Projected Budget Surplus a Chance to Build Reserves

The state budget hasn’t been very newsworthy for the past year, which is good news. A voter-approved tax increase plus a stingy Governor plus a modest economic recovery has put what was a perennial fiscal crisis in the rearview mirror.

But a recent forecast by Legislative Analyst Mac Taylor reveals a new set of challenges that will face the Governor and Legislature — quite different than the challenges of the past decade-and-a-half.

Taylor forecasts significant operating budget surpluses for the balance of the decade — or at least until the next recession. At the end of the 2014–15 fiscal year, the budget will be more than $5 billion to the good. That trend increases through 2018, where operating surpluses are forecast in the near-$10 billion range.

Why Budget Surplus?

These projected budget surpluses are a result of three factors:

- **Steady—if not spectacular—economic growth** in California since the recession bottomed out in 2010. Most of the growth has been in coastal California, especially the Bay Area and Silicon Valley, which not coincidentally is where California’s wealthy congregate.
- **The 2012 tax increases**. Without a doubt the temporary tax increases on high-income taxpayers and on sales was a major factor in California’s deficits-to-surplus story. The steeply progressive nature of California’s tax system will guarantee rapid revenue growth as long as the taxes are in effect and the economy grows.

See Projected Budget: Page 4

California Small Employers May Enroll Now for Health Care Coverage Beginning Jan. 1

Covered California, the state’s marketplace for the federal health care reform law, has launched the full self-enrollment function of the Small Business Health Options (SHOP) online marketplace.

This significant new function on the Covered California website will enable small business owners with one to 50 eligible employees to fully enroll for coverage now that may begin as early as January 1, 2014.

Online enrollment for small businesses in 36 other states relying on the federal exchange has been delayed for a year by federal officials while they work on making the federal health care insurance website workable for individuals seeking to shop for insurance.

“Small businesses now have new options to provide more choice for their employees and new affordable options for their business,” said Covered California Executive Director Peter V. Lee in a press release. “Since October, more than 1,500 small business owners have begun the process of exploring whether the SHOP program is right for them.”

See California Small Employers: Page 5

CalChamber Names New Vice President of Local Chamber Relations

Paul Junge will be joining the California Chamber of Commerce as vice president of local chamber relations in January 2014.

Junge comes to the CalChamber from the Oakland Metropolitan Chamber, where he serves as vice president and director of public policy.

“CalChamber understands the importance of having strong local chambers of commerce and being a trusted resource to help them succeed,” said Dave Kilby, CalChamber executive vice president of corporate affairs. “We’re looking forward to having Paul join our team.”

Previously, Junge owned his own small business, served as deputy district attorney in Ventura County and was a local news anchor for ABC News for six years.

He earned his B.A. at the University of California, Berkeley; an M.B.A. from the University of Michigan; and a law degree from the University of San Diego School of Law.

Junge also is a graduate of the Western Association of Chamber Executives Academy, a professional development program for local chamber of commerce executives and staff members.

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See California Small Employers: Page 5
**Labor Law Corner**

**Family Leave Rights Work When One Company Acquires Another**

I have a full-time employee who is pregnant. She has been with our company for nine years. Last month our company was acquired by another company. All of our employees were retained and we are still doing business the same way. I know our employees were retained and we are working the same way. I know this employee is entitled to pregnancy disability leave, but will she have rights to family medical leave and the California Family Rights Act (CFRA) leave?

The answer to that question depends on whether the new company will be considered to be a successor in interest for purposes of the federal Family Medical Leave Act (FMLA). FMLA regulations do provide guidance to an employer on this issue.

Several factors need to be reviewed as well as the totality of the entire circumstances of the acquisition to see whether the employee will have rights to FMLA and CFRA leave with the new company given that she has worked only one month with the new company.

**Factors to Consider**

In determining FMLA Successor in Interest coverage, the federal regulation—29 CFR Section 1825.107—lists factors to be considered, and they include the following:

- Substantial continuity of the same business operations;
- Use of the same plant;
- Continuity of the workforce;
- Similarity of jobs and working conditions;
- Similarity of supervisory personnel;
- Similarity in machinery, equipment and production methods;
- Similarity of products or services; and
- The ability of the predecessor to provide relief.

Given that the business is continuing as it did in the past and that all of the employees were retained, if the employee works at a location with 50 or more employees within 75 miles, she may be able to claim that she is entitled to FMLA and therefore also the CFRA leave.

**Successor in Interest**

If the new company is found to be a successor in interest, then the employee would be entitled to the same rights with the successor employer as she had with her prior employer.

Since your company was covered under the FMLA and she had already worked a year and at least 1,250 hours during the last 12 months, the employee may have FMLA and CFRA rights even though the employee has been employed with the new company for only a month.

It is crucial to seek legal advice in reviewing this situation as there may be complex issues involved.

Mergers and acquisitions of companies always involve legal issues that affect employees and their rights and this is one of those situations. Any employer contemplating a merger or acquisition should consult with its labor law attorney for specific advice involving employees and FMLA and CFRA rights.

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**In Memoriam: Dale Louton**

Dale Louton, HR adviser for many years on the California Chamber of Commerce Labor Help Line and author of “Labor Law Corner” articles, passed away on November 26.

Before joining CalChamber in 1997, he served as senior deputy labor commissioner, field agent and hearing officer with the Office of the Labor Commissioner in the California Department of Industrial Relations for 25 years.

His experience included managing field enforcement, holding hearings related to wage-and-hour complaints and supervising and training field investigation staff.

He will be missed by the CalChamber staff and members who relied on his expertise in wage-and-hour issues.

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**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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Next Alert: December 20
CalChamber Submits Comments, Reiterates Concerns on Private Pension Mandate

Any proposal to mandate pensions for private employers in California must be structured in a way that does not impose additional costs and liabilities on employers than what is required in the 2012 legislation, the California Chamber of Commerce explained recently in comments to the California Secure Choice Retirement Savings Investment Board.

Moreover, there must be no financial risk or liability to the employer and no fiduciary responsibility, the comments state.

The creation of a private sector pension cannot take effect until the issue and its full ramifications are studied and the resulting plan is introduced in a new bill that is approved by the Legislature and signed by the Governor.

SB 1234 Requirements

SB 1234 (De León; D-Los Angeles) requires the board to conduct a market analysis to determine whether sufficient funding will be available from a variety of sources to make the government-run pension program self-sustaining.

The bill’s author and supporters of the bill originally contended the entire cost of the California Secure Choice Retirement Savings Program would be supported by the plan’s contributions and investment income.

Other analysts, however, said the supporters significantly underestimated the costs and the potential shortfalls that will result if investment returns fall short of projections.

Any program the board creates cannot be put into place if either:
- it fails to qualify for the favorable federal income tax treatment ordinarily granted to Individual Retirement Accounts (IRAs); or
- it is determined to be an employee benefit plan subject to the federal Employee Retirement Income Security Act (ERISA), enacted in 1974 to protect participants in nongovernment-sponsored (private) retirement plans.

The IRA and ERISA provisions were added to SB 1234 after the CalChamber and others voiced concern about the original bill’s shortcomings in these areas.

CalChamber Comments

Joining CalChamber’s comment letter is the California Manufacturers and Technology Association (CMTA). The letter outlined the primary concern that the pension program is subject to ERISA. If it is, employers will be exposed to significant administrative costs, liabilities and fiduciary responsibility required by the laws and regulations that apply to ERISA plans.

Because there is so much at stake for employers regarding the ERISA determination, CalChamber and CMTA urged the board to obtain an opinion from the U.S. Department of Labor (DOL) as soon as possible specifying that the program and all employers with employees in the program are fully exempt from the requirements of ERISA.

Moreover, the program must qualify for the favorable federal income tax treatment received by individual retirement accounts (IRAs) in order to be implemented. CalChamber and CMTA urged the board to obtain a private letter ruling from the Internal Revenue Service (IRS) that states the IRA arrangements proposed by the program qualify for the tax-deferred treatment afforded such plans.

Both points should be part of the request for proposals to develop the new pension program, the CalChamber and CMTA stated in the comment letter.

Employer Input

The letter urged the board to engage employers in the process of developing the plan from the beginning, including requiring an advisory group of employers of various sizes and industry sectors be convened to review and comment on the plan.

The vendor developing the plan should be required to do a thorough examination and analysis of how ERISA requirements would apply to the program, obtaining opinions from the DOL and IRS about the assignment of fiduciary responsibility and tax liability, the CalChamber/CMTA letter stated.

Plan Structure

Other key points in the comment letter:
- Employees enrolled in the program must have access to a point of contact that can explain the program, answer questions and take complaints, and that does not involve the employer. The employee must fully understand that this is not the employer’s responsibility and that employee investment decisions are their own.
- The program must clarify how it adapts to employees with multiple employers.
- The employee information packet developed by the board must be clear and concise regarding employees’ exclusive fiduciary responsibility for their investment decisions and that these responsibilities are not the employer’s. The specific language regarding the employer’s immunity under the plan must be included in the employee information packet. This is especially necessary to avoid litigation against employers due to employee misunderstandings.

Next Steps

In 2014, the board will issue a Request for Proposal (RFP) to vendors for the feasibility study and market analysis of the program.

In developing the RFP, the board will consider the responses received from the Request for Information. CalChamber will continue to work with the board in developing the RFP and going forward. The study will be conducted, recommendations will be considered and the final report to the Legislature will be prepared, along with a request for authority to make the program operational if the findings of the study are favorable.

The tentative timeline issued by the board anticipates that the program will be enrolling its first participants in early 2016.

Staff Contact: Marti Fisher
Projected Budget Surplus a Chance to Build Reserves

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- **Tight budgeting.** But taxes aren’t the whole story. Governor Brown has presided over three budgets that are notable for their parsimony. With the exception of spending on schools (which are constitutionally guaranteed a generous share of new revenues), the Governor has kept the lid on spending and rejected legislative profligacy.

Indeed, Governor Brown began his administration in 2012 by reducing spending by about $10 billion. He also inherited a beneficial legacy from Governor Schwarzenegger—elimination of most automatic cost-of-living adjustments for state programs, which has reduced some of the pressure for annual budget increases.

- **Good News**
  
  Robust state budgets will be good news for public education. The schools and community colleges will receive one-half to two-thirds of all projected new revenues over the next couple years. These windfalls are a direct result of the constitutional spending mandates that ratchet up school spending in good times.

  The projected surpluses are good news for taxpayers, since it removes a major rationale from arguments to raise taxes. But it also provides impetus for the multitude of special interests, government unions and public agencies who will inevitably demand higher spending for one or another program.

- **Third Time a Charm?**
  
  We’ve seen this movie before.

  Twice in the past 15 years, California has enjoyed a budget boom followed by a revenue crash—resulting in deficits as far as the eye can see. The accompanying chart shows deficits following the “dot-com” boom in 2000 and the housing boom in 2007. The rest is painful history.

  The third time can be a charm. California’s revenue system is designed to produce large surpluses in good times, and to quickly decelerate during economic downturns. Rather than squirreling away reserves to alleviate downturns, past leaders have instead built up new, ongoing spending based on one-time revenues.

- **‘Rainy Day Reserve’**

  With this new revenue boom as an inspiration, California’s political leadership should follow through on a commitment they made in 2010 to place a “rainy day reserve” before the voters. Postponed once by a skittish Legislature, the measure is scheduled for the November 2014 election.

  The Governor and legislative leadership should rally behind this measure as a show of good faith to the voters to not let the past repeat itself.

**General Fund Revenue Trend**

*Includes realignment

Source: California Foundation for Commerce and Education

Loren Kaye is president of the California Foundation for Commerce and Education, a nonprofit think tank affiliated with the California Chamber of Commerce.

CalChamber-Sponsored Seminars/Trade Shows

More information: calchamber.com/events.

**Labor Law**


**Government Relations**


**International Trade**


GO-Biz Explaining Tax Credit Program

The Governor’s Office of Business and Economic Development (GO-Biz) is conducting public workshops across the state to explain and seek comments on proposed draft regulations for the California Competes Tax Credit program, an income tax credit available to businesses that want to relocate or stay and grow in California.

At the workshops GO-Biz will provide an overview of the enacting legislation, discuss the proposed draft regulations, and welcome feedback from the business community.

Credit for Large, Small Business

The California Competes Tax Credit is available to both large and small businesses. Twenty-five percent of available credit each year is reserved specifically for small businesses (gross receipts of less than $2 million).

According to GO-Biz, the California Competes Tax Credit is an income tax credit available to businesses that want to come to California or stay and grow in California.

Tax credit agreements will be negotiated by GO-Biz and approved by a newly created “California Competes Tax Credit Committee,” consisting of the State Treasurer, the Director of the Department of Finance, the Director of GO-Biz, one appointee from the Senate, and one appointee of the Assembly.

GO-Biz anticipates beginning to accept applications during the first quarter of 2014.

The draft regulations and a frequently asked questions document that explains factors GO-Biz will use to determine the amount of the credit are available on the GO-Biz website.

Workshops

The Sacramento workshop was held on September 5. Other California Competes Tax Credit Workshops are scheduled for the following dates and locations, 10 a.m. to noon:

- Fresno: Monday, December 9
  Fresno City Hall 2nd Floor Council Chambers
  2600 Fresno Street
  Fresno, CA 93721
- Hayward: Wednesday, December 11
  Hayward City Hall Council Chambers
  777 B Street
  Hayward, CA 94541
- San Diego: Tuesday, December 17
  San Diego City College Corporate Education Center
  1551 C Street
  San Diego, CA 92101
- San Bernardino: Wednesday, December 18
  Norton Regional Center Inland Empire Economic Partnership Auditorium
  1601 East 3rd Street
  San Bernardino, CA 92408
- Los Angeles: Thursday, December 19
  Glendale Community College
  1500 North Verdugo Road
  Glendale, CA 91208
- Webinar: Friday, December 20
  Details about workshop registration are available on the GO-Biz website, www.business.ca.gov.

California Small Employers May Enroll Now for Health Care Coverage

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New Features

Previously, small business employers have been able to register online, check their eligibility and work with a Certified Insurance Agent to obtain a quote. New system enhancements now allow online enrollment for SHOP, including online quoting; the ability to submit an online application at www.coveredca.com in real-time; and the ability for employers to initiate electronic open enrollment for their employees.

The increased website functionality also includes a number of new features available for the Certified Insurance Agent community, such as the ability to create an online profile for an individual consumer or small employer; the ability to start and submit an application on behalf of an individual or small employer; and the ability to process and manage employer online enrollment applications for SHOP.

Tax Credits

Many small business owners qualify for a federal tax credit to help offset contributions toward employee premiums. Beginning in 2014, the only way for small business owners to access the tax credits is to purchase insurance through Covered California’s SHOP.

Small businesses are eligible for a federal health care tax credit if they have fewer than 25 full-time-equivalent employees for the tax year, pay employees an average of less than $50,000 per year and contribute at least 50% of their employees’ premium cost.

Employers with 10 or fewer full-time-equivalent employees with wages averaging $25,000 or less per year are eligible for the maximum amount of tax credits.

About SHOP

The Patient Protection and Affordable Care Act includes provisions to encourage small businesses to offer health coverage to their employees.

SHOP is a second marketplace—separate from the one for individuals—and is designed to give employers and their employees more options for health coverage. Using this marketplace, small-business owners can shop for health insurance in ways that offer convenience and choice, comparable to how large companies shop for employee health insurance.

In 2014, health insurance companies participating in SHOP are: Blue Shield of California, Chinese Community Health Plan, Health Net, Kaiser Permanente, Sharp Health Plan and Western Health Advantage. These plans will be sold through Certified Licensed Insurance Agents trained and certified by Covered California.

Small businesses are not required to buy insurance for their employees. SHOP is voluntary and small businesses will not be penalized for non-participation. Small businesses can enroll in a SHOP plan year round, according to the Covered California press release.
New 2014 Employment Laws in California

The Gravity of Noncompliance

Astronomical Fines and Lawsuits
Cosmic Shift in Employee Morale
Stellar Reputation Lost Forever

Unless specified, new legislation takes effect January 1, 2014.

WAGE AND HOUR

- Domestic Worker Bill of Rights (AB 241)
- Car Wash Industry (AB 1387)
- Retaliation Protections for Wage and Hour Claims – Civil Penalty (AB 263)
- Garment Manufacturer Requirements (AB 1384)
- Employee Wage Withholdings – Criminal Penalty (SB 390)
- Minimum Wage Increase (AB 10) July 1, 2014 and January 1, 2016
- Property Lien on Employee Awards (AB 1386)
- Heat Illness Recovery Periods (SB 435)
- Successor Farm Labor Contractor Liability (SB 168)
- Damages for Minimum Wage Violations (AB 442)
- New Laws Related to Prevailing Wages
- Attorneys' Fees on Prevailing Party Wage Claims (SB 462)
LEAVES AND BENEFITS

- Paid Family Leave Benefits (SB 770, July 1, 2014)
- Time Off for Emergency Duty (AB 11)
- Time Off for Crime Victims (SB 288)
- Protected Time Off for Stalking Victims (SB 400)
- San Francisco Family-Friendly Workplace (OLSE Ordinance)

IMMIGRANT PROTECTIONS

- Unfair Immigration Practices (AB 263)
- Criminal Extortion Related to Immigration Status (AB 524)
- Retaliation Against Immigrants - Suspension/Revocation of Business License (SB 666)
- Driver’s Licenses for Undocumented Immigrants (AB 60, January 1, 2015)

DISCRIMINATION AND RETALIATION PROTECTIONS

- Whistleblower Protections (SB 496)
- Military and Veteran Protections (AB 556)
- Sexual Harassment Definition Clarified (SB 292)

WORKERS’ COMPENSATION

- Five New Laws Related to Workers’ Compensation

For more information on the gravity of these new employment laws on the workplace, download CalChamber’s free “An Overview of New 2014 Laws Affecting California Employers” white paper: calchamber.com/new/laws2014

Share this infographic: rfr.bz/saaga

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The current economic recovery remains confounding. Overall growth continues to be disappointing, even though parts of the economy appear to be roaring back to life. Real gross domestic product (GDP) has averaged just a 2.2% pace during the first four years of this economic recovery and has risen just 1.6% over the last year.

By contrast, economic growth averaged a 3.3% pace in the 25 years prior to the Great Recession. Job growth has also lagged behind previous recoveries, but the unemployment rate has declined anyway, as many potential job seekers have left the workforce, which has pulled the employment population ratio down to the lowest levels seen in more than 30 years.

Not only has growth been slower, but it also has been uneven. Parts of the economy have come roaring back to life, most notably the stock market, home prices and the technology and energy sectors. Other areas have faced a more difficult road to recovery. The fundamentals have improved much less than asset prices have.

Overall job growth remains weak, with nonfarm employment averaging a gain of just 179,000 jobs a month over the last three years. Moreover, a disproportionate share of the jobs added over the last three years has been in lower-paying industries, many of which traditionally employ a large proportion of part-time workers.

The result has been exceptionally meager income growth, which has restrained consumer spending and limited the impact of the Fed’s exceptionally easy monetary policy. Income growth has been supplemented by extended unemployment benefits and expanded food stamp payments, both of which were reined in toward the end of 2013.

Modest Improvement

Economic conditions are expected to improve modestly in 2014, as the recovery in homebuilding gains momentum and the drag from cutbacks in federal spending ebbs. Consumer spending and business fixed investment should both grow more solidly than they did in 2013, but the recovery will remain constrained relative to past experience.

Real GDP is expected to rise at a
Bifurcated Recovery Remains in Place for California Economy

2.4% annual rate and the unemployment rate should dip to just below 7% by the end of 2014. The Federal Reserve is expected to begin to scale back its monthly securities purchases during the spring, which will result in modestly higher mortgage rates, but not so high as to undermine the housing recovery.

Uneven Recovery

The uneven nature of the recovery is evident across California, with the coastal areas largely enjoying stronger job gains, reduced unemployment and soaring home prices. The interior parts of the state have by and large been not so lucky, with meager job gains, stubbornly high unemployment and less of a rebound in home prices.

Other splits are evident, with newer industries such as mobile devices, social media, search and cloud computing taking off, while old mainstays like agriculture, manufacturing and construction have taken longer to gain traction. Tourism, international trade, and the media and entertainment industry have come back solidly, as has health care and life sciences.

Income Growth

Even with a bifurcated recovery, California has been able to put up some impressive numbers. Real GDP grew 3.5% in 2012 and personal income has risen 3% over the past year. Nonfarm employment has reportedly slowed, with the latest year-to-year growth coming in at 1.4%.

The Quarterly Census of Employment and Wages data show that job growth through March, which is the latest data available, is nearly twice that strong, at 2.9%. Moreover, every metropolitan area has seen employment increase over the past year.

Although all major California metropolitan areas have seen year-over-year employment gains, the strongest job growth has clearly been along the coast. Monterey, located in Imperial County, has some of the strongest nonfarm employment growth. The Bay Area has long been at the center of California’s recovery, although Southern California also has shown significant improvement recently.

Areas of the San Joaquin Valley, including Vallejo and Stockton, are finally beginning to show signs of marked improvement as well. The Inland Empire continues to be a notable laggard along with the state’s capital, Sacramento.

Unemployment Rate

The split is even more evident in terms of the unemployment rate. Of course the lowest unemployment rates are in the Bay Area, but unemployment rates are generally lower along the coast. The picture changes dramatically when you move to the interior of the state, with jobless rates still stuck in the double digits throughout much of the Central Valley and topping out at nearly 23% in El Centro, located in Imperial County.

While geography and the distinctly different industry mix are responsible for much of the split economic performance in California, the Fed’s unconventional monetary policy also has played a major role. Low interest rates and the Fed’s continued securities purchases have helped fuel the stock market rally, which has disproportionately benefitted the wealthier areas of the state and funneled billions of dollars into the state’s technology sector.

The influx of dollars has ignited a boom in the Bay Area’s real estate market. The tidal wave of money also has made its way into the housing market, as big institutional investors have bought up distressed properties and sent housing prices soaring.

Housing

Housing prices have rebounded solidly across the state. According to the California Association of Realtors, the median price of an existing single-family home has risen 24.4% over the last year and home prices have now retraced around half of their nearly 60% peak-to-trough decline from the housing bust.

The run-up in prices has helped reduce the proportion of underwater homeowners in the state to 15.4% from 29% a year ago.

The improvement in housing values has provided a major boost to communities along the coast, where housing values are the highest. The rise in housing wealth has helped support consumer spending and opened the door to trade-up activity.

Housing affordability, however, has become a major issue to watch. Typically when housing values run up along the coast, homebuyers refocus their attention to the state’s interior areas. This affordability migration has been upended by the massive influx of investor purchases, which have pushed home prices sharply higher and severely reduced housing affordability.

The California Association of Realtors First-Time Homebuyers and Traditional

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Bifurcated Recovery Remains in Place for California Economy

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Housing Affordability Index have both fallen significantly over the past year. Housing affordability is lowest in the Bay Area, but it has fallen markedly throughout the state. Southern California and the Central Coast have seen rapid home price increases, which has put a damper on housing affordability.

The Central Valley remains relatively affordable, but prices have still increased. Conditions were made worse by the sudden jump in mortgage rates that accompanied the Fed’s taper talk that began back in May.

We suspect there will be some moderation in home price appreciation over the next year, but overall, California’s housing market should remain solid.

Tourism Remains Strong

California tourism has continued to show strength throughout the first half of 2013. Hotel occupancy and average daily rate (ADR) is up 2.6% and 5.6% respectively year-to-date. On a regional basis, hotel occupancy is up 2%–4% in most areas.

Riverside and Northern California have seen the strongest year-to-date increases in hotel occupancy, as these regions play catch-up. Coastal areas, which have seen the strongest performance in the state, are seeing slightly more modest rises in hotel occupancy; however ADR is up much more significantly. Average daily rates in San Jose, the Bay Area, and Los Angeles are up around 12% over the last year.

Airport traffic is also up, with overseas arrivals up a solid 4.0 from last year. Overall, total airport traffic is up 1.5% on a year-to-date basis.

Leisure and hospitality employment continues to mirror the gains in tourist traffic. Employment in this sector has grown 4% over the past year, adding 66,100 jobs.

California’s Agriculture Sector Faces Headwinds in 2013

After a relatively strong year in 2012, and groundwater basins are being depleted, many growers are concerned about water supplies for 2014, particularly if precipitation is only subpar to normal for next season. Dairy

Milk prices strengthened during the first half of this year as global milk production declined with poor weather, especially in New Zealand. Later in the year, milk prices lost some of the gains because of higher domestic inventories, bringing less efficient California dairies back closer to break evens. However, strong international milk powder prices are limiting the downside compared to other U.S. states given California’s very large powder production sector. Furthermore, California dairies are optimistic about decreasing commodity feed prices, such as corn, which has decreased by as much as 40% from last year’s highs.

Many operators, especially those without their own feed crop production and/or other crop diversification, suffered notable losses in 2012. Dairy herds in California were already being culled, before feed costs skyrocketed with the Midwest drought in 2012.

Despite decreases in some key feed costs, hay prices fell only modestly last year and may not decline any more this year as a result of higher water costs. Other Livestock

Cattle prices have disappointed operators this year, as export and domestic demand wanes. The cattle pipeline also was full, because of the drought conditions in the Midwest last year and the poor dairy profitability, encouraging local dairies to aggressively cull their herds.

However, the recent blizzard in the Midwest killed thousands of cattle, which may boost prices in California. Declining corn prices will help margins, and better feed conditions and dairy profitability may slow cattle being put to market.
Bifurcated Recovery Remains in Place for California Economy

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will likely improve livestock prices late in the year and into early 2014.

Fruits, Nuts and Vegetables

Fruit prices are lower than last year, disappointing many growers and packers. The frost last spring resulted in only minimal damages. Citrus producers have enjoyed good prices. Despite slowing economies locally and abroad, nut sales continue to be strong in 2013, due in large part to robust exports.

The almond bloom and pollination this year was not as good as many hoped, resulting in a slightly smaller crop, even though plantings have increased. Excessive heat during the summer resulted in smaller almonds and more blanks for pistachios.

The lack of rain and early crop set has made most nuts in the San Joaquin Valley more vulnerable to pest problems. Short water supplies and lower well water also may reduce nut yields in the San Joaquin Valley, especially for almonds. This has strengthened nut prices.

Almond yields could suffer for the next couple of years if growers find it necessary to irrigate with saltier water. Nut crops and vineyards are doing well in northern regions, where water is not so problematic.

Vegetables experienced severe freezing conditions in the deserts early this year, which slowed production for some producers and provided market opportunities for others to realize higher prices. Good weather in spring has increased yields and unfortunately reduced prices for many vegetables, but there was some rebound in prices for many vegetables in recent months.

Wine and Wine Grapes

Most California wine grape producers are enjoying good prices in 2013, as wine sales improve, but prices paid to growers slowing economies and increased production abroad. Tomato plantings remain high, despite water costs, though disease problems have reduced yields.

Labor

Many producers reported shortages of labor in California last year. Fruit and vegetable producers have slightly increased their wages paid.

Farmers are apprehensive about future labor availability due to the improving economy in Mexico and possible federal regulatory changes requiring stricter worker documentation. They are, however, hoping for the passage of immigration reform legislation in Congress, designed in part to provide a more stable labor force for California agriculture producers.

They also will experience higher costs resulting from the state’s higher minimum wage and new health coverage requirements.

Staff Contact: Dave Kilby

The California Chamber of Commerce Economic Advisory Council, made up of leading economists from the private and public sectors, presents a report each quarter to the CalChamber Board of Directors. This report was prepared by council chair Mark Vitner, managing director and senior economist at Wells Fargo Securities, LLC.

Publication of this report is a project of the California Foundation for Commerce and Education.
Simplify your training requirements and reward supervisors with free coffee.

Regardless of company size, CalChamber recommends harassment prevention training for all supervisors and employees. Just ask any employer blindsided by a workplace harassment lawsuit—the costs are enormous. California requires companies with 50 or more employees to provide two hours of sexual harassment prevention training to all supervisors within six months of hire or promotion, and every two years thereafter. CalChamber’s online training makes it easy to educate employees and meet your compliance requirements.

Get a $5 Starbucks eGift Card for every California Harassment Prevention training seat you purchase by 12/20/13.

Use priority code HPTST9. Preferred and Executive members receive their 20% discount in addition to this offer.

California courses include new legislation clarifying that sexually harassing conduct does not need to be motivated by sexual desire.

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