ALERT

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CalChamber®
CALIFORNIA CHAMBER OF COMMERCE

CalChamber Urges Veto of Health Exchange Bills

Analysis Points to Potential $1+ Billion State Costs

Two California Chamber of Commerce-**opposed** bills to implement the federal health care law go far beyond what the law requires and potentially add hundreds of millions in General Fund costs, according to an analysis by former state Finance Director Michael Genest.

Moreover, the two "job killer" bills put the state's purse strings in the hands of an unelected, unaccountable board that would operate outside the state's normal budget process, the analysis concludes.

Now awaiting action by the Governor are: **AB 1602 (John A. Pérez; D-Los Angeles)** and **SB 900 (Alquist; D-Santa Clara).** AB 1602, together with SB 900, prematurely creates overly broad and expansive governance and guidelines without oversight for the state health benefit exchange, which could lead to

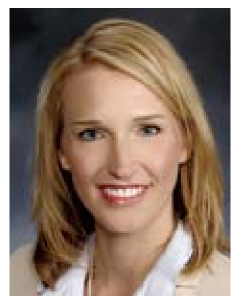
See CalChamber: Page 4

CalChamber: Workplace Safety, Lawsuit Risks If Voters Approve Proposition 19 in November

Photo by Megan Wood

Erika Frank, CalChamber general counsel, outlines at a joint legislative committee hearing how Proposition 19, the marijuana initiative on the November ballot, will compromise workplace safety and establish a new class of protected workers in the state. See story on Page 3.

CalChamber Names New Advocate for Labor/Employment, Taxation Issues



Jennifer Barrera

Jennifer Barrera joined the California Chamber of Commerce on September 13 as a policy advocate specializing in labor and employment, and taxation issues.

"As an attorney for employers, Jennifer has seen how laws and regulations affect business operations in the workplace,"said Marc Burgat, CalChamber vice president of government relations. "That real-world experience makes her a strong advocate for employers throughout the state because she can bring to the table an understanding of the practical implications of policy decisions."

Since May 2003 Barrera had worked at Carlton DiSante & Freudenberger, LLP, 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,

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Labor Law Corner

New Workers' Comp Forms Available to Comply with October Deadline

Erika Frank
General Counsel

Where can I find the Medical Provider Network forms I need to comply with the new workers' compensation regulations?

The forms for employers within an existing Medical Provider Network (MPN) can be downloaded at no charge from links within the ***HRWatchdog Blog*** at ***HRCalifornia.com***.

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An MPN is a network of providers, including physicians, created to treat workers injured on the job in California. Each MPN must include a mix of doctors specializing in work-related injuries and doctors with expertise in general areas of medicine.

MPNs are created by payors (self-insured employers or workers' compensation insurers) and must be approved by the California Division of Workers' Compensation (DWC). Unless exempted by law or the employer, all medical care for workers injured on the job whose employer has an approved MPN will be handled and provided through the MPN.

MPNs are not required; it is up to the employer to decide whether to have an MPN.

Requirement for All Employers

All California employers must:

- Post a new version of the *Notice to Employees—Injuries Caused by Work* (dated 6/10/10) by October 8, 2010. Failure to post the notice by the October deadline can result in a misdemeanor and up to $7,000 in civil penalties.
- Distribute a new *Your Rights to Workers' Compensation Benefits* pamphlet to all new employees who start work on or after October 8, 2010, at the time of hire or before the end of the first pay period.

Medical Provider Networks

Additional requirements for employers within an existing MPN are as follows:

- Create a complete MPN Notice and post it next to the revised *Notice to Employees—Injuries Caused by Work* poster. The complete MPN Notice is described in the CalChamber *Workers' Compensation Final Regulations Q & A* document, available on ***HRCalifornia.com***. Sample language is available in the ***HRWatchdog Blog***.
- Give the same complete MPN Notice to any employee injured at work on or after October 8, 2010.

Employers who are implementing, changing or terminating an MPN must also:

- Post a complete MPN Notice next to the *Notice to Employees—Injuries Caused by Work* poster by October 8, 2010. The complete MPN Notice is described in the CalChamber W*orkers' Compensation Final Regulations Q & A* document, available on ***HRCalifornia.com.*** Sample language is available in the ***HRWatchdog Blog***.
- Give the complete MPN Notice to any employee injured at work on or after October 8, 2010.
- Give all employees notice that you are implementing, terminating or changing the MPN. Sample language is available in the ***HRWatchdog Blog***.
- Submit a *Notice of Medical Provider Network Plan Modification* to DWC along with any necessary documentation. The mandatory DWC form is available in the ***HRWatchdog Blog***.

More information about requirements for MPNs is available in the CalChamber *Workers' Compensation Final Regulations Q & A* document, available on ***HRCalifornia.com***.

Poster Protect

Current CalChamber customers who purchased the Poster Protect service for 2010 will receive the updated poster in the mail no later than October 8, 2010. Customers will, however, need to purchase the updated workers' compensation pamphlets. They are available at $15 for a pack of 20.

The CalChamber is encouraging customers to purchase Poster Protect for 2011, as there may be updates to the *2011 California Employment Notices Poster*.

For more information or to purchase a poster or pamphlet, call (800) 331-8877 or visit ***www.calchamberstore.com***.

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.

Next Alert:
October 8

ALERT
WWW.CALCHAMBER.COM

CalChamber Tells Legislative Committee of Proposition 19 Problems for Employers

Proposition 19, the marijuana initiative on the November ballot, will have a detrimental impact on California employers, the California Chamber of Commerce testified this week at a joint hearing of the Assembly and Senate Public Safety committees.

In August, CalChamber released a legal analysis highlighting that the passage of Proposition 19, the Regulate, Control and Tax Cannabis Act of 2010, not only would legalize pot use in California, but also would create a legal quagmire for employers by compromising workplace safety and establishing a new class of protected workers in the state.

Proposition 19 seeks to legalize the cultivation, processing, transportation, distribution, and sale of marijuana for personal use in California. However, the measure is written in a way that blurs the line for employers regarding important workplace issues, including whether employers must allow marijuana smoking at work and who will pay for marijuana-related accidents.

Vague Wording

Erika Frank, CalChamber general counsel, explained to the committee on September 21 that the vague wording in Proposition 19 will make sweeping changes to the way employers do business and require employers to offer extra protections to marijuana users.

Erika Frank

If the measure is approved, Frank said, employers, including the State of California, would face the burden of proving that an employee who tests positive for marijuana is "actually impaired" from performing the job before taking any adverse action against the employee.

Employers would be prohibited from discriminating against marijuana users by taking marijuana use into account when deciding whether to hire an applicant, Frank explained. Any marijuana-smoking job applicant not hired could file a lawsuit claiming marijuana use was the reason, even if the employer had no knowledge of the use.

New Legal Standard

Moreover, unlike alcohol use, which employers can prohibit at work, under Proposition 19, employers could take action only for marijuana use that "actually impairs" work performance. Frank reiterated that the term "actually impairs" is a new legal standard that has never been defined or tested in court. The lack of a clear definition would force a delay in disciplinary actions used to protect workplace safety and drive up costs due to increased litigation.

In addition, Frank explained that passage of the act threatens state and federal contracts and grants. Specifically, she explained that this initiative could result in employers losing public contracts and grants because they could no longer effectively enforce the drug-free workplace requirements outlined by the federal government.

In July, CalChamber's products division began looking into the employer implications should Proposition 19 become law. That initial review raised many questions and led to the preparation of the full legal analysis by CalChamber's employment law advisor that was released in August.

A full copy of the legal analysis is available at ***www.calchamber.com***.

Staff Contact: Erika Frank

CalChamber Urges Veto of Health Exchange Bills

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unnecessary cost increases and limited choice for employers.

The federal Patient Protection and Affordable Care Act (PPACA) requires states to implement health insurance exchanges by 2014 and creates federal subsidies for qualified individuals that can be used to purchase health coverage in the exchange. The federal government is drafting regulations for all aspects of the act, including those involved with developing and implementing state exchanges and the specifics of the essential benefits that will be required in all plans.

The Genest analysis was featured in a column by Dan Walters of ***The Sacramento Bee*** who wrote on September 20, "the Health Benefit Exchange would be an independent entity exempt from many legislative oversight, open-records and civil service rules that a state agency would have to follow. Thus, it could collect and directly or indirectly spend tens—perhaps hundreds—of billions of dollars in semi-secrecy."

General Fund Risk

Genest comments that the bills would result in an unknown General Fund risk—potentially exceeding $1 billion annually—because they allow the exchange to establish benefits in excess of the federal "essential health benefits package."

Specifically, AB 1602 "virtually guarantees that the board will require coverage that will exceed federal requirements, without regards to costs."

Federal law requires that the state pay costs associated with those extra benefits in excess of the "essential benefits package." Since the federal government has yet to define "essential services," Genest explains that this unknown makes it "impossible to set any upper bound on the costs that the state's General Fund will bear."

At a minimum, it is likely that the benefits covered would be those currently mandated under state law, Genest notes. Even this minimum, however, is difficult to evaluate in the absence of more specific federal guidelines, Genest says.

Additional Medi-Cal Costs

The bills also create a substantial risk of increased Medi-Cal fraud and eligibility errors that could result in hundreds of millions of new annual General Fund costs, according to Genest's analysis.

Under federal law, the state exchange that would be created by SB 900 and AB 1602 would be required to screen applicants for eligibility for Medi-Cal.

Genest explains that "granting such a board the power under state law, not only to screen and refer clients to the Medi-Cal program, but to actually enroll them in the program sets up a major potential for eligibility error and applicant fraud."

Study Conclusions

The analysis concludes it would be "premature to create any state exchange prior to the promulgation of various federal regulations that will have a profound impact on the policy and fiscal conditions under which the exchange is to operate."

Genest explains that since the individual mandate, premium subsidies and small employer tax credits do not take effect under federal law until January 1, 2014, "the state has ample time to do a better job of designing a state exchange tailored to implement the federal law in a more cost-effective and responsible manner."

Additional Concerns

SB 900 and AB 1602 create a new state agency that would allow unrestrained governance authority—virtually unprecedented for a state agency.

CalChamber is concerned that this expansive regulatory authority for selective contracting, plan design and determination of cost-sharing provisions for health plans would result in limited choice, increased costs and harm to California employers.

Action Needed

Contact Governor Schwarzenegger and urge him to **veto AB 1602** and **SB 900**. A sample letter is available at ***www.calchambervotes.com***.

Staff Contact: Marti Fisher

New Advocate

From Page 1

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.

Staff Contact: Marc Burgat

CalChamber Joins Governor in Asia

Successful Mission Promotes Trade/Investment with China, Japan, South Korea

California Chamber of Commerce members joined Governor Arnold Schwarzenegger on a six-day trade mission to China, Japan and South Korea to promote trade and investment, market California agriculture, encourage tourism and discuss high speed rail.

"The business and trade mission to Asia led by California Governor Schwarzenegger served to strengthen ties and increase economic opportunities among our major trade and investment partners," said Susanne Stirling, CalChamber vice president of international affairs and a member of the business delegation.

The 22-member business delegation represented manufacturing, high tech, agriculture, goods movement and tourism. In selecting this delegation, it was the Governor's intent to have industry leaders who represent the diversity of California business. Members of the Governor's Cabinet also participated in the mission.

The September 9–15 mission had stops in Hangzhou, Shanghai, Tokyo and Seoul to focus on California's tremendous trade and investment opportunities, unparalleled agricultural and manufactured products, great tourism destinations, and high speed rail opportunities.

The Governor's schedule included high-level meetings with government officials, meetings with current and potential investors in the California market and several events highlighting the Golden State's fantastic resources.

China: New Opportunities

The mission built on new opportunities that continue to open in China. China continues to be one of the world's fastest growing economies, and its efforts to reform and modernize its economy have helped transform the country into a large trading power.

U.S.-China trade has risen rapidly over the past several decades. Total trade between the two nations has increased from $4.8 billion in 1980 to $366 billion in 2009. U.S. exports to China in 2009 were over $69.6 billion, a steady increase from previous years. The Governor and the CalChamber visited China in 2005.

Blog, More Photos at *calchamber.com/2010asiatrademission*

Photo by Abby Browning

Governor Schwarzenegger speaks to employees at the Alibaba corporate headquarters in Hangzhou, China, located 112 miles southwest of Shanghai in the Yangtze River Delta. Founded in 1999 by Jack Ma, Alibaba is a privately owned group of Internet-based businesses. It has 18,000 employees and operates in 240 countries.

Photo by Abby Browning

Margaret Wong, McWong International (center), and Susanne Stirling, CalChamber vice president, international affairs (far right), meet with colleagues in Shanghai.

At a CalChamber-hosted reception at the Tokyo residence of the U.S. Ambassador are Rusty Gregory, Mammoth Mountain; Caroline Beteta, California Travel and Tourism Commission; Susanne Stirling, CalChamber; U.S. Ambassador John Roos; and Secretary A.G. Kawamura, California Department of Food and Agriculture.

A Seoul event co-hosted by the California Travel and Tourism Commission and the California Food and Agriculture Export Promotion features the "Tastes and Sounds of California." Shown at one of the tasting stations is the California agriculture delegation, including Food and Agriculture Secretary A. G. Kawamura (center).

Japan: Long Relationship

This mission also followed up on the Governor's 2004 mission to Japan. The United States is a large supplier of nuclear reactors and machinery, medical equipment, electric machinery and commercial aircraft to Japan. Japan is also the largest foreign market for U.S. agricultural products.

U.S. exports to Japan were $51.2 billion in 2009, with imports from Japan to the United States decreasing to $96 billion.

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New Green Chemistry Rules Released

Potential Impact on Nearly All Manufacturers, Consumer Product Sellers

State regulators took a significant step last week toward the formal adoption of new rules that have the potential to affect nearly all firms that manufacture or sell consumer products in California.

On Tuesday, September 14, the Department of Toxic Substances Control (DTSC) released its proposed "Safer Consumer Product Alternatives" regulation, which seeks to implement California's new green chemistry program.

The program was authorized by the enactment of 2008 legislation, AB 1879 (Feuer; D-Los Angeles) and SB 509 (Simitian; D-Palo Alto).

These bills provide DTSC with authority to identify chemicals of concern, study them, prioritize chemicals of concern, and regulate certain products that contain these chemicals. According to the statute, DTSC can require labels, reformulation of products, producer take-back programs, outright bans of products, and much more.

Analysis Underway

The 92-page document released by DTSC establishes a highly complex approach to identifying and prioritizing chemicals of concern in consumer products and regulating their future use based on exposure to consumers and the environment.

Products DTSC declares to be a priority would require extensive research and analysis by the manufacturer to determine whether safer alternatives exist that limit exposure or reduce the level of hazard posed by chemicals in the product. Failure to find safer alternatives could lead to a ban of the consumer product.

The California Chamber of Commerce is still in the process of reviewing the new regulations in detail to determine their impact on the business community.

Close attention will be paid to how effectively the proposed regulations focus on products that contain the greatest potential for harm, if the regulations screen out products with a low likelihood of harm, and whether the regulations provide a way for businesses to participate without compromising confidential business information.

Although the new program has tremendous potential to improve consumer safety and the economy, it also has tremendous potential to do the opposite. It is critical that California get these regulations right.

Comments Due November 1

Written comments on the proposed regulations are due to DTSC by November 1, 2010. DTSC has set a public hearing on that date to seek public input as well.

CalChamber will be submitting comments and is urging its members to communicate their concerns to DTSC as well.

Staff Contact: Robert Callahan

CalChamber Joins Governor on Successful Asia Trade Mission

From Page

California exports to Japan totaled $10.9 billion in 2009. Computers and electronic products accounted for 24 percent of total exports.

In Japan, the Governor spoke to the American Chamber of Commerce and the CalChamber sponsored a reception for business and government leaders at the U.S. Ambassador's residence.

Further, the Governor indicated support for the U.S. State Department announcement that it has chosen San Francisco to host Asia-Pacific Economic Cooperation (APEC) forum meetings in the fall of 2011. CalAPEC and the CalChamber have been supportive of this initiative. For further information, see ***www.calchamber.com/APEC***.

Korea: Important Agreement

During the stop in Korea, a main focus was the pending U.S.-Korea Free Trade Agreement (FTA), which has been negotiated for more than three years, but has yet to be approved by Congress.

Passage of the U.S.-Korea FTA will eliminate tariffs and other barriers to trade in goods and services, promote economic growth, and enhance trade between the United States and Korea. The CalChamber has a long-standing position in support of the FTA.

Korea is a $1 trillion economy and is the United States' eighth largest goods trading partner. Korea's commercial relationship with the United States is largely complementary. In 2009, two-way trade between the two countries totaled more than $69 billion. In 2009, U.S. goods exports to Korea were $28.6 billion, a steady increase over the previous five years.

Korea is California's fifth largest exporting partner. In 2009, California exported $5.9 billion to Korea. The U.S.-Korea FTA will greatly expand market access in Korea for U.S. farmers, manufacturers, service providers and financial services firms.

The Governor spoke to the American Chamber of Commerce in Seoul, focusing on the FTA, among a myriad of other events. In addition, both Korean Air and Hyundai announced plans for expanded operations in California.

The CalChamber worked with the Governor's Office on this three-country/four-city trade mission. The Bay Area Council put together a China-specific delegation to coordinate with this broader mission and the Los Angeles Area Chamber of Commerce arranged a Korea-specific delegation.

More Information

For more information on the mission and the CalChamber's positions on international trade issues, please visit ***www.calchamber.com/international***.

Staff Contact: Susanne Stirling

Overview of November Ballot Measures

Following are brief summaries of the measures that will appear on the November ballot and the reasons for the California Chamber of Commerce positions.

The CalChamber encourages employers to share this information with their employees. Businesses are within their rights to do so—just remember: NO PAYCHECK STUFFERS, no coercion, no rewarding or punishing employees (or threatening to do so) for their political activities or beliefs.

For more guidelines on political communications to employees, see the brochure at ***www.calchamber.com/guidelines***. Note the distinction between *internal* communications (to employees, stockholders and their families) and communications to *external* audiences (such as non-stockholder retirees, outside vendors, customers and passersby).

For more information on the ballot measures, see the link listed below or visit the website of the secretary of state at ***www.sos.ca.gov***.

Proposition 18

SUPPORT

Safe, Clean and Reliable Drinking Water Supply Act of 2010.

Moved to 2012 Ballot.

Proposition 19

OPPOSE

Legalizes Marijuana Under California But Not Federal Law. Permits Local Governments to Regulate and Tax Commercial Production, Distribution and Sale of Marijuana. Initiative Statute. Allows people 21 years or older to possess, cultivate or transport marijuana for personal use. Limits employers' ability to address marijuana use.

Placed on Ballot By: Petition signatures.

Reasons for Position

The measure would create a legal quagmire for employers by significantly undermining the ability of employers to protect the safety of all employees in the workplace and establishing a new class of protected workers in the state. If this measure is approved, employers, including the State of California, would be faced with the burden of proving that an employee who tests positive for marijuana is "actually impaired" from performing the job before taking any adverse action against the employee. The lack of a clear definition would force a delay in disciplinary actions used to protect workplace safety and drive up costs due to increased litigation.

In addition, the act threatens state and federal contracts and grants. If passed, this initiative could result in employers losing public contracts and grants because they could no longer effectively enforce the drug-free workplace requirements outlined by the federal government.

More Information

www.noonproposition19.com.

Proposition 20

SUPPORT

Redistricting of Congressional Districts. Initiative Constitutional Amendment.
Removes elected representatives from the process of establishing congressional districts and transfers that authority to the recently authorized 14-member redistricting commission made up of Democrats, Republicans and voters registered with neither party.

Placed on Ballot By: Petition signatures.

Reasons for Position

The measure is a critically important part of election reform, helping to make the congressional redistricting process more open, fair and transparent in addition to increasing competition in elections. This proposed act extends the successful Proposition 11 provisions from 2008 to give the Citizens Redistricting Commission the additional authority to draw new boundaries for U.S. congressional districts in 2011.

Currently, there are 53 congressional districts in California—34 Democrat members and 19 Republican members. Only one seat has changed parties over the last decade when Democrat Jerry McNerney defeated Republican Richard Pombo in the 11th Congressional District in 2006.

More Information
www.yesprop20.org.

Proposition 21

No Position

Establishes $18 Annual Vehicle License Surcharge to Help Fund State Parks and Wildlife Programs. Grants Surcharged Vehicles Free Admission to All State Parks. Initiative Statute.
Requires deposit of surcharge revenue in a new trust fund and requires that trust funds be used solely to operate, maintain and repair state parks and to protect wildlife and natural resources. Exempts commercial vehicles, trailers and trailer coaches from the surcharge. Requires annual audit by State Auditor and review by a citizens oversight committee.

Placed on Ballot By: Petition signatures.
Ballot Arguments For

California's state parks and beaches are in peril. Proposition 21 provides an immediately needed and dedicated funding source that will prevent the shutdown of parks and beaches.

It protects economic benefits to California from parks-related tourism and prohibits raiding of the funds.
www.yesforstateparks.com

Ballot Arguments Against

Proposition 21 is ballot box budgeting that will increase the car tax and enable politicians to divert money for other spending. There is no guarantee that state park funding will actually increase.
www.voteno21.com.

Proposition 22

SUPPORT

Prohibits the State from Borrowing or Taking Funds Used for Transportation, Redevelopment or Local Government Projects and Services. Initiative Constitutional Amendment.
Prohibits the state, even during a severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment or local government projects and services.

Placed on Ballot By: Petition signatures.

Reasons for Position

The measure protects investments in transportation projects that help generate economic activity and create jobs and keeps the state from relying on short-term borrowing to fund continued deficit spending.

This proposed initiative revokes the state's ability to borrow from local government property tax funds currently authorized by Proposition 1A of 2004 and prohibits the state from borrowing Proposition 42 funds (gas tax), which voters have dedicated to transportation and mass transit. In addition, the measure further prevents the state from redirecting or borrowing from sources of other funds established to pay for public transit and transportation projects.

More Information
www.savelocalservices.com.

Proposition 23

No Position

Suspends Implementation of Air Pollution Control Law (AB 32) Requiring Major Sources of Emissions to Report and Reduce Greenhouse Gas Emissions That Cause Global Warming, Until Unemployment Drops to 5.5 Percent or Less for Full Year. Initiative Statute. Suspends state law that requires greenhouse gas emissions be reduced to 1990 levels by 2020 until California unemployment drops to 5.5 percent or less for four consecutive quarters. Suspends comprehensive greenhouse gas reduction program that includes increased renewable energy and cleaner fuel requirements, and mandatory emissions reporting and fee requirements for major emission sources, such as power plants and oil refineries.

Placed on Ballot By: Petition signatures.

Ballot Arguments For:

Proposition 23 suspends AB 32 until the economy improves. It will save billions in higher energy taxes and costs and save jobs, while preserving California's environmental protection laws.
www.yeson23.com

Ballot Arguments Against

Texas oil companies designed Proposition 23 to kill California clean energy and air pollution standards. It jeopardizes jobs created by clean energy companies. It threatens public health with more air pollution and increases dependence on foreign oil.
factson23.com

Proposition 24

OPPOSE

Repeals Recent Legislation That Would Allow Businesses to Lower Their Tax Liability. Initiative Statute.
Repeals recent legislation that would: allow businesses to shift operating losses to prior tax years and that would extend the period permitted to shift operating losses to future tax years; allow corporations to share tax credits with affiliated corporations; and allow multistate businesses to use a sales-based income calculation rather than a combination property-, payroll- and sales-based income calculation.

Placed on Ballot By: Petition signatures.

Reasons for Position

The measure repeals recently enacted tax benefits, the elective single sales factor, net operating loss (NOL) carryback, and tax credit sharing. It also repeals the recently enacted expansion of the NOL carryover from 10 to 20 years.

More Information

***www.stopprop24.com*.**

Proposition 25

OPPOSE

Changes Legislative Vote Requirement to Pass Budget and Budget-Related Legislation From Two-Thirds to a Simple Majority. Retains Two-Thirds Vote Requirement for Taxes. Initiative Constitutional Amendment.
In addition to changing the legislative vote requirement to pass the budget and spending bills related to the budget from two-thirds to a simple majority, provides that legislators will permanently forfeit daily reimbursement for salary and expenses until budget bill passes.

Placed on Ballot By: Petition signatures.

Reasons for Position

This proposed measure will give the majority party too much power and eliminate the option of referendum for fees or fee increases that are part of a budget appropriation.

The measure exempts the budget bill and other bills providing for appropriations related to the budget bill from the existing two-thirds vote requirement, and provides that those take effect immediately.

More Information

***www.no25yes26.com*.**

Proposition 26

SUPPORT

Requires That Certain State and Local Fees Be Approved By Two-Thirds Vote. Fees Include Those That Address Adverse Impacts on Society or the Environment Caused by the Fee-Payer's Business. Initiative Constitutional Amendment.
Requires that certain state fees be approved by two-thirds vote of the Legislature and certain local fees be approved by two-thirds of the voters. Increases legislative vote requirement to two-thirds for certain tax measures, including those that do not result in a net increase in revenue, currently subject to majority vote.

Placed on Ballot By: Petition signatures.

Reasons for Position

The measure closes a loophole in the law that allows the Legislature to raise, by a majority vote rather than the required two-thirds vote, taxes on products and services simply by calling them "fees" instead of "taxes."

Hidden taxes and fees work against job creation, driving businesses out of our state and forcing many small businesses to close.

More Information
www.no25yes26.com.

Proposition 27

OPPOSE

Eliminates State Commission on Redistricting. Consolidates Authority for Redistricting with Elected Representatives. Initiative Constitutional Amendment and Statute.
Eliminates 14-member redistricting commission. Consolidates authority for establishing state Assembly, Senate and Board of Equalization district boundaries with elected state representatives responsible for drawing congressional districts.

Placed on Ballot By: Petition signatures.

Reasons for Position

This initiative overturns the California Voters First Act reform (Proposition 11 of 2008), which the CalChamber supported. Proposition 11 allows the voters to select their elected representatives.

The CalChamber believes California cannot afford to return to a system where the politicians select their voters. Although Proposition 11 is not popular with politicians, it is strongly supported by a bipartisan coalition of consumer, senior, public interest, taxpayer, community and business groups.

More Information
***www.noprop27.org*.**

CalChamber Positions on November Ballot Propositions

Proposition	Subject	Position
Proposition 18	Safe, Clean and Reliable Drinking Water Supply Act of 2010	Moved to 2012 ballot
Proposition 19	Regulate, Control and Tax Cannabis Act of 2010	Oppose
Proposition 20	Redistricting of Congressional Districts—Voters FIRST Act for Congress	Support
Proposition 21	$18 Vehicle License Surcharge to Help Fund State Parks/Wildlife Programs	No Position
Proposition 22	Local Taxpayer, Public Safety and Transportation Protection Act	Support
Proposition 23	Suspends Implementation of Air Pollution Control Law (AB 32)	No Position
Proposition 24	Repeal Corporate Tax Loopholes Act	Oppose
Proposition 25	On Time Budget Act of 2010	Oppose
Proposition 26	Stop Hidden Taxes Initiative	Support
Proposition 27	Eliminates State Commission on Redistricting	Oppose

U.S. Upturn Continues; California Economy Still Weak, But Signs Pointing Upward

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 second quarter came in at a +2.4 percent annual rate, after a +3.7 percent uptick in the first quarter.

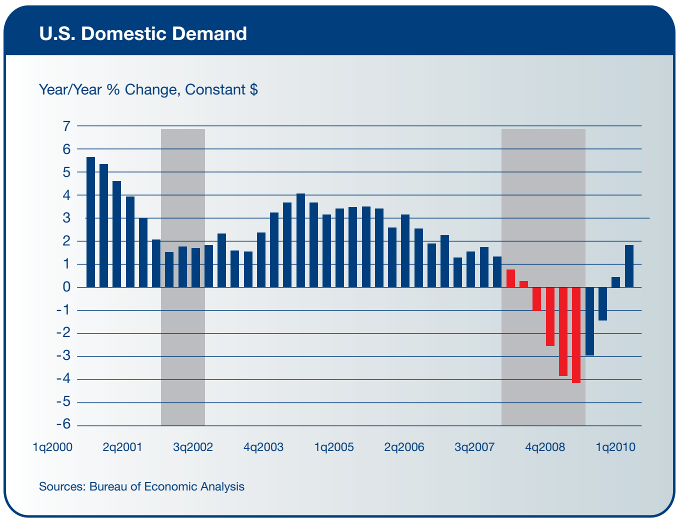
Progress was widespread in the second quarter, even though the growth rate eased. Business investment in plant, equipment and software, exports, consumer spending, federal government spending, residential investment, even state/local spending all increased. Collectively they contributed +5.4 percentage points to second-quarter GDP growth.

Private-sector inventories actually grew by $76 billion last quarter, which had the effect of adding +1.0 percentage point to the economy's growth rate. On the downside, however, imports soared, slicing -4.0 percentage points from GDP growth in the second 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 up by +1.8 percent last quarter compared with second quarter 2009. This increase was the largest since mid 2007 and marks the economy's continued improvement after a very deep downturn.

Mixed News

Other economic news has been more mixed. After declining for nearly two years, non-farm payroll employment across the nation has turned up in 2010, rising by 261,000 jobs during the first quarter and by 524,000 more jobs during the second. Even so, because the recessionary losses were so severe, the net cumulative loss in employment from December 2007 to June 2010 was -7.6 million jobs.



The biggest job losses were in manufacturing, construction, professional and business services and retail trade. These four sectors together accounted for about 85 percent of the drop-off in total employment. Meanwhile, the nation's unemployment rate, which peaked at 10 percent in fourth quarter 2009, edged down only to 9.5 percent by June 2010.

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

Favorable Trend

In a bit of positive news, recent trends on the inflation front have continued generally favorable outside of energy. Excluding food and energy, consumer inflation rates are running around 1 percent. Crude oil prices, while volatile, have fluctuated in the $75-$85/barrel range lately, but averaged around $60/barrel in second quarter 2009. In California, regular gasoline is hovering around $3.10/gallon, up a bit from the first quarter.

Caution

As incoming monthly information becomes more mixed in tone, concerns have grown about the nature of the recovery. The CalChamber Economic Advisory Council applauds the improvement in economic activity but remains wary about the fundamental strength of the economy once the impacts of expansionary monetary policy and federal stimulus programs begin to wind down.

In addition, other recoveries in the past were slowed by financial industry restructuring. Some caution still seems appropriate.

Interest Rates and Financial Markets

The Federal Reserve's main concern continues to be low levels of resource utilization (i.e., high unemployment rates and low capacity utilization). Currently, the economy threatens to grow more slowly than previously expected. With inflation at minimal levels, the Federal Open Market Committee (FOMC) shows no inclination to raise short-term rates from current rock-bottom levels.

At its August meeting, the FOMC decided to tackle long-term interest rates by recycling principal repayments from its huge mortgage-backed securities portfolio into long-term U.S. Treasury securities. This would maintain its current securities portfolio at or near the current level of $2.05 trillion. Long-term interest rates, already low, sank even further in response to the news.

Meanwhile, with corporate bond spreads quite narrow, firms with both high and low credit ratings have rushed to issue large volumes of new debt. Also, more and more homeowners—at least those with good credit and equity in their homes—are refinancing mortgages.

Outside of the capital markets, however, credit conditions for less-than-prime-quality households and small to mid-size business firms still remain tight. Many firms face strict credit quality constraints when they apply for new or renewal business loans from commercial banks.

A large number of locally oriented and community banks are wrestling with

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delinquency problems and consequently are reluctant to take on additional risks. It's no surprise that commercial banks' loan balances continue to decrease.

The Advisory Council's prognosis: The capital markets have improved significantly, but it remains unclear when the central bank will be able to return to traditional policymaking.

California Economy Still Weak But Signs Point Up

California's economy has seen a few more positive signs during the past quarter. The state lost an estimated 1.4 million farm and non-farm jobs during 2008 and 2009, a most distressing figure.

The upturn to date in 2010 has been modest at best. About 56,000 new jobs appeared between December 2009 and March 2010, and 9,300 more jobs were added between March and June.

California's unemployment rate was 12.4 percent during second quarter 2010, compared with 11.3 percent a year earlier. Joblessness has been at or above 12.0 percent since August 2009; these rates were the highest since before World War II.

Personal Income Uptick

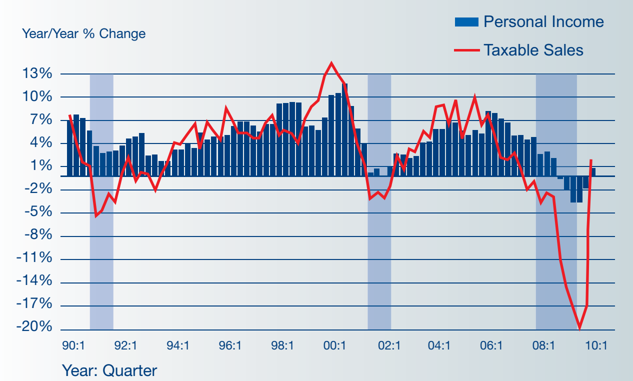
Other broad-based indicators paint a somewhat less gloomy picture. Personal income earned in California increased by 0.8 percent during first quarter 2010 compared to first quarter 2009 (latest data available). While a modest increase, this marked the first uptick in personal income since third quarter 2008. Problems in the state's manufacturing, construction and real estate sectors accounted for much of the drag on the state's earnings growth.

On the plus side, personal income grew in the extractive industries (forestry, fishing, mining), farming, the military and private education. [Note that the personal income figures are subject to revision.]

Taxable sales sagged during the recession, plunging by about -15 percent during 2009. However, it appears the year-to-year comparison turned positive during the first quarter 2010, a sign of progress.

Though data are still sketchy, sales declines during the 2008–2009 recession were most severe for California's motor vehicle dealers, furniture stores and building materials dealers. Automotive, however, has led the 2010 upturn to date, with sales through May up about 18 percent over the first five months of 2009.

California Personal Income and Taxable Sales



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

Tax Receipts

Reflecting the changing economic momentum, tax receipts came into the General Fund a little better than expected during the latter part of fiscal year 2010 (ended June 2010). This meant the General Fund closed the year about $9.9 billion in the red, $2 billion less than a year earlier.

The state still faces a huge budget gap in the current fiscal year, however, estimated at $19.9 billion in the Governor's May Revision (including the Fiscal Year 2010 gap). Discussions are under way in Sacramento seeking the least painful ways to close the gap, but so far, no solutions are visible that can obtain the necessary votes in the Legislature. Caution about the budget situation still seems to be warranted.

While employment may have reached bottom in California, the state still lost a total of -204,800 non-farm jobs over the 12 months to June, with many industries reporting negative results. The five sectors recording year-over gains included the federal government, administrative services, private educational services, health care services and information.

Job counts fell in all other major sectors. Employment declined the most in California's construction, state and local government, wholesales trade, manufacturing, retail trade, and leisure and hospitality sectors.

International Trade

International trade has picked up strongly in 2010. Exports of goods made in California increased by +23.5 percent in the second quarter of 2010 compared with the second quarter of last year. The largest category of exports—high tech manufactures (computers, peripherals and so forth)—rose by 23.3 percent in dollar terms.

Exports of California's second largest export commodity—non-electrical machinery—advanced by 34.4 percent. Also, exports of chemicals climbed by 27.4 percent, while miscellaneous manufactures jumped by 31.6 percent versus the same quarter last year.

Exports of California-grown agricultural products (farm produce, livestock and beverages) rose by 16.1 percent over the year. Exports of transportation equipment experienced the smallest gain (at 7.5 percent) of the state's top five export commodities.

All of the state's major metro areas continued to report year-to-year losses in non-farm employment, though with smaller rates of declines than in previous quarters.

Employment

Job losses were moderate in two areas of the Central Valley—Bakersfield (-1.0 percent) and Stockton (-1.1 percent), followed by Fresno, Modesto and Sacramento (at -1.7 percent, -1.8 percent, and -2.6 percent respectively).

The five Southern California metro areas were widely scattered, with Orange County (-0.2 percent) recording the best performance and Riverside-San Bernardino (-2.8 percent) the worst. Bay Area performance ranged from San Jose (at -0.8 percent) to Oakland Metropolitan Statistical Area (reporting -3.0 percent, lowest in the state).

Bay Area employment changed little overall during the second quarter compared with the previous quarter, as job

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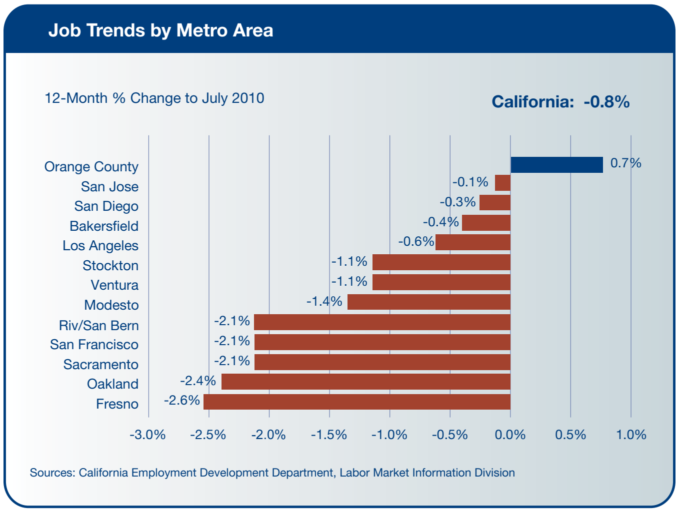
losses in the San Francisco and Oakland areas were mostly offset by rising employment in the San Jose metro area (using seasonally adjusted figures for all areas). Compared with last year, construction activity has fallen around the Bay, with job counts down by -10 percent (San Francisco area) to -11 percent (East Bay and San Jose area). Manufacturing job losses were still a problem in the Oakland area but much smaller in San Jose, with some growth in high tech. [*Chart reflects most recent statistics.*]



In the San Francisco area, travel and tourism indicators look better this year, with higher passenger traffic through San Francisco International Airport and increased hotel occupancies, though room rates continued to fall. Demand for temporary employees also has turned up throughout the Bay Area, an early signal of economic recovery. However, local schools and governments have reduced employee counts.

Non-farm employment increased across Southern California during the second quarter (on a seasonally adjusted basis) except in Riverside-San Bernardino, where non-farm job counts were nearly even with the first quarter. Compared with 2009, the downturns were most pronounced in construction and manufacturing, combined with some government losses and retail industry distress.

International trade flows through the area's ports have turned up strongly, with both exports and imports on the rise. The change has impacted not just the ports themselves but also the transportation network, and the wholesale trade and the distribution centers of Los Angeles, Orange County and the Inland Empire.

The region's entertainment sector looks markedly better this year, with local filming activity on the rise. Domestic and international box office receipts for films have 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, and more commercials are being developed.

The Southern California tourism sector also is making progress, with hotel occupancies up (though room rates are still down) and visitor counts on the rise. Aerospace firms are stable for the moment. New Department of Defense proposals for fiscal year 2011 include declines in several procurement budgets of regional interest, however, which could have a mixed-to-negative impact on the region's key aerospace industry. Also, state/local government employment is falling due to the tight budget situation.

Agriculture and Resources

California's agriculture sector is improving in 2010 after a difficult 2009. Prices of several products have risen, including dairy, nuts and tree fruits except peaches. Demand for premium California grapes continues to be soft. California-grown agricultural exports increased by +16 percent in the first six months of 2010 compared with 2009. Feed costs are rising again, driven by higher wheat prices. Water availability for California farms is better this year after severe shortages last year.

Though the situation eased this year, water continues to be a concern in California. Precipitation was decent in 2010, and runoff was nearly normal after a string of dry years. Storage levels have recovered at many in-state reservoirs, though reservoirs along the Colorado River are still at very low levels.

The State Water Project and the Central Valley Project both increased water deliveries in 2010. The supply of water that must transit the Delta, however, is still at risk due to actual and threatened pumping cutbacks to protect native species of fish. These problems won't be solved soon, as a package of $11.8 billion in new water bonds was just removed from the November 2010 ballot.

The supply of electricity in California should be more than adequate in the near-term, as capacity has grown in the last two years and industrial demand will take some time to recover from the recession. Electricity prices should be moving down in the next year, as many of the power contracts signed by the state during the energy crisis are unwinding.

However, the state's utilities face increased costs associated with mandated investments to reduce their environmental footprints and to improve their distribution networks. This suggests prices will be stable at best, and could even rise.

Real Estate and Construction

Existing home sales in California have been quite healthy since late 2008, though sales dropped below the 500,000 transactions pace (annual rate) in April and June 2010. Here are some recent statistics for the state's re-sale home market:

- Existing single-family home sales in California decreased by -4.2 percent over the year to June 2010, while condo sales were up by +8.3 percent.
- Prices have risen from early 2009 levels in most areas of the state. Statewide, the median price of single-family homes sold in June 2010 (at $311,950) was up by +13.6 percent compared with June 2009.
- The number of homes available for sale represented 4.8 months supply (at June's sales rate) compared with 4.2 months a year earlier.

The housing market's performance in the second quarter reflected a number of forces. Mortgage rates continued to be relatively low, despite the March cessation

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of the Federal Reserve's purchase program in the secondary mortgage market. The federal government's temporary tax credits encouraged would-be homebuyers to act by the end of April. A limited amount of state incentives also were available.

At current transaction prices, many home sales in California fall inside the government housing agencies' conforming loan limits (up to $729,750 in 2009), which increases the availability of mortgage loans to well-qualified buyers. The tax incentives apparently pulled a number of purchases forward in time, however, as home sales declined markedly in many areas after the incentives expired.

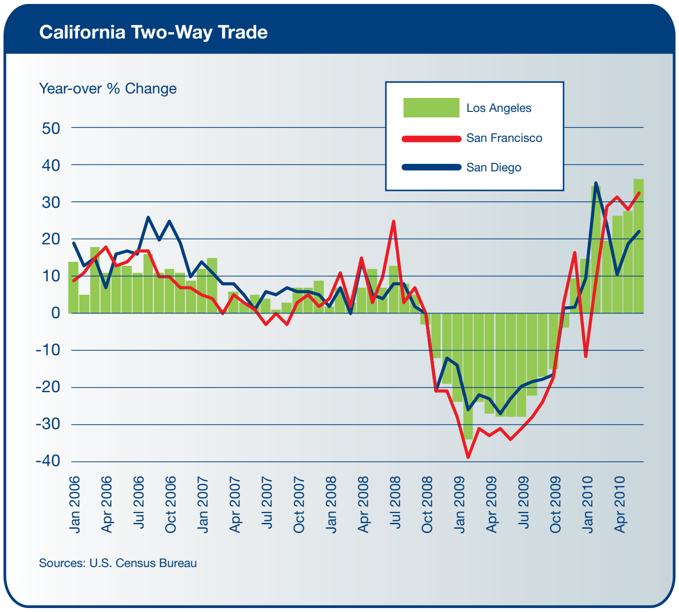
Home Sales: Uncertain

The outlook for home sales is uncertain. Demand for homes is faltering in the near-term. On the supply side, mortgage foreclosures have continued high, though defaults appear to have peaked. The volume of distressed homes seems unlikely to shrink much. The big question is when lenders will bring these homes onto the market and in what volumes. Significant further improvements in the pace of sales seem unlikely until the economy—and buyers' confidence—begins to revive more strongly.

Residential construction continued at very low levels across the state during second quarter 2010. Though activity was 8 percent higher than in second quarter 2009, the previous two quarters had been elevated by builders' efforts to attract first-time buyers using federal tax credits.

Total housing permits were issued at a preliminary annual rate of 38,700 units during second quarter 2010, down from 44,200 units (annual rate) in the first quarter and 40,300 units in fourth quarter 2009. Single-family permits at 23,800 units (annual rate) were at the lowest levels since early 2009, the cycle low point. Meanwhile, multi-family permits surged by +58 percent above their cycle low (reached in second quarter 2009).

The overall improvement seen thus far in 2010 is certainly welcome. However, the current construction pace represents a drastic decline of -83 percent from the peak permit level of 2004.



The near-term outlook for new home construction is just as uncertain as that for existing homes. Tax credits have expired, and builders must work through any excess inventory that remains unsold. The more optimistic industry observers don't expect a significant upturn in new home construction before next year, while the pessimists worry that substantial improvement might take several years.

Commercial Real Estate

California's commercial real estate markets declined drastically during the recession. Vacancy rates increased, asking rents dropped and external development funding virtually disappeared. The situation was most problematic for retail, office and industrial space. With most lenders unwilling to commit new funds for commercial real estate development, construction of new commercial space plunged. In 2010, transactions have turned up though the level of activity remains muted compared to the pre-recession period.

Demand for office space continued to be slow in the second quarter, reflecting weak employment trends in office-based industries. Many firms remain reluctant to hire new workers and are vacating or subleasing excess space.

Most California metro areas recorded negative net absorption of office space in the second quarter, though the shortfalls were smaller than during 2009, and office vacancy rates continued elevated.

- In the Inland Empire, office vacancy rates ebbed to 23.7 percent from 24 percent the previous quarter.
- Orange County's vacancy rate edged up to 21 percent in the second quarter of 2010 from 20.8 percent.
- In San Diego County, the average office vacancy rate was 20.3 percent in the second quarter of 2010, just above Sacramento's 20.2 percent rate.
- Silicon Valley held steady at a vacancy rate of 18.6 percent, while the San Francisco rate increased to 18.3 percent from 17.6 percent.
- Los Angeles recorded a 16.6 percent rate for the second quarter in a row.
- In Oakland, the rate fell to 16.5 percent in the second quarter of 2010.
- Meanwhile, in Ventura County, the rate edged up to 16 percent (first quarter 2010, latest data available) after three quarters of decline.

Unsurprisingly, rents continue to weaken in all locations. Though the office construction pipeline has nearly run dry, vacancies in most areas will likely continue high until employment turns up more strongly.

Industrial vacancy rates also continued high during the second quarter, showing little change except in the East Bay and Silicon Valley. The lowest vacancy rates were in Los Angeles County, at 3.3 percent, followed by the East Bay, at 5.3 percent, and Orange County, at 6.9 percent. Vacancy rates were highest in San Jose (15.8 percent), San Diego (12.4 percent), Sacramento (11.8 percent) and the Inland Empire (11.5 percent). Here too, space rental rates were on the decline in most areas.

The total value of non-residential building permits in California dropped by -2.8 percent during first-half 2010 compared with the same period in 2009. However, permits for office buildings increased by

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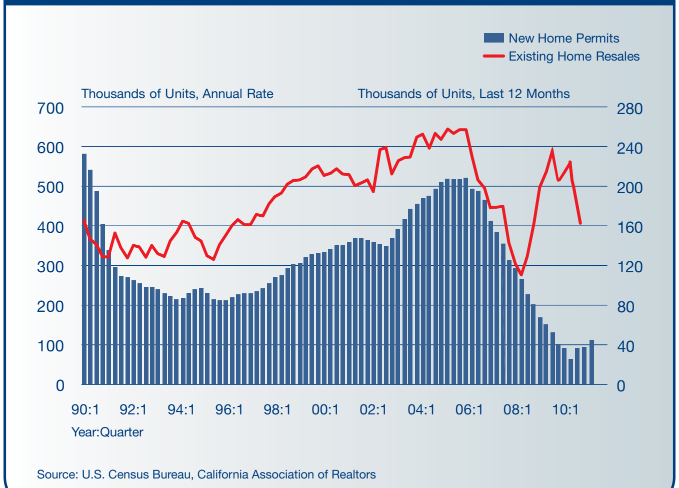
+35 percent, while the value of industrial permits was up by +21 percent.

In both cases, the level of activity was still very low, with industrial permit value -67 percent beneath the level of first half 2008 and the value of office permits down by -72 percent.

Several major metropolitan areas posted significant gains in total non-residential permit activity during the first six months of 2010 compared with the same period last year: San Francisco (+19.2 percent), Oakland (+17.8 percent), the Inland Empire (+3.2 percent), and Los Angeles (+1.7 percent). Lagging behind were Sacramento (-31.7 percent), San Jose (-15.5 percent) and San Diego (-11 percent).

It continues to be difficult to obtain financing for most types of commercial real estate projects, so owner-financed projects will account for a larger share of activity than normal this year. Traditional investors are just beginning to show more interest and could become more visible later in the year—assuming the economic recovery remains intact. Nonetheless, non-residential permit values are expected to continue at relatively low levels through 2010.

California Housing Market



Source: U.S. Census Bureau, California Association of Realtors

Risks

Risks appear to be about even, though the downside issues certainly receive more attention. The economy has just passed the bottom of a serious, lengthy recession, and the level of activity is still low. Uncertainty is high because we do not know yet what the recovery will look like. Hence, the ongoing discussions about the "shape" of the recovery (V? W? L?) and related concerns.

One key event 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 of their efforts are clear, markets are still fragile and easily upset. Further instability in capital markets could spill over into the real economy if money-center banks cut back even more on lending to businesses and consumers.

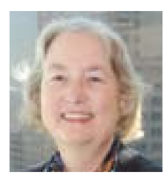
Another identifiable risk concerns the state's still-troubled housing industry. Home sales have slowed markedly now that most federal government support has been withdrawn. We simply don't know how long the slowdown will last or if the industry—already weakened after several bad years—will be strong 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.

And yet the economy is definitely stirring. 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 increase in their sales. Attitudes have not improved as much as revenues, but they might.

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.

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