ALERT

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CalChamber®
CALIFORNIA CHAMBER OF COMMERCE

Hospitality Industry Veteran Is 2012 CalChamber Chair

Timothy S. Dubois

Timothy S. Dubois, president, chief operating officer and a partner in The Edward Thomas Companies, has been elected 2012 chair of the California Chamber of Commerce Board of Directors.

He succeeds S. Shariq Yosufzai, vice president of Chevron Corporation, in the top volunteer position for the CalChamber.

"The coming year brings many challenges and opportunities for our state and our country," said Dubois. "It is an honor to serve as CalChamber's 2012 chair at a time when the involvement and voice of employers is more important than ever."

Serving with Dubois as 2012 officers of the CalChamber Board are:

● **First Vice Chair Frederick E. Hitchcock**, chairman and chief executive officer, Hitchcock Automotive Resources.

● **Second Vice Chair Anne Buettner**, senior vice president, corporate tax, The Walt Disney Company.

● **Third Vice Chair Joseph M. Otting**, president and chief executive officer, OneWest Bank, FSB.

Timothy S. Dubois

The Edward Thomas Companies are hotel holding and management firms,

See Hospitality: Page 11

CalChamber Outlines New Employment Laws

Leading a December 9 CalChamber seminar to explain new employment laws for 2012 are Susan Kemp (left), CalChamber senior employment law counsel, and Erika Frank, CalChamber vice president of legal affairs and general counsel. See Page 5 for story about new laws, more seminars.

Proposed Initiative Undoes Prop. 13 Protections for Businesses

An initiative has been filed that will undo Proposition 13 protections for businesses in California, bringing back an unpredictable method of assessing property taxes.

If enacted, this "split roll" initiative could cost California taxpayers billions of dollars annually. The measure has been dubbed by its proponents as the "Protect Homeowners and Close Corporate Tax Loopholes Act."

The major provisions of this initiative are:

● **Assesses Property at "Current Fair Market Value."** The measure would require all of California's 58 county assessors to assess most non-residential property, including most business property, based on the property's "fair market value" at least every three years. The market value of a property would be determined as of the lien date for fiscal year 2014–15. Property used for commercial agricultural purposes and currently exempt property are excluded from these reassessment provisions.

● **Mandates Reassessment Order.** County assessors would be required to survey commercial real property and other reassessable property and determine the date at which the property was last reassessed. Within a three-year period, assessors would begin reassessments,

See Proposed: Page 12

Inside

• Myths About Higher Education: Pages 3–4
• Economic Report: Pages 7–10

Labor Law Corner

Complete List of 2012 Poster Updates, Wizard Available at *HRCalifornia*

Susan Kemp
Senior Employment Law Counsel

About this time of year we receive emails, phone calls and marketing materials from various poster companies stating that we must have new posters, some of which I have never heard of. What are the poster changes for 2012 and where will I find a complete list of posters actually required by law?

Often, new laws going into effect is the reason for poster requirement changes, and there are poster and pamphlet changes for 2012.

Poster Changes

The poster changes for 2012 include:

- Discrimination and Harassment Prohibited by Law, Department of Fair Employment and Housing (DFEH);
- Safety and Health Protection on the Job, Division of Occupational Safety and Health (Cal/OSHA);
- Pregnancy Disability Leave (Notice A/DFEH);
- California Family Rights Act/ Pregnancy Disability Leave (Notice B/ DFEH); and
- Employee Rights under the National Labor Relations Act (NLRA) (required for most employers; effective January 31, 2012).

Pamphlet Changes

The revisions to pamphlets for 2012 are:

- Workers' Compensation (new temporary disability benefit rates); and
- Sexual Harassment (gender harassment added).

The California Chamber of Commerce has a complete list of required notices and posters available on ***HRCalifornia.com***.

Some employers may be required to post notices that are unique, based on the type of business, geographical location, work done by employees, or types of hazards in the workplace. ***HRCalifornia's*** "Posters for Unique Situations" contains a wizard that will help employers determine other posting requirements.

If a poster company is telling you that other types of posters are required, check CalChamber's required and unique poster lists. Many of the posters being touted as "required" really are not.

Through the CalChamber Store, employers can order the ***2012 Required Notices Kit***—which includes all state and federal required employee notices, plus all five required employee pamphlets, updated as necessary for 2012, in packs of 20.

Poster Protect

Also available for purchase is the Poster Protect service, ensuring customers will receive a new poster at no additional charge if there are any mandatory changes in state or federal employment law posting requirements during the calendar year.

Pending lawsuits may change or eliminate the NLRA requirement. If the January 31, 2012 mandate stays in place, Poster Protect customers can opt for a no-cost, all-in-one poster that includes the NLRA posting.

For more information, visit ***www.calchamberstore.com/kit***.

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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Home page: www.calchamber.com.

CalChamber-Sponsored Seminars/Trade Shows

More information at
www.calchamber.com/events.

Business Resources

Farm-to-Table Tour in California. Culinary One Investments Group. February 12–18, 2012. (916) 799-8345.

International Trade

Export Training Assistance Program (ETAP). Centers for International Trade Development. November 2–January 18. (714) 310-6908.

World Ag Expo. California State Trade and Export Promotion (STEP). February 14–16, 2012, Tulare. (209) 384-5892.

CeBIT. California STEP. March 6–10, 2012, Hannover, Germany.

IE Expo. California STEP. March 7–9, 2012, Shanghai, China. (310) 973-3161.

See CalChamber-Sponsored: Page 12

CalChamber Calendar

Public Affairs Council Retreat:
February 2–3, 2012, Santa Monica

Next Alert:
January 13, 2012

ALERT
WWW.CALCHAMBER.COM

A Baker's Dozen Myths about Higher Education

Mark G. Yudof

From remarks at the California Chamber of Commerce Board of Directors meeting in San Francisco on December 2.

With apologies to David Letterman, I've come here today with a list. Unfortunately, it's not very funny.

It's a list of 13 myths about higher education.

[I should add that because I'm a big fan of Wallace Stevens, I almost called this speech "Thirteen Ways of Looking at a University." But in deference to the language of commerce, I settled on "A Baker's Dozen Myths about Higher Education."]

These are the myths driving the grand narrative about universities—the grand narrative that says students are being priced out of universities like UC, while funding instead goes to new facilities or administrator salaries. So today, I'm here to dispel these myths.

#1: The cost of producing UC degrees and credit hours has gone up over the last decade.

I hear this myth all the time. And it's frustrating, because this cost has actually dropped by more than 15%, in constant dollars, since the 1990s.

This cost has dropped in part due to a broad range of system-wide efficiencies: common IT systems; reduced employee travel; thousands of unfilled faculty and staff positions; one-third fewer employees at the UC Office of the President; a higher student-faculty ratio, and so on.

What has gone up, however, is the student contribution, or co-pay, to these degrees. At the same time, the state's contribution per student has plummeted—by 60% in the last two decades.

To put this see-saw in perspective, UC students now cover roughly 46% of general fund support. But 20 years ago, their share hovered around 12%.

Now, sometimes I hear a variation on this myth, in the form of:

#2: Tuition goes up because the university is providing resort amenities to students.

Perpetuators of this conspiracy theory are fiercely devoted to it. Rock climbing walls, manicured landscaping, gourmet dining halls—these and other examples are constantly cited as the real cause of higher tuition bills.

The images play well in the media, but the myth is totally false [some might say as false as the fiberglass "rocks" in those rock climbing walls].

Tuition goes up because state funding goes down. Plain and simple.

Indulge me, if you will, with yet another twist on this theme—

Myth #3: UC raises tuition as federal student loan caps are lifted.

This purported practice isn't just false. It's flat-out illegal for UC and other non-profit universities.

Guest Commentary
By Mark G. Yudof

#4: Tenure track faculty at UC do not teach undergraduates.

Tenure track faculty members teach about 61% of all student credit hours at UC. And in fact, this percentage is up slightly in recent years as budget cuts forced campuses to reduce the ranks of lecturers, visitors, and other non-tenure track faculty.

#5: The number of high-level administrators at UC is expanding.

At UC, we call our high-level administrators "senior management group" members, or SMGs.

Rather than expand or remain constant, the number of SMGs has actually declined slightly. Last year, the number dropped from 315 to 293—which means they account for less than 1% of all full-time-equivalent personnel across the entire UC system.

[To this I would also add that most new hires to UC's administrative staff tend to be paid from non-state funds. And they tend to be hired out of healthier research and clinical medical care budgets.]

In tandem with this claim is:

Myth #6: High-level administrators at UC are getting big raises.

The vast majority of non-represented UC employees, which include SMGs, have not received general salary increases since 2008. That's almost four years ago.

Now, we do occasionally—I should say rarely—give SMGs raises. These occur primarily as retention efforts, and the raises come mostly from non-state funds. At our Board of Regents meeting on November 28, we gave raises to nine SMGS for this reason. And I want to emphasize that these were nine employees—out of a total of 180,000.

This year, we also finally instituted a 3% merit program for non-represented employees—but with one caveat. They had to make less than $200,000 a year.

In other words, not one of our SMGs was eligible for these particular raises.

Furthermore, our chancellor salaries have been fixed since 2008. And they currently rank in the lower third of president and chancellor salaries at comparable research universities, public or private.

[A sub-myth to this might be, "the UC regents' salaries are too high." Although regents have never been paid, at least once a week I receive a letter remonstrating me about their supposedly sky-high compensation.]

#7: Non-residents make up a large portion of undergraduate enrollment at UC.

Non-residents only make up 6.6% of UC undergraduate students system-wide. This is well below the percentage at most of the university's public comparator campuses. At the University of Michigan, for example, non-residents comprise 35% of undergraduate students. At the University of Virginia, it's about 30%.

Now, UC's board of regents set a system-wide cap of 10% on non-resident student enrollment. But I'd like to add that non-resident students—from other states and other countries—have always attended this university. And it's long been to the benefit of their fellow students, and their campus communities.

#8: Only the wealthy can afford to attend UC.

Nothing belies this myth more than the incredible socioeconomic diversity of UC students.

About 40% of all UC undergraduates receive Pell grants. Pell grant recipients come from families with an annual

See Baker's: Next Page

Baker's Dozen Myths about Higher Education

From Previous Page
household income of $50,000 or less.

To contextualize this percentage, consider this:

Four of our campuses—Berkeley, Davis, UCLA, and San Diego—each enroll more Pell grant recipients than the entire Ivy League combined.

Now, UC takes very seriously its commitment to remain affordable at every income level. Let me explain:

Last year, UC's average in-state tuition and fees was $11,300 per year. This figure places the university near the middle of its major public comparator institutions.

But 61% of all UC undergraduates receive need-based aid. At comparator institutions, it's around 30-55%. And once average grant and scholarship aid kicked in, UC's average net tuition was only $4,400—among the lowest of its comparator institutions.

The reason for this is that UC has both very strong state and institutional need-based grant programs.

The university's Blue and Gold Plan is among these. This program ensures that 100% of in-state tuition and fees is covered for all students who come from a family with an annual household income of $80,000 or less.

These students don't pay one dollar in tuition or fees.

UC also covered the 2011–12 fee increase of $1,890 for needy families earning up to $120,000 per year. In fact, overall, we estimate that the most recent tuition increase was covered for 55% of all UC students.

[A sub-myth to this might be, "UC is so expensive that people don't want to come here." Our application period ended two days ago, and preliminary figures show that undergraduate resident applications are up by almost 10%. I'm reminded of that Yogi Berra line about the restaurant that's so crowded no one goes there anymore.]

#9: High tuition hurts the poor, and low tuition helps the poor.

High tuition actually hurts the middle class much more than it does the poor. This is because high tuition enables institutions to employ a high fee/high financial aid model. [In this model, a third of the tuition revenue is set aside for financial aid. This is then further abetted by Cal grants and Pell grants for the poor.]

In contrast, low tuition does help the middle class—but at the cost of what is essentially a massive tuition subsidy to the wealthy.

Which brings me to:

Myth #10: UC student debt is skyrocketing.

At graduation, the average student loan debt of UC students is $16,795. This figure is almost $10,000 lower than the national average, which currently stands at $25,250.

In fact, when adjusted for inflation, UC students' debt load has remained virtually flat since 2006.

Now, nearly $17,000 is not a trivial amount of debt. But it is manageable. Under a standard 10-year repayment plan, it translates to about $200 a month.

And income-based repayment plans are available to students with exceptionally high debt, or low student salaries.

#11: Corporate and alumni giving can replace all the core funding the Legislature cuts from UC's budget.

Corporate and alumni giving is phenomenally important to UC. It played a critical role in the foundation, and the development, of this university. And throughout UC's history, it has helped sustain the university during times of fiscal crisis—like the crisis we're experiencing today.

At the same time, most corporate and alumni giving is restricted—which means that if the state cuts our core funding, private giving can't necessarily cover the gap.

Last year, for example, UC received almost $1.6 billion in private support. But only 1.6%, or about $25 million, was unrestricted.

Now, we need to change that—which is why we just kicked off a massive, multi-year corporate scholarship drive. And this is an investment directly in our students.

#12: $1 billion can be cut from UC's budget with zero effect.

This isn't a myth. It's a canard.

I hear this fiction all the time. And I find it very troubling—extremely troubling. UC's annual budget is roughly $20 billion. A $1 billion hole is hard to ignore on its own. But it's more complicated than that.

Much of our funding is restricted. Hospital revenue is restricted. Government grants and contracts are restricted.

You can't just take money from laser research and give it to a professor of Portuguese. So when that $1 billion is cut from our core funds, it can't necessarily be covered by our other sources.

And those missing core funds are devastating. They pay for lecturers, light bulbs, and library books. They pay for scholarships. They are the foundation of this university.

This is important, and it brings me to:

Myth #13: The University of California only serves its students.

This is California's university. It is defined by its public service mission. And it serves all the people of this state.

So when UC's core funding is cut, it ends up affecting all of us, too.

You know, a good friend recently emailed this quote to me:

"Why do the taxpayers have to pay for it? Why can't the government pay for it?"

And I mention this quote to you, because I think it explains why this mythology about UC is perpetuated so easily.

Right now, the zeitgeist—and not just in higher education—really seems to be a disconnect between the perception of how things happen, and the reality of how they do.

The reality is that UC generates $46.3 billion of economic activity in California. It supports 1 in 46 California jobs. And it's the third largest employer in the state.

That's a lot of money. And a lot of jobs.

And yet, every year, state funding for this institution dwindles. That $46.3 billion in economic activity was a return on just $3.35 billion of state spending on UC. This year, state spending will probably be even less. And it's projected that every $1 reduction in state spending on UC could reduce the state's economic output by more than $2.

This is the reality. And the reality complicates the prospect of UC generating more economic activity, creating more jobs, and educating more Californians.

But the perception is that the university's trajectory in these areas will continue to grow—whether or not the state's funding continues to disappear.

That's why it's up to all of us to stand up and let our political leaders know that this goes beyond higher education. It's up to us to set new parameters for the dialogue about this university, and the state it serves. One that acknowledges the facts. One that disregards the myths. And one that recognizes UC as vital to both the economic, and the societal, well-being of California.

Mark G. Yudof is president of the University of California.

CalChamber Releases List of New Laws Affecting California Businesses in 2012

The California Chamber of Commerce this week released a list of new employment laws scheduled to take effect in 2012 or earlier that will have an impact on businesses in California.

In addition to the new employment laws, an order by the National Labor Relations Board (NLRB) also has an impact on businesses in California. By January 31, 2012, most private-sector employers must begin displaying an 11"x17" poster that provides information to employees about unionizing and their right to strike. For more information, watch the CalChamber video on the CalChamber home page.

New Laws

Unless specified, the following is a list of all new legislation going into effect on January 1, 2012. The entire list can also be viewed at ***www.calchamber.com/newlaws2012***.

● **Credit Check.** AB 22 prohibits employers and prospective employers, not including certain financial institutions, from obtaining and using consumer credit reports (credit information) about applicants or employees. The prohibition does not apply to "managerial positions," defined as those who qualify for the executive exemption from overtime. There are also other limited exceptions.

● **Pregnancy Disability Leave.** SB 299 requires all employers with five or more employees to continue to maintain and pay for health coverage under a group health plan for an eligible female employee who takes Pregnancy Disability Leave (PDL) up to a maximum of four months in a 12-month period.

● **Willful Misclassification of Independent Contractors.** SB 459 provides new penalties of between $5,000 to $25,000 for the "willful misclassification" of independent contractors.

● **Written Commission Agreement.** AB 1396 requires employers who have commission pay arrangements to put those agreements into a signed written contract. The written contract must set forth the method by which the commissions will be computed and paid. The bill is effective January 1, 2013. Employers have the entirety of 2012 to bring their commission agreements into compliance.

● **Notice of Pay Details.** AB 469 requires employers to provide non-exempt employees, at the time of hire, a notice that specifies:

✔ The rate of pay and the basis, whether hourly, salary, piece commission or otherwise, including any overtime rate;

✔ Allowances, if any, claimed as part of the minimum wage, including meal and lodging allowances;

✔ The regular pay day designated by the employer as required under the Labor Code;

✔ The name of the employer, including any "doing business as" names;

✔ The physical address of the employer's main office or principal place of business and any mailing address, if different;

✔ The telephone of the employer; and

✔ The name, address and telephone number of the employer's workers' compensation carrier.

● **Organ and Bone Marrow Donor Leave.** SB 272 clarifies the implementation of California's organ and bone marrow donor leave law. The new legislation clarifies that the days of leave are business days, not calendar days, and that the one-year period is measured from the date the employee's leave begins.

● **Genetic Information.** SB 559 amends the Fair Employment and Housing Act (FEHA) to state that employers are prohibited from discriminating against employees on the basis of genetic information.

● **Gender Expression.** AB 887 amends the FEHA to further define "gender" to include both gender identity and "gender expression" and to make clear that discrimination on either basis is prohibited. AB 887 also amends the Government Code relating to dress codes to include that an employee must be allowed to dress consistently with both the employee's gender identity and gender expression.

● **E-Verify**. AB 1236 allows employers to continue to choose to use E-Verify, but prohibits California state agencies and local governments from passing mandates that require employers to use E-Verify.

Several cities in California passed local ordinances requiring the use of E-Verify in certain circumstances. This new law prohibits such state or local mandates, unless required by federal law or as a condition of receiving federal funds.

● **Interference with Rights Under Leave Laws.** AB 592 adds language to the California Family Rights Act (CFRA) and the Pregnancy Disability Leave law (PDL) that makes it unlawful to interfere with or in any way restrain the exercise of rights under these laws.

● **Administrative Penalties.** AB 240 allows an employee that alleges a minimum wage violation to recover liquidated damages pursuant to any complaint brought before the Division of Labor Standards Enforcement (DLSE). This new law would allow the Labor Commissioner to also award such damages. Under the new liquidated damages provision, the employee would be entitled to recover an amount equal to the wages unlawfully unpaid, plus interest.

● **Wage Penalties.** AB 551 increases the maximum penalty from $50 to $200 per calendar day for each worker paid less than the determined prevailing wage and increases the minimum penalty from $10 to $40 per day for violations of prevailing wage obligations. It also increases the penalty from $25 to $100 per calendar day, per worker, against contractors and subcontractors that fail to respond to a written request for payroll records within 10 days.

● **Farm Labor Contractors—Wage Notices.** AB 243 amends the Labor Code to expand the information that must be included on pay statements, but only for farm labor contractors. Employers that are farm labor contractors must now disclose on the itemized payroll statement furnished to their employees, the name and address of all legal entities (for example, other growers or other farm labor contractors) that secured the employer's services.

See New: Next Page

New Laws Affecting California Businesses in 2012

From Previous Page

● **Agricultural Labor Relations.** SB 126 affects certification of bargaining representatives for agricultural employees. The new law, SB 126, provides that if the Agricultural Labor Relations Board (ALRB) finds employer misconduct that "in addition to affecting the outcome of the election, would render slight the chances of a new election reflecting the free and fair choice of employees," then the ALRB can certify the labor union as the exclusive bargaining agent for employees.

● **Insurance Non-Discrimination Act.** SB 757 closes an existing loophole and prevents employers that operate in multiple states from discriminating against same-sex couples by not providing the same insurance coverage for domestic partners as they do for spouses.

● **State Contracts—Gender or Sexual Orientation Discrimination.** SB 117 outlaws the state of California from entering into contracts of more than $100,000 with companies that discriminate against the employees on the basis of gender or sexual orientation with regard to benefits. The new law makes it clear that companies doing business with the state of California cannot deny equal benefits to same-sex spouses.

● **Apprentice Programs.** SB 56 changes the audit requirements for apprenticeship programs. This new law eliminates the mandate of random audits during five-year increments, and instead directs the Division to conduct audits of apprenticeship programs generally. It also creates requirements for applications for building and construction trades programs for approval of a new or expanded apprenticeship program.

● **Safe Lifting—Hospitals.** AB 1136 provides that general acute care hospitals must maintain a safe patient handling policy for patient care units, including trained lift teams or training in safe lifting techniques for staff. The safe patient handling policy must be kept in accordance with the California Occupational Safety and Health Act and should be part of the Injury Illness and Prevention Program (IIPP) of these specific employers.

● **Workers' Compensation Legislation.** The Governor signed five workers' compensation bills that were all supported by CalChamber.

✔ AB 335: Requires the workers' compensation administrative director (AD) to work with the Commission on Health and Safety and Workers' Compensation (CHSWC) to develop regulations regarding notices to injured workers; requires AD and CHSWC to develop and make accessible a booklet written in plain language about the workers' compensation claims process; streamlines and simplifies other notices to employees.

✔ AB 378: Lowers workers' compensation costs by establishing guidelines for dispensing compound drugs, the circumstances under which those drugs would be covered and the reimbursement amount, and removes the incentives for physicians to refer patients to pharmacies in which the physician or physician's family has a financial interest.

✔ AB 397: Seeks to address the underground economy problem by singling out contractors that do not have workers' compensation coverage but requiring contractors that are exempt from having coverage at the time they are licensed to certify they are still exempt or have gotten coverage at the time of their license renewal.

✔ AB 1168: Lowers costs for employers and insurers by establishing a fee schedule for vocational experts' services.

✔ AB 1426: Streamlines the workers' compensation process and eliminates duplicative bureaucracy and inconsistency by eliminating the court administrator position.

The Governor also signed a workers' compensation-related bill on which the CalChamber took no position: AB 228 amends the California Insurance Code to authorize the State Compensation Insurance Fund (SCIF) to provide workers' compensation coverage to a California employer whose California employees temporarily work outside the state and whose injuries while performing out-of-state work might lead to workers' compensation liability in some other state.

● **Department of Fair Employment and Housing Procedural Regulations (DFEH).** Effective October 7, 2011, DFEH has instituted new regulations relating to procedures for filing, investigating and processing discrimination and harassment claims. Overall, the regulations make it easier for claimants to file their complaints and initiate a DFEH investigation.

Staff Contact: Gail Cecchettini Whaley

CalChamber Offers Employment Law Seminars

The California Chamber of Commerce is offering two seminars providing the information businesses need to stay in compliance with state and federal employment law.

● ***HR 101: Intro to HR Administration Seminar*** is a comprehensive seminar on HR administration fundamentals.

● ***HR 201: Labor Law Update Seminar*** covers how recent state/federal court cases and regulatory changes will affect business and how best to apply them.

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

Global Economy Better than Headlines Say; State's Economy Continues Slow Recovery

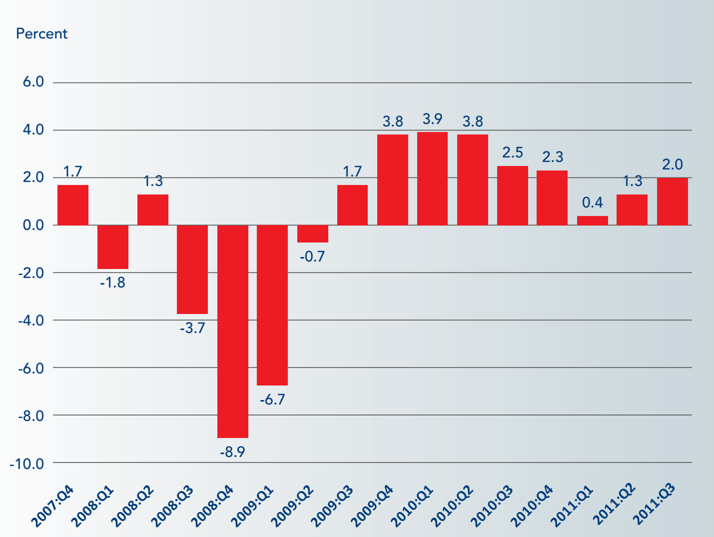
When the California Chamber of Commerce Economic Advisory Council met on the phone in early November, the headlines were full of anxiety about the European sovereign debt crisis and its potential contagion effects on U.S. banks and the U.S. economy. Meanwhile, anxiety about slow economic growth in the U.S. continued, but eased somewhat as more data was released. The new consensus now is that the fears of a double-dip recession are overblown.

This report will start by looking at the international situation, then cover the evidence concerning a continued slow U.S. economic recovery, highlight some surprising California trends, and then discourse about recent agricultural trends, tourism, housing, and water and electricity issues. The main "take aways" coming out of the discussions of the Council's distinguished economists are the following:

- The European crisis is serious, but its interpretation in the media is exaggerated and sensational. Ultimately, the Europeans will muddle through this.
- Evidence is mounting that the U.S. economy is back to at least a 2.5% growth path following a sluggish spring and summer. Positives are small improvements in the labor markets, exports, modest growth in consumer spending and increase in business fixed investments.
- Job growth in California has improved following its summer doldrums. Although it is still slow, overall job growth in high tech urban centers is faster than the average statewide growth, pointing to a regional growth bifurcating the east and west of California.
- California agricultural trends have been generally positive, driven to a large degree by a strong export demand.
- Tourism is up, propelled by modest domestic growth and increased business from foreigners. More vigorous international travel to California is hampered by the tight visa policies of the U.S. government.
- Housing is still languishing with very little differentiation among regional submarkets. Activity in terms of volumes and new housing production is still in deep freeze. Tight credit availability is not helping. However, urban coastal areas are poised for recovery, helped by improving economic conditions, remaining homeowner equity, and historically high affordability.
- Water and electricity concerns have abated. The drought has been broken. Long-term problems, however, remain, such as the levee issues in the Delta.

Looking forward to 2012, continued export growth will favor California's coastal urban areas. Interior California will continue to benefit from a good agricultural business, but sorely miss economic activity that used to come from new housing production and the big affordability migration waves of the past.

Real GDP Growth in the United States



Source: U.S. Bureau of Economic Analysis, HousingEcon.com

Europe/Other International Issues

In general, it must be said that the Euroland is a commercial empire. The main European powers have long since abandoned military empire building. The responses of the leaders of Europe cannot be understood without keeping this in mind. While there are rumblings about the cost of the sovereign debt bailouts, the Europeans have no other choice but to maintain the euro and its survival if they want to stay relevant on the world stage.

In this context, it is important to note that Greece, for example, is tiny from an economic standpoint. Its economy is just half the size of the San Francisco Bay Area. Also, if it were to exit the euro and re-establish the drachma, the entire country would be in debt, both the public and private sector debt, and Euroland could be on the hook for that.

Fortunately, the recent developments concerning the Greek crisis suggest that this will be avoided. New austerity programs are being seriously considered and a new prime minister, Lucas Papademos, will spearhead austerity measures in exchange for European bailout money. A different issue is Italy, which was the focus of financial markets recently. This led to the resignation of the prime minister, Silvio Berlusconi. The new prime minister designate will soon form a technocratic cabinet to deal with debt crisis. Much has been said about the 120% public debt of Italy and its bond yield reaching so-called "critical" levels of 7%, which is supposed to be unsustainable. However, Italy has been having this public debt level for 25 years now and, according to a recent report by Fitch Ratings, long-term bond yields will become unsustainable only if they reach the 15% to 20% level.

See Global: Next Page

Global Economy Better than Headlines Say; State Continues Slow Recovery

From Previous Page

Meanwhile, Ireland, another debt crisis country, has been getting its act together, cutting its budget deficit. Spain, which could be next in line, actually has no public debt problem. Its gross public debt is just 68%, lower than the 96% of the Eurozone or the 101% of the U.S. Its problems are associated with a massive housing bubble and its subsequent bursting.

Much has been said about European credit default swap spreads, which some have called "mind boggling." However, outstanding net notional values of European credit default swaps are tiny and not relevant. Even the so-called weakness of the euro is a much smaller issue than it is made out to be. When the euro started, the euro to U.S. dollar exchange rate was 1.17; now it is 1.35.

Overall, therefore, the European debt crisis is less severe than pundits proclaim on major financial TV channels. The euro will survive. To be sure, Euroland's gross domestic product (GDP) growth is likely to slow from 1.7% in 2011 to 1.2% (or slightly less) in 2012, with growth slowing in France and Germany. However, this slowdown will not be catastrophic. Economic growth in Asia will be a strong 5%, with China slowing somewhat and Japan turning to positive growth again after a bad 2011 performance. Overall, the world GDP will be 3% in 2012, unchanged compared to 2011.

This global outlook and the more measured interpretation of the European debt crisis, which was presented to the Economic Advisory Council by Sheldon Engler, suggests continued moderate growth for California and the U.S. next year.

U.S. Economy

Recent economic evidence for the U.S. supports the notion that there will be no double-dip, but that growth is and will be subpar to previous recoveries. Third quarter real GDP rose 2.5%, a pick-up from 1.3% in the second quarter 2011. The acceleration of real GDP reflected a pick-up in personal consumption expenditure (up 2.4% in quarter three 2011 versus 1.3% in quarter two 2011) and in non-residential fixed investments (16.3% versus 10.3%), and an improvement in the net export situation, which contributed 0.22% to GDP growth. Real final sales of domestic product, which is GDP growth less the change in private inventory, increased 3.6% in third quarter 2011.

Recent monthly statistics point to further growth in the quarters ahead:

- The number of people filing for unemployment benefits dropped to 397,000 recently, the lowest since April this year.
- Monthly U.S. job growth was 80,000 in October, which is not great, but figures for August and September were revised upward—102,000 more jobs than originally reported. Sequential private sector job growth was 104,000 in October this year.
- Even mass layoffs were stabilizing in September as employers laid off slightly more than 153,000 workers.
- Although confidence challenged, consumers spent 0.5% more in October than in September. The increase, while still weak, was driven by spending on automobiles and consumer electronics. However, personal income growth in September was still a sluggish 0.1%, which makes the personal consumption figure even more remarkable.
- The U.S. trade deficit narrowed in September to the lowest level this year as exports surged to a record high. The shortfall shrank 4% to $43.1 billion. The smaller September U.S. trade bill will mean bigger contributions to third-quarter GDP growth.
- Industrial production increased in the third quarter this year by 5.1% at an annualized rate. The total capacity utilization rate edged up to 77.4% in September, 1.7 percentage points higher than a year ago, but still 3 percentage points lower than the long-run average. If capacity utilization rises more, new hiring will be necessary.

California Economy Slow But Continues to Recover

The state gained a total of +233,700 non-farm jobs over the 12 months to September. Thirteen industry sectors and government recorded year-over gains led by administrative services; professional, scientific and technical services; leisure and hospitality; and health care. Two sectors reported employment declines: financial activities and other services.

Eleven of the state's major metro areas reported year-to-year gains in non-farm employment over the year to September, while just two recorded declines. Leading the way were:

- the San Jose metro area (+3.1% over the year);
- Ventura (+1.7%);
- San Diego (+1.4%);
- Bakersfield (+1.3%); and
- Riverside-San Bernardino (+1.2%).

Job losses were recorded in Fresno (-1.0%) and Sacramento (-0.4%). Among the remaining areas, employment grew the fastest in Stockton and Orange County (+1.1% and +0.9% respectively).

See Global: Next Page

Global Economy Better than Headlines Say; State Continues Slow Recovery

From Previous Page
Oakland-Contra Costa and Modesto areas recorded the lowest growth (of +0.1% and +0.3%).

Overall, job growth seems to be more robust in urban coastal areas than the inland regions with the San Jose and San Francisco areas leading the way. The pick-up in job growth for the Inland Empire is an encouraging sign that the economic recovery in the California interior may take hold.

On a side note, it may interest CalChamber readers that California's annual job growth outpaced Texas in September in absolute (not percentage) terms. Even more remarkable is that the quality of job growth in California was vastly superior to that of Texas if one looks at wage levels by industry. California job growth has a much bigger emphasis on higher-paying industries than Texas, some of which are high tech, high value-added and export-oriented, a crucial industry make-up indicating a positive overall outlook for California if the global economy holds up as predicted above.

Meanwhile, non-farm employment increased in Southern California during the third quarter (on a seasonally adjusted basis), with gains registered in all six counties. Compared with September 2010, job gains were widespread in administrative and professional services, health care, and leisure and hospitality. Downturns were most pronounced in other services (personal and repair services and non-profit associations), financial activities and construction.

International Trade

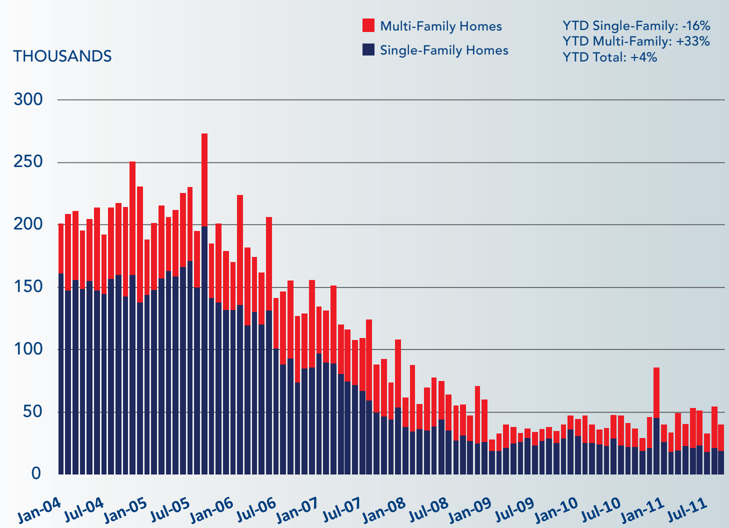
International trade flows through the area's ports continued healthy, but dipped below 2010 levels during the third quarter of 2011. The shortfalls continued to reflect Japan's disasters in March and American retailers' return to normal holiday stocking and shipping patterns (the shipping season started early in 2010). The dip in port traffic has had little noticeable impact on wholesale trade and the distribution centers in Orange County and the Inland Empire, which are seeing more business. The region's entertainment sector continued to recover in the third quarter, with increased local filming of feature films and commercials especially notable. The Southern California tourism sector also made progress, with hotel occupancies and room rates both rising (room rates did not increase during summer 2010).

Aerospace firms are mostly stable for the moment, but trimming defense-related employment and costs in anticipation of leaner times ahead (and following the final shutdown of the space shuttle program). The president's upcoming defense budget for fiscal year 2013 and forward is expected to lay out procurement declines in several programs of regional interest. On the other hand, production of commercial aircraft is revving up. Boeing plans to increase production of its popular 737 in 2012–2013, and deliveries of the new 787 Dreamliner and the 747-8 aircraft also are expected to rise.

Housing Still in Limbo

California housing is still extremely sluggish. New housing production is essentially stagnant, although the multi-family sector has turned around lately, growing slightly more than 19% in quarter three 2011 on a year-over-year basis. The state's home resale market is still bouncing along the bottom, with essentially no regional differentiation. A major positive is historically high ownership housing affordability

California Housing Permits (Seasonally Adjusted at Annualized Rates)



Source: Construction Industry Research Board, HousingEcon.com

Looking forward, the faster trajectory in economic fundamentals in coastal areas should benefit the urban areas in Southern California and the San Francisco Bay Area next year. This will be supported by the fact that the housing system in those areas has a lot more positive homeowner equity than is usually recognized.

Furthermore, the forward-looking foreclosure fundamentals have also improved lately, according to delinquency information of the Mortgage Bankers Association, which still depict high delinquencies, but they have been dropping fast for many categories.

California Agriculture Improving

The value of California agricultural production in 2011 is expected to have increased by 10%+, because of higher yields and/or stronger prices. Export demand helped strengthen market prices, as demand abroad increased with improving economies and the low value of the U.S. dollar. The value of California agricultural exports has increased 18% year-to-date.

While the livestock sector in California has struggled with high hay and grain prices, increasing production costs, beef and milk prices have hovered at record levels for much of 2011, driven by high export demand. Milk prices have recently declined from their highs because of softening domestic demand and increasing inventories. Grain prices have also fallen modestly, with concern about global growth and increased reports of higher grain production in other global regions.

See Global: Next Page

Global Economy Better than Headlines Say; State Continues Slow Recovery

From Previous Page
Poultry producers have been especially burdened by high feed costs.

Producers of vegetables, nuts, grapes and other fruits have generally enjoyed good production conditions and good prices. Even the producers of peaches, plums and nectarines had a good season in the latter half. Practically all harvests were one to two weeks late because of persistent wet, cool weather last spring. This resulted in considerable crop damage to grapes because of unseasonable freezes last spring and rains during the harvest.

Field crop producers were also challenged by delays in plantings and harvest. Yet, high prices for grains, hay and cotton have benefited most producers.

California growers were especially thankful for excellent water conditions in 2011. Abundant rains and snow packs helped replenish groundwater basins and provided for nearly full surface water deliveries in all regions. Current reservoir storage is significantly higher than this time last year and higher than historical averages in all regions, other than the Colorado River reservoirs, though the latter is much improved over last year. Agriculture surface water users expect to get full or nearly 45% deliveries next year, even if drought conditions return.

Agriculture labor availability continues to be ample, though there were some difficulties during the late harvest period, as poor weather threatened the harvest and other U.S. regions competed for the same workers. California fruit and vegetable producers are apprehensive about the availability of labor in the near term, because of the possible changes in federal regulations requiring more stringent verification of workers' documentation.

California Tourism

California tourism has exhibited positive trends lately. Domestic airline travel is likely to grow 3% to 4% this year. Both car rentals and motor coach rentals are up this year. Leisure bus trips have increased 2% to 4%. Hotel occupancy has risen 5% to 6% and international visits to California have increased. Strong demand positives are travel activity from China, Europe and Canada. A major risk for all tourism, however, is a proposed $100 federal surcharge per flight in the U.S. for a security fee. Other hindrances include a cumbersome visa-issuing system abroad, which keeps tourists at bay. A possible positive for tourism is a new federal travel promotion program, which could particularly benefit California.

Water and Electricity Conditions Fine

Last year's wet year has replenished both in-state reservoirs and those on the Colorado River. The Colorado River still has very low reservoirs, but compared to recent years they are much improved. The current long-range forecast is predicting a wet winter for Northern California, which is where most of the state's water comes from. However, there is still a risk that the precipitation band would move north and leave the state dry, but there are no short-run supply issues.

Electricity demand is still reduced by the recession's aftermath, so supplies are good, even though permitting and financing for some of the planned renewable generation is progressing somewhat slower than had been hoped.

Cap-and-Trade Program

On October 20, the Air Resources Board (ARB) adopted a cap-and-trade program that will require electric generators to purchase permits to emit greenhouse gases. These permits will be purchased through an auction that will be run by the ARB. The revenue from the sale of the permits is supposed to be used to help the consumers adjust—by either giving them money or, for example, funding conservation or renewables programs. The details have not yet been ironed out.

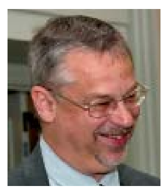
People (including the Legislative Analyst's Office) are concerned about the complicated nature of the market, and worry that it could be susceptible to manipulation, perhaps with a repeat of the electric market start-up fiasco. If this did happen, it should be less of a problem this time around because the possible uses of the revenues could protect consumers from the worst of a market meltdown. However, under the current regulation, some particular groups could be hard-hit. The permits will be required as of January 2013.

Delta

Delta issues are continuing to cause concern. There are ongoing problems with environmental decline and restrictions on taking water from the Delta. In addition, the levees on the Delta islands are at risk of failure, either through storms, earthquake, or other problems. A large failure would put much of the state's water supply at risk, and Sacramento has been ranked the second city in the nation for flood risk (New Orleans is No. 1).

Summation

The global economic outlook is better than the hoopla surrounding the European debt crisis suggests. This will help California businesses, which are heavily export-oriented. Regionally, economic growth is likely to be higher in coastal urban communities than in the interior regions of California. This will trigger an early recovery in coastal housing markets and result in increases in their housing production, particularly in the multi-family sector. Tourism and agriculture growth could accelerate next year, and water and electricity concerns have abated.



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. December's report was written and presented by council member Gerd-Ulf (GU) Krueger, founder and principal economist for HousingEcon.com.

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

CFCE California Foundation for Commerce & Education

Hospitality Industry Veteran Is 2012 CalChamber Chair

From Page 1
specializing in the purchase of hotel real estate. The current holdings of The Edward Thomas Companies include Shutters On The Beach and Hotel Casa Del Mar, both in Santa Monica, as well as the Canary Hotel in Santa Barbara.

Dubois is responsible for all hotel operations, in addition to the general administration of The Edward Thomas Companies.

He has worked in the hospitality industry since his youth, and became the general manager of a hotel at age 25. Before joining The Edward Thomas Companies, Dubois spent 17 years with DoubleTree Hotels, rising to the position of western division vice president, supervising hotels in the 13 western United States.

Dubois graduated from Washington State University with a business degree in hotel administration.

Executive Committee

The CalChamber Executive Committee also named its two at-large members. Serving in the one-year rotating position will be:

- **Mark Jansen**, president and chief executive officer of Blue Diamond Growers; and
- **Michael W. Murphy**, president and chief executive officer of Sharp Health Care.

In addition to the at-large members and current officers, the Executive Committee includes the last three Board chairs. The Executive Committee works with the CalChamber's top management to determine policy, financial and program direction, including, when necessary, providing policy guidance between the Board's regular quarterly meetings.

Staff Contact: Dave Kilby

2012 Officers of CalChamber Board of Directors

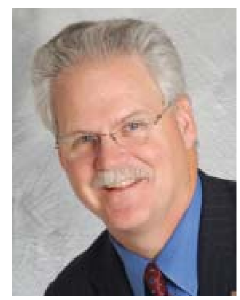

Frederick E. Hitchcock


Anne Buettner


Joseph M. Otting

2012 At-Large Members of CalChamber Executive Committee


Mark Jansen


Michael W. Murphy

CalChamber Board Hosts Representatives of Major Trading Partners

The CalChamber Board of Directors hosted representatives of major California trading partners at its quarterly dinner in San Francisco on December 1. In photo at left, Hiroshi Inomata, Japanese consul general, talks with Chris Reynolds, group vice president and general counsel of Toyota Motor Sales, U.S.A. Inc. Right photo, German Consul General Bernhard Abels is introduced while CalChamber Board member Oliver Hauck, president and CEO of Siemens Industry, Inc., applauds. Other trading partners represented included Canada, Korea, Hong Kong, Taipei, the Netherlands, Indonesia, Chile and Ireland.

Proposed Initiative Undoes Proposition 13 Protections for Businesses

From Page 1
starting with properties that have not undergone reassessment the longest.

● **Exempts Most Residential Property.** Most residential property—including multi-family units intended to be used as a permanent residence—would remain under Proposition 13 acquisition value assessments.

● **Creates Exemption for Personal Property.** The measure exempts tangible personal property from taxation, up to $1 million.

● **Increases the Homeowners Exemption.** Starting in 2015–16, homeowners would receive a homeowners exemption in the amount of $14,000 (currently the homeowners exemption is $7,000). (The value of this change is $70 per homeowner.)

● **Increases the Renters Credit.** Starting with the 2015 tax year, married couples filing joint returns, heads of household and surviving spouses with an adjusted gross income (AGI) of $50,000 or less would receive a renters credit of $240. For a single taxpayer with an AGI of less than $25,000, the renters' credit would be $120.

● **Increases Funding to County Assessors.** Counties would receive "a reasonable amount" of all revenues generated from the split roll to fund the cost of reassessing business property.

● **Increases General Fund Revenues.** 90% of the remaining property tax revenues generated from the split roll would be allocated to a county treasury and annually transferred to the state's General Fund.

● **Backfills Local Government for Revenue Losses Caused by Exemptions.** The initiative would require the State Controller to backfill any losses incurred by local government for lost property tax revenues attributed to the higher homeowners exemption and the exemption for personal property taxes.

'Split Roll' Tax

A "split roll" tax seeks to divide the tax treatment of commercial and residential properties by removing Proposition 13 protections from commercial properties, while leaving those protections intact for residential properties.

When passed, Proposition 13 capped property tax rates at 1% of assessed value, and restricted that value from growing more than 2% a year. Only when ownership changes or there is new construction may the value of the property be reassessed at more than 2%. These protections were extended to both residential and commercial properties under the 1978 landmark proposition.

Proposition 13 resulted in a very stable property tax structure that is top-ranked nationally—fifth best in the nation in the Tax Foundation's 2008 State Business Tax Climate Index.

By contrast, California's other major tax revenue sources—personal income tax, corporate tax and sales tax—are considered extremely volatile and ranked 50th, 40th and 42nd nationally, with 50 being worst.

Adverse Effects

A "split roll" tax undermines the intent of the protections cemented in Proposition 13, and would have a negative effect on job-producing operations and the state's well-regarded property tax structure.

Commercial properties already contribute significantly in tax dollars—generating approximately two-thirds of the property tax revenues, just as they did before the passage of Proposition 13

There is a great deal of uncertainty over how much a split roll would cost taxpayers. Cost estimates ranged from $1 billion to $10 billion per year during a state Board of Equalization meeting with California's assessors in August 2009.

According to a 2009 report by the California Taxpayers Association, if a split roll were to be adopted, small businesses would be hit the hardest. Currently, California has the highest corporate tax rate in the West and has some of the highest income and sales tax rates in the nation.

Qualifying for Ballot

Supporters have submitted the initiative to the Attorney General for preparation of a title and summary. Once the Attorney General completes the title and summary, the proponents may begin gathering signatures in order to qualify the initiative for the ballot. Proponents are allowed a maximum of 150 days from the official summary date to circulate petitions and collect signatures. Because the initiative will amend the state Constitution, the number of signatures gathered must be equal to at least 8% of the total votes cast for Governor at the last gubernatorial election—807,615 signatures.

CalChamber-Sponsored Seminars/Trade Shows

From Page 2
COSMOPROF Worldwide. California STEP. March 9–12, 2012, Bologna, Italy. (562) 938-5018.

GLOBE 2012. GLOBE. March 14–16, 2012, Vancouver, Canada. (800) 274-6097.

WorldBEX. California STEP and Northern California Regional Center for International Trade Development. March 14–18, 2012, Manila, Philippines and Singapore. (916) 563-3222.

China 2012 Trade Mission and Import Expo. California Asian Pacific Chamber and CalChamber. March 25–April 1, 2012, Kunshan, China. (916) 446-7883.

Labor Law

HR 101: Intro to HR Administration Seminar. CalChamber. January 9, 2012, Costa Mesa; January 12, 2012, Long Beach; January 18, 2012, San Jose; April 11, 2012, Sacramento. (800) 331-8877.

HR 201: California Labor Law Update Seminar. CalChamber. January 10, 2012, Costa Mesa; January 11, 2012, Anaheim; January 13, 2012, Long Beach; January 19, 2012, San Jose; January 20, 2012, Emeryville; January 26, 2012, Webinar; February 6, 2012, On Demand. (800) 331-8877.

FMLA/CFRA: Beyond the Basics Seminar. CalChamber. January 10, 2012, Costa Mesa; January 19, 2012, San Jose; January 20, 2012, Emeryville. (800) 331-8877.

Energy Strategies, America's Cup Plans on CalChamber Board Agenda

CalChamber Board member Anne Evans (left) receives an America's Cup pin from Vice Commodore Tom Ehman of the Golden Gate Yacht Club (right) after putting a similar pin on San Francisco Mayor Edwin M. Lee (center) at the CalChamber Board of Directors meeting in San Francisco on December 2. San Francisco will host the 34th America's Cup in 2013. Evans is chairman of Evans Hotels in San Diego, which was the third stop in the America's Cup Series, November 12–20, 2011.

Rhonda I. Zygocki, executive vice president of policy and planning for Chevron Corporation, presents an overview of Chevron activities at the CalChamber Board of Directors dinner on December 1 in San Francisco. "Human energy" is a key to finding solutions to California's power needs and other challenges, Zygocki says.

Employers Work with CalVet to Help Veteran Employees

California employers are working with the California Department of Veterans Affairs (CalVet) to help ensure veteran employees are connected to the state and federal benefits they have earned through military service.

CalVet's growing list of employer partners includes Aerojet, Bechtel Corporation, Cintas Corporation, Comcast, Health Net Federal Services, HP, Lockheed Martin Space Systems Company, Merck, Oracle, Pacific Gas and Electric Company, Republic Services, Southwest Airlines, State Farm, TASC Inc., United Airlines, United Rentals, Verizon, Warner Bros. Entertainment, and many others in the defense, energy, technology, telecommunications, transportation, finance, health care, pharmaceutical, media, entertainment, and retail industries.

Educating Employees

With CalVet's help, employers' staffs are educating employees about CalVet and about other programs and services available to veterans and their families. CalVet then contacts veterans who request assistance, assesses their needs, and helps get them connected to their benefits.

Those benefits may include compensation and pension payments for a service-connected disability, education benefits (including free college tuition for dependents), health benefits (including free assistive devices, like eye glasses and hearing aids), housing, farm and home loans, survivor benefits, and many others.

Besides providing information and resources, CalVet can help veterans navigate the often complicated and frustrating benefit application processes.

CalVet reports that less than 15% of eligible California veterans are taking advantage of their compensation and pension benefits and only 36% are using their health benefits.

Passing Along Information

Without a marketing or media budget, getting the word out is one of CalVet's biggest challenges. CalVet has turned to employer partnerships, relying on partners to expand its outreach efforts. Ways to help, according to CalVet, include placing a CalVet article in an employee newsletter or sending CalVet information to Twitter and Facebook followers and friends, and encouraging them to share the information with others.

To help employer partners connect with veteran job seekers, CalVet has been placing employer careers/jobs page links on the Employment page of the CalVet website. If pending state and federal legislation passes, employers that hire veterans may be entitled to special tax breaks or other incentives.

To find out how your organization can become an employer partner and support CalVet's efforts to reach and assist California veterans, contact Carolyn Ballou at (916) 653-1355 or *carolyn.ballou@calvet.ca.gov*.

CalChamber: Don't Hurt Law-Abiding Firms When Targeting Underground Economy

On December 5, California Chamber of Commerce Policy Advocate Jennifer Barrera provided an employer perspective on the "underground economy" and the need to distinguish "good actors" from "bad actors" so that as California cracks down on the underground economy, the state doesn't undercut legitimate businesses that comply with the required laws in good faith.

'Bad Actors' vs. 'Good Actors'

The "underground economy" is a term that refers to individuals and businesses that use schemes to conceal their business activities. In doing so, these "bad actors" deliberately violate the law and escape their true tax liability, responsibilities to employees, government licensing, regulatory and taxing agencies.

"Good actors" are employers that are doing their best to navigate some of the most stringent and complex labor laws, tax laws, and other regulations in the nation, but aren't able to fully comply because the law is just too difficult to follow.

Unfair Advantage

Because operations in the underground economy conduct business outside the bounds of the law, they gain an unfair advantage over their law-abiding competitors. Businesses that operate in the underground economy illegally reduce the amount of money they invest in expenses for taxes, licenses, insurance—including workers' compensation—and other costs.

By reducing their expenses illegally, these businesses create an unfair advantage, effectively and profitably undercutting legitimate businesses that in good faith comply with required laws.

Effective Approach

Barrera explained that in order to effectively address the underground economy, California needs to:

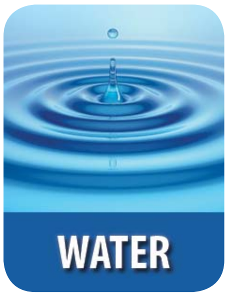
1. Educate;
2. Provide incentives for employers to comply; and
3. Enforce its laws.

California does not want to discourage the growth of good business and good employers in the state, solely by focusing on enforcement without comparable efforts to educate and incentivize compliance.

Estimates on the size of the underground economy vary, ranging from $60 billion to $140 billion per year in California. The Franchise Tax Board and the Board of Equalization estimate that an average of $8.5 billion owed in corporate, personal, and sales and use taxes goes uncollected in California each year, with unreported and underreported economic activity responsible for the vast majority of that total. The state Controller's Office estimates that 11% of taxes owed in California goes uncollected and another 3% is collected only through state enforcement.

Staff Contact: Jennifer Barrera

Survey: Voters Say Invest in, Upgrade California Water Supply System



Voters remain concerned about the state's water supply and agree California should make major investments to upgrade and modernize its water supply system, according to a new statewide survey released this week by the Association of California Water Agencies (ACWA).

The survey, conducted in late November by Field Research Corporation on behalf of ACWA, found that three in four voters (75%) are concerned about water, with 28% extremely concerned and 47% somewhat concerned. In addition, an overwhelming majority (84%) agrees the state has major water problems and must invest in its water infrastructure to ensure reliable water now and in future years.

Invest for Reliable Water

Six in 10 voters (62%) believe investing billions of dollars in a state bond package such as the one on the November 2012 ballot would be worth it to ensure reliable water supplies, according to the survey. That figure includes 40% who strongly agree and 22% who somewhat agree.

Mark DiCamillo, senior vice president with Field Research, said the findings indicate water has not dropped off the radar for Californians even as the economy and unemployment dominate headlines and voter concerns.

"You still have a significant majority saying they are concerned about water, even though there are huge concerns about the economy today," said DiCamillo, who has surveyed Californians regarding water and other issues for more than 20 years. "There is also a core base of support for investing public dollars in upgrading and expanding the state's water system through a water bond. That base is about 40%, with another 22% that is sympathetic and inclined to feel that way."

Invest to Create Jobs

The survey showed that by a margin of 55% to 41%, more voters take the view that now is a good time to invest in water infrastructure projects to create jobs than believe the state should not commit large sums of public money until the financial picture improves.

ACWA Executive Director Timothy Quinn said the findings indicate that Californians see the link between investing in water infrastructure and job creation.

Field Research conducted the survey of 1,000 registered voters in English and Spanish from November 15–27, 2011.

The survey results are available at ***www.acwa.com***.

Health Care Tax Credit for Small Employers

The California Chamber of Commerce is urging small businesses to review Internal Revenue Service (IRS) guidelines to determine eligibility for the small business health care tax credit. The tax credit is part of the 2010 Affordable Care Act.

The small business health care tax credit helps small businesses and small tax-exempt organizations afford the cost of covering their employees. According to the IRS, small employers that pay at least half of the premium for employee health insurance coverage may be eligible for the small business health care tax credit. Small tax-exempt organizations also may qualify.

The IRS reports that since April 2010, it has sent millions of postcards to small employers to let them know about the new small business health care tax credit and encourage them to check their eligibility. Even a business that didn't receive a postcard still may be eligible.

The credit is worth up to 35% of a small business's premium costs (25% for tax-exempt employers). In 2014, this rate increases to 50% (35% for tax-exempt employers).

To qualify, an employer must have fewer than the equivalent of 25 full-time workers (for example, an employer with fewer than 50 half-time workers may be eligible). A qualifying employer also must pay average annual wages below $50,000.

The credit phases out gradually for firms with average wages between $25,000 and $50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

To determine if they qualify, businesses may use a three-step fact sheet from the IRS, ***www.irs.gov/pub/irs-utl/3_simple_steps.pdf***. Eligible small employers will use Form 8941 to calculate the credit.

More information is available from the IRS at ***www.irs.gov***. Search for "health care tax credit 2011."

2012 Standard Mileage Rate Same as Mid-Year Adjustment

The Internal Revenue Service (IRS) has announced that the 2012 optional standard mileage rate used to calculate the deductible costs of operating an automobile for business purposes is unchanged from the mid-year adjustment that took effect on July 1, 2011.

Beginning January 1, 2012, the standard mileage rate for use of a car (also vans, pickups or panel trucks) will be 55.5 cents per business mile driven.

Taxpayers always have the option of calculating the actual cost of using their vehicle rather than using the standard mileage rates.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile, conducted by Runzheimer International.

More information is available at the IRS website, ***www.irs.gov***.

ALERT
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