

The Kiplinger California Letter

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Dear Client:

Aug. 15, 2007

The legislative session is unraveling,
in danger of accomplishing little this year.

The governor's agenda is in jeopardy,
his ambitious plans for health care reform
and other changes about to be swept aside.

Only a last-minute deal can save it,
preventing a year of embarrassing defeats.

But agreement is unlikely as hopes dim
for the new laws many envisioned in January.

POLITICS

The budget impasse is largely to blame,
sapping the energy from legislators
and putting all other pending bills on hold.
The budget will be taken up by legislators
when they return from their recess on Aug. 20.

An accord will be tough as Republicans
hold out for additional cuts in spending.

Health care reform is barely alive,
no longer the harbinger of revolutionary change
aimed at setting an example for the nation.

The Democrats' bill is likely to pass,
hiking employers' costs for expanding coverage.

Firms would have to spend 7.5% of their payroll on health insurance
or contribute to a state fund to provide care for the uninsured.

But Gov. Schwarzenegger won't sign it, though it was he
who drew national attention to Calif. health reform in the first place.
He'll find the terms too draconian and expensive for most businesses.

Water legislation is dead, although the outlook was grim
from the beginning for building a new series of dams and reservoirs.

A compromise over redistricting and new term limits is iffy,
and it's key to determining whether 2007 is a success or a failure.

A Feb. ballot measure would keep lawmakers on the job longer...
12 years in the Senate or Assembly or in a combination of both houses.
Current limits are more strict: Three two-year terms in the Assembly
and two four-year Senate terms. Extended terms would benefit leaders...
Assembly Speaker Fabian Núñez could keep his job up to six more years.

Schwarzenegger opposes the idea but might be swayed to support it
during some 11th-hour horse-trading between lawmakers and the governor.

Legislators may give him a redistricting bill to pacify him,
letting an impartial panel redo legislative and congressional districts.

But that's going to backfire. Members of Congress will fight it
if it appears on the ballot as another state constitutional amendment.

In the end, voters will probably reject extended term limits,
figuring why prolong the stays of lawmakers who can't get much done.

STATE ECONOMIC FORECASTS

	2007	2008
Job growth (Nonfarm employment)	1.4%	0.9%
Building permits (Residential, in thousands)	130.0	134.1
Growth in taxable sales (Current dollars)	4.4%	4.8%
Growth in personal income (Current dollars)	4.2%	4.7%
Population growth	1.1%	1.1%
Change in median home prices	-2.4%	-4.4%

L.A.

A disruptive labor strike on Hollywood sets isn't in the cards after the Writers Guild contract expires on Oct. 31.

Five other unions have reached agreement with major movie studios, and writers don't have enough clout to disrupt production for long. If there is a writers' strike this fall, it will be a short one.

A Sears store and warehouse in East L.A. will be redeveloped, with housing and more shops supplementing the department store. Boxer Oscar De La Hoya, who is buying the Boyle Heights property for \$70 million, will probably get quick city approval for the complex.

A large multiuse project is on tap in western L.A. County... at U.S. 101 and Lindero Canyon Rd. Two four-story office buildings, dozens of retail stores and restaurants and a fitness center are in the works for the Opus Corporate Center at Westlake Village.

ORANGE
COUNTY

Irvine will drag its feet on zoning for 35,000 new homes over the next seven years, resisting orders of regional officials in the Southern Calif. Association of Governments. Especially irksome for the city are requirements for 21,282 low- and moderate-priced homes. Housing doesn't bring in as much tax revenue as commercial buildings. Other cities got off easier in the Regional Housing Needs Assessment: Anaheim, 9498 homes, Santa Ana, 3393, and Huntington Beach, 2092.

Fluor Corp. is expanding in Irvine, despite moving headquarters from Orange County to Texas last year. The engineering/construction firm is leasing 169,254 sq. ft. in Irvine's Discovery Business Center.

A land developer is bullish on future residential growth, regardless of the housing slump. Investor-backed Forestar Land Partners will buy more than \$250 million worth of land in Southern California. It plans to develop lots and eventually sell them to home builders. Among principals are Steve Cameron and Starwood Capital Group Global.

INLAND
EMPIRE

Republican strength is eroding in one of the party's strongholds. A survey by UC Riverside shows that 36% of residents who've lived in the area under five years lean Republican, but of long-term residents, 42% favor the GOP. Republicans have long been No. 1 in registered voters.

Redlands voters will consider a warehouse licensing tax in Nov... 3.5¢ per sq. ft. imposed on the many distribution centers opening up. But the city council has rejected a ballot vote on a sales tax increase.

Menifee is getting a shopping center, Countryside Marketplace, at I-215 and Newport Road. Among tenants: Target, Kohl's and Lowe's.

The world's largest solar plant is planned in the Mojave Desert. Solel Solar Systems of Israel wants to build a \$2-billion facility covering nine square miles by 2011 with enough power for 400,000 homes. Possible locations: Near Twentynine Palms, Needles or the Nevada border.

SAN DIEGO

Don't hold your breath for a cross-border airline terminal that would make it easier to fly from Tijuana's airport.

The San Diego Airport Authority has formed a panel to look into it, but immigration and customs hurdles will be insurmountable.

An overhaul of the city's civic center is being considered. Officials are looking for a developer that would redo the city hall and civic theater in exchange for the right to build offices or homes.

A home builder is taking a new approach to affordable housing by offering a 2.5% discount to firefighters, police, military personnel, teachers, nurses and city employees. The markdowns by Barratt American are for townhomes in its City Square development in Escondido.



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CENTRAL VALLEY

UC Davis will open a nursing school at its Sacramento campus, funded by \$100 million from the Gordon & Betty Moore Foundation. More than 450 students will seek undergraduate and graduate degrees.

A Redding company has developed a hard-hat cooling system to protect construction workers in the heat. WorkFlow Industrial Products makes computer-controlled fans that cycle on and off during the day.

Pelco will probably add employees in Clovis after its purchase by Schneider Electric of France. The closed-circuit camera maker, Clovis' largest employer, has grown from 100 to 2600 workers since 1987.

Visalia will have a factory that makes nonfat dry milk powder at a former Kraft Foods plant that closed in April. It will be operated by dairy farmers, who'll later add cream cheese, yogurt and blue cheese.

BAY AREA

Napa's downtown is thriving, with 650 new hotel rooms coming, a mixed-use commercial/residential project under construction and 14 new wine tasting rooms in operation. Next up: Oxbow Public Market, opening this fall, with 35 tenants, including food vendors and cafés.

The Oakland City Center Marriott will be beefed up by CIM Group, which bought the 484-room hotel and the Courtyard Oakland Downtown. The company seeks out properties in urban areas with big potential.

Berkeley will probably zone an auto mall near the I-80 freeway, letting the city's five car dealers move to a more convenient location for customers. Vehicles account for 10% of city sales tax revenue.

S.F. will have trouble raising money for a big transit center that it wants to replace the 68-year-old Transbay Terminal bus station. Competing designs for the complex are being circulated, with more space for buses and trains, but the \$3.4-billion price tag will be a stretch.

A 23-story condominium building is planned for downtown San Jose, with prices ranging from the low \$500,000s to more than \$2 million. Along with 213 homes, 11,000 sq. ft. of retail space will be included in Three Sixty Residences, at South Market and San Salvador streets.

More than 100 houses and condominiums will be built in Fremont by SummerHill Homes on 10 acres at a new community called Rosewood in the Irvington District. Prices will range from \$600,000 to \$1 million.

HIGHWAY FUNDS

Don't expect a big surge in Calif. bridge and freeway repairs in response to the Minneapolis bridge collapse on Aug. 1.

The alarm bells will grow softer as the disaster fades from the news.

There's not enough money for the repairs Caltrans wants to make to 228 spans...though most are in no danger of collapsing.

Counties and cities are also pressed for road improvement funds.

Even earthquake retrofits are being delayed...over 600 bridges have been identified as needing upgrades to endure strong temblors.

Most of the \$20 billion in transportation bonds is earmarked for highway and transit expansions and major repaving projects.

Calif. bridges are much safer than the I-35 span in Minn. and other structurally deficient infrastructure across the U.S.

They're less prone to winter salt corrosion in most areas.

And they're designed to withstand earthquakes, unlike others.



CENTRAL
COAST

Santa Maria's Marian Medical Center is going to expand,
with a \$210-million adjoining facility that will hold 188 beds
and a neonatal intensive care unit. Groundbreaking is in September 2008.

The feds will ban fishing on 150 sq. mi. near the Channel Islands
close to the 135 sq. mi. that the state has already placed off-limits.
More closures along the Calif. coast are likely to conserve the fish.

STATE
REGS

Dry cleaners are rushing to find an alternative to perc...
perchloroethylene...which they have used since the 1930s
to remove stains. The state is banning installation of new perc machines
as of Jan. 1. Machines 15 or more years old must be removed by 2010.

The state is offering \$10,000 grants to businesses that switch
to alternative machines, which range in price from \$25,000 to \$200,000.

In the state's crosshairs: Farms in Sutter and Yuba counties.

Plus construction companies and car washes in Orange County.

They are the latest to be targeted by investigators probing violations
of workers' compensation, child labor and other workplace regulations.

BUSINESS
LAW

Attorneys will think twice before filing frivolous lawsuits.
The California Supreme Court says a malicious prosecution claim
can be filed against attorneys whose claims are found to be frivolous.

BUSINESS
TRENDS

A major winery sale reflects growth in sales of premium wines...
bottles priced at \$15 or more. Ste. Michelle Wine Estates
of Washington state and Piero Antinori, a leading Italian winemaker,
purchased Stags' Leap Wine Cellars in Napa Valley for \$185 million.
High-end wine sales are growing 10% a year, making up 35% of revenue.

Venture capitalists are financing start-up firms again,
no longer frightened off by the memories of the dot-com meltdown.
They're especially targeting the high-tech and biotech industries,
looking for another Google or wonder-drug maker to ride with.
But they're also meddling more now, dictating company strategy.

The state will help businesses evaluate health insurers
that offer preferred provider organizations (PPOs) in the same way
that it now rates California's health maintenance organizations.
Insurance Commissioner Steve Poizner will obtain data from Aetna,
Blue Shield, Cigna, Health Net, WellPoint and United HealthCare
that can be used for a report card rating the PPOs' services.

2008
ELECTION

The earlier presidential primary means more money for California.
Candidates, their entourages and news media covering the race
will spend big on hotels, travel and communications as the Feb. 5 voting
gives the most-populous state more clout in selecting the 2008 nominees.

Big names will spend more time in the state than in past years.
For the GOP, ex-NYC Mayor Rudy Giuliani has visited Calif. eight times,
and former Mass. Gov. Mitt Romney has appeared at 33 locations in 2007.
Sen. Hillary Clinton of New York and Sen. Barack Obama of Illinois,
the leading Democrats, have each come to the state more than 10 times.

Yours very truly,

The Kiplinger Editors
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