ALERT

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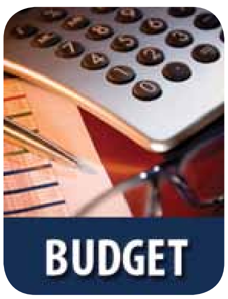
CALIFORNIA CHAMBER OF COMMERCE

Governor Vetoes Budget; Seeks 'Balanced Solution'



The day after the California Legislature approved the 2011–12 state budget by a majority vote, Governor Jerry Brown vetoed the budget, saying it is not "a balanced solution" and calling a balanced budget "critical to our economic recovery."

In his veto message, the Governor criticized the budget for continuing "big deficits for years to come," adding billions of dollars of new debt, containing "legally questionable maneuvers, costly borrowing and unrealistic savings."

"Governor Brown's budget veto today provides an opportunity for legislators to pass a comprehensive budget solution that will provide the certainty California needs to attract jobs and new business investment," said California Chamber of Commerce President and CEO Allan Zaremberg in a June 16 statement.

"We will continue to actively work with the Legislature and the Governor to find the sweet spot that will provide appropriate levels of funding for critical programs like K-12, higher education and the courts while still living within our means. I'm confident that it can be done.

"As reasons for his veto, the Governor identified additional deficits and unrealistic savings. A bipartisan solution that remedies his concerns will provide a budget that truly improves our economy and job climate and resolves this crisis once and for all."

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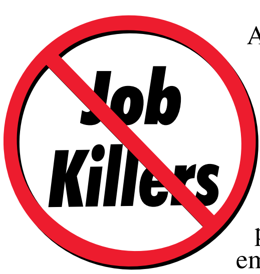
Costly Employee Retention Mandate Set for Senate Policy Committee Hearing



A California Chamber of Commerce-**opposed** bill that unfairly forces employers to hire a predecessor's employees, undermines the at-will employment presumption in California, and ensures continued union representation, despite any change in employers, is scheduled to be considered by a Senate policy committee on June 22.

AB 350 (Solorio; D-Anaheim), a "job killer" bill, inappropriately alters the employment relationship by requiring any successor contractor for "property services," defined as building maintenance services, licensed security, landscape, window cleaning or food cafeteria services, to retain employees of the former contractor for 90 days and thereafter offer continued employment unless the employees' performance during the 90-day period was unsatisfactory.

A Los Angeles ordinance similar to AB 350 has been challenged, in part, on the grounds that it is pre-empted by the

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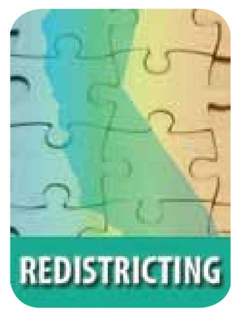
CalChamber Urges Businesses to Comment on Draft Redistricting Maps



The California Chamber of Commerce is encouraging businesses to get involved in the public review process of the recently released first draft redistricting maps.

The Citizens Redistricting Commission (CRC) released first draft maps of the Assembly, Senate, Congressional and Board of Equalization districts on June 10.

The CalChamber has enhanced the commission maps to include political and voting history data for each district. The first draft maps can be viewed on the CalChamber website at ***www.calchamber.com/redistricting***. Tips on providing testimony and the criteria for fair redistricting also are available.

Redistricting Commission

The commission was established when voters approved Proposition 11, the Voters First Act redistricting reform initiative in November 2008. The CalChamber-supported measure allows the citizens of California—rather than the legislators—to draw legislative districts, thereby eliminating the conflict of interest

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Inside

Labor Law Corner

Holiday Doesn't Count as Day Worked When Calculating Overtime Pay

Dale Louton
HR Adviser

What is the requirement regarding overtime pay for my company when there is a paid holiday on Monday and employees are required to work 8 hours per day Tuesday through Friday, plus Saturday? Is Monday counted as a day worked for the purpose of calculating the 40 hours and thus Saturday hours should be paid at the overtime rate?

No. In this example, Saturday is not an overtime day. Premium pay is based on hours worked. Your employees did not work on Monday, but simply observed a holiday by having the day off with pay.

Hours Worked

Under the basic definition set out in the Industrial Welfare Commission orders, "hours worked" means the time during which an employee is subject to the control of any employer, and includes all the time the employee is suffered or permitted to work, whether or not required to do so.

Where it is determined that the employee's time is subject to the control of the employer, the time constitutes "hours worked."

An employee off on holiday with or without pay is not working and the time does not count toward premium pay. This also holds true for an employee not working, but receiving vacation pay, paid time off or paid sick leave.

Overtime Pay

Section 3 of the Wage Orders contains the overtime provisions. In brief, what is required is one-and-a-half times the regular rate of pay for "hours worked" in excess of 8 hours per day. There are other requirements, such as time-and-a-half over 40, double-time over 12 hours in a day and the seventh day rule.

The "hours worked" definition and the overtime requirements in the Wage Orders confirm that holiday pay is not "hours worked." Thus, the overtime calculation does not include the holiday hours.

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

Economist Online Franchise Fair. The Economist. June 28–29, Webinar. (212) 541-0565.

9th Annual Workers' Compensation Conference. California Coalition on Workers' Compensation. July 20–22, Anaheim. (916) 441-4111.

International Trade

India Trade Conference. Port of Los Angeles, Network of Indian Professionals, U.S. Commercial Service, Quanta Consulting, Inc. June 23, Los Angeles. (949) 480-9466.

Global California Conference. Monterey Bay International Trade Association. June 23, Los Angeles. (831) 335-4780.

Russian American Pacific Partnership. July 13–14, Kamchatskiy Territory, Russia.

International Traffic in Arms (ITAR) Export Compliance Training. El Camino Center for International Trade Development. July 14, Hawthorne. (310) 973-3173.

Food/Beverage Show. Exhibition Management Services. July 17–19, Johannesburg, South Africa.

Harmonized Tariff Schedule (HTS) Revision Seminar. El Camino Center for International Trade Development. July 19, Hawthorne. (310) 973-3173.

U.S. Customs Broker Prep Course. El Camino Center for International Trade Development. July 19, Hawthorne. (310) 973-3173.

Export Tax Break/Interest Charge-Domestic International Sales Corporation Webinar. El Camino Center for International Trade Development. July 26, Webinar. (310) 973-3173.

Understanding Antidumping and Countervailing Duties. Women in International Trade. August 17, Torrance. (800) 514-6407.

Trade Mission to South Africa. U.S. Chamber of Commerce. September 19–23, South Africa. (202) 482-5496.

Cargo Loss: Natural Disasters and Piracy Theft. Women in International Trade.

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Speakers Cite Jobs Benefits of Trade Pact, But Committee Fails to Approve Resolution

Michelle Steel, vice chair of the state Board of Equalization, testified in support of a resolution that aims to promote trade and produce jobs in California on June 13.

SJR 4 (Harman; R-Huntington Beach), a California Chamber of Commerce-**supported** "job creator" proposal, asks Congress to approve the U.S.-South Korea Free Trade Agreement (FTA), which would lower tariffs and increase trade between the two countries.

CalChamber policy advocate Thomas Vu also testified in support of SJR 4.

Photo by Megan Wood

CalChamber Policy Advocate Thomas Vu (right) joins Michelle Steel (left), vice chair of the state Board of Equalization, in urging a Senate committee to adopt a Senate joint resolution by Senator Tom Harman (center) supporting the U.S.-Korea Free Trade Agreement.

Benefits to California

Steel urged the Senate Business, Professions and Economic Development Committee to pass the resolution, stressing that a U.S.-Korea FTA would especially benefit California as most of the trade activities between Korea and the United States would pass through the Los Angeles and Long Beach ports in Southern California.

"This FTA will benefit Californians first and foremost. This will ensure all Californians have access and can better participate in the global market," Steel said.

The resolution points out that an FTA with South Korea has the potential to create 70,000 new jobs in the United States, while failure to enact the agreement would lead to the loss of more than 350,000 jobs due to bilateral trade agreements that Canada and the European Union have enacted with Korea.

Specifically, the U.S.-Korea FTA would benefit the farm, garment, rail, trucking and pharmaceutical industries in California, Steel said.

California's exports of nearly $2 billion in computer and electronic products will become more competitive and affordable with the immediate removal of related tariffs.

Korea is the fifth largest export market for California goods, bringing $8 billion in trade per year into the state's economy.

In addition, according to the U.S. Food and Agriculture Department, Korean duties on major California agricultural products—such as almonds, pistachios, frozen orange juice, wine and raisins—will be eliminated immediately.

California companies will receive strengthened protections in Korea for intellectual property, including software, music, film, videos and text.

Beyond Economic Benefits

An FTA with Korea would "be a statement of liberty and solidarity between our countries," Steel said. "As a Korean American I know that the Republic of Korea is forever grateful for the sacrifice our United States military made during the Korean War by creating more jobs and increasing exports, and stimulating the economies of both countries," Steel said. "This FTA will only continue a long-standing friendship."

Elected to the Board of Equalization in 2006, Steel serves as the country's highest-ranking Korean American officeholder and California's highest-ranking Republican woman. She represents more than 8 million people in the BOE's Third District, which includes the counties of Imperial, Orange, Riverside, San Diego, and portions of Los Angeles and San Bernardino counties. In 2011, she was elected vice chair of the BOE.

CalChamber Position

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

New multilateral, sectoral and regional trade agreements ensure that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

More information is available at ***www.calchamber.com/korea***.

Key Vote

SJR 4 failed to pass Senate Business, Professions and Economic Development on June 13, 4-2. The bill will be reconsidered on June 20.

Ayes: Emmerson (R-Hemet), Price (D-Los Angeles), Walters (R-Laguna Niguel), Wyland (R-Escondido).

Noes: Corbett (D-San Leandro), Vargas (D-Golden Hill).

No vote recorded: Correa (D-Santa Ana), Hernandez (D-West Covina), Negrete McLeod (D-Chino).

Staff Contact: Susanne Stirling

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Draft Redistricting Maps: CalChamber Urges Businesses to Comment

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in the current system. This process makes California a national leader in redistricting reform.

The 2012 elections will be the first to reflect the redrawing of districts that will be in place through 2020.

In addition, due to CalChamber-supported and voter-approved Proposition 14, the top two open primary system starts in June 2012 and will create more competitive general elections to help elect more pro-jobs legislators.

Public Hearings

The commission will hold a series of public input hearings around the state to receive feedback on the first draft of the maps. The second draft will be released on July 7, with the final drafts on July 28 after receiving public testimony.

- The commission will also be accepting public comments by e-mail at *votersfirstact@crc.ca.gov*;
- By fax (916) 651-5711; and
- By mail to: Citizens Redistricting Commission, 901 P Street, Suite 154-A, Sacramento, CA 95814.

Hearing dates and locations are posted on the commission's website, ***www.wedrawthelines.ca.gov***.

Also available on the website is a two-minute video featuring all 14 commission members talking about the redistricting process for legislative and congressional districts and asking the public for help.

Criteria

Commissioners must consider several state and federal constitutional criteria when drafting district boundaries. Most important among the criteria are that districts must be approximately equal in population. Based on 2010 Census data released this year, this means each of the:

- 53 seats in Congress must have 702,904 persons;
- 40 Senate districts should have 931,349 persons;
- 80 Assembly districts should have 465,674 persons; and
- four Board of Equalization districts should have 9,313,489 persons.

At the federal level, the equal population requirement is quite strict. Congressional districts are unlikely to vary by more than 1%, plus or minus, in each district. At other levels, the standard is slightly more relaxed and variances up to 3% to 5% usually are acceptable, as long as the variance was not manipulated to favor one group over another.

The commission must vote on the maps no later than August 15. By law the proposed maps must be available for public review for 14 days before the final vote.

Staff Contact: Rob Lapsley

CalChamber Kicking Off Online Contributions to Reform Legislature

The California Chamber of Commerce non-partisan pro-business leadership fund (ChamberPAC) has kicked off a program to accept online contributions to reform the state Legislature.

Contributions to the fund will help the CalChamber continue its reforms of the California Legislature to elect more pro-jobs legislators.

Major reforms supported by the CalChamber and approved by California voters are starting to change the Sacramento political landscape by making newly elected legislators more accountable to voters:

- **Candidates will run in the new legislative and congressional districts drawn by citizens, not politicians.** CalChamber supported Proposition 11 to take the redrawing of political district boundaries away from legislators and put it in the hands of a Citizens Redistricting Commission. The 2012 elections will be the first to reflect the redrawing of districts that will be in place through 2020.
- **More voters are empowered to choose their representatives.** The top two candidates open primary system approved by voters with Proposition 14 starts in June 2012 and will create more competitive general elections to help elect more pro-jobs legislators.

The online contribution form for the non-partisan pro-business leadership fund is available at ***www.calchamber.com/leadership***.

CalChamber-Sponsored Seminars/Trade Shows

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September 21, Long Beach. (800) 514-6407.

Incoterms. Women in International Trade. October 19, Torrance. (800) 514-6407.

Labor Law

How to Conduct Effective Performance Evaluations. CalChamber. June 20, On Demand. (800) 331-8877.

How to Conduct Workplace Investigations. CalChamber. July 14, Webinar; July 25, On Demand. (800) 331-8877.

Determinig Independent Contractor Status. CalChamber. September 8, Webinar; September 19, On Demand. (800) 331-8877.

Exempt—When You've Properly Classified. CalChamber. On Demand. (800) 331-8877.

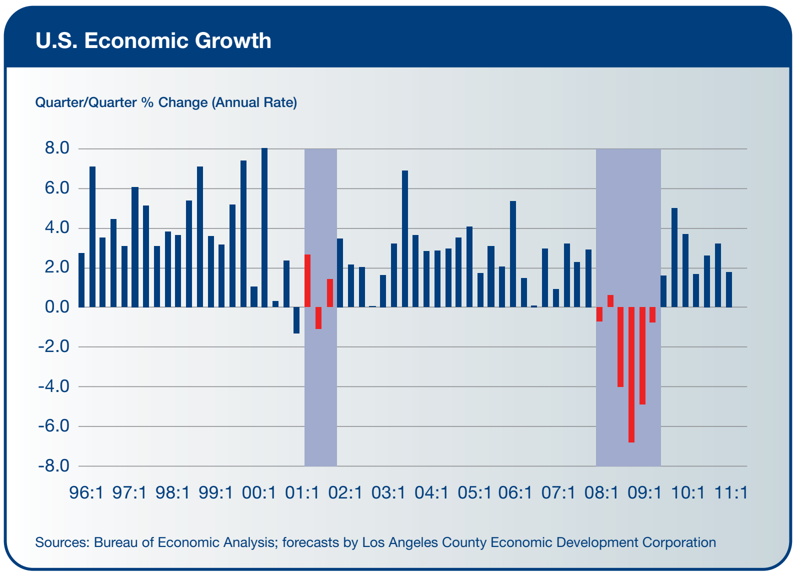
How to Hire Employees and Reduce Liability. CalChamber. On Demand. (800) 331-8877.

Workplace Safety

Heat Illness Prevention—How to Comply with New Rules. CalChamber. On Demand. (800) 331-8877.

Economy Past 2008–09 Recession Bottom; Level of Activity Still Not Visibly Higher

U.S. Economic Upturn Continues



Sources: Bureau of Economic Analysis; forecasts by Los Angeles County Economic Development Corporation

Many economic statistics for the nation improved during the first quarter of 2011. The government's initial estimate of gross domestic product (GDP) in the first quarter came in at a +1.7% annual rate, after a +3.1% uptick in the fourth quarter.

Progress was fairly widespread in the first quarter. Consumer spending, business inventory additions, business investment in equipment and software, and exports all increased. Collectively, these sectors contributed +4.2 percentage points to first-quarter GDP growth.

However, on the downside, federal, state and local government spending, business investment in non-residential structures, and residential investment all declined, while imports increased. Together, these changes reduced the first quarter growth rate by –2.5 percentage points.

Growth

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 +2.7% last quarter compared with +2.9% in fourth quarter 2010. These increases were the largest since early 2006 and marked the economy's sixth and seventh quarters of growth after six quarters of downturn.

Labor market conditions continued to improve during the first quarter. Non-farm payroll employment across the nation grew by +524,000 jobs after gaining +416,000 jobs during the fourth quarter. For the year that ended March 2011, non-farm employers added +1.346 million workers, an increase of +1%. Meanwhile, the nation's unemployment rate, which peaked at 10.1% in October 2009, fell to 8.8% in March 2011.

Consumers became a bit more optimistic during the first quarter, though concerns grew about rising gasoline and food prices.

Other economic indicators also recorded gains in the first quarter. Industrial production grew by +1.5% in the first quarter, faster than the fourth quarter pace of +0.8%. Similarly, the value of shipments by U.S. manufacturers accelerated, growing by +5.4% in the first quarter, marking the seventh consecutive quarterly increase. Growth in total retail and food service sales rose by +2.6% last quarter, following a strong +3% in the fourth quarter.

Recent trends on the inflation front have continued moderate, though rising energy and food prices are a growing concern. Excluding food and energy, the annual core consumer inflation rate edged up to +1.2% in March 2011, compared with annual increases mostly below the +1% mark in 2010.

However, including food and energy, the consumer inflation rate moved up to +2.7% in March, compared with earlier increases in the +1% to +1.5% range. Rising crude oil prices were the major problem. Always volatile, they rose to $103 a barrel range in March 2011, the highest level since third quarter 2008.

The average regular gasoline price in California increased to $4 a gallon in March, up from $3.30 a gallon three months earlier. Prices rose to $4.25 a gallon midway through second quarter 2011.

The U.S. economy recovered fully by fourth quarter 2010, as GDP surpassed the pre-recession peak. However, the recovery has been unbalanced, with residential and non-residential construction, and real estate well below pre-recession levels.

The CalChamber Economic Advisory Council applauds the continued improvement in national economic activity, though there remains some uncertainty, because the impacts of expansionary monetary policy and federal stimulus programs are winding down. As other recoveries in the past were slowed by financial industry restructuring, a bit of 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). While the incoming data show improvement (outside of housing and non-residential construction), the Reserve feels no need to raise short-term rates from current rock bottom levels, citing high unemployment and still-modest underlying inflation rates among other factors.

At its April meeting, the committee decided to complete its program of buying $600 billion in Treasury securities by June 2011 as planned, though it is keeping a wary eye on trends in commodity prices and inflationary expectations.

Long-term interest rates continued to

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Economy Past Recession Bottom; Activity Level Still Not Visibly Higher

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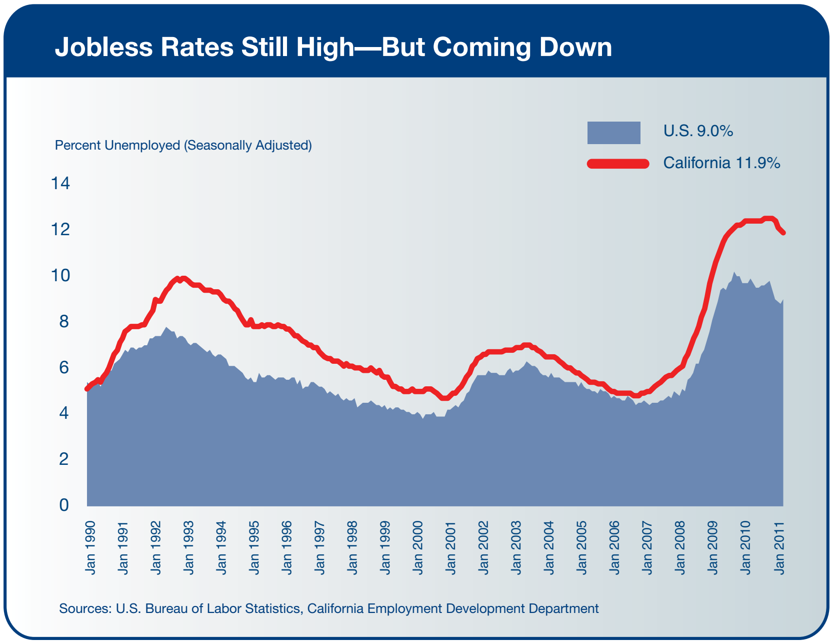
rise during the first quarter, though they were below rates a year earlier. Corporate bond rates followed suit and credit spreads to U.S. government securities narrowed.

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



Jobless Rates Still High—But Coming Down

Sources: U.S. Bureau of Labor Statistics, California Employment Development Department

A number of locally oriented and community banks are still wrestling with delinquency problems in real estate and elsewhere and consequently are reluctant to take on additional risks. Nationwide, commercial banks' residential lending dropped back in the first quarter after increasing slightly in the fourth quarter, and commercial real estate loan balances decreased yet again.

Meanwhile, commercial and industrial loans recorded modest growth for the second consecutive quarter. 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: Getting Better

California's economy also saw more positive signs in first quarter 2011. The state gained +92,400 farm and non-farm jobs last quarter, following a gain of +111,200 jobs in the fourth quarter. This was the largest two-quarter employment gain since 2000.

However, California's unemployment rate continued to be elevated, at 12% in March 2011, compared with 12.4% a year earlier. Joblessness has been at or above 12% since August 2009, the highest since before World War II.

Other Indicators

Other broad-based indicators paint an optimistic picture. Personal income earned in California increased by +3.3% during fourth quarter 2010 compared with fourth quarter 2009 (latest data available). This increase was the highest since second quarter 2008 and marked the fourth annual uptick in personal income following four quarters of decline.

The biggest contributors to personal income growth in 2010 were: professional, scientific and technical services; health care; information (especially the entertainment industry); business services; and manufacturing (durable goods). Problems in the state's construction, state/local government and financial sectors caused personal income to decline in those sectors. [Note that the personal income figures are subject to revision.]

Taxable sales sagged during the recession, plunging by -14% during 2009 alone. Here too, the year-to-year comparisons turned positive in 2010 and reached an estimated +7.6% during the fourth quarter, another sign of progress.

With more tax receipts coming into the General Fund and spending cuts already enacted by the Legislature, the Governor's Revised Budget narrowed the budget gap for fiscal years 2011 and 2012 (which ends June 30, 2012) to -$10.8 billion from $26.6 billion in January.

Proposed "solutions" to close the remaining gap include more spending reductions, as well as extending previous tax increases. Since the tax proposals must be approved by the state's voters, some caution about the budget situation seems to be warranted at this time.

Employment

The state gained a total of +207,900 non-farm jobs over the 12 months to March. Thirteen industry sectors recorded year-over gains led by administrative services; professional, scientific and technical services; health care; leisure and hospitality; private education; and wholesale trade.

Three sectors and government reported employment declines. Job counts fell the most in California's government sector, trailed at some distance by financial activities, company management (headquarters operations) and other services.

Eight of the state's major metro areas reported year-to-year gains in non-farm employment over the year to March, while the other five recorded smaller rates of declines than in previous quarters.

- Leading the way were the San Jose metro area (+2.1% over the year), San Diego (+2%), San Francisco (+1.2%) and Orange County (+1%).
- Job gains were moderate in four areas: Los Angeles and Fresno (both at +0.8%), Ventura (+0.4%) and Bakersfield (+0.3%).
- Among the other areas, employment declined the least in Modesto (-0.1%) and the Riverside-San Bernardino area (-0.2%).
- These were followed by Stockton and Oakland (at -0.7% and -0.8% respectively).
- The Sacramento metro area recorded the deepest decline (of -1.8%).

Bay Area employment increased overall during the first quarter compared

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with the previous quarter, as job gains in the San Jose and San Francisco areas exceeded losses in the Oakland metro area (using seasonally adjusted figures for all three areas).

Compared with March 2010, construction activity has fallen around the Bay, with employment declines ranging from -7% (in the East Bay area) to -6% (San Francisco) to -2% (San Jose area).

Also on the downside, local governments and schools in the East and South Bay areas have reduced employee counts. Manufacturing job declines in the Oakland area mostly reflected the loss of a major automotive manufacturer.

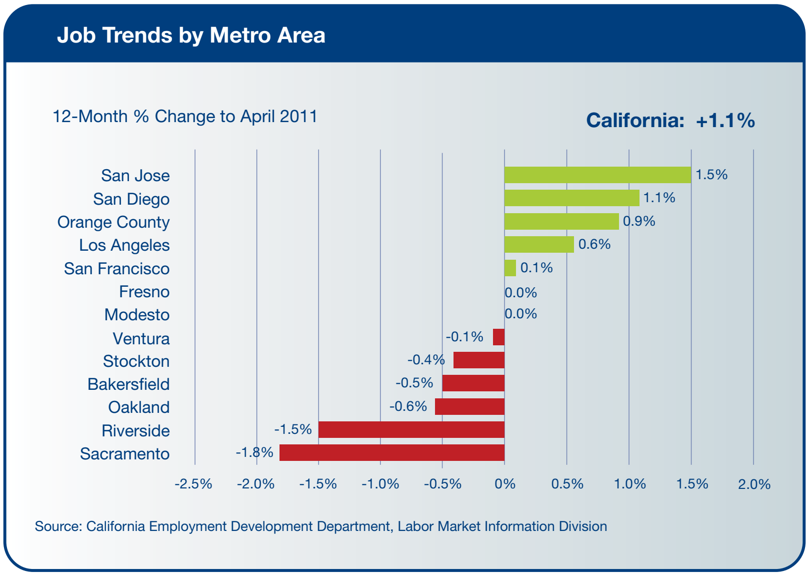
However, high tech provided a bright spot, especially in San Jose, but also in San Francisco and the East Bay. In addition, hospitality and professional and business services firms across the region are hiring again.

Non-farm employment also increased in Southern California during the first quarter (on a seasonally adjusted basis), as the gains made in San Diego, Los Angeles and the Riverside-San Bernardino area exceeded losses in the other two counties.

Compared with March 2010, downturns were most pronounced in government (especially local schools, county and city governments) and construction.

International trade flows through the area's ports continued to grow in first quarter 2011 following 2010's strong rebound. The change had an impact on a wider area than the ports, including the region's transportation network and the wholesale trade and distribution centers of Los Angeles, Orange County and the Inland Empire.

The region's entertainment sector also continued to recover from 2009's sharp decline, with increased local filming of commercials notable in the first quarter. The Southern California tourism sector also made progress, and hotel occupancies were up. Aerospace firms are mostly stable but anxious about the future of their federal government-funded defense and space work.



Exports Up

California-made and -grown exports in the first quarter of 2011 increased by +13.5% compared with a year ago. The largest category of exports—computers and electronic products (semiconductors, computer equipment and navigational instruments)—rose by +12.7%. Exports of California's second largest export product—industrial machinery—rose by +6%.

Meanwhile, exports of transportation equipment experienced the largest gain, advancing by +13.4%. Exports of the fourth largest product group—chemicals (including pharmaceuticals and medicines)—rose by +12.4%. Finally, exports of miscellaneous manufactured commodities (including medical equipment and supplies) climbed by +11.8% versus the same quarter last year.

Tourism

Travel and tourism indicators looked better in the first quarter, continuing the industry upswing that began last year. Domestic and international passenger traffic has grown at most of the state's airports. Hotel occupancy rates increased as did average daily room rates in the first quarter. Statewide hotel room revenues grew by +13% compared with first quarter 2010. Theme park receipts also improved. The upswing in business travel lagged a bit behind the pleasure travel market but looks more positive in 2011.

While the outlook is generally optimistic, the state's tourism industry faces two issues this year. High gasoline prices could affect travel patterns (in 2008, for example, drive-to locations were less favored than fly-to areas). Also, the number of Japanese visitors is expected to decline in 2011, impacting the areas, hotels and venues that cater to that group.

Agriculture and Resources

California's agriculture sector continued to strengthen in the first quarter. The sector's recovery started in 2010, when gross agricultural receipts increased by 8.1%. Prices of several products have risen in recent months, including beef, nuts and dairy.

Demand for California wine grapes improved in fourth quarter 2010 and first quarter 2011, and prices of raisin grapes rose. California-grown agricultural exports increased by +15% in first quarter 2011 compared with a year ago.

A major issue this year is that feed costs are rising again, driven by higher global wheat and corn prices, though better grazing conditions will mitigate some of the increased cost on that score. Water availability is much better for most California farms in 2011.

The water situation has eased markedly in California, at least for the short term. Precipitation and runoff look very good in 2011, and storage levels have recovered at in-state reservoirs. Reservoirs along the Colorado River are still at low levels, but managed to avoid restricting deliveries this year.

The State Water Project and the Central Valley Project both have promised their customers significantly higher water deliveries in 2011. However, the supply of water that must transit the Delta is still at risk due to actual and threatened pumping cutbacks to protect native species of fish. These problems won't be solved soon.

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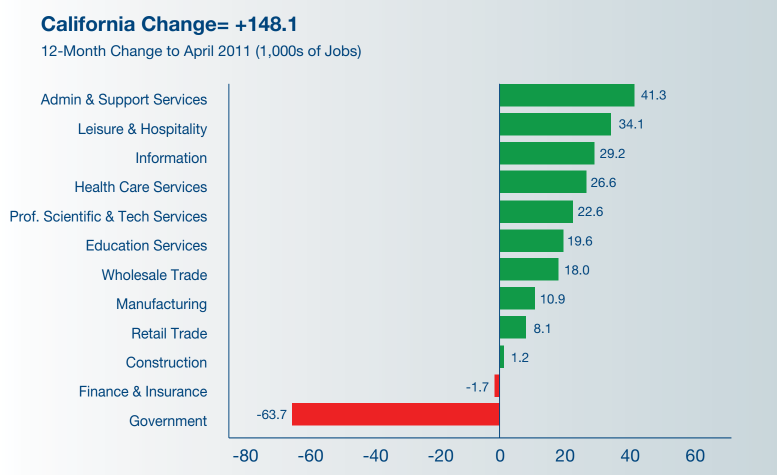
The supply of electricity in California should be quite adequate in the near term, as capacity has grown in recent years and industrial demand has not fully recovered from the recession.

The outlook for electricity prices is much less certain. On the one hand, natural gas prices are moderate and many of the power contracts signed by the state during the energy crisis are unwinding.

However, the state's utilities face significantly higher costs associated with mandated investments to reduce their environmental footprints and to improve their distribution networks. Prices are quite likely to increase.

Job Trends By Industry



Source: California Employment Development Department

Real Estate, Construction

Existing home sales in California, which had improved between late 2008 and the middle of 2010, began to weaken after federal tax credits expired and have shown little energy since then. Here are some recent statistics for the state's resale home market:

- Existing single-family home sales in California increased by +1.5% over the year to March 2011, though condo sales were down by -1.2%.
- Prices have weakened somewhat since the middle of 2010. By March 2011, the median statewide price of single-family homes sold (at $286,010) was down by -4.9% compared with March 2010.
- The number of homes available for sale represented 5.3 months supply (at March's sales rate) compared with 4.8 months a year earlier.

The housing market's performance early in 2011 was a bit disappointing. Mortgage rates continued to be relatively low, and at current transaction prices, many home sales in California fall inside the government housing agencies' conforming loan limits ($729,750 through September 2011), which increases the availability of mortgage loans to well-qualified buyers. However, the federal government's temporary tax credit program clearly pulled a number of purchases forward in time. Home sales have been lackluster ever since the incentives expired.

The outlook for existing home sales is uncertain. On the demand side, significant further improvement in the pace of sales seems unlikely until the state's economy—and buyers' confidence—begin to revive more strongly. On the supply side, the rate of new mortgage delinquencies has abated somewhat, though it continues to be relatively high.

The ebb and flow of foreclosures complicate the picture, however, especially the recent paperwork snafus. It's unclear when lenders will bring the rest of their distressed homes onto the market and in what volumes.

In addition, private lenders are seeking higher down payments for home loans, and the administration is proposing to restrict government agencies' future role in housing support. While these moves reduce lenders' risk, they also could dampen activity in the housing market in the longer run.

Residential Construction

Residential construction activity declined sharply last quarter. Total housing permits were issued at an annual rate of 38,400 units during the first quarter 2011 compared with 43,900 units a year ago.

The decline was all in detached housing, as was the case in 2010. Only 19,700 single-family homes were permitted (-26.9%), while work on 18,700 multi-family units (+18.7%) got under way.

The near-term outlook for new home construction is just as uncertain as that for existing homes. For one thing, the state's homebuilders must work through any remaining inventories of unsold homes built in 2010. More important, newly built dwellings have to compete against very low-priced, previously foreclosed homes, making them unprofitable.

The optimistic industry observers don't expect a significant upturn in new home construction until late in 2011 or 2012, 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. With most lenders and investors unwilling to commit new funds for commercial real estate development, construction of new commercial space plunged. The volume of transactions turned up in 2010 and again in first quarter 2011, though the level of activity still remained muted compared to the pre-recession period.

Demand for office space continued to be slow in the first quarter, reflecting weak employment trends in office-based industries. Many firms are still reluctant to hire new workers and those that are adding staff are reconfiguring existing space to accommodate them. Fewer firms are vacating space, but they are taking advantage of soft market conditions to negotiate concessions from landlords.

Office rents continued to weaken in

See Economy: Next Page

Economy Past Recession Bottom; Activity Level Still Not Visibly Higher

From Previous Page

most locations due to space overhang. Still, space rents and vacancy rates are showing signs of stabilizing and may be near bottom. While most California companies have stopped shedding employees, vacancy rates will remain elevated until employment turns up more strongly.

Office vacancy rates continued high in most California metro areas during the first quarter.

- In **Sacramento**, the office vacancy rate shot up to 24.6% and in the **Inland Empire** it rose to 24.2% (from 23.9% in fourth quarter 2010).
- The vacancy rate in **San Diego County** ticked up to 19.8%.
- Meanwhile, in **Orange County**, the average vacancy rate moved down to 19.6% and in **Silicon Valley**, it was 18.2%.
- **Los Angeles** recorded a 16.9% rate for the quarter.
- The **San Francisco** rate decreased to 16.5% (from 17.4% in fourth quarter 2010).
- In **Ventura County** the office vacancy rate increased to 18.3% and in **Oakland** it was up to 19.8% in fourth quarter 2010 (the latest data available for these two areas).

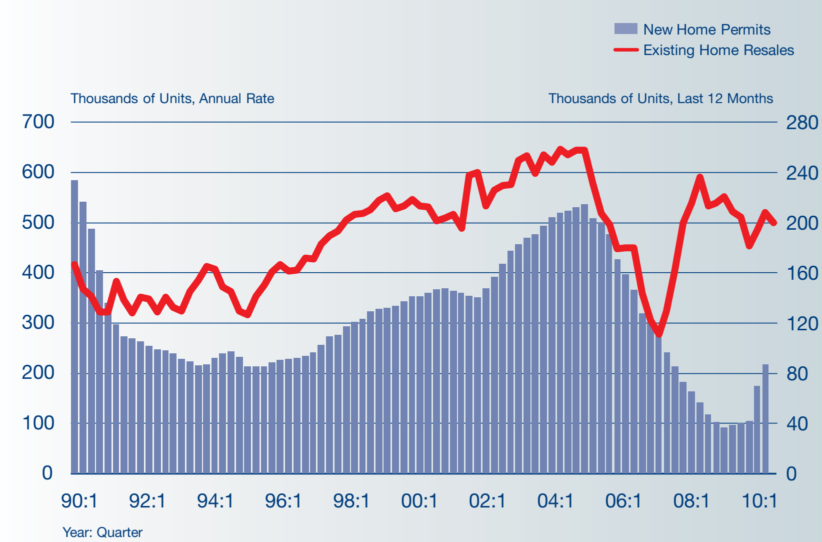
Industrial vacancy rates were relatively high during the fourth quarter, but started to decline in several areas during the first quarter. The lowest vacancy rates were in Los Angeles County, at 3.1%, followed by Orange County at 6.1% and the Inland Empire at 9%. Vacancy rates were highest in San Jose (14.9%), Sacramento (12.6%), San Diego (11.6%) and East Bay (9.8%).

Non-Residential Building Permits

The total value of non-residential building permits in California increased by +8.9% during the first three months of 2011 compared to the same period last year. Permits for office buildings plunged by -39.8%, but the value of industrial increased by +17.9%. Several metropolitan areas posted significant gains in total non-residential permit activity during the first quarter 2011: San Diego (+123.4%), San Jose (+33.1%) and Los Angeles (+20%).

Lender financing for most types of commercial real estate projects continues to be difficult to obtain. However, traditional investors do have some funds available for well-priced, high-quality projects in favorable locations. Non-residential permit values are expected to continue at relatively low levels until the economic recovery gathers more strength.

California Housing Market



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

Risks

Risks appear to be better than even, though the downside issues certainly receive more attention. The California economy clearly is well past the bottom of the 2008–2009 recession. However, the level of activity is not visibly higher except in certain industries. And the state's unemployment situation is not satisfactory.

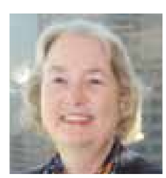
One identifiable risk concerns the state's still-troubled housing industry. Home sales slowed and prices weakened after federal government tax credit programs expired in 2010. And the state's homebuilding industry is in a depressed state. Recovery will come eventually to both sectors, but not before the economy and employment get visibly stronger.

State and local governments continue to wrestle with budget problems. Whatever solutions are used to close the gap between revenues and expenditures will dampen the state's economy.

And yet the California economy is on the road to recovery. Retail sales have improved and so have international trade flows. Industrial production rates are rising, especially in the state's high technology sector.

Attitudes are being shaped by headlines about high rates of joblessness and falling home prices. No wonder they have not improved as much as revenues.

Economic recoveries often begin without much public notice and then run faster than economists project. The Council would be delighted if this recovery follows such a path!



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

Businesses Can Help Veterans Make Transition to Civilian Life

Amy Horney enjoyed a rewarding career as an aviation technician while in the U.S. Navy. She worked with some of the finest military hardware, including the F/A-18 Hornet fighter jet. After release from active duty, Horney found it difficult to assimilate into civilian life. She pursued an array of employment opportunities and even enrolled in a pre-nursing program at her local community college. But lacking direction and losing confidence, Horney became disheartened by her inability to find employment despite applying for what she described as "anything and everything."

Horney is one of approximately 1.9 million veterans living in California. Another 30,000 men and women separate from military service and return to California every year.

Without help, like Horney, many returning veterans drift aimlessly or struggle with unemployment, homelessness, depression, marital problems, substance use disorder, post-traumatic stress disorder, and a host of other debilitating physical, emotional and financial challenges.

Many veterans discharged decades ago still struggle with some of these issues. Tragically, a rising number of veterans who do not get the help they need in a timely manner commit suicide.

Resources and Aid

The California Department of Veterans Affairs (CalVet) reaches out to California veterans, assesses their individual needs, and works to get them connected with the employment, education, housing and health benefits the veterans have earned through their military service.

Working closely with a network of other agencies and service organizations, CalVet offers the holistic approach to assistance many veterans need to successfully move forward in civilian life.

In addition to offering information and referrals, CalVet helps veterans navigate notoriously complicated and frustrating benefit application processes.

Outreach Effort

One of CalVet's biggest challenges is reaching veterans. Although many government, business and community-based organizations have already pledged their support, far more help is needed.

To help ensure that veterans and the community get the benefits and assistance to which they are entitled, businesses can:

- Make sure the human resources department is aware of CalVet's programs and services, and offers CalVet as a resource to veteran employees.
- Educate staff, clients and customers about CalVet by hanging posters, making brochures available, publishing a newsletter article, or following CalVet on Twitter or Facebook. Also send the CalVet URL to social and business network followers and friends.
- Notify the local county veteran service officer when there is a job opening.

For a list of other ways to help, visit the CalVet website at ***cdva.ca.gov*** or contact Carolyn Ballou at (916) 653-1355, *carolyn.ballou@cdva.ca.gov.*

Industrial Relations Director Reviews Goals with CalChamber Workers' Comp Committee

Christine Baker, acting director of the California Department of Industrial Relations, discusses with the CalChamber Workers' Compensation Committee her new role at the department, the efforts she wants to implement there, and what she sees in the future for workers' compensation.

Budget Vetoed

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The budget bills passed June 15 by a simple majority vote—the new procedure voters approved with Proposition 25 last November—meeting by hours the voter-imposed deadline to avoid a cutoff of salaries and expenses. Only one or two Democratic legislators strayed from party lines on various budget elements.

After making nearly $13 billion in program cuts in March, the Legislature needed to achieve another $10 billion in solutions to meet the Constitution's balanced budget requirement.

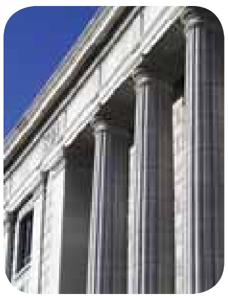
Governor Brown and legislators were unable to reach consensus on a comprehensive solution proposed by the Governor that included seeking voter approval of extending for five years the temporary tax increases adopted in 2009 (sales tax, vehicle license fee and personal income tax). Republicans sought reforms in state spending, public pensions, and regulatory streamlining, but those were not part of the now-vetoed budget.

Unknown as ***Alert*** went to print is the fate of budget package elements that would have: eliminated redevelopment agencies unless they participated in an alternative voluntary redevelopment program; reduced funding for higher education and trial courts beyond the severe cuts adopted in March; and attempted to avoid the two-thirds vote requirement for new taxes by continuing 0.25% of the 1% sales tax increase that was due to expire at the end of June.

Staff Contact: Marc Burgat

U.S. Supreme Court Decision Offers Potential for Relief from Class Action Suits

Ruling Allows Class Action Waivers in Arbitration Agreements



The U.S. Supreme Court recently gave companies nationwide the potential for relief from the continual onslaught of class action litigation.

In *AT&T Mobility, LLC v. Concepcion*, a divided 5-4 court held that companies can include class action waivers in their consumer arbitration agreements.

California courts, including the California Supreme Court, have previously found these class action waivers unenforceable. The U.S. Supreme Court specifically invalidated these California cases, holding that the Federal Arbitration Act (FAA) pre-empts California law.

Background

The case involved a lawsuit filed by a California couple who bought a "free" phone from AT&T but were charged $30 in sales tax based on the phone's retail value. The lawsuit alleged, among other things, that AT&T had engaged in false advertising and fraud by charging sales tax on phones it advertised as free.

The couple sought to consolidate its case with a class action. As AT&T's customers, however, the couple had signed a contract that contained an arbitration agreement. The arbitration agreement included a clause that required any dispute be pursued individually and prohibited class action suits.

AT&T moved to compel arbitration under the terms of its contract with the couple. The lower courts refused to compel arbitration and held that AT&T's arbitration agreement, specifically the class action waiver, was unconscionable under the California Supreme Court's decision in *Discover Bank v. Superior Court*.

U.S. Supreme Court Decision

The U.S. Supreme Court, in a decision authored by Justice Antonin Scalia, disagreed with the lower courts and held that AT&T's arbitration agreement was enforceable and that companies may require buyers to sign arbitration agreements that preclude class-action claims.

The high court held that California's judicial rule voiding class action waivers conflicted with the underlying purpose of the FAA, which is to ensure that private arbitration agreements are enforced according to their terms and to promote "efficient, streamlined" dispute resolution.

The court explained that forcing companies into class action arbitration sacrifices one of the key advantages to arbitration—informality—and makes the process slower, costlier and more likely to generate a procedural mess.

The court also expressed its concern that class action arbitration would greatly increase the risk to companies because of the absence of a multilayered judicial review.

Although companies are willing to accept the risk of error in an individual case in order to gain the benefits of arbitration, companies are unlikely to want to accept this risk when thousands of potential claims are aggregated and decided at once. Faced with class action arbitrations, companies may feel pressure to settle dubious claims.

The U.S. Supreme Court concluded that California's rule prohibiting class action waivers was pre-empted as a matter of federal law.

Legislative Response

In response to the decision, federal legislation has been introduced to forbid pre-dispute mandatory arbitration agreements in employment, consumer or civil rights disputes. The federal bill is a repeat of one introduced in 2009.

In California, Senator Noreen Evans (D-Santa Rosa) has also indicated that she may pursue legislation at the state level.

Impact of Decision

This decision provides welcome help to California companies that want to use arbitration to resolve disputes. It is still an open question what this case will mean for employment arbitration agreements, given that the facts involved the enforceability of a consumer arbitration agreement.

However, the case does show a willingness of a narrow majority of the high court to overturn state court rulings that interfere with the goal of promoting arbitration.

In light of this ruling, the California Chamber of Commerce recommends that companies review their business agreements and consult with legal counsel to determine whether to include a class action waiver in arbitration agreements or modify existing arbitration provisions. Companies should continue to monitor developments in this area.

Staff Contacts: Gail Whaley, Mira Guertin

Costly Employee Retention Mandate

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National Labor Relations Act (NLRA) and is currently pending before the California Supreme Court. A decision is expected within the next 90 days.

The CalChamber is opposed to this bill because it is designed to ensure that an incumbent union, elected as the bargaining representative for the prior contractor, will remain the bargaining representative for the subsequent employer.

Moreover, AB 350 will not reduce the current unemployment rate in California, precludes the subsequent contractor/employer from conducting any pre-hiring background checks or interviews, and alters the California presumption that the employment relationship is at-will.

Action Needed

AB 350 will be considered by the Senate Labor and Industrial Relations Committee on June 22. Contact your senator or committee members and urge them to **oppose AB 350**.

Staff Contact: Jennifer Barrera

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