) supports the construction of vital projects. The bill ensures the expedited permitting of environmentally sound solar thermal and photovoltaic power plants, enabling them to qualify for grants under the American Recovery and Reinvestment Act of 2009 (ARRA).

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Governor: Open Primary, Water Bond Needed

Governor Arnold Schwarzenegger speaks at the March 12 meeting of the CalChamber Board of Directors, chaired by Larree Renda (right). The Governor emphasized the importance to California's future of Proposition 14, the open primary measure on the June ballot, and the water bond slated for the November ballot. The CalChamber supports both measures.

CalChamber President Spotlights Jobs at GOP Primary Gubernatorial Debate

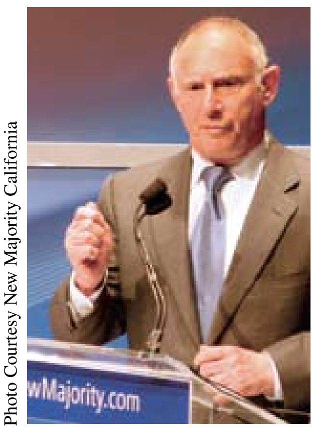

Photo Courtesy New Majority California

Allan Zaremberg

California Chamber of Commerce President and CEO Allan Zaremberg discussed the importance of a business-friendly governor to California in remarks to the audience before the Republican Primary Gubernatorial Debate in Orange County on March 15.

The debate featured the two leading Republican candidates for governor, Insurance Commissioner Steve Poizner and former eBay CEO Meg Whitman, who shared with Californians their solutions for the state's future. During the one-hour debate, they discussed plans to balance the state's budget, bring jobs to California and improve the economy.

Zaremberg told the audience that California's next governor will govern the largest economy in the United States. The next governor will have the power to sign

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Inside

Labor Law Corner

Commission Due Dates for Discharged Employees May Vary

Gary Hermann
Labor Law Consultant

When are commissions due discharged employees?

The due date will depend on when the commissions owed can actually be determined. Labor Code Sections 201 and 202 clearly provide that all wages are either (1) due at the time of termination in the event of a discharge; or (2) due within 72 hours in the event of a voluntary quit, without at least 72 hours prior notice.

Commissions that can be calculated (ascertainable) at the time of termination would be included. An ascertainable commission is earned when the employee has met all the conditions that must be met before the employee is entitled to payment.

When Commission Earned

Such conditions are a matter of contract between the employer and employee. Typically, in retail sales, commissions may be "earned" when a sale is made, when the merchandise is delivered to the customer or when the customer pays for the merchandise.

Whatever the event that triggers the right to the commission, once that event has occurred, the commission has been earned. In the event that commissions have been "earned" on or before the date of termination, the employer must complete the necessary calculations and pay the commissions as required by Sections 201 and 202 of the Labor Code.

It is not permissible to delay payment.

If the commission has not yet been earned at the time of termination and is awaiting the completion of some condition, such as receipt of the customer's payment, the commission must be paid to the terminated employee immediately upon completion of the condition.

Limits on Commissions

Generally, if the contract for the commissions is clear and unambiguous, and there are substantial duties that must be performed to complete the sale, the employee who voluntarily terminates without accomplishing those tasks is not entitled to recover.

Note that non-recovery is limited to cases involving questions of when a commission has been earned by a terminated employee on a "sale" transaction that is not an instantaneous event (as in the context of retail sales) but, rather, is "completed" over a relatively long period during which the sales agent may be required to perform additional services for the customer.

For example, if the commission agreement calls for partial payment upon completion of certain steps in the sales process, the sales person who leaves the employer before all the steps are completed would be entitled to commissions only for those steps actually completed before termination.

Waiting Time Penalties

Waiting time penalties under Section 203 of the Labor Code begin at the "due date" for the wages owed. For earned post-termination commissions, the penalties would begin on the date the post-termination commission must be paid.

The Labor Commissioner takes the position that it would be possible, in certain instances, to add on penalties resulting from untimely payment of wages owed at termination, with additional penalties resulting from untimely payment of post-termination commissions, subject to the limit of 30 calendar days.

The Labor Law Helpline is a service to California Chamber of Commerce preferred and executive members. 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.

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CalChamber-Sponsored Seminars/Trade Shows

More information at *www.calchamber.com/events*.

Business Resources

Workers' Compensation Legislative Education Day. California Coalition on Workers' Compensation. April 5–6, Sacramento. (916) 554-3467.

Central Valley Tour. Water Education Foundation. April 14–16, Bakersfield. (916) 444-6240.

International Trade

Certified Cargo Screening Program. Transportation Security Administration. March 22, Hawthorne. (310) 973-3132.

Globe 2010. The GLOBE Foundation. March 24–26, Vancouver, British Columbia. (604) 695-5001.

International Tax Conference. U.S.

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CalChamber President Spotlights Jobs at GOP Primary Gubernatorial Debate

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or veto the budget, use the line item veto, sign or veto legislation critical to California's economy, appoint judges and make political appointments. Not every governor gets to do that, he reminded the audience.

He closed by saying that the most important role for the next governor is to make jobs and the economy their number one priority.

New Majority California chairman Larry Higby opened the program by thanking the candidates for their thoughts on the issues that are so important to California.

Organized a decade ago, New Majority states that its mission is to broaden the appeal of the Republican Party by promoting a fiscally responsible philosophy toward government and lending resources to Republicans who support an inclusive, mainstream approach toward politics.

KNBC political reporter Conan Nolan moderated the debate. Nolan is an Emmy-winning television journalist at *KNBC-TV* and is the host of *NBC 4's News Conference*, the longest running public affairs program in Southern California television. He has already interviewed both of these Republican candidates for his show.

Debate Topics

Nolan asked seven questions from the following topic areas:

- Budget and taxes;
- Jobs and the economy; and
- Long-term solutions for California's future.

When asked how the candidates would get the state back on track, Whitman focused on cutting costs by reducing the number of state employees and also through pension and welfare reform, while Poizner proposed across-the-board tax cuts.

"When revenues go down in organizations, the first thing you have to do is cut costs to get them in line," Whitman said. "I have identified $15 billion worth of cost savings, and the first place I would go is the number of

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Photos Courtesy New Majority California

Steve Poizner

Meg Whitman

Senate Candidate Fiorina Outlines Pro-Jobs Goals

U.S. Senate candidate Carly Fiorina, former chairman and CEO of Hewlett-Packard Company, explains her approach to boosting the economy and jobs climate at a dinner gathering of the CalChamber Board of Directors on March 11.

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workers who work at the state, which is up 40,000 from just five years ago."

Whitman said she would bring that number back down to just over 300,000 workers.

Poizner discussed his collection of tax cuts, including a 10 percent cut in sales tax, income taxes, corporate taxes, and a 50 percent cut in capital gains taxes.

"Our tax rates are way too high… Three thousand people a week pick up and leave the state of California," Poizner said. "Lower tax rates, larger tax bases, [and] jobs come back."

Video at CalChamber2010.com

Viewers may watch the debate in its entirety on demand at ***CalChamber2010.com***.

CalChamber2010.com is a comprehensive, first-of-its-kind website offering Californians videos and side-by-side comparisons of the gubernatorial candidates' stance and history on issues most important to the state's economy and job climate.

Created by the CalChamber, this project has one clear goal: educating Californians. This is not a site that advocates for a particular candidate. It lets the user decide. At ***CalChamber2010.com***, visitors can find independently sourced material and video clips to see and hear what the candidates say in their own words.

The site is designed to highlight the most critical issues facing California's future: jobs and the economy. ***CalChamber2010.com*** presents issues in nine areas: Budget and Spending; Jobs and the Economy; Taxes; Education; Health Care; Environment and Energy; Water; Public Safety; and Housing and Transportation.

The CalChamber is urging readers to share ***CalChamber2010.com*** with friends, followers and colleagues on their favorite social network—and ask them to do the same. Easy-to-follow directions on sharing the site are available on the site.

Throughout the campaign season, ***CalChamber2010.com*** will continually be updated with breaking developments.

Staff Contact: Rob Lapsley

CalChamber-Sponsored Seminars/Trade Shows

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Council for International Business (USCIB). March 31, Mountain View. (202) 682-7465.

Stonetech 2010. CCPIT Building Materials Sub-council. April 6–9, Shanghai, China. *kontakt@merebo.de*.

Asiawater 2010. AMB Exhibitions Sdn Bhd. April 6–9, Kuala Lumpur, Malaysia. *kontakt@merebo.de*.

Hannover Messe 2010. Deutsche Messe AG. April 19–23, Hannover, Germany. *eloisa.klementich@bth.ca.gov*.

International Green CEO Summit. Indonesian Chamber in Jakarta. April 28–May 1, Jakarta, Indonesia. *grace@greenceosummit.com*.

World Trade Week Breakfast. Los Angeles Area Chamber. May 3, Los Angeles. (213) 580-7569.

World Trade Conference. U.S. Department of Commerce. May 5, Ontario. (951) 440-9944.

Consular Corps Luncheon. NorCal World Trade Center. May 18, Davis. (916) 447-9827.

Clean-Tech Trade Mission to China. Monterey Bay International Trade Association (MBITA) and Asia Gateway Inc. May 22–29, Shanghai, China. (831) 335-4780.

Destination India 2010: New Business Trends. Quanta Consulting, Inc. June 17, Los Angeles. (949) 480-9466.

Business Future of the Americas Conference. The American Chamber of Commerce of Peru. June 21–22, Lima, Peru. (510) 705-8000.

Labor Law

HR101 Part 3—Harassment and Discrimination. CalBizCentral. March 25, Webinar. (800) 331-8877.

HR101 Part 4—Discipline and Termination. CalBizCentral. April 1, Webinar. (800) 331-8877.

CalChamber Calendar

Business Summit/Host Breakfast:
May 17–18, Sacramento

Public Affairs Council Spring Retreat:
June 15, Sacramento

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U.S. Economic Statistics Turn Upward; State Economy Shows Some Positive Signs

U.S. Economic Upturn Continues

Many economic statistics for the nation have turned up during the past three to six months, a welcome improvement over last winter and spring. Reflecting the underlying trends, the government's preliminary estimate of gross domestic product (GDP) in the fourth quarter came in at a +5.9 percent annual rate, after a +2.2 percent uptick in the third quarter, which in turn followed four dreary quarters of decline.

Progress was widespread in the fourth quarter, though not yet universal. Exports, consumer spending, business investment in equipment and software, residential investment and federal government spending all increased. Collectively they contributed +4.8 percentage points to fourth quarter GDP growth.

Private sector inventories were reduced by only $17 billion last quarter, a much slower pace than in the summer quarter. This change had the effect of adding +3.9 percentage points to the economy's growth rate.

However, on the downside, higher imports, reduced business spending for non-residential structures, and lower spending by state and local governments sliced -2.7 percentage points from GDP growth last quarter.

As shown in the chart, final domestic demand (which includes spending by U.S. consumers, business firms and all levels of government, but excludes changes in inventories and net exports) was down by -0.9 percent last quarter compared with fourth quarter 2008. This performance marked the smallest year-over decline since the summer of 2008, reflecting the economy's improving momentum after a very deep downturn.

Mixed Signs

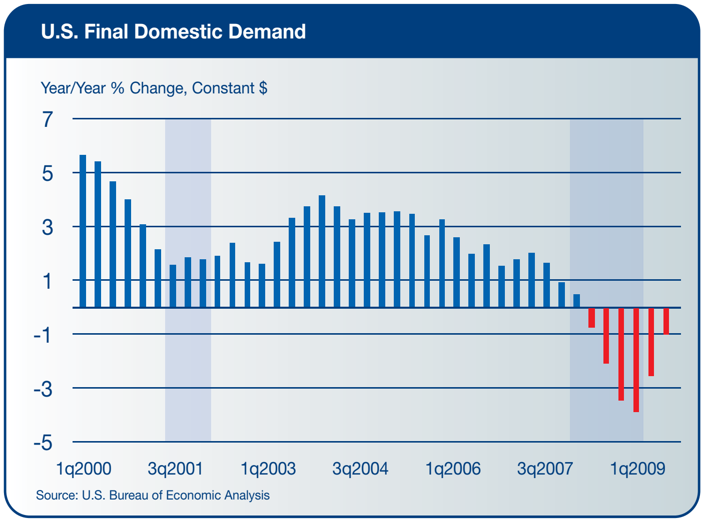
Other economic news has been mixed. Non-farm payroll employment across the nation has declined every month since December 2007. By January 2010, the cumulative loss was -8.4 million jobs.

Job counts have fallen most rapidly in construction, manufacturing and professional and business services, especially temporary help services. Indeed, these three sectors together accounted for about two-thirds of the drop-off in total employment.

There also have been significant employment declines in transportation, wholesale and retail trade, information (especially publishing), and in the real estate and financial sectors. Meanwhile, the nation's unemployment rate has doubled from 5 percent in December 2007 to 10 percent in December 2009.

Not surprisingly, consumer sentiment continues at very low levels. Weak consumer confidence reflects the current poor labor market conditions and continued anxiety about the personal impact of the recession.

In a bit of positive news, recent trends on the inflation front have continued generally favorable. Excluding food and energy, consumer inflation rates are running under 2 percent. Energy prices, while volatile, have tended toward the $75/barrel to $80/barrel range, compared with $40/barrel a year ago. In California, regular gasoline is priced around $3/gallon.



Concerns

Concerns about the nature of the recovery have replaced recession worries as incoming monthly information turned increasingly positive.

The California Chamber of Commerce Economic Advisory Council applauds the improvement in economic activity but remains wary about the fundamental strength of the upcoming recovery once the impacts of expansionary monetary policy and federal stimulus programs begin to wind down.

In addition, past recoveries have been slowed by financial industry restructuring. Some caution about the recovery still seems appropriate.

Interest Rates/Financial Markets

While it acknowledges the economy has turned the corner, the Federal Reserve's main concern continues to be low levels of resource utilization (i.e., low capacity utilization and high unemployment rates). The Federal Open Market Committee (FOMC) shows no inclination to raise rates soon from current rock bottom levels despite the recent upturn.

Conditions in several parts of the credit markets have improved markedly, and the Fed is winding down most of the specialized facilities created during the financial crisis, as shown in the chart (see next page).

Investors have been seeking higher returns in this low-rate environment, causing corporate and emerging market bond spreads to narrow markedly. Even so, the capital markets remain skittish as shown by their reaction to unexpected difficulties in several European nations.

Further, credit conditions for households and small to midsize business firms remain tight. Most households and firms without access to capital markets still face strict credit quality constraints when they try to

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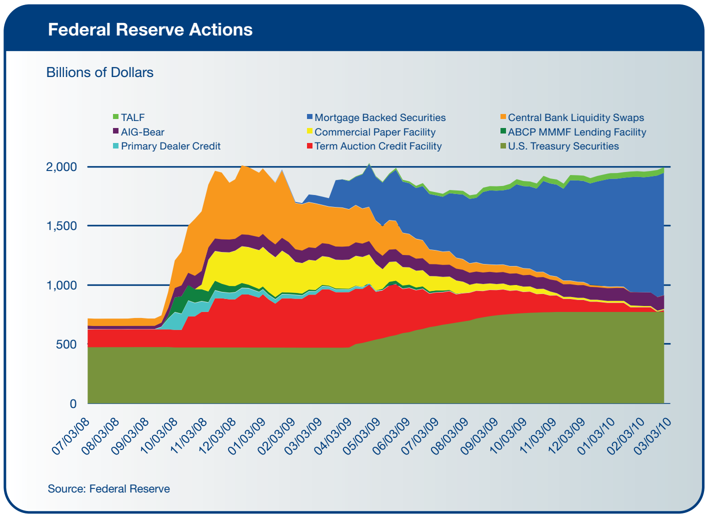
obtain new mortgages and business loans.

The Fed has purchased more than $1 trillion of mortgage-backed securities to provide liquidity to residential mortgage markets and to keep mortgage rates low. This program also is scheduled to end soon.

The Advisory Council's prognosis: the financial situation has improved significantly, but it's unclear whether the central bank will be able to exit the field of battle in the near term.



California Economy Still Weak But . . .

California's economy began to see a few positive signs during the last quarter, although not in labor markets. The state lost an estimated -1.3 million non-farm jobs between December 2007 and December 2009, a most distressing figure. About 25,000 jobs disappeared in the October-December quarter, but this was the smallest quarterly loss since late 2007.

California's unemployment rate rose to 12.5 percent in October 2009 and edged back to 12.4 percent in November and December. These were the highest jobless rates since World War II.

Other broad-based indicators paint a slightly less gloomy picture. Personal income earned in California decreased by -2.8 percent during third quarter 2009 compared to third quarter 2008 (latest data available). A year earlier that figure was +2.4 percent.

This has been the first sustained decline in personal income since quarterly data were recorded. Problems in the state's construction, manufacturing and information sectors accounted for much of the drag on the state's earnings growth.

Taxable sales have weakened substantially since early 2007. By third quarter 2009, the estimated year-to-year decline had fallen well into double digits. Sales declines have been most severe for California's motor vehicle dealers and building materials dealers. Both personal income and sales apparently reached bottom in second quarter 2009 and turned up a bit during the third quarter.

State Budget

Likely reflecting the changing economic momentum, tax revenues have been coming into the General Fund a bit faster than expected when this year's budget was enacted. Nonetheless, the current weakness in personal incomes, corporate profits and taxable sales continues to threaten the state's operations, as spending looks like it will exceed revenues.

After making severe cuts in fiscal year 2009-10 spending, budgeteers in Sacramento hope revenues will continue to outrun expectations, which would allow them to minimize spending cutbacks in the coming fiscal year. Only time will tell.

Employment performance among the state's industries was mostly negative over the 12 months to December. On the plus side, the only major sectors with higher job counts were health care services, private educational services and the federal government. Job counts fell in all other major sectors. Employment declined the most in California's construction, manufacturing, retail trade, administrative and support services, and transportation and warehousing sectors. Together, firms in these five industries reduced payrolls by more than -368,000 workers, while other sectors reported smaller declines.

Exports

Exports of goods made in California declined sharply, by –17 percent, during 2009. The largest category of exports—high tech manufactures (computers, peripherals and so forth) dropped by -15.2 percent in dollar terms, while transportation equipment exports decreased by -22.3 percent.

Exports of California agricultural products (farm produce, livestock and beverages) fell by -4.7 percent, while non-electrical machinery exports sagged by -19.9 percent.

Exports of other important California-made products also declined, including chemicals (down by -15.7 percent) and miscellaneous manufactures (-11.8 percent).

Regional Employment Trends

Reviewing the state's major metro areas, regional employment trends continued weak in the fourth quarter of 2009, although most areas showed smaller job losses than in the previous quarter. All of the state's major metro areas continued to report large year-to-year losses in non-farm employment.

Job losses were relatively moderate in four areas of the Central Valley—Bakersfield (-2.4 percent), followed by Fresno, Stockton and Modesto (at -2.5 percent, -3.3 percent and -3.6 percent respectively). Los Angeles County and the Oakland Metropolitan Statistical Areas (MSA) reported losses of -2.9 percent and -3.1 percent respectively. San Diego and Orange counties both reported -3.3 percent losses over the year.

At the other end of the scale, employment declines were most severe (-4.6 percent to -4.7 percent) in the San Francisco MSA and the Sacramento metro area.

In the Bay Area, the employment downturn lessened a bit during the fourth quarter in the Oakland and San Jose metro areas, but continued unabated in the San Francisco area. Construction activity has fallen around the Bay.

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Retail trade job counts were decreasing, especially in San Francisco.

Manufacturing job losses were highest among San Jose's high tech manufacturers. However, job counts may have stabilized in the fourth quarter in response to increased demands for computers and electronic products.

In the San Francisco area, the sharp downdraft in tourism this year resulted in job losses in the area's hospitality industries and caused financial pain for local governments.

In Southern California, the downward momentum in employment lessened in the Riverside-San Bernardino area and in Los Angeles County. Still, the downturns in construction and manufacturing combined with retail industry distress continued to generate large employment losses across the region.

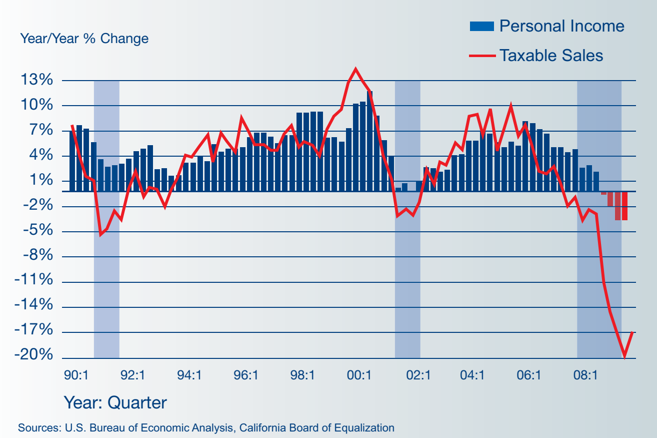
A sharp reduction in freight traffic through the area's ports caused problems for the ports themselves and in transportation, wholesale trade and the distribution centers of Los Angeles, Orange County and the Inland Empire. Port traffic rose in the latter part of 2009, but it is not yet clear the uptrend will be sustained.

The slowdown in tourism continues to be a concern, especially in San Diego.

The region's entertainment sector, which presented a mixed picture earlier in 2009, looks a bit better now. Domestic and international box office demand for films has continued to increase. Also, entertainment companies are taking advantage of the state's new filming incentives to schedule productions in California. In addition, television and cable producers have purchased a large number of new pilots.

However, a note of caution is in order: new Department of Defense proposals for fiscal year 2011 include declines in several procurement budgets of regional interest, which could have a mixed-to-negative impact on the region's key aerospace industry.

California Personal Income and Taxable Sales



Sources: U.S. Bureau of Economic Analysis, California Board of Equalization

Agriculture and Resources

2009 turned out to be a difficult year for California's agriculture sector. Prices of several important products weakened considerably, including dairy, some nuts and grapes. Demand for premium California-grown products softened as recession-weary consumers at home and abroad economized on luxuries.

California-grown exports decreased by -4.7 percent over 2008. However, exports increased markedly in the fourth quarter 2009 compared with the year earlier period. Feed costs declined as well, but concerns about farms' profitability lingered.

Drought restrictions became a reality in 2009 (see below), forcing many California farms to tap limited groundwater supplies and decide which products to produce and which to reduce or eliminate. While winter precipitation has been normal across much of the state, the state's farms still face difficult decisions in the year ahead.

Water is a serious concern everywhere in California. The recent string of dry years, up through 2009, left storage at very low levels in the state's water systems and the Colorado River area. The State Water Project and the Central Valley Project both restricted deliveries in 2008 and 2009.

Deliveries in 2010 will depend on how much more precipitation arrives during the rest of the rainy season. Water that must transit the Delta faces cutbacks to protect fish, but near-term weather patterns are encouraging. A package of water bills to help resolve the state's water problems, which requires $11.8 billion in new bonds, is up for voter approval in November 2010.

The supply of electricity in California should be adequate in the near term, as industrial demand weakened markedly during the recession and will take some time to recover. However, electricity prices are moving sharply higher, reflecting the utilities' costs associated with mandated investments to reduce their environmental footprints and to improve their distribution networks.

Real Estate/Construction

The California housing market has been operating on two different tracks for 18 months now. Here are some recent statistics for the state's re-sale home market:

- Existing single-family home sales in California increased by +1.7 percent over the year to December 2009, while condo sales were up by +28.2 percent.
- Prices have stabilized or risen in many areas; statewide, the median price of single-family homes sold in December 2009 (at $306,820) was up by +8 percent compared to December 2008.
- The number of homes available for sale represented 3.8 months supply (at December's sales rate) compared to 5.6 months a year earlier.

Existing home sales have been quite healthy (greater than 500,000 annual rate) since September 2008. A change in the availability and geographical mix of sales—which includes somewhat stronger sales in the higher priced coastal counties—has boosted the state's median home price in recent months. Also, the share of foreclosed home sales declined.

Other factors are supporting the housing market. Mortgage rates are relatively low, due at least in part to the Federal Reserve's purchases in the

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secondary mortgage market. In addition, the federal government is offering temporary tax credits to encourage would-be homebuyers to act.

Further, the plunge in transaction prices means many home sales in California fall inside the government housing agencies' conforming loan limits (up to $729,750 in 2009).

Outlook

However, the outlook for home sales is uncertain. The Federal Reserve's purchase program ends March 31, 2010, which might lead to higher mortgage rates. Federal homebuyer tax credits expire a month later and have undoubtedly pulled forward some home purchases from later in 2010 and 2011.

On the supply side, mortgage defaults have continued to grow as labor market conditions deteriorated. Thus, the availability of foreclosed homes is unlikely to shrink, although when lenders will bring these homes onto the market is uncertain.

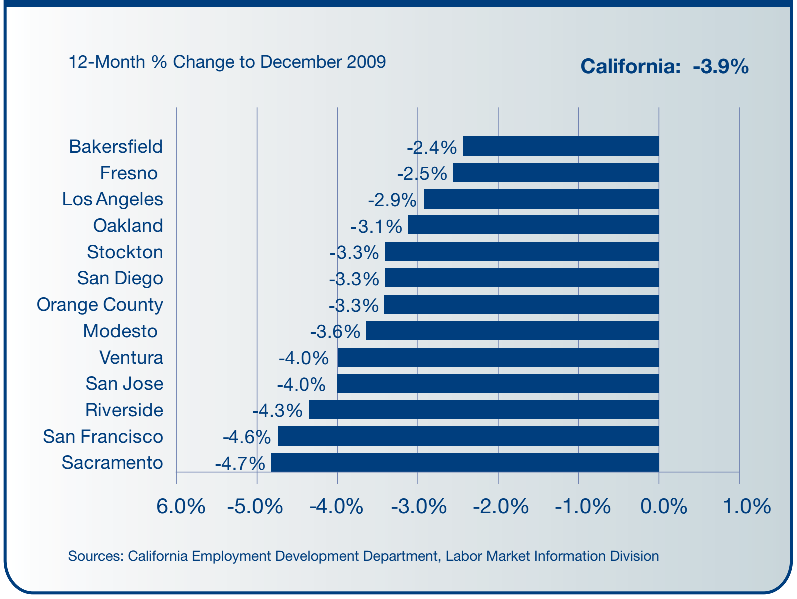
While the housing market environment looks favorable at present, significant further improvements in the pace of sales seem unlikely until the economy—and buyers' confidence—begins to revive.

Residential Construction

Residential construction activity continued at very low levels across the state during fourth quarter 2009, although activity was higher than in the first quarter, the low point for this down-cycle. Total housing permits were issued at a preliminary annual rate of 39,900 units during fourth quarter 2009, up by 20 percent from first quarter 2009. However, all of that increase occurred in the single-family sector, as multi-family permits continued to decline.

While any improvement is welcome, the current construction pace represents a drastic decline of -81 percent from the peak permit level of 2004.

Job Trends by Metro Area (December 2008–December 2009)



Sources: California Employment Development Department, Labor Market Information Division

As construction collapsed, new home builders' inventories of unsold homes have been shrinking, especially detached single-family units. However, inventories of attached housing units (condominiums and apartments) are dropping more slowly. Finding buyers for all of the unsold condominium units will take a while longer.

Despite the favorable buying incentives, industry observers do not expect any significant improvement in new home construction before late 2010, with some areas not reaching bottom until a year later.

Commercial Real Estate

California's commercial real estate markets also have developed deep fissures. Specifically, availability rates have risen markedly over the past year, and external development funding has virtually disappeared. The situation is most problematic for retail, office and industrial space. Retail sales have declined, and retailers' access to financing has been limited by the credit crunch. Several chains have declared bankruptcy or closed altogether, and this trend is expected to continue in the near term.

With most lenders unwilling to commit new funds for commercial real estate development, construction of new retail space has plunged. Even so, vacancies are surging and rents are dropping because so many stores are closing down.

Most areas in California are experiencing high retail vacancies. The biggest problems appear to be in Riverside-San Bernardino and areas where large amounts of retail construction took place in recent years.

Demand for office space was mixed in the fourth quarter, as high vacancy rates continued to reflect weaker employment trends in most office-based industries. Many firms are still reluctant to hire new workers and are vacating or subleasing space.

In some areas, office vacancy rates declined slightly in the fourth quarter. In San Diego County, the average office vacancy rate was 21.1 percent in fourth quarter 2009 compared with 21.6 percent during third quarter 2009. In San Jose, the rate edged down to 19 percent from 19.1 percent, while in Ventura County, the rate fell to 16.5 percent (third quarter 2009) from 16.7 percent (second quarter 2009).

In the Inland Empire and San Francisco Peninsula, office vacancy rates held steady at 23.6 percent and 19.9 percent respectively. Vacancies continued to rise in Sacramento (20.3 percent), Orange County (19.9 percent), Oakland (17 percent), Los Angeles (16 percent) and San Francisco (15.5 percent). Rents are weakening in most locations.

Statewide, the value of new office construction permits plunged by -68.4 percent in 2009 compared with 2008. Although the office construction pipeline has nearly run dry, vacancies in most areas will likely continue rising until employment turns around.

Industrial vacancy rates also are on the rise, although new construction has slowed sharply here as well. Demand for warehouse and distribution space has slackened, reflecting the weak outlook for

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retail sales across the United States, as well as the plunge in international trade.

Demand for high tech and biotech space also appears weaker since the financial crisis last fall and the downturn in the high tech industry. The lowest vacancy rates are in Los Angeles County, at 3.3 percent, followed by the East Bay, at 4.6 percent, and Orange County, at 6.7 percent. Vacancy rates are highest in San Jose (13.8 percent), San Diego (12.7 percent), the Inland Empire (12.5 percent) and Sacramento (12.1 percent). These are areas where substantial new construction took place even as demand for distribution space dwindled.

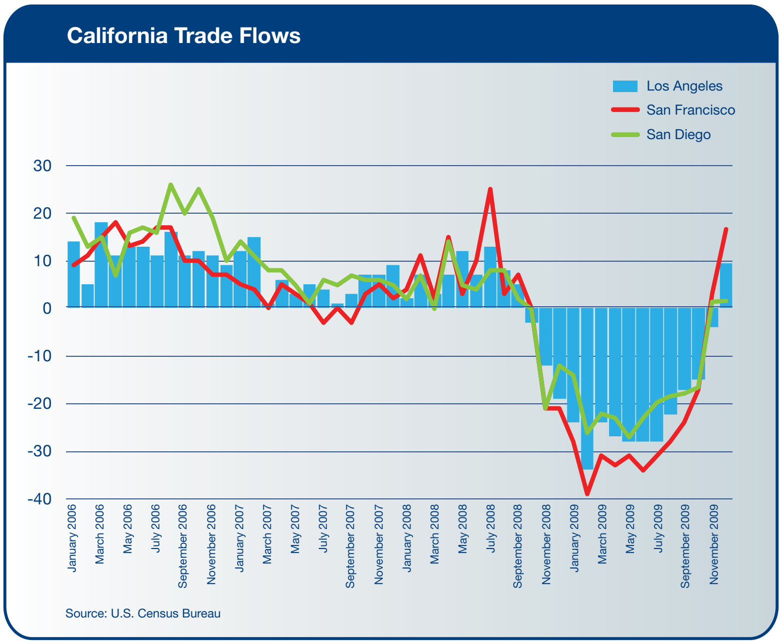
Non-Residential Building

The total value of non-residential building permits in California dropped by -44 percent during 2009 compared with 2008. Permits for new buildings declined by -60 percent, while the value of alterations and additions (which are more often owner-financed) fell by -26 percent.

Total non-residential permit activity fell in every California metropolitan area during 2009. The biggest percentage declines in permit activity occurred in: Stockton (-78.1 percent), Visalia (-64.9 percent), Santa Rosa-Petaluma (-62 percent) and Madera (-60.9 percent).

However, the largest dollar declines occurred in: Los Angeles (down by -$1.8 billion), San Francisco and San Jose (-$1.6 billion combined), and Riverside-San Bernardino (down by -$1.1 billion). Together, these four areas accounted for 54 percent of the total statewide decline in non-residential permit activity in 2009.

Financing remains extremely difficult to obtain for most types of commercial real estate projects, so permit values are expected to continue at low levels through much of 2010. As projects currently under construction are completed, the construction pipeline will empty out, a good thing as market fundamentals continue to deteriorate.



Source: U.S. Census Bureau

Risks

Risks appear to be more balanced than in previous reports. The economy has just passed the bottom of a serious, lengthy recession, and the level of activity is still low. Uncertainty is high. We do not know yet what the recovery will look like.

One key risk would be renewed volatility in global capital markets. Central banks and governments around the world have poured trillions of dollars into their financial sectors. While the results are beginning to show, markets are still fragile and easily upset (consider the recent reaction to disclosure of Greece's debt woes). However, the financial industry's problems are complex and won't be "cured" until loan problems are dealt with and capital ratios restored, not easy in such a weak economy.

At present, many financial institutions appear reluctant to engage in anything more than ordinary business and consumer lending, and credit standards are high. Small and medium-size businesses bear the brunt of this posture because they rely heavily on commercial bank financing.

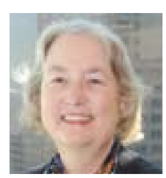
A second set of risks concerns the state's still-troubled housing industry. The housing and residential real estate industries are being supported by several federal government programs that are scheduled to end soon. Mortgage rates could well increase then just as home sales relapse. We simply don't know if the industry will be strong enough to weather such a downturn.

There is an upside risk best described as "Optimism returns." Consumers and businesses have been worried about the economy and their own financial situations for more than two years now.

The economy is beginning to stir. Retail sales have improved and so have international trade flows. Industrial production rates are rising, especially in the state's high technology sector, as businesses discover they've reduced their inventories too much and need more to support the current (slight) increase in their sales. Attitudes are beginning to improve right along with revenues.

Economic recoveries often begin slowly, and then run faster than economists project. The council would be delighted if this recovery follows such a path!

Staff Contact: Dave Kilby



The California Chamber of Commerce Economic Advisory Council, made up of leading economists from the private and public sectors, presents a report each quarter to the CalChamber Board of Directors. The council is chaired by Nancy Sidhu, vice president and chief economist, Los Angeles County Economic Development Corporation.

Publication of this report is a project of the California Foundation for Commerce and Education.

CFCE California Foundation for Commerce & Education

CalChamber opposes Problematic Tax Bills from Special Session

From Page 1

SBX8 34 will help ensure that 11 solar thermal and four photovoltaic power plants currently under review with the California Energy Commission remain eligible for the 30 percent project cost grants under the ARRA funds. These funds are available only to projects that begin construction no later than December 31, 2010.

An expeditious process could help add more than 5,000 megawatts to California's grid, help to reduce greenhouse gas emissions and effectively put California at the forefront of renewable energy development.

The CalChamber is asking the Governor to sign SBX8 34 as a common-sense bill that provides benefits to the state's economy and environment.

CalChamber Opposes

The CalChamber is **opposing** and is asking the Governor to veto the following bills:

- **ABX8 6 (Committee on Budget): Gasoline/Diesel Tax Swap.** ABX8 6 increases the sales tax on diesel fuels, but lowers the excise tax. Due to this change, some industries will see a net tax increase.

Given that ABX8 6 passed the Legislature with just a majority vote on March 4, it violates the constitutional requirement for tax increases to be approved by a two-thirds vote of the Legislature.

The Governor announced this week that he plans to veto the bill.

- **SBX8 32 (Wolk; D-Davis) New Tax Penalty.** SBX8 32 reduces complexity and waste in tax reporting and administration by conforming many California tax provisions to recent changes in federal tax law, but is harmful to the business community because it also includes a harsh, unfair new penalty on taxpayers.

A coalition of business representatives, including the CalChamber, pointed out to legislators that SBX8 32 includes a controversial provision imposing a 20 percent penalty on erroneously claimed refunds. The penalty would apply if the Franchise Tax Board decides the refund request is not reasonable, but "reasonable" is not defined, giving the Franchise Tax Board wide latitude to impose the penalty.

Currently, taxpayers are subject to a strict liability 20 percent "understatement penalty" for understatements in excess of $1 million with no right to appeal. Adopted in 2008, the penalty is the only one of its kind in the nation and is applied on top of other penalties for inaccuracies on tax returns.

This provision has caused taxpayers to substantially overstate their taxes to avoid the penalty, which is applied even when an understatement was reasonable or outside of a taxpayer's control, such as unexpected federal adjustments.

Adding an erroneous refund penalty will whipsaw taxpayers that have overstated their liability to avoid the understatement penalty and now can be penalized for asking for a refund the Franchise Tax Board deems unreasonable.

The Governor this week urged legislative leaders to send him a "clean bill" that deals with federal conformity issues without including the tax penalties for businesses.

U.S. Trade Policy Focus of CalChamber Forum

Dr. Gordon Hanson, director of the Center on Pacific Economies and economics professor at the University of California, San Diego, comments on trade policies of the Obama administration and some of the related politics at the March 12 International Breakfast Forum of the CalChamber Council for International Trade, chaired by Susan Corrales-Diaz (right). At left is CalChamber Chair Larree Renda.

Workers' Comp Event Provides Chance to Meet Lawmakers

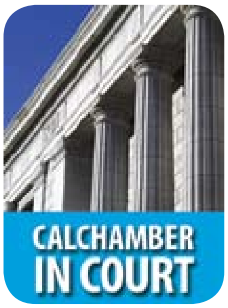
The California Chamber of Commerce is urging members of the business community to help educate elected officials on the vital connection between a quality workers' compensation system and protecting and creating jobs.

The annual Workers' Compensation Legislative Education Day on April 5–6 will provide an outlet to do so.

The free event, sponsored by the Workers' Compensation Action Network, California Coalition on Workers' Compensation, CalChamber and the California Manufacturers & Technology Association, will take place at the CalChamber offices at 1215 K Street, 14th Floor, Sacramento.

To register for this chance to meet with lawmakers and discuss workers' compensation issues in California, call (916) 554-3467 or e-mail c*ontactus@fixworkerscompnow.org*.

CalChamber Continues Fight to Support Science-Based Prop. 65 Chemical Listings



The California Chamber of Commerce is continuing its challenge in court against a state agency's flawed decision to bypass the longstanding, science-based process for adding chemicals to the Proposition 65 list.

If not overturned, the procedure adopted by the state Office of Environmental Health Hazard Assessment (OEHHA) could affect consumers, manufacturers and distributors of a wide range of everyday products ranging from carpet to cosmetic and personal care products, as well as critical pharmaceutical products.

This week, the CalChamber filed its response to the attorney general's defense of OEHHA. In November 2009, the CalChamber had asked California's 1st District Court of Appeal to reject the OEHHA process supported by the trial court over the protests of the CalChamber and others.

Background

OEHHA publicly announced in May 2008 that it has authority to automatically add certain chemicals to the Proposition 65 list under Labor Code Section 6382(d) (Labor Code Mechanism).

The announcement was a sudden change of course for OEHHA after years of following required statutory procedures specified under Proposition 65 for adding chemicals to the list of "substances known to the state to cause cancer or reproductive toxicity."

Under its newly adopted erroneous interpretation of Proposition 65, OEHHA will list chemicals without review from the state's qualified experts, and without any process to take into account scientific information about the chemical.

Despite comments submitted by numerous entities, including CalChamber, objecting to OEHHA's interpretation of Labor Code Section 6382(d), on June 12, 2009, OEHHA published a list of 30 chemicals it proposes to list under the Labor Code Mechanism. Many of these chemicals are elements in everyday products such as those cited above.

Listing Ramifications

Adding any chemical to the Proposition 65 list triggers a cascade of activity and consequences. Listings have an impact on the entire chain of commerce, from the manufacturer, to the retailer and finally, to the consumer.

For example, retailers frequently are sued under Proposition 65 based on alleged violations arising from merely selling products that are manufactured by others and that contain some amount of a listed chemical.

In response to litigation, retailers have adopted a number of approaches to protect themselves from the burdens and uncertainties associated with Proposition 65 enforcement actions, including seeking assurances from suppliers that their products comply with Proposition 65.

From the moment a chemical is listed, products containing such chemicals are stigmatized, leading to immediate market pressure to reformulate or lose customers to substitute products. It is for this reason that Proposition 65 requires a scientific review of all chemicals before listing—a review that is not required under the Labor Code Mechanism.

CalChamber Argument

In its latest brief, the CalChamber points out to the appellate court that OEHHA's less stringent approach to listing Proposition 65 chemicals conflicts with the language of the law, the agency's past practices and the ballot arguments presented to the voters before the measure was approved.

"Indeed, voters were promised that the laws enacted by Proposition 65 would provide Californians with higher scientific standards than 'any existing toxics law,'" the CalChamber argues. "This language does not support the continued, uncontrolled listing of substances identified pursuant to different toxics laws."

Chemical List

Companies can find the list of chemicals proposed for listing via the ***CalChamber.com*** home page links to Part 1 and Part 2 of OEHHA's chemical list.

More information about the case and supporting the court challenge is available from Erika Frank, CalChamber general counsel.

Staff Contact: Erika Frank

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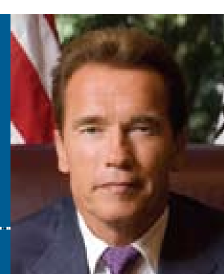
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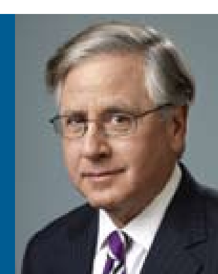
Howard Fineman
Senior Washington Correspondent, *Newsweek*

ALERT

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