ALERT

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CalChamber®
CALIFORNIA CHAMBER OF COMMERCE

Budget Trailer Proposal Brings Job Killer List to 21

Increases Permit Processing Costs

The California Chamber of Commerce this week added a **budget trailer proposal** to its job killer list, bringing the total number of job killers to 21. The latest item, which increases permit processing costs, will be considered by the Senate and Assembly Budget Committees in the coming weeks.

The budget trailer proposal significantly increases the costs of permitting aerospace, recycling, oil and gas, and other critical waste facilities by eliminating permit applicants' option to be charged a predictable flat permitting fee.

Instead, the proposal gives the Department of Toxic Substances Control (DTSC) carte blanche to charge whatever fee it determines, notwithstanding well-recognized and self-acknowledged deficiencies in DTSC's current permitting program that have resulted in excessive delays in permit processing.

Coalition Opposing

According to CalChamber and a coalition of trade associations, local chambers of commerce, and recycling facilities, the proposal would be costly to permit applicants and invite potentially intractable disputes.

The process being contemplated would add further delays to the permitting process and impose extraordinary, unjustified, and unpredictable costs on businesses trying to move forward with development plans for facilities needed in aerospace, recycling and waste disposal, energy, oil and gas, to name a few.

The cost for obtaining a permit would be unpredictable and unsustainable, and would thus discourage investment in facility upgrades and renewals for critical hazardous waste facilities.

Uncapped Program

In their **opposition letter**, the CalCham-

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CalChamber Takes Positions on November Measures

The California Chamber of Commerce Board of Directors recently took positions on the following two initiatives proposed for the November 2016 ballot:

Oppose Prop. 30 Tax Extension

The CalChamber Board voted on May 18 to **oppose** a proposed ballot initiative that would extend Proposition 30 income tax hikes until 2031.

CalChamber did not oppose the original Proposition 30 tax increase because the measure was supposed to be temporary and the state was in the midst of a dire financial situation.

An extension of Proposition 30 would make the tax virtually permanent, even when the state's budget is balanced. In voting to oppose the proposed tax extension, the Board noted that the state currently has in excess of $3 billion in reserves and the Governor has proposed a balanced budget that pays down debt and saves even more for future economic downturns.

Also, revenue from the personal income tax is highly volatile and any anticipated revenue from this initiative might be significantly reduced when California is faced with future recessions.

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Inside

Labor Law Corner

How to Apply New Federal Overtime Rule to Outside Salespeople

Barbara Wilber
HR Adviser

Does the new federal salary requirement apply to our outside salespeople who receive a monthly salary?

No. Neither federal nor California law require the payment of either minimum wage or overtime for an outside salesperson position that meets certain duties tests.

The federal overtime rule taking effect on December 1, 2016 under the Fair Labor Standards Act (FLSA) applies to the Executive, Administrative, and Professional exemptions that are subject to a salary basis test.

Federal Test

Under the federal outside sales duties test, to qualify for the outside sales employee exemption, all the following duties requirements must be satisfied:

• The employee's primary duty must be making sales or obtaining orders or contracts for services or for the use of facilities for which a consideration will be paid by the client or customer. "Sales" includes any sale, exchange, contract to sell, consignment for sale, shipment for sale, or other disposition. It includes the transfer of title to tangible property, and in certain cases, of tangible and valuable evidences of intangible property; and

• The employee must be customarily and regularly engaged away from the employer's place or places of business.

California Test

California defines an outside sales position as follows:

"Any person, 18 years of age or older, who customarily and regularly works more than half the working time away from the employer's place of business selling tangible or intangible items or obtaining orders or contracts for products, services, or use of facilities."

Differences

Although the federal definition requires an employee only to meet a "primary duty" test, note that in California an employee must perform the outside sales duties more than half the time to be exempt.

If your outside salesperson positions meet the above criteria, their salary is not subject to either the new or previously existing salary basis tests.

More information about how the FLSA overtime final rule will affect your Executive, Administrative, and Professional positions will be available on *HRCalifornia.com*.

The Labor Law Helpline is a service to California Chamber of Commerce preferred and executive members. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at ***www.hrcalifornia.com***.

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Labor Law

HR Boot Camp. CalChamber. June 7, Santa Clara; September 7, San Diego; September 22, Sacramento. (800) 331-8877.

How to Avoid Sick Leave, Vacation and PTO Uh-Ohs Webinar. CalChamber. June 16. (800) 331-8877.

Leaves of Absence. CalChamber. June 23, Huntington Beach; August 16, Sacramento. (800) 331-8877.

Business Resources

Helping Small Businesses Become ADA Compliant Webinar. California Capital Access Program (CalCAP) Americans with Disabilities Act (ADA) Financing Program. June 2. *CalCAP@treasurer.ca.gov.*

International Trade

U.S. Government Clean Energy Workshop. U.S. Department of Commerce and others. June 2, San Francisco.

Select LA Investment Summit. World Trade Center Los Angeles. June 16–17, Los Angeles. (213) 622-4300.

SelectUSA Investment Summit 2016. SelectUSA. June 19–21, Washington, D.C. (202) 482-6800.

Japan-U.S. Innovation Awards. Japan Society of Northern California. July 22, Stanford. (415) 986-4383.

G-20Y Summit. G-20Y Association. September 21-25, St. Moritz, Switzerland.

2016 Public Forum on "Inclusive Trade." World Trade Organization. September 27–29, Geneva, Switzerland.

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College Prep, Graduation Rates Get Education Committee Attention



Photos by Sara Espinosa

The CalChamber Education Committee hears from Michal Kurlaender (left), associate professor and chair of the Graduate Group in Education at the University of California, Davis School of Education, about high school student readiness for college, and the variables that account for differences in readiness. She has just been awarded a $5 million grant to continue to study this area. Dr. Jim Dragna, the new "Graduation Czar" for California State University, Sacramento, describes measures the university is taking to increase graduation rates. Listening are (from right) committee Chair Sheila Condon of IBM Corporation, CalChamber Policy Advocate Marti Fisher and committee member Fred Ruiz of Ruiz Foods.

Water Storage Flexibility, Conservation Get Committee Review


Stan Van Vleck (left), co-chair of the CalChamber Water Committee, and Valerie Nera, CalChamber policy advocate for water, get an update on the status of the Sites Reservoir Project from James Watson (far right), general manager of the project. If Sites Reservoir had been operating this year, it would have captured and stored 904 million acre-feet (295 billion gallons) of water from the Northern California rains this year through April 7, providing flexibility that would have enabled state water managers to better balance water supply needs with environmental goals, such as protecting fish. Following the presentation on Sites Reservoir, the committee heard from Eric Oppenheimer (center), director of the Office of Research, Planning and Performance at the State Water Resources Control Board. Oppenheimer talked about the emergency conservation regulations and possible changes to be considered by the State Water Board, as well as the framework for long-term conservation measures, building on the current reduction mandate to a 20% savings rate by 2020.

Statewide Enforcement Effort Targets Underground Economy

A multi-agency team led by the California Department of Insurance **reached out last week** to businesses that may operate in the underground economy.

The enforcement effort included visits to dozens of locations across the state to educate business owners of their obligations to comply with insurance, licensing, workplace safety, labor laws and tax codes.

Characteristics

Businesses that operate in an "underground economy" may engage in such activities as hiring employees off the books and paying them under the table; not withholding and remitting state disability insurance contributions; failing to protect workers as required by workplace health and safety regulations; and not carrying the proper licenses or adequate workers' compensation insurance coverage.

Enforcement teams visited a wide variety of businesses: security firms, restaurants, environmental waste companies, personnel services, home design, roofing, tree services, limousines and charter bus companies, moving companies, retail stores and construction sites.

The teams verified that contractors had valid licenses and workers' compensation insurance and checked that workplace safety measures were followed.

Safety, licensing and insurance violations were found at approximately 20 of the businesses visited. Those not carrying required licenses or workers' compensation insurance were issued immediate stop work orders. Other businesses received administrative citations and penalties for workplace safety violations, and some received audit referrals.

The multi-agency team included the Department of Insurance, the Contractors State License Board, the Employment Development Department, Franchise Tax Board, Department of Industrial Relations and local district attorneys.

Results by Area

A news release from the Department of Insurance provided the following information on the scope of the effort:

Sacramento Valley: Visits to four tree services companies and one landscaping company. Three companies had violations and two had no violations. Violations found included a stop work order issued by the Division of Labor Standards Enforcement; no workers' compensation insurance; and Cal/OSHA issued eight workplace safety violations, two of which were serious, and one prohibit-use order for unsafe equipment.

Bay Area/Silicon Valley: Visits to nine businesses, including home remodeling, charter bus and limousine services and moving companies. Four companies had no violations. Five companies had violations ranging from a stop work order for no workers' compensation insurance to penalties for contracting without a license.

Fresno: Visits to three businesses: an ambulance company and two tire stores. More than a dozen workplace safety violations were found at the three businesses, and one was issued a stop work order for no workers' compensation insurance.

Los Angeles and Inland Empire: Visits to 12 businesses, including restaurants, a vape shop, hotels, a nursery, builders and auto services. Violations ranged from no workers' compensation insurance to workplace safety violations.

San Diego: Visits to three construction businesses. One had no violations and two had violations ranging from more than a dozen workplace safety violations to illegal advertising.

Staff Contact: Gail Cecchettini Whaley

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ber and coalition explain that they "fundamentally object to the notion of requiring permit applicants to contribute to an uncapped, pay-as-you-go program for the purpose of reimbursing a permitting agency that is consistently charged by stakeholders and even independent third parties for having poor management practices with respect to processing permit applications."

Under DTSC's proposed language, the cost to obtain a permit renewal or modification would be limitless and thus, further investment in critical hazardous waste infrastructure upgrades will falter.

California's manufacturing sector and the larger California economy depend upon sustaining a hazardous waste system that can efficiently handle waste in a manner that protects both Californians and their environment.

For example, approximately 85% of the waste deposited at one of the largest hazardous waste facilities in California is treated as hazardous waste only in California.

If and when it leaves the state because of unsustainable permitting processes like the one the budget trailer language proposes, the waste is then treated as nonhazardous and thus subject to few, if any, environmental protocols.

To view the job killer list, visit ***www.cajobkillers.com***. For up-to-date information on the job killer list, follow **@CAJobKillers on Twitter**.

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Passing an extension now is premature, according to the CalChamber Board, because Proposition 30 taxes do not expire for another two-and-a-half years.

Oppose Hospital Compensation Act

The CalChamber Board also voted to **oppose** the Hospital Compensation Act of 2016, a proposed ballot initiative that would impose a cap on total annual compensation paid to private nonprofit and for-profit hospital executives at the level of compensation received by the President of the United States—currently $450,000.

In voting to oppose the measure, the CalChamber Board noted that the proposal would put California's health care system at risk for not being able to recruit top talent in a competitive environment, especially because California has a higher-than-average cost of living.

Political Professor Handicaps U.S. Senate, Presidential Races

Jack Pitney, professor of American politics at Claremont McKenna College, presents to the CalChamber Board of Directors on May 18 his analysis of potential outcomes in the California campaign for U.S. Senate, potential vice presidential candidates from both parties, and the political dynamics leading up to the Republican and Democratic party conventions in July.

Former Finance Director Reviews Budget Cycles for CalChamber Board

Michael C. Genest, director of the California Department of Finance during the Schwarzenegger administration and founder of Capitol Matrix Consulting, walks the CalChamber Board of Directors through the rise and fall of California budget income and deficit projections before the directors' May 18 discussion and vote on the initiative extending the Proposition 30 income tax increase on high-income earners.

CalChamber-Opposed Bill Limits Coastal Commission's Access to Important Info

A California Chamber of Commerce-**opposed** bill that bans business from communicating with members of the Coastal Commission on issues before the Commission passed the Senate this week.

SB 1190 (Jackson; D-Santa Barbara) also severely limits the ability of commissioners to communicate with their staff.

Background

The California Coastal Commission is responsible for land use and permitting decisions along the 1,100-mile California coastline. Among other things, the Commission has authority to issue coastal development permits in areas without local coastal programs (LCPs) and act on appeals from areas with LCPs on matters ranging from small issues such as constructing or remodeling single family residences, to major public works projects, as well as enforcement issues, cease and desist orders, and matters in litigation.

Current Law/Practice

Before the early 1990s, the law was silent on *ex parte* communications at the Coastal Commission. The Coastal Act was then amended to explicitly allow commissioners to engage in *ex parte* communications as long as commissioners disclose the communications and pass along to staff any written materials provided.

Commissioners are free to speak with anyone on any side of an issue and they often do. Additionally, applicants are required to provide written disclosures to the Commission of anyone who receives compensation to communicate with the commissioners or staff.

Commissioners also are required to complete annual economic interest statements in conformance with state law.

SB 1190 prohibits *ex parte* communications between commissioners and interested parties on adjudication or enforcement proceedings even though the *ex parte* process has been working well for a number of years.

Citizen Participation

As a public body, the Commission should encourage citizen participation and communication. In turn, the Legislature should encourage maximum communication with the Commission, and commissioners who desire more information should be allowed to hear it as long as they publicly disclose and describe those communications as required by law.

Although SB 1190 would allow interested parties to speak with staff, it is the commissioners and not the staff who are the ultimate policy makers and who should be free to discuss permitting decisions with all parties who may be affected by an action.

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Agency Official Explains How State Measures 'Pollution Burden'

Photo by Sara Espinosa

Arsenio Mataka, assistant secretary for environmental justice and tribal affairs in the California Environmental Protection Agency, explains to the CalChamber Environmental Policy Committee on May 17 how the state calculates a CalEnviroScreen score to indicate the impact of emissions and waste disposal on different regions of the state. The formula combines a "pollution burden" (based on exposure to things like air quality, pesticide use and traffic density) with factors such as public health and socioeconomic statistics. At right is Amy Mmagu, CalChamber policy advocate for climate change and environmental justice issues. At left is Anthony Samson, CalChamber policy advocate for environmental regulation issues.

California Poised for Economic Growth; Housing Affordability Challenge Emerges

The U.S. economy started off on a down note in 2016, with gross domestic product (GDP) growth slowing to a paltry 0.4%, even as the financial and commodity markets have continued their wild ride. The global commodity glut and the slowing world economy are the proximate drivers of the weak numbers.

The good news is that these shocks have already inflicted their maximum damage on the U.S. economy, and core drivers of growth, such as consumer spending, are more than strong enough to push the economy through these problems. As such, most economic forecasters continue to forecast growth in the 2% to 2.5% range for the rest of the year.

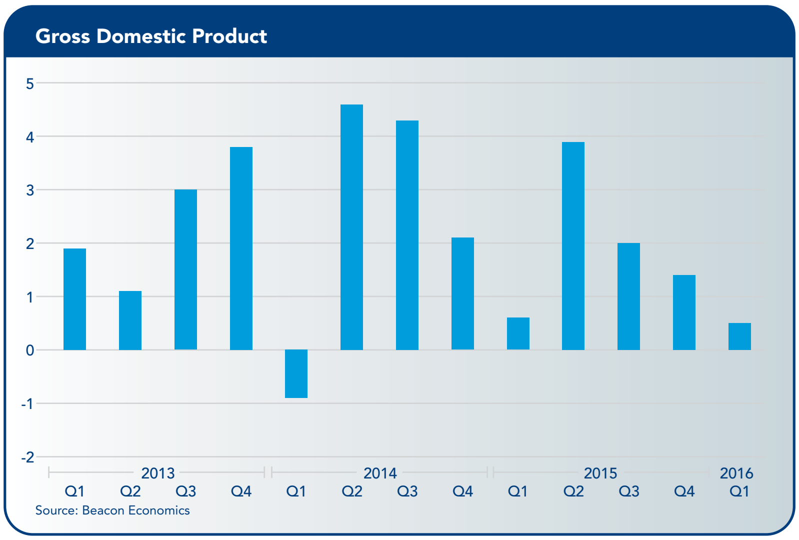
The medium term outlook also is benign. There are plenty of reasons why the United States' economy will not grow as rapidly as everyone would like over the next couple of years, but few that would lead you to believe the nation's economy will stop growing. The slow pace of growth may even be an underlying strength as the surest path to a downturn often comes from major imbalances that form in the heady days of a rapid economic expansion.

Right now the United States is in the seventh year of this expansion, already the third longest on record, and will likely end up as the longest. Sometimes it pays to be a tortoise—particularly when that tortoise offers the relatively high quality of life that so many Americans enjoy.

Consumers

Consumer spending slowed sharply at the start of the year—the third year in a row that such a pattern has emerged. Auto sales in particular tumbled from the torrid pace they were on at the end of last year. But this pull back is surely temporary given that the labor and credit markets remain solid.

The U.S. economy added more than 2.7 million jobs last year, and it has remained on track this year with 628,000 jobs added in the first three months despite slower growth. The headline unemployment rate remains below 5%, and the labor market tightness is finally starting to draw new workers into the labor force—participation rates have started to rise.



More important, incomes have been rising. Real disposable personal income is up 3% from where it was last year at this time, and saving rates are up to their highest level since 2012. Average household net worth in the United States hit a record $738,000 at the end of 2015. Credit markets—while still too tight—have loosened a bit and consumer credit is back about $12 trillion for the first time since the great recession.

Consumers are being boosted further by falling interest rates and the deleveraging that has occurred over the last few years—pushing the financial obligations ratio, the share of household income used to pay for debt obligations, down to its lowest level ever.

In short, there is no reason to think that consumers are likely to continue to tighten their belts as we continue into 2016. The one and only data point available for the second quarter—auto sales—backs this up, with a bounce back to a 17.5 million-unit seasonally adjusted annual rate (SAAR).

Construction

The residential industry has been one of the slowest recovering sectors in the aftermath of the great recession. Single-family housing starts are still under 800,000 (SAAR), far less than the stable number of 1.1 million to 1.2 million.

Inasmuch as the recovery is slow, however, it also continues to have room for growth. Re-sales are running at a steady pace, and as noted, credit is slowly easing for borrowers. Home prices are still quite affordable given low interest rates. Most importantly, strong labor markets have caused the pace of household formation to accelerate, and housing vacancies to fall. As such, while the sector will likely continue to underperform from a long-term standpoint, it will continue to be on an upward trend pushing the U.S. economy forward.

The nonresidential side of things is looking good with one major exception—mining. Real spending on nonmining new structures hit their highest point in the first quarter of the year on better numbers for a broad range of products including manufacturing facilities and commercial developments.

Mining

The commodity glut has had a dramatic impact on the world economy over the last 18 months—including parts of the U.S. economy. The most obvious example is low crude oil prices that have largely collapsed the pace of drilling of new wells. The low prices are exclusively a supply issue—driven by the increase in U.S. shale oil production. There is little sign that the glut will end anytime soon.

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Production is still close to peak, and stocks of crude in storage have never been higher.

The collapse in mining will not sink the U.S. economy. The sector is simply too small—as past episodes have shown. The 135,000 mining jobs lost in 2015 were a tiny fraction of the 2.6 million net jobs added overall.

While the contraction is creating financial distress for some lenders, and hits some local economies hard, it isn't having much of a broader impact. Houston is still experiencing job growth—although at a much slower rate than two years ago, and Dallas continues to grow at a rapid pace.

Part of the offset is that, unlike in the past, the United States is still producing a lot of oil. And as soon as prices reach $50, it will again. In past cycles, the nation was shut out by cheaper foreign supply. Today, the United States is the cheap supply.

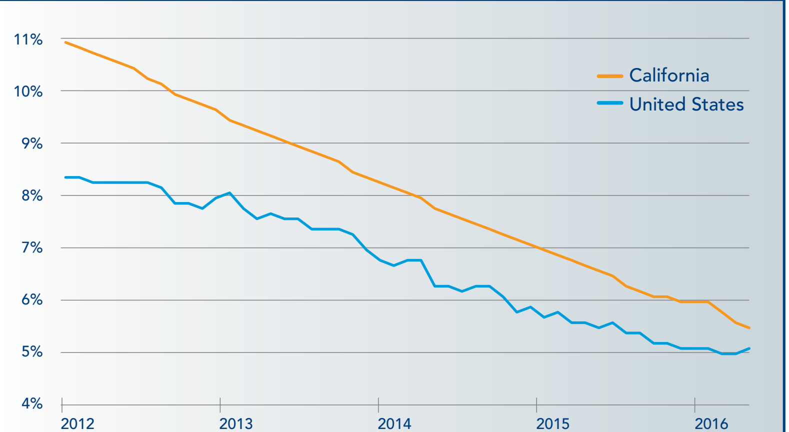
In the meantime, the benefits of cheap commodities to households, businesses and the trade deficit will continue to help the U.S. economy grow this year.

Exports

The final worry is the troubled global economy and its impact on U.S. exporters. Despite a slowdown in China, commodity-producing nations that are in various states of economic distress, and a strong U.S. dollar, exporters managed to increase their overseas sales in 2015 over the previous year by a small amount. The widening trade deficit last year was driven by imports, as U.S. consumers ramped up spending. Indeed, U.S. exports have proven how competitive they are by faring decently in an extremely adverse environment.

Today, China is working hard to stabilize its economy—and some recent evidence suggests that growth has stabilized. While that nation clearly faces large challenges, from demographics to economic liberalization, China's short-term efforts will produce results. At the same time, the European Union continues on its path to recovery. And as with the United States, both locations are benefiting from cheap commodity prices.

California vs. U.S. Unemployment Rate



Source: Beacon Economics

One simple sign of less stress in the global economy—the U.S. dollar is finally starting to soften a bit as panic that bit the markets earlier in the year continues to wane. It is now down about 6% from the peak it was at earlier in the year.

Market Outlook

As for the financial markets, they apparently have overcome much of the fear that dogged them earlier in the year. The S&P has more than recouped the losses experienced in January and February. At this point we should be used to such head fakes—this is the fourth time the market has seen a double-digit decline in values since the great recession came to an end.

This is a surprising degree of market volatility. In the past, typically, there has been only an occasional nonrecession market sell-off, Black Monday, for example, in October 1987. This is why we have economist Paul Samuelson's immortal quip about the markets predicting nine of the last five recessions—in the last decade, the markets have gone five for one.

Why they are behaving so irrationally is impossible to know—although it may be worth speculating about the role of high speed trading, the weak pace of the U.S. recovery, or simply the psychology of being a trader in the post- Lehman failure world.

Whatever the reason, those monitoring the direction of the U.S. economy are best off ignoring the financial markets and focusing their attention on the "real" economy—since that is where recessions start in the first place. Beacon Economics' nonheadline-making outlook is based on solid fundamentals for various segments of demand in the U.S. economy, which suggests continued growth.

California

For the fourth year in a row, California outpaced the nation in job growth as well as output. The state experienced broad-based gains across its key industries, ranging from agriculture to high tech and nearly everything in between, while its unemployment rate approached a multi-year low.

While the state is poised for continued growth in 2016, it also faces a number of challenges:

• First, as California's economy has grown, housing affordability has once again emerged as a problem for households, both owners and renters.

• Second, the state's fiscal situation may have improved in recent years, but its budget is as vulnerable as ever to

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volatility in its revenues.

• Finally, like the nation as a whole, the gap between the haves and have-nots is cause for concern.

Gross State Output

The latest estimate of output for the state is for the third quarter of last year. From the same quarter of the previous year, overall output grew by 3.5% in California—almost twice as fast at the 1.8% seen in the balance of the nation.

Two sectors—professional and information—accounted for more than half of the output gap. These sectors include tech, but also a wide variety of other high-skilled sectors as well. Logistics, real estate and agriculture also outperformed.

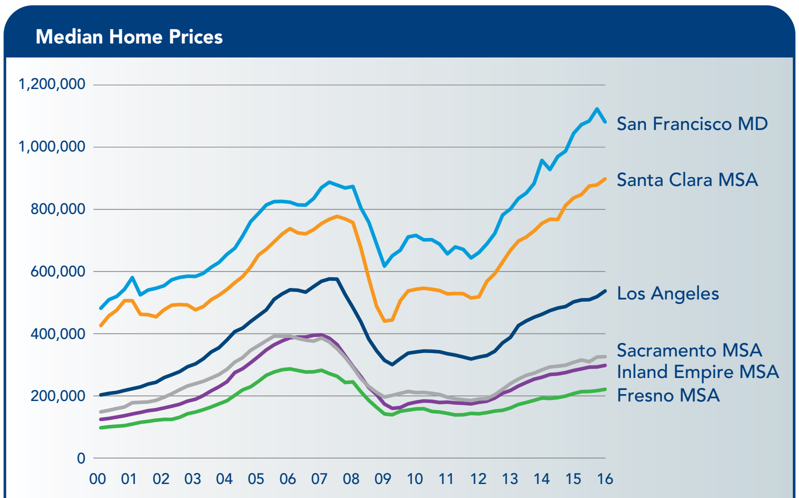
The only sectors that were below national trends at a significant rate were finance, mining, manufacturing, and interestingly, government. Mining and manufacturing show the growing impact of environmental regulations and land costs in the state.

Government would seem to be a surprise given the bounce in state revenues. But like many governments across the United States, much of this funding is being siphoned off to back fill underfunded pensions and health benefits. As such, available resources for infrastructure and education have been more limited than what might be expected.

Labor Market

The closest thing to a real-time gauge of California's economic performance is its labor market. As the state economy has chugged forward over the past three-and-a-half years, its unemployment rate has declined steadily. By the end of 2015, the unemployment rate stood at 5.9%, the lowest since late 2007, as job creation outpaced increases in the labor force.

For the fourth year in a row, California added wage and salary (nonfarm) jobs at a faster pace than the United States as a whole. California added jobs at an annual rate of 3%, well above the U.S. rate of 2.1% and the fourth fastest pace among the states. The pace of growth actually accelerated in 2015 to its fastest in more than 15 years.



Source: Beacon Economics

Wage and salary employment increased by 466,000 jobs last year. Nearly every part of California— along the coast as well as inland—participated in that growth.

In yearly percentage terms, the San Francisco Bay Area and San Jose/Silicon Valley regions led the state in job gains, as they have over the last several years, with the Inland Empire and the Fresno Metro Area County turning in impressive increases as well. Los Angeles County led the state in absolute terms with more than 85,000 jobs added.

The start of 2016 has not looked good for California. If we are to believe the numbers as currently reported, job growth has slowed to barely 1% in the first three months, as a strong February was unable to make up for both a weak January and March.

The good news is that we don't believe these numbers. Rather, we think that they are only showing issues with the survey used to estimate the numbers. Our reasons for this optimism come from a number of courses:

• One reason is the household numbers that have shown the exact opposite trend with an acceleration of job creation and the unemployment rate dropping by close to half a percent in just three months.

• The second reason is the odd nature of the declines. For example, administrative services shed 27,000 jobs from December to January alone, which single handedly accounted for the overall decline in the number of jobs.

Ultimately we think the revisions that come as the year progresses will show the situation in a more favorable light.

Real Estate Markets

California's housing market maintained an upward trajectory last year in terms of prices, sales, and new construction. The statewide median price of a home was $403,600 in the final quarter of 2015, an increase of 5.5% from one year earlier.

The statewide median has been on the rise consistently since 2012 but has yet to reach the peak of $519,800 that was set in the first quarter of 2007.

Similarly, sales rose last year by 10.5% following a decrease of 8.7% in 2014, but continue to be constrained by lean inventories in much of the state. Meanwhile, rental markets across the state were marked by low vacancy rates and rising rents last year, as the state's homeownership rate (54.3%) showed little sign of improvement.

Higher home prices and sales ought to trigger an increase in construction, but new home building has been restrained in this cycle. In 2015, the total permits rose,

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but still fell short of the 100,000 threshold and were less than half of the peak levels that preceded the great recession. Moreover, multifamily permits accounted for the lion's share of permits, mainly because much of the activity is taking place in the state's large metro areas.

Part of the slow start is due to the high (and growing higher) cost of housing that magnifies the impact of credit constraints. But much more of it is due to the simple fact that permitting housing in the state takes years longer than most parts of the United States because of the political power that NIMBYs wield here.

Whatever the cause, California's long-run housing and population imbalance is already starting to reappear—the state has added four new people for each new housing permit over the last two years, one of the lowest rates in the nation. This in turn is driving housing costs up to some of the highest in the nation.

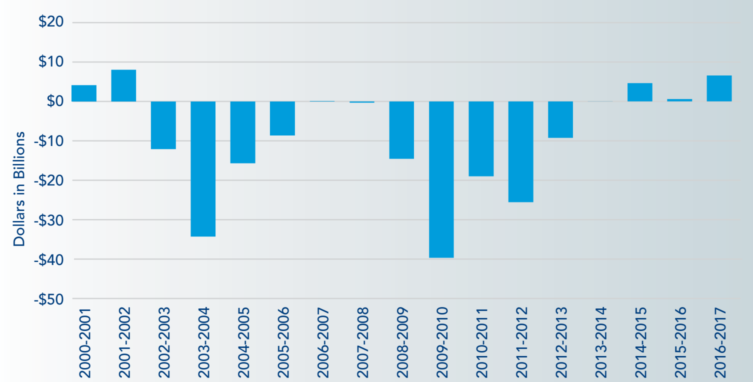
Nonresidential real estate has shown considerable improvement in recent years. Vacancy rates on office properties have declined in many markets, while industrial real estate is in very short supply with vacancy rates among the lowest in the country. Lease rates for both property types have increased by varying amounts around the state, and should see further increases this year.

In turn, new commercial construction rose by 6.8% last year, a solid gain, but well below 2014 when valuations rose by nearly 40%. Increases in permit valuations occurred last year in hotels (+5.5%) and industrial (+0.6%), with retail declining by 5.6% and office down marginally.

Alterations also slipped, down 6.8%, after an increase of nearly one-third in 2014. The year ahead will be mixed once again, with retail and office under pressure, but continued gains anticipated in the hotel and industrial segments.

Balanced Budgets Have Been Quickly Followed by Huge Deficits*

*Budget shortfalls or surplus, measured by the annual Governor's Budget.



Source: California Department of Finance. May Revision 2016–17.

Conclusion

This year is shaping up to be one of steady gains in overall economic activity and employment, with the state's key industries continuing to see job growth and the fortunes of California's households improving with rising wages and growth in personal income. Despite concerns over the business climate, the state economy is one of the most dynamic in the country, as evidenced by the large amount of venture capital it has attracted on a consistent basis over the last several years.

The state is well-acquainted with the challenges it faces in 2016 and beyond. As the economy prospers, home prices shoot up and housing affordability plunges. Builders respond, but the incentives and constraints they face affect the mix of homes, leading to more higher-priced homes and an undersupply of lower-priced homes that the state needs. This story is not new, but rather is a recurring theme of California's housing market.

Concern about California's fiscal situation is yet another recurring theme in the state's economic cycles. For years, the state's revenue stream has been heavily dependent on the personal income tax, particularly taxes collected on those in the top tax bracket. Many in that bracket have high, but volatile, incomes that are tied to the performance of the stock market.

As such, the state's revenues are especially pro-cyclical, rising sharply when the economy and financial markets are on the rise, but falling precipitously when the economy heads south.

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 Christopher Thornberg, founding partner of Beacon Economics, LLC.

Bill Limits Coastal Commission's Access to Important Information

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Differing Views Needed

Discussions with parties who have differing views are an important source of information for commissioners.

Commissioners attend three-day meetings each month and receive dozens of staff reports totaling thousands of pages. People who wish to testify are limited in the time they are allowed to make a presentation due to the limited time available for meetings (sometimes being given only one minute to testify during a busy agenda).

Most commissioners have full-time jobs and/or are locally elected officials. If interested parties are limited to one or even a few minutes of testimony in a public hearing to make their case, commissioners are deprived of any in-depth discussion of the matter with parties having varying viewpoints, except the Commission staff.

Further, given the limited time commissioners have to review staff reports, many commissioners desire to conduct site visits at the locations where projects are proposed to get a better understanding of the physical attributes of the site and how the project would affect coastal resources.

For projects proposed on privately owned property, commissioners requesting a site visit must necessarily interact with interested parties such as the property owner, project applicant, and/or applicant's representative(s). Prohibiting *ex parte* communications would essentially eliminate commissioners' ability to conduct site visits.

Weakens Communication

Moreover, SB 1190 would significantly weaken the ability of commissioners to communicate with their staff—which would further limit the access to information that commissioners need in order to make informed decisions.

This bill would essentially prohibit commissioners from discussing any information in a staff report or staff analysis that is presented at a public hearing if such a discussion could be viewed as an "attempt to influence" a staff report or recommendation. The proposed penalty for violating this provision is a ban from ever holding any public office in the state. The vague standard and harsh penalty would have a significant chilling effect on commissioners' discussions with staff.

Limiting the Commission's ability to communicate openly with its own staff would cripple the function of the Commission and is unprecedented among other government agencies. Commission staff provides necessary knowledge, expertise and technical understanding to commissioners. The bill does not explain how a determination of "attempting to influence" staff would be made, or even who would make such a determination.

Vague Standard

Because of the vague standard in the bill, if commissioners fear that any allegation of staff influence could result in being disqualified from holding public office, commissioners will stop communicating with these key participants, denying the Commission the benefit of staff expertise.

Further, six Commission members are local government elected officials from six designated coastal regions under the Coastal Act. The perspective of these commissioners, given their role in representing the interests of their regions, is important and provides valuable additional information to staff.

Preventing the Commission from working with its staff on reports and analyses would turn the Commission into a rubber stamp.

The Commission's role is to analyze and make decisions based on a comprehensive review of information from both staff and other parties. This bill would leave commissioners without the ability to work through issues with staff and without valuable information gained by properly disclosed *ex parte* communications.

Commissioners would be forced to accept staff conclusions at face value without a proper way to inquire about them, effectively stripping authority and discretion from the commissioners, whose responsibility is to oversee the staff.

Hampers Informed Decisions

The public should be able to communicate directly with public agency representatives, provided this communication is properly disclosed. Such communication is essential for informed decision making.

Further, commissioners must be able to communicate freely with their own staff. There is no reason to change the current practice. To limit the free exchange of information serves no public purpose, can limit mutually acceptable outcomes, and would prohibit the Commission from effectively carrying out its duties to the public.

Key Vote

SB 1190 passed the Senate 23-12 on May 23 on a party-line vote.

Ayes: Allen (D-Santa Monica), Beall (D-San Jose), Block (D-San Diego), de León (D-Los Angeles), Glazer (D-Contra Costa), Hall (D-Los Angeles), Hancock (D-Berkeley), Hertzberg (D-Van Nuys), Hill (D-San Mateo), Jackson (D-Santa Barbara), Lara (D-Bell Gardens), Leno (D-San Francisco), Leyva (D-Chino), Liu (D-La Cañada Flintridge), McGuire (D-Healdsburg), Mendoza (D-Artesia), Mitchell (D-Los Angeles), Monning (D-Carmel), Pan (D-Sacramento), Pavley (D-Agoura Hills), Roth (D-Riverside), Wieckowski (D-Fremont), Wolk (D-Davis).

Noes: Anderson (R-Alpine), Bates (R-Laguna Nigel), Berryhill (R-Twain Harte), Cannella (R-Ceres), Fuller (R-Bakersfield), Gaines (R-El Dorado Hills), Huff (R-San Dimas), Moorlach (R-Costa Mesa), Morrell (R-Rancho Cucamonga), Nielsen (R-Gerber), J. Stone (R-Temecula), Vidak (R-Hanford).

No Vote Recorded: Galgiani (D-Stockton), Hernandez (D-West Covina), Hueso (D-San Diego), Nguyen (R-Garden Grove), Runner (R-Antelope Valley).

The bill now awaits assignment to a policy committee in the Assembly.

Staff Contact: Valerie Nera

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