

# The Kiplinger California Letter

TRENDS IN BUSINESS, GOVERNMENT AND REAL ESTATE • Vol. 45, No. 10

Dear Client:

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With businesses hit hard by the recession... Sacramento will cut employers a break, squelching legislative proposals that would hike costs for companies, possibly leading to further job losses. But firms won't get all they want, either.

#### MAKING LAWS

Among proposals that will be scotched: Giving employees paid sick days... one hour for every 30 hours they work.

Raising permanent disability payments, which would add to workers' compensation expenses.

Making hospitals' insurers absorb costs of neck and back injuries allegedly suffered at work, without making claimants prove they were job related.

Paying workers for traveling to a work site from a remote parking lot...including employees at airports, amusement parks and sports venues.

Eliminating farm worker secret ballots in considering labor representation in the workplace. Employers fret that if the process were transparent, unions could intimidate workers into submission.

Thumbs-down, too, for health care reform.

Lawmakers will leave the complicated issue for Washington to deal with.

And lowering the ceiling for parcel tax approval by localities from two-thirds to 55%. Republicans will defeat a plan to put the lower limit on a future ballot. Ditto for a similar measure for fire and police protection taxes and bonds. All will either fail in the legislature or be vetoed by Gov. Schwarzenegger.

A number of business-backed bills will be stifled. Among them:

Legislation to lower vehicle license fees, tax credits for research and development and a tax exemption for mandatory gratuities imposed by hotels and restaurants.

But there's a 50-50 chance for giving firms more flexibility on meal breaks.

Of course, not all legislation is doomed to defeat. Likely to pass muster:

A bill that would encourage infill projects. A law that exempts a builder from liability for hazardous materials found on an infill site will be extended beyond 2010...as long as the builder has made a good faith effort to clean up.

A measure giving localities more control over green building standards. It would allow local officials to adopt stricter standards than the state requires.

A boost for green energy. Lawmakers will let voters consider a plan to exempt the installation of wind turbines and geothermal heat pumps from the property tax increases that are assessed after new construction.

More money for first time home buyers has a good chance. New funds may be OK'd to give them an income tax credit of \$10,000, or 5% of the home price. Without legislation, the credit will expire before the program ends in March 2010.

#### STATE ECONOMIC FORECASTS

	2009	2010
<b>Job growth</b> (Nonfarm employment)	-2.5%	0.5%
<b>Building permits</b> (Residential, in thousands)	45	75
<b>Growth in taxable sales</b> (Current dollars)	-3.7%	-0.7%
<b>Growth in personal income</b> (Current dollars)	-0.6%	1%
<b>Population growth</b>	1.1%	1.1%
<b>Average unemployment rate</b>	12%	11.5%

L.A.

Boeing will keep producing C-17 cargo planes in Long Beach, a triumph over efforts a few years ago to shutter operations there. Look for the Senate to go along with the House, which has OK'd \$2.2 billion in new funding for the C-17. In production for 15 years, it provides 15,000 Calif. jobs...5000 in Long Beach.

Still higher port fees may be needed to pay for losses on a train route along the Alameda Corridor. With container traffic through the ports off 20% or so, the 20-mile rail operation is short of cash, and its bond rating may be downgraded.

UCLA's Pauley Pavilion will get a \$185-million face-lift starting next year. It means hundreds of construction jobs while the complex is closed for two years.

An \$800-million mixed use development is planned in Carson along the San Diego Freeway. Called The Boulevards at South Bay, the complex will have 1.25 million sq. ft. of retail space, 300 hotel rooms and 1500 apartments. In addition, methane gas from the landfill underneath will be tapped for energy.

ORANGE COUNTY

A six-acre water park hotel development will go up in Garden Grove at the site of a recreational vehicle park. The three-acre water park will be an exclusive amenity for hotel guests who will stay in up to 300 rooms. The city will give the land to the developer and spend \$5 million on a parking garage.

Northgate González Markets will open a distribution center in Anaheim at the intersection of Interstates 5 and 91. The grocery chain signed a 15-year lease for 375,000 sq. ft. of warehouses and a headquarters on North Magnolia Ave.

SAN DIEGO

The city will use \$5 million in federal stimulus funds on solar energy. SunEdison will put up solar arrays in Balboa Park to absorb enough power to provide electricity to about 2000 homes and then buy the power from the city.

San Diego County is going to have trouble expanding its jail in Santee until it receives \$100 million from the cash starved state government. The failure to get the funds would please the city...it wants to use the land to enlarge downtown.

INLAND EMPIRE

A green energy firm plans to build a plant in Rialto to turn yard clippings and other plant waste into renewable electricity. Owned by Rentech, the operation will create 55 jobs by 2012 and enough power for 35,000 homes.

SOUTH COAST

Santa Barbara County's economy will stay sluggish at least until 2011, according to the UCSB Economic Forecast Project. Business conditions should revive more slowly than in the nation as a whole but faster than for the state. Home prices will keep declining in 2010, and retail sales, construction and tourism will remain weak. Unemployment is going up, especially in government and services. More restaurants and stores will close as retail sales drop for the third straight year.

The city of Thousand Oaks is suspending its affordable housing fee until June 30, 2010, after hearing that builders cannot afford the added costs in the current downturn. The fee of \$9000 per single-family home was charged during the housing boom to fund construction of low priced homes.

CENTRAL VALLEY

Fresno leaders will go local in developing the downtown, shunning efforts by out-of-state firms to overhaul the area. They'll go one storefront at a time with help from local investors. They're unhappy that downtown development stalled for five years at the request of a large builder, which finally abandoned its project.

Visitors to the San Luis National Wildlife Refuge Complex are likely to triple to 360,000 after the construction of a new visitors' center and headquarters near Los Banos in Merced County. Restaurants and shops will get big sales boosts.

California's tree fruit industry is struggling. Peaches, plums and nectarines are dropping in price because of a severe frost and the recession, prompting growers to remove trees and plant other crops. Three packinghouses have shut down, and more closings are expected. The latest to go is Ballantine Produce in Reedley.



**BAY AREA**

Figure on the 49ers moving to Santa Clara from S.F.'s Candlestick Park. The city will jointly finance a stadium with the team near Great America, the big theme park. Santa Clara voters will probably consider the plan next year, but the team still has to work out a deal to use Great America's parking lot.

San Francisco's hotels will see financial prospects brighten next year, partly because a shortage of rooms will allow them to charge more as visits increase. S.F. hotels have been particularly hard hit by the recent falloff of foreign visitors.

Tesla Motors, the San Carlos automaker, is getting a boost from Daimler, the German automaker. Daimler, owner of Mercedes Benz, has bought a 10% stake in Tesla Motors, which has built an electric sports car and makes car battery packs.

BART will build a people mover to Oakland airport from Coliseum station. The 3.2-mile connector will operate like a flat escalator on an elevated track at a cost of as much as \$552 million. It will replace the current shuttle bus system.

A battle is looming over a housing project for Redwood City's bay front. DMB Associates wants to build up to 12,000 homes on land owned by Cargill, east of U.S. 101, but environmentalists want the land restored as wildlife habitat.

**ENERGY & WATER**

Don't worry about electricity shortages this summer. The slow economy has reduced demand, and reservoirs are in better shape than last year. Still, the California Energy Commission is encouraging electricity conservation.

The water situation is improving somewhat. Storms during May delivered unexpected snow and rain to the mountains, enabling state officials to increase the flow of water to farms and cities. The State Water Project is going to provide extra water to 750,000 acres of farmland and many cities. But water is still scarce, thanks to three dry years and water preserved for fish.

**BUSINESS LAW**

Class action lawsuits will be easier to file and win under an opinion by the California Supreme Court. Ruling for tobacco companies, the court reinstated a class action false advertising suit that was filed, not only by smokers, but also Californians who had been exposed to tobacco ads. The ruling comes despite Proposition 64, passed in 2004, which limits lawsuits to people who have been directly affected by unfair business practices.

**BORDER CROSSING**

It will be more difficult to travel to and from Mexico starting June 1. Americans will be required to show a passport or a new passport card when traveling by road or ship. Passports are already needed for airline flights. Border officials plan to allow some leeway for people to learn the new rules and may exempt some visitors. But travelers can expect long waits at the border.

**HEAT REGS**

With triple digit temperatures ahead in many areas this summer... Cal/OSHA will conduct inspections to protect workers from illnesses. Most vulnerable are those in construction, agriculture and outdoor leisure. Employers must recognize early warning signs of heat illness and train supervisors to recognize the symptoms, such as headaches, fatigue and muscle cramps. Emergency care must be requested in cases of nausea, vomiting, excessive sweat, hot dry skin, mental confusion, seizures or fainting. Among the requirements: Employees must have access to shade, other cooling areas and cool and clean drinking water. They must be encouraged to drink at least four 8-ounce cups of cool, fresh water every hour or as much as they want. They should be persuaded to take breaks in the shade and pace themselves. Alcohol and caffeine should be avoided. For more information, see [www.dir.ca.gov/heatillness](http://www.dir.ca.gov/heatillness).



BUSINESS  
TECH

Advertising costs on Internet search engines will increase in mid-June, when Google lets retailers and resellers use trademarked names of products sold in ads. In bidding for the highest ad placement, firms will pay more just to be placed at the top of a list of ads when their own name is typed in.

More businesses will bid for the same name, including authorized retailers and information sites with reviews or comparisons of competitive products. There's little objection to electronics dealers being able to state the brands of TVs and computers in their ads. But trademark holders worry that Internet only retailers will lure consumers to their Web sites with brand names, then pitch something else. They'll boast of deep discounts on a product, when it is really more expensive. Bidding will drive up costs of ads for trademark holders wanting to top listings.

## HR

Businesses have a bigger chance of being inspected by immigration agents under new policies from the Obama administration. In the Bush era, only a handful of employers were prosecuted, despite some high profile plant raids.

Rather than targeting workers, the feds will focus on employers, looking for wrongdoing. In many cases, that means planting undercover agents posing as illegals and gathering evidence from employees before launching a raid.

The idea is to eliminate the jobs that bring illegal immigrants to the U.S.

Also expect the Obama administration to extend the virtual fence that helps agents police the border between the U.S. and Mexico, the biggest source of illegal immigration. And it's expanding a pilot program to cross-check fingerprints of anyone jailed in the U.S. to step up deportations of illegals who commit crimes.

## POLITICS

What's in Gov. Schwarzenegger's future? After the special election debacle on May 19, it's more likely he'll want to get out of the political grind when his term ends in early 2011. The state's financial troubles have crippled him just as they did his predecessor, Democrat Gray Davis, who was recalled from office.

He could seek Sen. Barbara Boxer's Senate seat when it's up for grabs in the 2010 election. But he'd have to get the nomination from a Republican base that is more conservative than he is. And it would be an uphill battle for him to defeat Sen. Boxer, who won by 2.4 million votes in gaining her third term in 2004.

It's unlikely he'll return to acting in cameo roles or as character figures. And it's hard to picture him in his 60s as *The Terminator* or *Conan the Barbarian*.

Most likely he'll build on his environmental record as the state's leader when many greenhouse gas emissions rules were adopted in the past few years. On the same day as the special election, he was 3000 miles from the state, standing proudly by President Obama in Washington as he announced plans for greenhouse gas measures similar to those already adopted in California.

He could copy former Vice President Al Gore in touring the world with a green energy message, yet with a lot more charisma and fame.

The governor will probably leave office with less power than he entered it, after the 2003 recall election. He still wields a budget pen that protects businesses from lawmakers' many regulatory and spending bills. But in budget negotiations, his own party ignores him, and Democrats have their own agenda. For a movie star, bodybuilder and longtime center of attention, Schwarzenegger faces the worst of all possible prospects in his final days in office: Being irrelevant.

Yours very truly,

*The Kiplinger Editors*  
THE KIPLINGER EDITORS

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