

# California Promise: Opportunity for All

California's success recovering from the Great Recession masks profound challenges that will bedevil Governor Gavin Newsom and his fellow elected California leaders.

During the teeth of the recession, California lost more than 1.3 million jobs and per capita income sagged by 6%. But since hitting bottom nearly a decade ago, we've added more than 3 million jobs and income has soared by 26%. High-performing industries were professional services, including tech jobs, health care, logistics, and tourism.

Job growth also was biased toward the largest Bay Area and Southern California metro counties, which gained 80% of the new jobs, while representing 70% of the state's population.

But the California Promise is hollow for the millions of residents who are poor or stuck in dead-end jobs. Our state suffers the nation's highest poverty rate, especially considering housing costs.

Headlines touting "prosperity" cannot drown out two unavoidable conditions facing California leaders:

- First, the boom will end: what goes up in California often comes crashing down.
- Second, during good times and bad, many Californians and their communities are left behind.

In his inaugural address, Governor Newsom welcomed a challenge: "Our politics doesn't always reward taking on the hardest problems. The results of our work may not be evident for a long time. But that cannot be our concern."

For these hard problems, smart solutions will pay off in opportunity for all Californians.

## FISCAL STABILITY

The economic recovery has fostered a healthy state budget, allowing former Governor Edmund G. Brown Jr. to build a \$14 billion prudent reserve to hedge against the next economic downturn, and boost education spending by 70% per student since 2012.

California now enjoys its ninth straight year of economic growth, approaching a modern record. But many economists believe the nation's growth will begin to slow, with a threat of a

downturn by 2020. Added factors like labor shortages and high housing prices will dampen growth.

Governor Newsom recognizes the precarious condition of state finances. The top 1% of earners pay 46% of income taxes and these taxes provide 70% of all General Fund revenues. The administration forecasts that a moderate recession would reduce state revenues by \$70 billion over three years.

The Governor and the Legislature should double down on Governor Brown's savings strategy. Pump up the budget reserve, reject new taxes, and resist demands to build into the budget new, ongoing spending that will be painful to unwind when the economy slows.

## HOUSING

The 2018 CalChamber poll found that 60% of voters with children living at home agree that "My children will have a better future if they leave California." Top of mind for these parents: cost of living, including housing. Four of five parents believe their children's generation will have a harder time purchasing their first home in California than their own generation.

This isn't just voters talking; many Californians are voting with their feet. From 2006 to 2016, more than a million more people moved out of California to other states than moved from other states to California. The main driver for net out-migration appears to be high housing costs, since migration rates are highest for those at lower wage levels.

Stretch solutions for the Governor to consider: dismantling litigation hurdles to already-approved housing projects, easier pathways to denser development in urbanized areas, boosting subsidies (such as tax increment financing) for new housing and economic development in distressed areas, and a moratorium on new fees and regulatory mandates that push up housing costs.

## WORKPLACE FLEXIBILITY

California workers value flexibility, but public policy pushes in just the opposite direction. Generally, nonexempt workers cannot skip a 30-minute meal period and eat lunch on-duty in order to leave early. Hourly employees cannot choose to work four 10-hour days (instead of five eight-hour days) unless the boss agrees to pay

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## OVERVIEW

overtime or a supermajority of the entire work unit votes to agree to the schedule. And the popular option to provide services as a freelance independent contractor may soon be out of reach.

Workers in 21st century California face or choose a wide variety of lifestyles and circumstances, including single parenthood, remote living, care for aging parents, or a desire for nontraditional hours. Yet state laws force these same workers to fit an old industrial and paternalistic model.

Employers should be free to provide their employees more flexibility by agreeing, with strong mutual protections, to daily or weekly schedules that are mutually satisfactory. Californians who legitimately choose to offer their services as independent contractors should not be restricted from doing so merely because they provide services to a firm or via a platform in the same industry. The true test should be the amount of control the payer exerts over the contractor.

### WORKFORCE

Besides the weather, California's greatest competitive advantage is our skilled workforce. But unlike the weather, inattention to nurturing this workforce will squander that advantage. For the sake of economic growth, social cohesion, and personal fulfillment, California's leaders must address the skills gap and student preparedness as top public policy priorities.

State leaders directed billions of dollars to K–12 education since the end of the recession, but outcomes are still disappointing. State leaders should re-impose rigorous accountability in schools, more choice for families, and greater collaboration between stakeholders to improve K–12 education.

The goal should be to ensure that every student graduates from high school prepared for the next step—whether that's college or career. While college can provide the most immediate

boost to mobility, graduates can profit from postsecondary choices other than a four-year college. Work-based learning, such as apprenticeships, as well as credentialing and certificate programs, can lead to fulfilling careers.

### ENERGY

California energy policy has become climate change policy. This will not likely change soon, but policymakers should not lose sight of the large costs and economic impacts of this trend. Affordable energy is fundamental to California's economic base, lifestyle and upward mobility.

Electricity rates and motor vehicle fuel costs in California are among the very highest in the nation, largely because California has historically placed a very high premium on reducing criteria air pollutants and, more recently, reducing the greenhouse gas (GHG) emissions that contribute to climate change.

These costs and their effects on ordinary households should be minimized by:

- Maintaining the integrity of the cap-and-trade program and rejecting new command-and-control regulations, mandates or limitations;
- Treating all domestic sources of energy without discrimination, provided they meet all emissions and environmental laws; and
- Implementing a regionalized electric utility marketplace to mitigate the higher costs of renewable power.



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