

BEFORE THE
CALIFORNIA ENERGY COMMISSION

In the matter of,)
) Docket No. 11-IEP-1A
)
Preparation of the 2011 Integrated)
Energy Policy Report)

**2011 Integrated Energy Policy Report Staff Workshop
California Economic Outlook**

CALIFORNIA ENERGY COMMISSION
HEARING ROOM A
1516 NINTH STREET
SACRAMENTO, CALIFORNIA

WEDNESDAY, JANUARY 19, 2011
9:30 A.M.

Reported by:
Kent Odell

COMMISSIONERS:

James D. Boyd
Jeffrey D. Byron

STAFF:

Mary Heim
Bill Junker
Chris Kavalec
Ivin Rhyne

PANELISTS

Panel 1:

Steve Cochrane, Moody's Analytics
Jim Diffley, IHS Global Insight, Inc.
Jerry Nickelsburg, UCLA Anderson Forecast
Steve Levy, Center for the Continuing Stud
of the California Economy
Dennis Meyers, Department of Finance
Jeffrey Michael, University of the Pacific
Business Forecasting Center

Panel 2:

Steve Cochrane, Moody's Analytics
Jim Diffley, IHS Global Insight, Inc.
Jerry Nickelsburg, UCLA Anderson Forecast
Steve Levy, Center for the Continuing Stud
of the California Economy
Jeffrey Michael, University of the Pacific
Business Forecasting Center
Brad Williams, Genest Consulting

Panel 3:

R. Sean Randolph, Bay Area Council Economic Institute
Jack Stewart, California Manufacturers and
Technology Association
Karen Mills, California Farm Bureau Federation
Bob Raymer, California Building Industry Association
Robert Callahan, California Chamber of Commerce
Iris Andre, CB Richard Ellis

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1 P R O C E E D I N G S

2 JANUARY 19, 2011 9:30 A.M.

3 MR. JUNKER: Good morning. Welcome to the 2011
4 Integrated Energy Policy Report Proceedings Workshop. I
5 have some brief housekeeping instructions to share with you.
6 The restrooms are off the atrium to your left. There is a
7 café on the second floor, look for the white awning. If
8 there's an emergency and we need to evacuate the building,
9 please follow the staff to Roosevelt Park, located diagonal
10 to the building, and wait there until we're told it's safe
11 to return.

12 The workshop today consists of three discussion
13 panels that will proffer various aspects of California's
14 economic and demographic future. After each panel, there
15 will be a question and answer period. If you have
16 questions, please write them on an index card and give them
17 to either Kate or Robbie, and I was hoping that they would
18 be here - there's Robbie in the back, please? Thank you.
19 And Kate is milling around here. Index cards are available
20 on the table in the lobby. During the public comments
21 portion of the agenda, we'll take comments first from those
22 in person, and then we'll turn to individuals participating
23 via WebEx. For those present, please use the center podium
24 microphone, which I'm not seeing - well, this one - to make

1 your comments. Please give the transcriber you're business
2 cards so we can make sure your name and affiliation are
3 reflected correctly in the transcript. WebEx participants
4 can use the chat function to let the WebEx Coordinator know
5 that you have a question or comment, and will open your line
6 at the appropriate time.

7 Finally, today's workshop is being broadcast through
8 our WebEx Conferencing System and parties should be aware
9 you are being recorded. A recording will be available on
10 our website a few days after the workshop, and a written
11 transcript will be available within about two weeks.

12 At this point, I would like to invite the
13 Commissioners to make any opening comments.

14 COMMISSIONER BYRON: Thank you. Commissioner Jeff
15 Byron, I am the Associate Member of the Integrated Energy
16 Policy Report Committee. I'm very interested, and have
17 been, in this workshop. I'd like to thank the gentleman and
18 others that are going to be here participating in the other
19 panels. I'd also like to give credit where credit is due to
20 our former Commissioner Weisenmiller in his foresight in
21 setting up this important topic and its importance to
22 forecasting energy demand. And I make no secret of the fact
23 that I'd like very much for the Governor to consider putting
24 Commissioner Weisenmiller back on this Commission so that I
25 can very gracefully retire from it, as well. But I was

1 somewhat hoping that he might be here this morning, but I'm
2 sure he's listening in.

3 There's a great deal of public interest in this
4 topic. I applaud the staff on bringing experts together to
5 help guide us and provide some insights in understanding the
6 economic situation in California and where it's headed. I
7 certainly look forward to being here as much as I can today.
8 Commissioner Boyd.

9 VICE CHAIR BOYD: Thank you, Commissioner. Let me
10 add my welcome and thanks to all of you for being here.
11 This is an incredibly important topic to California for
12 obvious reasons, the state of our economy. It's
13 particularly important, at least from my perspective,
14 because I have been on this Commission longer than any other
15 Commissioner here now, as Vice Chair and Chair of the
16 Transportation Committee and involved in so many other
17 issues, and I know only too well that it really does take a
18 healthy economy to underwrite all the programs that feed to
19 a healthy economy, that this agency is in charge of
20 administering. So, it's extremely important that we
21 understand the economy and that we know how to make
22 contributions to the continued growth of that economy. The
23 Integrated Policy Report, of which I am not on the
24 Committee, having done four of them in the past, I got a
25 break, but we are down to three Commissioners at the moment,

1 so I'm not sure, and one of them half way out the door here,
2 trying to leave. So we're grateful to Commissioner Byron
3 for sticking it out. In any event, it's important that we
4 take the economy into consideration as we prepare the
5 Integrated Energy Policy Report, which really is the State's
6 Energy Policy Report, and we want to get more people to pay
7 more attention to it as just that. And we are starting with
8 a new Governor and a largely new Legislature, whom I think
9 we can approach on that basis. But, "it is the economy,
10 stupid," that some politicians learned painfully in the
11 past, and we want to make sure that we contribute to it, not
12 take actions that end up with a negative overall effect.
13 But we need to understand it, and the staff has done a
14 marvelous job of assembling panels and speakers today to
15 give us the insights that I think we as a commission need to
16 have in order to continue to move positively forward. So,
17 with that, I guess thank you for the opportunity to welcome
18 you all, and I will turn it back to Bill.

19 MR. JUNKER: Thank you, Commissioner Boyd,
20 Commissioner Byron. It is my pleasure now to introduce
21 forecaster, Chris Kavalec.

22 MR. KAVALEC: Good morning. I am Chris Kavalec. I
23 just want to make just a few comments to sort of motivate
24 our discussion today and talk briefly about why we're here.
25 When we forecast electricity and natural gas demand at the

1 Commission, we take into account a variety of phenomena. We
2 are interested in capturing the impacts of efficiency
3 through utility programs and Building Codes and Standards.
4 We're interested in capturing the impact of rate changes and
5 we're interested in capturing the impacts of increased self-
6 generation, for example, rooftop photovoltaic systems. But
7 when it comes right down to it, the fundamental driver of
8 our demand forecast is still the economy, which I will
9 attempt to demonstrate with a couple slides here.

10 The first slide shows Statewide Electricity Sales
11 and Gross State Product in current dollars, Electricity
12 Sales in blue, using the left scale, and Gross State Product
13 in red, using the right scale; starting from the left-hand
14 side, you will notice Gross State Product flat or declining,
15 resulting in flat or declining electricity sales during that
16 period. The boom years of the late '90s, GSP is increasing,
17 bringing electricity sales up with it. A little hiccup in
18 2001-2002 with a mild recession, electricity sales drop,
19 although most of that comes from our electricity crisis in
20 California in 2001. Resumption of growth in GSP in the mid-
21 2000's, electricity sales increasing. And finally, we have
22 a nosedive for GSP after 2008, which brings electricity
23 sales along for the ride.

24 This slide shows the same thing, except with
25 Employment, and you'll notice basically the same

1 relationship between this economic indicator and electricity
2 sales - Employment in red, using the right scale - so that
3 you see basically the same pattern of the recessions and the
4 booms, and the movement of the two series.

5 As you probably know, output/income in California is
6 recovering at a faster rate than is employment. And today
7 we're going to talk about why that is and whether we expect
8 that to continue. But from a forecasting point of view, we
9 have, on the one hand, GSP recovering, and expected to
10 continue recovering in the next couple of years, and on the
11 other, we have continued high unemployment. So, from one
12 side we're getting a push up in sales hopefully in the next
13 couple of years, but, on the other hand, continued high
14 rates of unemployment are going to keep dragging sales down.

15 In terms of purpose, we today obviously want to gain
16 some insights on California's economic and demographic
17 future, insights that should be useful for anyone involved
18 in energy planning; from a forecasting perspective, insights
19 that we don't necessarily get when we simply take forecasts
20 from Economy-dot-com, or Global Insight, or UCLA, apply it
21 to our models, and crank out a forecast. Second, too many
22 planners and forecasters, myself included, don't have a full
23 understanding of what it takes to generate an economic
24 forecast; it's sort of a black box for us. And today we
25 want to try and make that black box a little more

1 transparent. And also, third, we want to bring in the
2 business community to the conversation and get their
3 perspectives and insights because, ultimately, it's the
4 business world through their decisions and expectations that
5 will ultimately determine where our economy goes.

6 So, without further ado, I would like to introduce
7 the Moderator of our first two panels, Jed Kolko. Jed is an
8 Economist and Research Fellow at the Public Policy Institute
9 of California, which is a nonpartisan, non-advocacy,
10 research think tank based in San Francisco. So, welcome
11 Kit.

12 MR. KOLKO: Thanks very much. Can you hear me?
13 This way? Excellent. Thank you, Chris. As you mentioned,
14 I'm an Economist and Research Fellow at Public Policy
15 Institute of California. For the next four hours or so, in
16 addition to lunch, I and the assembled panel, which will
17 change only slightly, will be covering a wide range of
18 topics about what is likely to happen with the economy both
19 in the near term and in the longer term. As you see on your
20 agenda, there are two panels, one now and one immediately
21 after lunch that will look at the future of the economy in
22 California. In consultation with the panelists, we've
23 slightly rearranged some of the topics between these first
24 two panels in order to make what I think will be an even
25 better discussion. And here is how it will work: In this

1 first panel from now until roughly noon, we're going to
2 focus on the recovery in the short to medium term - what is
3 likely to happen in California as the state continues to
4 emerge from the recession, and how long will it take. These
5 are the questions, as well as all the factors that affect
6 the answers to these questions, that will be part of the
7 first panel. And the second panel, the one that will happen
8 at 1:00, right after lunch, will focus on the longer term -
9 what will California look like after the recovery is
10 completed, once we are back to normal? And what is normal?
11 How is this similar to, or different from, California prior
12 to the recession? And what are the answers to all the
13 perennial questions about the California economy that we
14 faced even prior to this recession.

15 As part of this day, the panel will look almost
16 exactly the same, there will be one change, and I'll
17 introduce the panelists both at the beginning of this panel
18 and at 1:00. I'd like to explain what will happen in each
19 of the two panels. The steps in the panels will be the same
20 for the two. What I will do is say just a few words at the
21 beginning of each panel, just to make sure that we're all
22 starting from the same historical knowledge. Then, each of
23 the panelists will speak for a couple of minutes, up to
24 three minutes, giving a point of view or an opening
25 statement about where they think the economy is going,

1 first, in this panel, in the short-medium term, and then in
2 the panel after lunch, in the longer term. Some of them
3 will have some slides to give you a visual sense, as well.
4 After that, I will start a discussion with the panelists,
5 trying to probe especially on areas where either they
6 disagreed, or might have different assumptions underlying
7 their forecasts; and then, as well, ask the Commissioners if
8 they have any questions or comments that they'd like to ask
9 directly. After that, we would like to open up the
10 discussion to all of you, both here in this room, in the
11 other room, and joining us on the WebEx. And just to
12 clarify, the way we're going to do Q&A will be entirely
13 after the Commissioners ask their questions and make
14 comments, entirely on the cards. So, throughout the morning
15 and throughout the first panel of the afternoon, if you have
16 a question, please write it down on an index card. These
17 will be collected throughout the two panels, giving everyone
18 a chance, both sitting here, elsewhere, or in cyberspace, an
19 equal chance to have a question asked. And please keep in
20 mind that good questions tend to be brief and they end in a
21 question mark. So, Kate will start passing out those cards,
22 so at any point feel free to write down as many questions as
23 you like, one per card, and I'll try to get to as many of
24 these as possible.

25 I want to add my thanks to the Commissioners and to

1 the staff for having us here, both moderating and presenting
2 what we know or believe to be coming for the California
3 economy. I want to stress that we are all experts about the
4 economy, but not necessarily about energy. To the extent
5 possible, we can draw on our knowledge and understanding of
6 the economy to answer questions about energy as they come
7 up, but please be patient and forgiving with us in
8 understanding that we are experts on the economy, but not
9 all of us specifically about energy, as well. And, again,
10 just to add to the reminder, this is being both taped and
11 Webcast, and therefore your words will be memorialized
12 forever, so, whether you're speaking or writing, choose them
13 carefully.

14 Let me start just with a moment or two of background
15 before I turn the panel over to the panelists. And this is
16 just to give us a uniform, consistent view of what has
17 happened in the recent past. Again, this first panel is
18 going to focus on the recovery, both what it will continue
19 to look like, and how long it is likely to take, so I would
20 like to take a view of the recent past. And you see on this
21 slide what has happened to employment growth for each of the
22 past 20 years in California and in the U.S. California is
23 in the dark, if you can't see the colors, you can tell which
24 is California because it is recession, is worse than the
25 U.S. in the most recent couple of years. You see a couple

1 of things when we look at employment growth, and this is
2 annual for 2010, this is annualized through November, you
3 see a couple of things. First of all, what strikes you most
4 is how similar growth is in California and the U.S. We will
5 certainly talk today ways in which California differs from
6 the U.S., both in terms of short-run fluctuations, and long-
7 run trends. But when we look at the past 20 years, for
8 employment growth, at least, you largely see that, when the
9 U.S. does well, so does California; when the U.S. does
10 poorly, California does, as well.

11 California tends to exaggerate somewhat, both in
12 terms of economic growth and, of course, lots of other
13 things, doing typically better than the U.S., overall, in
14 good times, doing somewhat worse in bad times. And this is
15 clearly true when we look at 2008 and 2009, the years when
16 the recession affected employment growth the most. In 2010,
17 employment growth has gone back up to the year immediately
18 preceding the recession, 2007, though growth in California,
19 which, of the first 11 months of the year, was about half a
20 percentage point, is still roughly about a percentage point
21 below what California's typical long-term employment growth
22 rate is. And keep in mind, of course - and this will be
23 echoed many times throughout the panel - for unemployment to
24 go down, employment growth in California needs to exceed the
25 growth of the labor force. So, employment growth by itself

1 getting back to normal wouldn't be sufficient for
2 unemployment to be dropping back to California's long-term
3 normal levels. So, standing here at the end of 2010, this
4 is where we are.

5 And, with that background, I would now like to turn
6 it over to our panelists, who are much more fearless than I
7 am, I tend typically to look backward, whereas they are all
8 in the business of looking forward, forecasting what is
9 going to happen in California, its regions, and beyond.

10 What I'd like to do first is just do a very brief
11 introduction of everyone on the panel, and then turn it over
12 to them for their brief points of view and opening
13 statements. You see our first panelist, your eyes are not
14 deceiving you, he is not here yet, we know he is going to
15 come in roughly half-way through this first panel. He is
16 Jerry Nickelsburg. He is a Senior Economist and Lecturer at
17 the UCLA Anderson School of Management, a course known for
18 the UCLA Anderson Forecast. He is Director of the
19 California Forecast Team. Steve Levy is at the Center for
20 the Continuing Study of the California Economy and we are
21 going to be hearing from the panelists in order, first,
22 going away from me, from your left to right in this first
23 panel, and then in reverse order in the second panel, so
24 everyone has their chance to be first and last. So, we'll
25 hear from Steve next. And then, just to confuse you, next

1 to Steve is Steve, Steve Cochrane, who is Managing Director
2 at Moody's Analytics. He leads the Economic Research staff
3 and specializes in analyzing the Regional Economies of the
4 U.S. Now, on this panel, we have some collaborators and
5 some competitors, and so next to him is Jim Diffley, who has
6 been Chief Regional Economist at IHS Global Insight,
7 previously WEFA; for the past 13 years, he has led both its
8 California State and Metro Area economic forecasting
9 process. Next to him, we have Jeffrey Michael; he will be
10 speaking just before Dennis Meyers, who wraps up the panel.
11 Jeffrey Michael is at the University of the Pacific Business
12 Forecasting Center. And Dennis Meyers is at the Department
13 of Finance.

14 What I'd like to do now is turn things over to
15 Steve. And, Steve, and all the panelists, if and when you
16 want to use any slides, just let me know, and I will pop
17 them up here so you can stay put. Steve.

18 MR. LEVY: Okay, I'll probably want to use the first
19 two. It's been a long time since I've been here. I worked
20 with a whole different set of staff and Commissioners in the
21 '70s and '80s and '90s, helping on the Economic and
22 Demographic Inputs that go into the Energy Forecast. I'm
23 going to defer on this panel in terms of the short-term for
24 the California economy to the rest of them, but I want to
25 start out with one message. When we thought about the

1 Energy forecasting, when I think about the future of the
2 California economy, you want to think about industries and
3 regions. Could you do the slide next? Okay. I think the
4 first point that Jed started with is that, if you ask what
5 the direction of the California economy is, you first look
6 to the direction of the national economy. If you ask,
7 however, how will the growth rate in California differ from
8 that in the nation, you look to the sectoral make-up of the
9 California economy, and if you look back and you have a
10 memory, when we've had unemployment worse than the nation,
11 it's at a specific sectoral reason, like today. After the
12 Vietnam War, it was the build-down from that huge war
13 effort. In the 1990's, it was an aerospace contraction,
14 base closing, and an above average housing downturn. In
15 2000, when we did worse, it was the dot.com bubble, which
16 hit my region, well, Southern California was saying kind of
17 a recession. And in this recession, contrary to what a lot
18 of people hear, it is almost exclusively that we had a
19 differential construction downturn. Do you want to turn to
20 the next one?

21 If you look at where 600,000 of the jobs were lost,
22 and this goes to the difficulties we're going to have in
23 recovery, they were lost in construction and construction-
24 related manufacturing, in retail trade related to
25 construction, in finance, in real estate; almost half of the

1 jobs we lost were related to this. It was the one area with
2 Nevada and Florida and Arizona where we were differentially
3 bad. I will show another chart later, but if you can read
4 that chart, it was not businesses leaving the state, it was
5 not a below average performance in manufacturing, actually
6 we did a little bit better; it was largely about
7 construction. If you then ask about the next three or four
8 years, there is one set of positives, industries where
9 Jerry, when he gets here, will argue that we have
10 comparative advantage, the Ports are now filling up again
11 because we sit on the Pacific Rim, tech is blossoming in
12 Silicon Valley, we get still one out of every two dollars in
13 venture capital, we have the highest share of motion picture
14 production in the past 30 years, so we have a number of
15 creative and innovative sectors that probably, in the third,
16 fourth, and fifth year from now are going to push our growth
17 rate up. But for the next couple of years, I think the good
18 factors are going to be offset by the continuing deep
19 construction-related recession here. It is unlikely that
20 we're going to see any huge plus there, and we also, as you
21 all too painfully know, we have probably a differential
22 negative impact in State and Local Government employment
23 because of the budget deficit, because of the difficulties.
24 And so, I think for the next couple of years, looking at an
25 industry perspective, we'll probably track the nation, and

1 then the longer term positives will come back in. We can
2 talk later about how that works out for energy, but I really
3 throughout this am going to stress looking at industries and
4 regions.

5 MR. COCHRANE: Thank you, Steve. I'm Steve Cochrane
6 with Moody's Analytics. I agree very much with what Steve
7 was saying. My approach in my three minutes here will be to
8 look really at the very near term and then focus more on the
9 long term in the afternoon session. I have four basic
10 points that I want to make, the first is that the California
11 economy actually is in recovery now, and I don't think
12 that's up to too much debate, even though the pace of
13 recovery is slow. The near-term outlook, I really do think,
14 as Steve mentioned, that California will lag behind the
15 U.S., again, for at least one more year in terms of job
16 growth and output growth, although I do think that things
17 will get better in 2012. The third point is that, actually,
18 I have raised my forecast for California for this year, for
19 2011 just in the last month, largely because of changes in
20 Federal Fiscal policy, which will have some differentially
21 positive impacts on California. And fourth, the big factor
22 that will govern the pace of recovery over the next few
23 years is housing, as Steve mentioned. So, those are my four
24 main points.

25 If I go back to the first, which is the state is in

1 recovery, go to the next chart, we really have to look at it
2 from a spatial point of view, and this chart illustrates the
3 U.S. by metropolitan areas, and the colors illustrate my
4 assessment of where the metropolitan areas are in the
5 business cycle. First of all, if I had this just for
6 states, California would be green, meaning it would be
7 recovering right now. And this business cycle indicator
8 looks at four factors, it looks at employment, it looks at
9 industrial production, it looks at house prices as a proxy
10 for household wealth, and it looks at home building as a
11 measure of local investment. Some of these are just proxies
12 for the local economy. When we look at states and
13 metropolitan areas, we kind of have to work around the lack
14 of the breadth of data that is available for the U.S.

15 So, the state is recovering and you can see it is
16 hardly uniform. The red metropolitan areas, largely focused
17 in the San Joaquin and Sacramento Valleys, are still in
18 recession, and these are areas that are still largely
19 depressed because of their housing markets. And there are a
20 few that I'm calling "at risk," it's largely the Inland
21 Empire and a few of the - actually, the Inland Empire, LA,
22 and the East Bay - and these are areas that are recovering,
23 but have slowed lately, and are at some risk of slipping
24 back into recession because their labor markets have slowed
25 down, their housing markets have slowed down from the first

1 half activity.

2 I think the probability of dipping into a second
3 recession, though, for the state and for most metropolitan
4 areas, is somewhat slim now, perhaps a one in five chance of
5 a state falling into a second recession, largely because -
6 my second point - is that Federal fiscal policy will have a
7 better than average impact on the State of California.
8 First of all, there will be a longer than expected extension
9 of emergency unemployment benefits available, and that
10 really does support incomes and consumer spending in the
11 states that have the highest unemployment rates, that of
12 California, of course, is one of those with a double-digit
13 unemployment rate. So, there will be some additional
14 stimulus just coming through from a bit more consumer
15 spending than we might have expected before. The second is
16 that part of the Obama GOP tax compromise is that there are
17 some pretty strong incentives for business investment
18 spending through calendar year 2011. And the California
19 economy is very very closely tied to the pattern of U.S.
20 domestic business investment spending that factors through
21 to the tech economy and other manufacturing industries in
22 the state. So, from a forecast a couple months ago of
23 looking at job growth of less than one percent for this
24 calendar year, our forecast now looks at job growth of maybe
25 about 1.4 percent is the figure that we have for this year.

1 The main risk to the outlook is the housing economy. If I
2 go to the next chart, this is my last chart for my three
3 minutes here, it just illustrates how extraordinary the
4 situation is here in California, this chart shows the number
5 of homes in foreclosure as a percent of the owner occupied
6 housing stock, and the yellow line is California and, just
7 for comparative purposes, I put it next to the northeast,
8 Midwest, and south averages, and you can see that California
9 is just in a world of its own in terms of the weakness of
10 the housing market and the mortgage credit crisis. Now, I
11 had exaggerated a little bit by comparing it with regions,
12 if I looked at Arizona, it would look almost exactly like
13 California; if I looked at Florida, it would almost look
14 exactly like California; if I looked at Nevada, it would be
15 about twice as high as California. But those are really the
16 four states, those and Michigan, that are really
17 extraordinary, and California certainly is one of those.
18 And so, the pace of improvement in the housing market will
19 have a lot to do with the recovery because it means so much
20 for household portfolios, for how one measures one's own
21 wealth, and then what that means in terms of consumer
22 confidence and consumer spending, and then home sales and
23 home improvements, as well.

24 My guess is that the large number of homes in
25 foreclosures will be an added weight on house prices and we

1 will still have a house price decline in the state at least
2 through the third quarter of this year, and our guess is
3 that we may see prices on average in the state fall by
4 another six to seven percent, something light that. That's
5 coming off of a little bit of a rebound the first half of
6 the year with the Federal tax incentives that drove the
7 housing market.

8 But once we get beyond that low point in the housing
9 market, I'm actually fairly optimistic that there are some
10 very positive factors to bring the housing market back in a
11 rather strong fashion, one is that there is considerable
12 pent-up demand for housing in California. Housing had been
13 so unaffordable for so long that many households who could
14 not buy into the market before, I think, will once there is
15 a sentiment that the housing market has stabilized. And
16 also, demographics are in the state's favor; the population
17 growth continues to grow at a very stable pace right through
18 the recession, unlike places like Florida where population
19 growth slowed considerably, and that the age composition of
20 the population in California also is stable because of the
21 younger age structure in California. So, there is growing
22 demand for housing because of the age structure.

23 So that actually helps the 2012 forecast that, as
24 the national economy turns around and, then, as the housing
25 market stabilizes, we get a pretty good recipe for recovery

1 in 2012. And in 2012, I see California growing at a pace
2 about equal to the U.S. for the first time since the
3 recession began. Just a couple quick notes, then, in terms
4 of a couple of numbers, it is probably 2015 before we get an
5 unemployment rate back to a long term rate, somewhere in
6 that 5-1/2 to 6 percent rate. We will probably get total
7 employment returning to a previous peak, it might not be
8 until about 2014 or so, late 2014, or into 2015, before we
9 get up to the roughly 15.1 million jobs, which was the peak
10 before the recession. So, with that, I think I used my
11 three minutes. Thank you.

12 MR. DIFFLEY: Good morning, all. Let me open by
13 outlining the IHS forecast for California and the U.S. The
14 U.S. economy has, in our view, regained momentum now after a
15 very soft patch in the middle of last year, talking about
16 2010. And moreover, it will get more help in 2011 from the
17 fiscal stimulus embedded in the December tax package out of
18 Washington. Our 2011 forecast for GDP growth in the U.S. is
19 3.2 percent, followed by 2.9 percent in 2012, a little
20 slower because the stimulus is removed in 2012. These
21 numbers, though not typical of recovery year expansions -
22 its higher rates in past recessions, in previous business
23 cycles - do begin, though, an expansion that is sustainable
24 and will boost employment levels. The unemployment rate,
25 however, is still likely to linger very high, about 9

1 percent by year-end, this year, only getting down to eight
2 percent by the end of 2012. Housing remains a key downside
3 risk. There remains a fundamental over-supply of houses for
4 sale and prices can be expected to fall a bit more. We
5 expect housing starts to improve only gradually. Indeed,
6 another sharper home price decline could reignite a
7 financial crisis, particularly for households.

8 Now, in this environment, California is indeed on
9 its way to recovery, with business spending and export
10 demand leading the way. We expect the state to gain jobs at
11 a slightly faster pace than the U.S. over the near term, in
12 fact, for the next few years, at a 2 percent plus rate
13 beginning this spring - comp down the annualized rate. But,
14 of course, the recession was deeper here, much deeper here,
15 and the state will not regain its 2007 level of employment
16 until 2014. You see my graphic up on the slide, and you can
17 see the blue dotted line the decline from over 15 million
18 jobs in 2007, the beginning of 2008, only returning above
19 that line by 2014 on the graph.

20 Gross State Product will expand by 3.1 percent in
21 2011 and roughly the same amount, 2.7 percent, in 2012.
22 Regionally within the state, expect the strongest gains in
23 the near term to occur in the Bay Area. Generally, the
24 coastal metros have proven again to be the State's economic
25 drivers. The Inland Empire and Central Valley will remain

1 muted because of the continued overhang of the housing
2 cycle. I look forward to your questions later.

3 MR. MICHAEL: I will be brief so that I'm not too
4 repetitive with the other panelists. I agree with most of
5 what they're saying. You know, when I talk to a lot of
6 folks around California, I have to keep - you know, they're
7 so tired of hearing about housing, but as an Economist, I
8 can't stop talking about housing because it's so much at the
9 center of our problems here, and people are searching for
10 another answer, or another solution, or another story
11 because they've been hearing about it for so long. So, it's
12 good to be able to hear on a panel of Economists where they
13 all say that housing is our biggest problem, so I'll be a
14 little bit repetitive and say that it's hard to overstate
15 the extent to which the construction and housing decline is
16 at the center of what's happened in California. Certainly,
17 well over half of the job losses are either very directly or
18 indirectly related, as Steve pointed out, to the downturn in
19 construction, the collapse of this industry. I mean, you
20 have an important industry that has shrunk by 80-90 percent
21 on the residential side now, about 50 percent on the non-
22 residential side. You know, it's been devastating. And
23 because of that, you know, the good news is that this is not
24 an industry that sort of off-shored and disappeared forever,
25 there are some positive demographic drivers in the long-

1 term. I don't think our supply stock is as over-built as
2 what you'll see in some of the other housing states. And so
3 these are good things to keep in mind. But, you know, we're
4 really not going to have a robust recovery until this sector
5 gets back on its feet again, and by "gets back on its feet,"
6 I'm talking about probably a tripling of housing starts from
7 where they are currently.

8 I haven't - we bumped up our forecast about a
9 quarter percentage point in response to the Federal fiscal
10 policy, and I will defer to some of the gentlemen on my
11 right on this a little bit, we haven't been quite as
12 optimistic, I think they've probably spent a little more
13 time modeling it than we have. We're very focused on the
14 debt that California households are under and are somewhat
15 skeptical of how much consumption this is really going to
16 drive here. Regional differences are very important,
17 particularly the Bay Area has been a little bit puzzling and
18 a little bit disappointing, you know, I keep waiting for the
19 Bay Area to take off and it really hasn't, with the
20 exception of the Silicon Valley area, and even that area has
21 sort of disappointed my expectations a little bit when you
22 look at the rebound that we've seen in business investment
23 and tech spending in the national level, and actually would
24 have expected even a little bit more juice in the San Jose
25 economy than we have. Other parts of the Bay Area have been

1 very disappointing, in San Francisco, in the East Bay, in
2 particular. And certainly, that is having ripple effects
3 out here in the Northern San Joaquin Valley and Sacramento
4 area. So, with that, I'll close my comments.

5 MR. MEYERS: Okay, well, it's about housing, so I
6 think they've all said it. But we have a very similar
7 outlook, I think, to what you've already heard, probably a
8 year or two of subpar to almost approaching normal growth,
9 although we don't really know what that is anymore because
10 of all the ups and downs we've been through. But to bring
11 it to a different dimension, to that idea of the importance
12 of housing, and why the near-term outlook is pretty modest,
13 is that we're kind of dealing with a changing sort of
14 environment, generally, with the labor force. You kind of
15 alluded to this idea of demographic changes. But we have a
16 generation of sort of mid-career, late career workers who
17 have been hit pretty hard with the housing crisis, both with
18 the job losses, the equity losses, the stock market losses,
19 that hits the retirement plans and everything else like
20 that, so you've got sort of lingering workforce that might
21 otherwise be retiring and moving on, who are now having to
22 keep working and, more importantly, they have to keep saving
23 more than they probably would have before, so they're not
24 generating the kind of demand that you might expect to see
25 in a more normal recovery. And, in addition to that, you've

1 got to throw in this whole new army of new workers who are
2 just coming out of college and things like that, who are not
3 seeing the opportunities they had in the past recoveries and
4 things like that, so both of these trends are sort of
5 working against strong growth, they're putting more emphasis
6 on savings, less emphasis on borrowing which, you know, is
7 going to be good in the long-run, but in the very near term,
8 it's not going to lead to a very big robust recovery in the
9 housing and construction industries which, as you all know,
10 it's really the key to a strong recovery, at least
11 historically. So the good side of that, as we've already
12 pointed out, that's a lot of potential pent up demand, that
13 there really is a lot of people who are multi-generational
14 cohabitation now at greater rates than before, less
15 household formation rates than historically, that represents
16 possibly a lot of new demand for housing if and when some
17 economic dam breaks and they all get to run out and buy
18 houses. But, for right now, it's a pretty minimal job
19 growth that is showing up out there because of this desire
20 to save, this lack of job opportunities to go out and buy
21 new homes and things like that, plus you add to this the
22 public fiscal problems in the Government sector throughout
23 the state, which is kind of pulling back some public sector
24 demand that would normally be there, which is going to take
25 a few years to work out, as well. So you've got sort of a

1 gaggle, sort of near-term dampening effects that are going
2 to stop this from being a really robust recovery, so our
3 outlook is kind of pretty meager growth for jobs in 2011-
4 2012, getting something back to a more sustainable rate by
5 2013. So, the upside is definitely there, I think, in a few
6 years from now, but in the next couple of years, I think
7 we've still got some issues like these to work through. And
8 we do have strengths, as the previous moderators have
9 indicated. You know, California is really a pretty strong
10 economy, generally, there's a lot of good points out there,
11 but working through these near-term fiscal issues is going
12 to be the tricky wicket of how we get through this.

13 MR. KOLKO: Thank you all very much. What I'd like
14 to do is probe out a couple of things that have come up.
15 There is, of course, the long-running joke that, you know,
16 five Economists equals eight opinions; in fact, sometimes it
17 turns out that five Economists give us one big opinion about
18 the importance of housing to the economic recovery. I'd
19 like to get to that in a moment. What I first want to do,
20 though, is just do a quick check. I think Steve Cochrane
21 was the one who mentioned 2015 as the time when the
22 unemployment rate in California would likely be sort of
23 roughly normal levels. I want to just do a quick check of
24 whether that's pretty much consensus viewed among those on
25 the panel, or if anyone has a significantly different view

1 about when we might expect back to normal.

2 MR. LEVY: Jed, I think it's in part the wrong
3 question for the Energy Commission. I think Chris showed,
4 and Steve said, that if you look only at employment, you get
5 a fairly sloggy, dismal picture. But if you look at output,
6 which may be a more important driver of energy, the recovery
7 is going faster, will exceed previous levels sooner, I don't
8 know enough to know what that means for energy; from a human
9 point of view, I think 2015 might be where we get back all
10 the jobs, but from an energy point of view, the economy
11 might be growing further. And, Jed, one of the things we
12 might want to talk about is the wedge, the productivity, and
13 business cost consciousness is driving between output and
14 economic growth and job growth.

15 MR. MICHAEL: What's -

16 MR. KOLKO: Sorry, can I interrupt just for a
17 second? For those who are with us virtually, they would
18 like to hear your name each time you speak, just so they
19 know who is talking. Thanks.

20 MR. MICHAEL: Sure. This is Jeff Michael. I'm not
21 sure what normal unemployment in the future is going to be,
22 if we're talking about 5.5, 6 percent unemployment, you
23 know, we've got a five-year forecast horizon and I don't see
24 it in the whole horizon. We have got a half million people
25 that have left the labor force in California, that are going

1 to be streaming back in as things recover, and I see
2 unemployment rates probably 8.5 - in the high 8's, probably,
3 in 2015 and we've got a very long way to go. You know, jobs
4 are recovering probably in 2015 to their previous peak, but,
5 again, probably a million jobs below where we need to be
6 still at that point. So, I'm a bit more pessimistic, but
7 maybe that's the view from Stockton, sometimes it clouds
8 your judgment.

9 MR. DIFFLEY: Jim Diffley now. Yeah, we have - I
10 mean, technically, we have jobs returning, that is, as I
11 mentioned in my opening, the previous levels of jobs
12 returning in 2014. That means, because there's been plenty
13 of Labor Force growth over that time from 2007 to 2014, the
14 unemployment rate is still going to - I agree with Jeff -
15 cloaked around 8 percent. We don't have the unemployment
16 rate getting below double digits until 2013, for instance,
17 literally, that is how slow the slide is, although it is
18 coming down.

19 MR. MEYERS: Well, I guess I would echo that, too,
20 although I think the unemployment rate is a measure that
21 attracts sort of undue attention, it's a nice concept and
22 everybody latches onto it, but really it is the job growth
23 numbers I think you need to look at because, like Jeff
24 mentioned, there's different factors that reflect labor
25 force growth, migration, and things like that, so to look at

1 that ray and see where it's going to go, you know, we
2 probably all have some pretty pessimistic outlooks for the
3 rate, itself. But I think it's the job growth numbers
4 you've got to look at. And we're currently on probably the
5 pessimistic side, I think, in regaining those jobs by 2016,
6 but with an unemployment rate that still stays pretty high
7 throughout that period - in a relative sense, I mean, like
8 you said, there's this deficit of jobs being created for
9 several years now, vis a vis the labor force, so you're
10 probably going to see that rate kind of high, and it's
11 probably not the best indicator of how well the economy is
12 going, generally, anyway, and you need to sort of look at a
13 broad range of measures.

14 MR. KOLKO: I think that's important, whether we're
15 talking about the labor market, the housing market, or any
16 other factors we're looking at, that there's a range of
17 measures. When it comes to energy demand, for instance, as
18 Steve Levy mentioned, growth rather than the unemployment
19 rate may be the most important measure to look at first.
20 When we want to understand how the typical household is
21 doing, and what stress that puts on social services and the
22 state budget, unemployment may be in some ways a more
23 important measure. So it depends on what the goal that
24 we're trying to understand that colors the measure we look
25 at. When we were talking about housing, in fact, there were

1 several different measures that came up and, in fact,
2 several different explanations for why housing and the
3 housing market and the housing industry are so important to
4 the economy. Some of you mentioned the importance of
5 construction and related industries as engines for the
6 economy, others mentioned the importance of housing in
7 supporting or driving consumer spending. There are also
8 arguments that some have made that the depressed housing
9 market makes it harder for people to leave their homes and
10 move to other areas where there may be more job
11 opportunities. So, there are lots of ways in which housing
12 and the construction industry might affect the economy. So,
13 I'm curious for your point of view on what the most
14 important mechanism is and what that implies for the most
15 important housing or construction-related measure you watch,
16 to see how the housing industry is doing and what that means
17 for the economy. And anyone feel free to begin. And,
18 again, please say your name as you talk.

19 MR. LEVY: I looked at two measures - we lost \$60
20 billion in direct construction spending between 2005 and
21 2009, with virtually no change in 2010. We went, as part of
22 that, from building 200,000 units to 40,000 units a year.
23 And with that, as Jeff said, about half the jobs, 600,000 to
24 700,000 jobs were lost, related to that. So, those are the
25 - I agree with everything everybody else said, but when I

1 look at impact on the economy, it's the dollars and the jobs
2 that are related to the dollars.

3 MR. COCHRANE: This is Steve Cochrane from Moody's
4 Analytics. In my view, sort of the broadest impact of the
5 housing market on the outlook for the economy is its role in
6 household wealth. If we look at the wealth effect of
7 housing and look at measures of what creates wealth, in
8 general, you know, broadly speaking, we can look at wealth
9 that's created through housing, through home price
10 appreciation, which has always been an important part of
11 individuals' portfolios, and it's usually the largest piece
12 of any household's portfolio. The other side of wealth is
13 gains from equity markets. And the gains from equity
14 markets have already been regained to a certain extent, with
15 the turnaround in the equity market. And, so, when we look
16 at the broad wealth effect and what it means for consumer
17 spending and driving the economy, you know, upper income
18 households are already spending, again, pretty well. That's
19 one reason why we see places like Silicon Valley doing well,
20 not only because of the tech economy is doing well, but that
21 household income per capita income is higher in a place like
22 Silicon Valley. But the low to moderate to middle income
23 households, who have less of their portfolio in equities and
24 more simply in their house, haven't felt that return, or
25 rebound, yet and, in fact, still may be feeling that their

1 portfolios are still shrinking today, in general. And it's
2 so critical for the housing market to stabilize for that to
3 help stabilize how individuals feel about their own
4 financial well being and their willingness to spend. Part
5 of that is willingness to spend on their own house, in that
6 home improvements account for a large part of consumer
7 spending and contribute to construction employment. And
8 when homes sell, it also generates a tremendous multiplier
9 effect in terms of buying furniture, of improving homes,
10 adding on a room, things like that. So, I think when we
11 think of housing as being a broad factor in the economy, we
12 have to think of it in these really really broad terms.

13 MR. KOLKO: I would like to introduce one more
14 aspect of the housing market that is something that
15 distinguishes California in this recession and recovery even
16 from other states where house price declines have been very
17 large and where foreclosure rates are quite high. When you
18 look at the other states most hurt by the burst of the
19 housing bubble, in addition to California, Nevada, Arizona,
20 Florida, Michigan, and some other states in the Midwest and
21 the south, foreclosure rates are very high in all those
22 places, but California stands out among all these states in
23 that, in all these other states, vacancy rates are also very
24 high. But throughout this recession, residential vacancy
25 rates in California have been among the lowest in the

1 country, higher than prior to the recession certainly, but
2 still among the lowest in the country, and far lower than
3 all the other states with high foreclosure rates. Is that a
4 good thing? Is that an important thing? Does it suggest
5 that California's path out of the housing crisis and
6 recession might look very different? Or, does that not
7 matter very much? So, let's keep the conversation going.
8 And, again, please introduce yourself.

9 MR. DIFFLEY: Jim Diffley. I suppose I'll take a
10 stab at the first one, or your direct question, and then I
11 want to go back to what the two Steve's said before that.
12 You know, California, if you look at the demographic, first
13 of all, the California demographics are unique compared to
14 those other states, relatively. If you look at data
15 closely, if you look at the number of households, or the
16 average household size in California, the flip side of the
17 vacancy statistic they mentioned is that California always
18 has, in a measured sense, a much higher number of people per
19 household. Right? And I think that relates to the
20 difference in the vacancy rates that you measure, and the
21 vacancy data itself is, shall we say, subject to a lot of
22 errors having to do with vacation homes and the like. So, I
23 don't take that as a really robust indicator, so I'll pass
24 and let others comment on that. I wanted to come back,
25 though, I fully agree with Steve Cochrane's view that, in

1 this cycle, and in thinking about the recovery from it, it's
2 the equity position that households have in their home that
3 really is the driving effect on the economy, and is very
4 important to California. Now, Steve Levy points out,
5 though, correctly that the reason that California - a big
6 reason in terms of numbers of jobs and activity that
7 California underperformed the nation so much, or the
8 recession hit it so much harder, was in fact the building
9 industry, right, irrespective of the price changes, of
10 course, they're related - the loss of the building jobs.
11 But I think we're making a little mathematical mistake here,
12 we have to keep in mind the mathematics of recovery, or the
13 mathematics of growth. With building all ready below a
14 40,000 unit pace in the last two years in California, the
15 fact that it stays there a little longer, we don't have it
16 hitting 100,000, for instance, again until 2012, and it just
17 barely makes that, the fact that it stays there is not a
18 drag on growth anymore, right? The growth rate can still be
19 high, or relatively high, or higher coming off that, because
20 you're not losing construction jobs anymore. So,
21 mathematically, return to normal growth rates is not really
22 driven by the construction side of housing; return to a
23 normal healthy economy is, though.

24 MR. KOLKO: And just to update with some recent
25 facts from this year, construction employment in California

1 has actually continued to fall this year, looking through
2 November of 2010, though at a much less dramatic rate than
3 in 2008 or 2009. Construction remains, when we look across
4 all the broad sectors of the economy, the one where the
5 employment picture is worst, employment in percentage terms
6 fell more in construction than any other sector so far this
7 year. But, again, that is just poor performance rather than
8 disastrous performance compared to the previous two years.
9 Jim - sorry, Jeffrey.

10 MR. MICHAEL: Yeah, Jeff Michael. Just a comment.
11 The vacancy rates is, I think, I put a little more stock in
12 that, and I've spent some time living in some of these
13 foreclosure capitals, personally. The vacancies aren't what
14 they're portrayed in the media. Most of these households
15 are occupied, often times with multiple generations in the
16 same household that will create new household formations.
17 You know, if there are ghost towns, it's in the developments
18 that were being built that just sort of stopped, you know,
19 with the streets and the lamp posts and the finished lots,
20 and things just sort of stopped. The wealth effect is
21 important in how it feeds consumption. One thing that
22 hasn't been discussed and, again, this may be sort of my
23 view from Stockton, is sort of what we like to call in my
24 center the Squatter Stimulus, actually something that has
25 been holding up consumption a little bit, particularly in

1 inland California, although the wealth has declined, there
2 is really a staggering number of people who, in order to
3 prop up their income by completely eliminating their monthly
4 housing expenses, and this is not a - this is not a small
5 thing, we're talking about regions where we've got 15, 18,
6 20 percent of households more than 90 days delinquent, you
7 know, cash for keys just isn't to get rid of the delinquent
8 households, but it's actually squatter households more and
9 more that are living in places free. PG&E is kind enough to
10 leave the lights on for them, frequently. But this impact
11 is really, I mean, it's equivalent in some of the harder hit
12 communities of as much as a 2-3 percent of personal income.
13 And, as housing recovers, it's going to have important
14 effects, but people are going to have to start paying for
15 their housing again. The second thing I'll point out is
16 that, where I'm optimistic about vacancies, you know, rents
17 have held pretty firm in California. It could still be hard
18 to find a decent place to rent in some of these areas that
19 are still hard hit by households, and the rents have very
20 effectively, I think, placed a pretty solid floor under
21 further price declines particularly sort of for the middle
22 class and lower housing stock. I think there could be some
23 room to give on the higher ends, still. And then, the last
24 thing about housing, and how it impacts the economy - and
25 maybe this is for the later term - it really is an important

1 factor on the cost of doing business in California. Maybe
2 we'll hold that for the long-term discussion later.

3 MR. KOLKO: Great, thanks. Let me move on from
4 housing to one other topic, and then I'd like to open it up
5 to any comments or questions from the Commissioners and also
6 the questions that you have been, and please continue to be,
7 writing on the index cards that you have and are making
8 their way up to me.

9 So far, I think this hour, this morning, has been
10 perhaps the longest conversation in Sacramento this month
11 that has not mentioned the State Budget, except for one
12 brief mention by Dennis. What I would like to hear is
13 whether either the State's fiscal situation, or any other
14 policy factors in California are likely to affect either the
15 speed, or the extension of recovery in California.
16 Basically, is there anything either for good, or for bad,
17 that the State Government can do to affect the recovery.
18 And, Dennis, maybe you are free to start since you were the
19 one who inspired this, or you're welcome to let others go
20 first.

21 MR. MEYERS: Everything we propose is just perfect,
22 so everything is just fine. Well, this is a long running
23 kind of a debate of, you know, what policies are helping the
24 economy or not helping the economy, and things like that.
25 And, certainly we want to do everything we can at the State

1 and local level to promote the economy, but the California
2 economy is really predominantly tied to the national economy
3 and, even more importantly, to the Pacific Rim economies.
4 We benefit a lot from exports, disproportionate to most
5 other states, so the health of the nation as a whole, and
6 the health of like China and Japan, countries like this, is
7 really very important to the state, as well. So it's hard
8 to say that there's a policy or a change that we can make
9 that's really going to lead to really significant changes.
10 I think, at least from our perspective - and this is more of
11 a longer term issue than the near term economic issue - but,
12 you know, getting the fiscal house in order just leads to a
13 lot of better perception of California that are bond
14 ratings, or borrowing costs, it just will make the state's
15 sort of financial picture look better, and thus a better
16 place to invest your money, to lend money to state and local
17 governments, and things like that. So, you know, I think we
18 put a lot of attention on that here in Sacramento, but I
19 think the real drivers of the economy really lie in a lot of
20 other places out there, but certainly having a more stable
21 public financial sector is going to return benefits in the
22 long run.

23 MR. MICHAEL: This is Jeff Michael again. I guess I
24 would agree with Dennis that, in terms of state policy,
25 getting the fiscal house in order is probably the best thing

1 that can be done to help the California economy, but the
2 state policy is somewhat limited in its short-term ability
3 to boost the economy. It's really federal policy and local
4 policy that I think has more to do with the short run
5 dynamics in the California economy. The Federal policy
6 through Federal fiscal policy, as we've talked about recent
7 tax cuts there. And then, also, as we talk about the
8 importance of the housing market, there's not a lot the
9 state can do here. The Federal Government can help on the
10 financial side if they'll ever - and this is unlikely now,
11 but they never really came up with an effective foreclosure
12 mitigation program, or a way to attack the financial side of
13 that, it had to come from the Federal side. And then, when
14 you're talking about construction and the ability to get
15 sort of the construction economy going again, there's not a
16 lot the state can do about that, but local governments have
17 the ability to impact that because that is where permitting
18 happens, that's where the biggest regulatory bites are,
19 that's where the big public facility fees and impact fees
20 that drive costs so much in the state, where those decisions
21 are made. And so I think the ability for policy to really
22 accelerate the recovery based on what happens here in
23 Sacramento is limited, most of it is really about
24 distributing the pain and who is going to feel it the most.

25 MR. DIFFLEY: Jim Diffley here. That last point, I

1 wanted to follow-up, that's the point, there is pain and
2 this is not only happening in California, it's happening in
3 almost all states. The fiscal crisis has resulted in a
4 situation, and will for a couple more years, where the state
5 and local government sector is a drag on the economy and
6 that's one of the reasons why this recovery will be slow
7 compared to other recoveries. Now, I agree there is not
8 much the state can do, and it's not a criticism of state
9 actions to balance the budget, but it's simply the nature of
10 the beast if you're cutting spending and/or raising taxes,
11 that's a negative in terms of demand for the economy.

12 MR. COCHRANE: Steve Cochrane. A couple of points,
13 first just sort of directly in terms of the outlook and
14 Steve Levy had talked about the difference of looking at
15 employment vs. output, and when we look at the forecast, the
16 state fiscal crisis has its biggest impact on employment and
17 mostly at local government employment, and continued
18 declines in local government employment would be one reason
19 why the jobs recovery will be a little slower than, say, the
20 output recovery in the economy. The public sector will be
21 the weakest in terms of job creation going forward. In
22 terms of, you know, taking care of the budget and the state
23 deficit, I mean, in a sense it's important from a perceptual
24 point of view that business investment, business confidence,
25 is dependent on stability, dependent on the lack of

1 foreseeable uncertainty or shocks. And simply the more
2 rapid improvement of the deficit and the improvement in
3 terms of reducing uncertainty for state spending, I think,
4 improves the business climate and improves business
5 confidence. In terms of what the state can do directly, you
6 know, one of the things the state can do is just make sure
7 that the process of foreclosure resolution is as speedy and
8 transparent as possible. And the state has an advantage
9 here, at least in that it is a non-judicial process, as
10 opposed to, say, in Florida, which is a judicial process.
11 So, in Florida, it can take over a year to take care of a
12 foreclosure, whereas, in California it's a matter of months.
13 And as long as it's transparent and fair to all parties
14 concerned, you do want to make that as fast as possible, so
15 that households either maintain control of their house, or
16 the house is sold and occupied again and becomes an occupied
17 unit once again.

18 Finally, more long-term, in an economy like
19 California where it is a high value added economy, where it
20 is a high tech economy, where it's a economy that focuses,
21 in many cases, on research and development and the like,
22 education is just so critical. And education is still the -
23 the primary domain of education policy is at the state.
24 And, of course, it really hurts now with the cutbacks at the
25 universities and the state colleges and, indirectly, K-12,

1 but as soon as possible, you know, policy in terms of
2 stabilizing education and making sure that there are
3 opportunities for the entire population across K-12, and at
4 higher education, to keep California competitive over the
5 long-term. In my view, that's really what it's all about.

6 MR. KOLKO: As you've probably figured out, since
7 you're all such close watchers of what goes on, we're joined
8 by Jerry Nickelsburg, the UCLA Anderson Forecast, glad you
9 could be here. We are - Steve Levy wanted to say something,
10 as well, about this question about the state budget and
11 California policy.

12 MR. LEVY: Let's get to the folks' questions. I'll
13 pass.

14 MR. KOLKO: Okay, so I want to welcome Jerry, and we
15 will rope you into questions, the big stack of questions
16 that we've got here.

17 MR. NICKELSBURG: Okay

18 MR. KOLKO: What I'd like to do first is invite
19 Commissioner Boyd to make any comments or ask any questions
20 that he has before we turn to some of the other audience
21 questions.

22 VICE CHAIR BOYD: Thank you, Jed. I'll try to be
23 quick. I'm going to go backwards on my list because at the
24 beginning I wrote a lot about employment, demographics,
25 changes, but you discussed that quite a bit, so I'll save

1 that. I want to go to the bottom of my list, which was this
2 discussion about what the state and the State Budget and the
3 state government can do - not much - and yet there was a
4 reference to how important local governments are going to be
5 in effecting a re-stimulation of the economy, permitting,
6 and what have you, and my perception as local government,
7 hurting as bad as, if not worse than, state government, and
8 a lot of the talk in Sacramento now is to maybe change that
9 situation, a situation that I personally have felt it kick
10 that can down the road for years, and I'm going to say
11 something very impolitic here about Prop. 13, but to me,
12 ever since that, the trends have changed significantly. So,
13 I kind of think, you know, fixing the state budget and
14 shifting money down in the non-existent money that we have
15 to raise somewhere, down to local government, probably will
16 help in some degree with the economy. But I wanted to ask
17 about economies. Not mentioned at all here, well, there was
18 a passing mention to the word "Energy," but, of course, as
19 an Energy Commissioner, I worry about the cost or price of
20 energy to the economy and whether that's a problem or not.
21 Nobody so far has said it's a problem, that's music to my
22 ears, but I don't know if it's true - particularly in the
23 transportation infrastructure, and we've talked a lot about
24 electricity and natural gas as primary fuels of economic
25 growth, but so is transportation and fuel and we've got

1 oddities happening now with - the price of oil is reasonably
2 high, the supply of finished fuels is extraordinarily high,
3 the price of fuel is high and going higher, which is, to me,
4 a little hard to explain. But I'm wondering if that, in
5 your mind, has any impact we need to worry about in the near
6 term on this economic recovery, and does addressing other
7 things the state is interested in, such as climate change
8 and building a green economy, does that figure into where we
9 need to go? Or is climate change just a little static right
10 now that we worry about later? There has been a lot of talk
11 about it being negative, that people have spoken it's
12 something they want addressed, you know, will we be able to
13 grow economic growth through creating more green jobs, or
14 more green tech economy type jobs?

15 MR. KOLKO: Jerry, if you want, you've got the
16 prerogative to go first, unless you'd like to defer to
17 someone else.

18 MR. NICKELSBURG: No, sure, I'll do that. First, I
19 want to apologize for being late, I had a speaking
20 engagement this morning in Sonoma, which was scheduled
21 months before this, but I do want to apologize to everyone
22 for being late. The question of cost of energy is kind of a
23 double-edged sword for California, you know, a little
24 different here than elsewhere. The higher cost of energy
25 obviously raises the cost of production, raises the cost of

1 transportation, and is a negative for economic growth. On
2 the other hand, California is an innovative economy, it's a
3 knowledge-based economy, and we see investments, venture
4 capital investments, in green technology and trying to find
5 that next energy saving device, or energy efficient device
6 for automobiles, for homes, power plants, for more general
7 energy generation. You know, the investments are coming
8 here. So, the higher the price, sort of the bigger the
9 reward for finding that next great thing. If you look at
10 green jobs, whether you're thinking about climate change
11 initiative or the move towards renewable energy, and you
12 kind of add up those jobs, there's actually not many of them
13 in the planning. There are some, there are some
14 construction jobs and there are some maintenance jobs,
15 retrofit, and so on, but it's not the Internet all over
16 again, it's not the PC all over again. But, a higher price
17 of energy may well generate the innovation that creates that
18 next engine of growth for California. So, you know, it's
19 kind of a mixed bag.

20 MR. LEVY: Yes, and I've always seen this commission
21 and the ARB and the AQMD as pushing California faster into
22 the future. I mean, I think the number used to be \$50-75
23 billion in savings from the efficiency measures, and so we
24 have high rates and low usage, and the overall cost push us
25 into the future with great savings to people who are using

1 more energy efficient cars and refrigerators and lighting
2 systems, partly through Title 24, partly now through the AB
3 32. I think there are bumps on getting to the future, but I
4 can't think, as an Economist, of any reason that we don't
5 want to get to the future before China does, that getting to
6 the future first in terms of either the gold ring of
7 developing the next battery, or the next grade electric car
8 that we're trying to do, or simply pushing the cost curve
9 down through efficiencies like we've been doing, isn't the
10 right way to go. I think it's an "invest or die" world, I
11 think we have a chance not for zillions of jobs, but for
12 huge amounts, I think, of cost saving for energy use in
13 California, and maybe we can invent a product or a service
14 that will entice customers around the world through these
15 regulatory efforts.

16 MR. KOLKO: Thanks. Commissioner Boyd, any follow-
17 up questions or comments in response?

18 VICE CHAIR BOYD: No, I'll let it go. Let's hear
19 from some of the audience questions.

20 MR. KOLKO: Okay, thanks very much. A show of
21 hands, folks who have listened at least a couple times to,
22 "wait, wait, don't tell me." Yes? Because it's a
23 reasonable assumption. They have their speed round toward
24 the end where suddenly the pace of questions gets much
25 faster, everyone has to answer just in a few words, maybe

1 just one - we're not going to go quite that radical here,
2 but there are a lot of great questions that people have
3 suggested for the panel. What I'd like to do for these
4 questions now is have one person from the panel respond,
5 then ask if there is anyone that has a very different or
6 dissenting view, and try to keep it to a couple responses
7 per question, just so we can cover the range of questions
8 that I've seen. And please continue to write down questions
9 on the cards that will make their way to me.

10 So, one question, just continuing the connection
11 between energy markets and the economy, "How will current
12 economic conditions impact both energy demand in California
13 and energy supply?" So, the conversation we just had was
14 focusing on what's the effect of energy prices on the
15 economy, but this question is, what's the effect of the
16 current economy on energy demand, energy supply, or both?
17 Who would like to start out with that? Dennis?

18 MR. MEYERS: Oh, well, I guess, I mean, whenever the
19 economy slows, obviously, energy demand diminishes. I think
20 it's - the other side of the coin is what will those low
21 prices do to the development of new energy sources and
22 things? In a weak economy, you're not going to see a lot of
23 new development of new sources of energy, it's going to be
24 kind of slowed down somewhat, so it may take a while to
25 catch up to that at some point. Also, as Steve mentioned,

1 low prices also tend to not make people look for new
2 efficiencies and things, too. So that could be a longer
3 term drag on that. You know, typically you see - or,
4 atypically right now - we are kind of seeing some higher
5 energy prices in spite of lack of demand, but I think some
6 of that you need to start thinking about, you know, oil
7 energy, in particular, is a global marketplace, you've got
8 to look at the global economy, California is kind of an
9 outlier for the nation and the global economy, too, so that
10 is part of what's going on there, we are kind of suffering
11 from strong growth in Asia and China, as well.

12 MR. KOLKO: Any very different or dissenting views
13 on effect of economy on energy demand or energy supplies?

14 MR. COCHRANE: Steve Cochrane. I think the way to
15 look at the future demand for energy is by looking at two
16 sources of demand, one is rising output and the other side
17 would be expanding household formations. Demand from both
18 sides was reduced during the recession. Demand has begun to
19 increase now in California because of simply rising output
20 that the economy is improving. We're not seeing much of a
21 rise in demand yet from the acceleration of household
22 formations that will add to it in 2012-2013, as the economy
23 gets back on its feet and the housing market gets back on
24 its feet, so there should be accelerated demand, if not this
25 year, then in the next several years. And then, of course,

1 with the rise in demand, there should be some price
2 pressure, there should be some renewed interest in new
3 investment, as well.

4 MR. KOLKO: Thanks. Another question: "Can anyone
5 speak about the consumer balance sheet in California, what's
6 happened to consumer debt, consumer balance sheet, and how
7 is that likely to change during the recovery?" Who would
8 like to have a first crack at that?

9 MR. DIFFLEY: Well, I'll take a bit of a negative,
10 we don't have good data on state level balance sheets such
11 as that, per se. But I'll reiterate the point Steve was
12 making in terms of home equity being so vital, and the
13 valuation of homes being so vital in consumers' balance
14 sheets and their outlook for further spending and savings,
15 etc.

16 MR. COCHRANE: I can add just a little bit to it.
17 If you look at some of the data from some of either the
18 firms that follow home foreclosures, or the firms that
19 follow consumer credit, the consumer rating - the credit
20 rating bureaus, pardon me - one of the interesting things is
21 that consumer balance sheets deteriorated the fastest in
22 California of almost anywhere else, so that delinquencies on
23 all sorts of consumer loans peaked very quickly, but very
24 early back around 2007, early 2008. They've actually been a
25 little more quick to recover. I think it's still - when you

1 look at consumer credit balance sheets in California, the
2 conditions still look worse than elsewhere, but the gap is
3 narrowing quickly. Again, I think some of this is that the
4 housing market is beginning to resolve itself a little bit,
5 and also, at least the relatively high share of high income
6 households in California helps, that they've been able to
7 get through this crisis better. So, I think actually
8 broadly speaking that, when we look into the future, that
9 California has some advantage in terms of more rapid
10 improvement. I think we'll see a more rapid improvement
11 both in terms of consumer credit difficulties and in terms
12 of housing credit difficulties, and that is one thing that
13 will help, again, not this year, but maybe 2012, the economy
14 may surprise on the upside.

15 MR. MICHAEL: This is Jeff Michael. The data I've
16 seen on consumer credit per household puts California at the
17 highest per capita levels of consumer debt in the nation.
18 This is not a new thing, though, this was true 10 years ago
19 and it's true now, it's something like \$80,000 of consumer
20 debt per capita. Now, a lot of that is driven by mortgage
21 debt and the high cost of housing that we have seen here in
22 California and the amount of debt that people incur in order
23 to purchase a home. But we also have relatively low home
24 ownership rates here, so it isn't just that. We're
25 substantially higher - the U.S. average is something like

1 \$50,000 per capita of consumer debt, we're at about \$80,000,
2 and we're not the top income state in the nation. So, I'm
3 very concerned about this. It's going down faster than
4 other parts of the nation, so that's an important point,
5 that it's improving rapidly, but there is a long way to go
6 and I think it's a very large impediment in our recovery.

7 MR. KOLKO: There have been several questions about
8 housing, so we clearly did not exhaust that topic in the
9 conversation so far, two very similar questions that really
10 want to understand where new housing construction is likely
11 to be. One person asks, "Do the panelists see new home
12 building on previously undeveloped land as a sustainable
13 economic force?" And very similarly, "If or when housing
14 construction resumes, will "abandoned projects" [in quotes]
15 pick up again? Or will either demand forces or policy
16 measures like SB 375 change where new construction tends to
17 be in the state?" So, in short, where is the growth in
18 housing construction? Jerry, first.

19 MR. NICKELSBURG: So, one misconception about
20 California housing is that we are over-built in the State of
21 California. The fact is, we're under-built, but where we
22 are built is in the wrong place. And so there is potential
23 demand, which is going to be felt in the state as soon as we
24 start getting job generation, and that potential demand is
25 two things, 1) demographics tells you that it's more heavily

1 tilted towards multi-family housing than before, and second,
2 that it is along the coast. And so the question of, you
3 know, where is the housing going to be, it is going to be on
4 unbuilt land, well, along the coast, there is not that much
5 unbuilt land, and so the inland parts of the state are going
6 to really have to grow into their housing stock before you
7 get much of a rebound of housing, and that's going to take
8 quite some time. But on the coast, you're actually seeing
9 projects that were - I don't know if "abandoned" is the
10 right word, or put on hold, getting going again, not
11 necessarily with construction, but getting the work done,
12 you know, the pre-construction work done, in San Francisco
13 in multi-family housing, in LA, in parts of Orange County.
14 There is also some unbuilt land in places like Orange County
15 in the Great Park area, and that's going to be single-family
16 detached, as well as multi-family, and in North San Diego
17 County. So, I think what you're going to see is, along the
18 coast, more multi-family, and that's where you're going to
19 see construction happen because that's where the potential
20 demand is. And it's going to take a while to really burn
21 off the excess supply in the more inland parts of the state.

22 MR. KOLKO: Steve Levy.

23 MR. LEVY: Steve Levy, yeah. We're in the beginning
24 of a massive transformation in the demographic demand for
25 housing. As I'll show later in the long-term panel,

1 virtually all of the growth in households is in households
2 age 55 and above, and young adult households, 25-34. The
3 growth in the single-family, age 35 to 54, is over for the
4 next 15 years, plus that's where a bunch of the excess
5 supply, either through projects not built or foreclosures,
6 lie. This is, I think, extremely important for the
7 Commission technical staff simply because we're coming off
8 an age where people were building large and very energy
9 intensive homes in warmer parts of the state, and now the
10 market and SB 375 and the demographics are all pushing
11 toward an era of smaller units, probably multi-family for a
12 larger percentage, and in the cooler areas of the state. I
13 think it's going to be a very large transformation not only
14 for housing, but for the energy use associated with housing.

15 MR. KOLKO: Any very different or dissenting views?

16 MR. MICHAEL: Very different, no, I agree that
17 multi-family coastal housing can be back where it was next
18 year, it's coming back. Multi-family housing in the inland
19 areas, the demographics are there, but the economics aren't
20 there. And a lot of that has to do with the local
21 government policies. It's extremely - a lot of the cost of
22 building, particularly in the inland areas, are fixed costs
23 that are related to policies that require sort of new
24 development to pay for itself, and when you've got to pay
25 \$50,000 to \$60,000 in fixed fees upfront for public

1 facilities to build an apartment, the rents just don't cover
2 that in areas where annual family income may not even reach
3 those levels. So, I don't see that type of housing coming
4 back in the inland areas for a while, even if there is
5 consumer demand or desire for it.

6 MR. KOLKO: Thanks. There's a question that
7 actually picks up on the conversation that Steve Levy just
8 now started about demographics, asking about demographics in
9 the short-term, in the recent recession. "What explains the
10 stable population growth throughout this recession? Is it
11 high birth rates, foreign migration, or something else?"
12 Population, indeed in California has continued to grow
13 throughout the recession and, when we look at a couple
14 facts, in the most recent year, California has actually been
15 a net gainer of college educated people from the rest of the
16 country, which is a big change from what has been true over
17 many recent years. So, who wants to take up this question
18 about demographic trends during the recession?

19 MR. LEVY: I would love to, but I will defer to
20 Dennis if you want to -

21 MR. MEYERS: Well, actually, I'm not privy to all
22 those details about those specific things. I think - do you
23 want to, Mary?

24 MR. KOLKO: Mary, do you want to have a cameo here?
25 Let me - can we get the mic, the portable mic on?

1 MR. LEVY: That's not fair, you give her a mic and
2 it's not on.

3 MS. HEIM: Most recently, California's population
4 growth - oh, I mean, we are growing at less than one
5 percent, and I have to say that we haven't been growing at
6 less than one percent except in the mid-1990's was the last
7 time it was that low. So, it is, percentage-wise, low. But
8 we're still gaining, you know, 350,000 residents a year.
9 Most recently, and I think maybe this is also recession
10 driven, we've seen births in California plummeting, they're
11 just going down, down, down. And whether that is recession
12 driven and will go back up again, we'll see. I think the
13 population trend to consider is that migration has really
14 slowed down. It's not that there's fewer people leaving
15 California, or more people coming in, it's just that people
16 have stopped moving and so the migration rates, at least
17 domestically, are pretty flat. We're losing some people to
18 other states, but there's just not the big dips like there
19 were in the mid-1990's, or the big gains like there were in
20 the early 2000's. So we are still gaining due to
21 immigration, we still get over 200,000 immigrants every
22 year, but undocumented migration by the estimates of
23 Homeland Security have really dropped off to nothing these
24 days.

25 MR. KOLKO: Thanks. That was Mary Heim from the

1 Department of Finance, who was our sort of stealth
2 demographic expert for the day. So, thank you, Mary. Other
3 insights about demographics during the recession/recovery
4 that anyone wants to add?

5 MR. DIFFLEY: Well, I will just add that the housing
6 cycle, itself, was a big factor in the slowdown in
7 migration, people could not sell their homes, right? The
8 home sales went down a lot. The broad-based nature of the
9 recession also left a situation where, if you're looking for
10 a job, unless you're willing to go to Fargo, North Dakota,
11 you really had no place with very low unemployment to
12 relocate. The whole migration slowdown that we've seen is
13 related both to the housing cycle and to the recession.

14 MR. MICHAEL: I'll just make a brief comment about
15 regional differences, too, that it's been relatively stable
16 in California, but there have been big, dramatic changes
17 within regions, in fact, population growth has really picked
18 up. If you look at Northern California, it's really picked
19 up in the Bay Area from where it was in the earlier part of
20 this decade, whereas it's fallen back dramatically in the
21 Inland areas. Overall within Northern California, it's been
22 much more stable.

23 MR. NICKELSBURG: So just one quick comment to add
24 to what has been said. And I don't think the data yet
25 really fully captures this, but in former recessions, we had

1 out-migration from California to places like Nevada and
2 Arizona and Oregon, where things were better. In this
3 recession, things aren't better there, in fact, in many
4 cases they're worse. And you know, what happens is, if
5 you're unemployed and you can't afford your rent, and you
6 have family in California where you came from a decade or
7 two ago, you often move back and there's at least some
8 evidence from U-Haul traffic rates of in-migration to
9 California from places like Las Vegas and Arizona. So, you
10 know, that may be kind of - some of that may be picked up,
11 that may be part of why you're not seeing what we've seen
12 previously, which was a lot of out-migration.

13 MR. KOLKO: And the research has suggested that
14 there really are two main drivers of migration among states,
15 one is employment opportunities, and the other is housing
16 costs. Given that, in this recession, housing prices in
17 California have fallen more than in almost any other state,
18 the gap in housing prices between California and the U.S.,
19 though still much higher in California, has nonetheless
20 narrowed relative to where it had been earlier in the
21 decade. And, all else equal, that's going to contribute to
22 migration into the state relative to what we've seen in the
23 past.

24 A couple questions about consumption driving the
25 economy and driving the housing market. Do you think that

1 we can still rely on household consumption to drive GDP
2 growth? And related to that, how will lower job growth, but
3 higher output growth enable housing growth? Isn't
4 employment growth the factor that really drives the ability
5 of households to consume, and therefore to help the housing
6 market recover? So, the question is, how important is
7 consumption? And how much of a risk is there that we have
8 output growth without the employment growth that contributes
9 to consumption?

10 MR. COCHRANE: Maybe I can start, Steve Cochrane.
11 Consumer spending will be a driver of growth, but it will
12 not be the outsized driver of growth that we saw over the
13 last decade. When you look at where jobs were created in
14 California, aside from construction which was so important
15 and was related to consumer spending, but it was in
16 retailing and in low wage services and the like that created
17 the huge gain in jobs. Now, in many cases, those jobs
18 weren't that well paying, but at least they were jobs, they
19 kept the unemployment rate down, and so forth. I think this
20 is where we see a little bit of a structural shift in the
21 kinds of jobs that we'll be creating, there won't be an
22 over-dependence on retailing, retailing will not expand in
23 the way it did over the last 10 years. If consumer spending
24 had been growing at a rate faster than overall GDP over the
25 last 10 years, consumer spending -- gross state product in

1 California -- consumer spending will be lagging GDP growth
2 perhaps maybe by 25 basis points over the next 10 years.
3 Now, that doesn't sound like a lot, but because consumer
4 spending is such a large piece of the economy, it does
5 matter. So, what's left? If it's not consumer spending,
6 then it is either investment spending, or it is export
7 demand. And this is where the California economy will have
8 to grow and, of course, California is very well-positioned
9 in terms of export markets. And California has to continue
10 to keep a really positive investment climate and, again,
11 this goes back to keeping human capital very high, keeping
12 the education system functioning at a very high level here,
13 and attracting the human capital which also attracts
14 investment capital.

15 MR. KOLKO: Any different points of view on
16 consumption and its role in recovery? Let me then turn to a
17 couple questions about policy, budget, and taxes, and so on.
18 So, someone listening carefully noted that the Federal tax
19 cuts/unemployment insurance extension package affected some
20 of your forecasts, while at the same time others said that
21 there's little the state can do to affect the pace of
22 recovery. So someone says, "If tax cuts stimulate the
23 national economy, would it have the same effect if
24 California were to cut state taxes?"

25 MR. LEVY: No. Kind of Policy 101, the stimulus is

1 created by running a deficit whether you do that through
2 fiscal policy and tax cuts, or whether you do that through a
3 stimulus package of direct spending. The state cannot run
4 the deficit. The economy created the drop in income that
5 created the drop in revenue. And what the state budget does
6 is allocate how the drop in economy is allocated through
7 either cuts in government spending, or increases in revenue,
8 which transfer spendable money from private consumption to
9 public consumption. Without the ability to run a deficit,
10 there is no short-term stimulus. Now, you can argue that
11 having lower taxes over the long-run will create an
12 incentive for firms to locate here, which I think is a
13 subject for the second panel, and wildly overrated, but in
14 the short-term, if you can't run a deficit -- and also, in
15 the short-term, it's kind of brain dead to think that
16 corporations are going to pick up within six months or nine
17 months and make massive changes in their investment or
18 location decisions because of a series of tax policies that
19 can't possibly be adopted or implemented for six or nine
20 months within election, so, no, the state has no fiscal
21 power in the short-run, it can't run a deficit.

22 MR. DIFFLEY: I agree completely with that - Jim
23 Diffley here - I'll add one, moreover, that at the federal
24 level, one of the boosts from cutting taxes comes in the
25 following way - people have more money to spend, they spend

1 it on the local economy, or the U.S. economy. If you give
2 California households a tax break, a lot of what they spend
3 is going to go outside the state.

4 MR. KOLKO: Any dissenting views on this? A couple
5 people asked about forecasts, how it is you do this, what
6 assumptions go into it, and what sort of uncertainty is
7 embodied in economic forecasts. So, those of you who are
8 most deep into the forecasting world, how much confidence do
9 you have in your forecasts? And also, maybe a fairer
10 question is, what's the biggest source of uncertainty in
11 your short to medium-term forecasts?

12 MR. MEYERS: Oh, I'll take a stab at the general
13 forecasting philosophy; I won't speak for everybody else.
14 But, you know, typically when you forecast, you tend to - I
15 shouldn't say "we," I won't speak for everybody - we tend to
16 under-estimate the boom times, we never think it's going to
17 get as good as it ultimately gets, and we never quite think
18 it's going to get as bad as it ultimate gets during the bad
19 times, and a lot of that is a function that we rely on
20 models that are based on historical precedents and history
21 and looking at sort of the average response to different
22 things as they heard in the past, like with the stimulus,
23 you know, we're going to look back at what previous tax cuts
24 and stimulus spending can do for the economy and, you know,
25 come up with sort of an average, what do these things

1 typically do. But, of course, the near future is never
2 going to exactly be like the average past, right, there are
3 things that are going to go on in the next few months, or
4 next couple years, that we can't anticipate, we try to, and
5 you try to factor those in, but we're always somewhat of a
6 slave to the data of the past. So we have to sort of make a
7 best guess about the stimulus, it is somewhat of a different
8 stimulus than in the past, it's similar to previous tax cuts
9 and things like that, but it is different, it's not exactly
10 the same. You know, California's situation vis a vis as far
11 as we talked about the housing crisis being worse than in
12 the past, and trying to make an estimate of how we'll dig
13 out of that, or how fast home prices will return, well, this
14 is an unprecedented event, really, we've not gone through
15 this really before, so we have to sort of try to tweak and
16 adjust our models and assumptions to take that into account,
17 but you're always sort of dealing with a certain amount of
18 uncertainty or something that is just different this time.
19 So, we are kind of hampered by relying on past history and
20 somewhat with making guesses about things, we don't really
21 know where they're going to go exactly. So, you know, we
22 try to not miss the mark by too much is kind of the goal we
23 have.

24 MR. NICKELSBURG: Let me add a couple things to
25 that. The early 20th Century economist, A.C. Pigou, talked

1 about forecasting and said that, you know, in boom times --
2 so this is exactly what Dennis said -- in boom times, we
3 make the error of optimism and, in contraction times, in
4 recessions, we make the error of pessimism, but he said the
5 error of pessimism we tend to - I think his exact words were
6 something like "it's born not an infant, but a giant." So,
7 as forecasters, we have to guard against both being overly
8 optimistic and overly pessimistic, particularly overly
9 pessimistic as we go through this. The way that we do this
10 at the Anderson Forecast is we have statistical models, it
11 looks at past data, tries to interpret how past data can
12 explain what might happen in the future, and this is really
13 a matching of the past to the future; if certain things line
14 up in the same way, then you expect more or less the same
15 outcome. So, that's the first step. But the second step
16 that we take is to look at the assumptions that underlie the
17 models and the equations, and simply ask the question,
18 "Well, are those assumptions valid?" Do those equations
19 really hold? Or is something different going on now? And
20 try to use economic theory to try and understand if the
21 models are not valid and, often times, particularly in this
22 recession, we found that our data doesn't go back far enough
23 to pick up recessions that are coincident with financial
24 panics, we then have to interpret how those model
25 coefficients might change, how the mathematics might change

1 in the new circumstance that we're in, and so we make
2 modifications for our forecasts based on that.

3 MR. COCHRANE: I think just to add to that, this is
4 Steve Cochrane, it's a very good description of how this
5 science of forecasting is done. Just to bring that down to
6 the state level, or the local level, you know, two
7 incredibly important components of forecasting sub-
8 nationally are 1) demographics, and 2) industrial structure.
9 And I think, actually, these are things we're going to be
10 talking about this afternoon, but these are so critical in
11 terms of our assumptions that we make about whether
12 demographic patterns will shift from where they were before,
13 and fortunately, at least demographics have kind of a long
14 lead time, you can kind of see what's coming from year to
15 year. And then, industrial structure is a little harder to
16 foresee because, of course, that depends on changes in
17 technology and changes in patterns of investment, the global
18 economy, and the like.

19 MR. DIFFLEY: Yeah, I certainly agree with what you
20 guys all said, nice descriptions. Let me step back a little
21 further. I think Chris started the day talking about the
22 black box, and we started with the graph that showed how
23 similar the time series experience of the U.S. was with
24 California. So you literally go a long way, think about
25 basic, the start of the model building; you go a long way by

1 modeling the state economy as a function of the U.S.
2 economy, right? But, at the same time, you take the
3 industrial structure, and Steve Levy started out the day by
4 mentioning this as determinant of what the differences are
5 between U.S. and California growth rate, and as Steve
6 Cochrane just alluded to. You also have an industry by
7 industry forecast - by industry, not by state - you apply
8 that to the state industrial structure and that gets you
9 pretty close - that's a pretty good starting point, and then
10 you can talk about the assumptions and the econometrics and
11 other local factors. So, that's the black box, really -
12 it's not that black, is it?

13 MR. KOLKO: Let me pose one last question for all
14 six of you before we break for lunch. What do you think is
15 the single most important factor affecting California's
16 recovery that has not been mentioned at all yet this
17 morning? Jerry, since you don't know what was mentioned
18 when you weren't here, you get a bit of a pass on this one,
19 so, you know, take your guess at what hasn't been mentioned;
20 everyone else, you know what's off limits. But, Jerry, why
21 don't you start and we can go in order from Jerry to Dennis.

22 MR. NICKELSBURG: I was hoping to hear what other
23 people thought had not been mentioned. So, we're looking
24 for the single greatest impediment to California's recovery.

25 MR. KOLKO: The factor affecting the recovery most

1 strongly. It could be an impediment, it could be a boost.

2 MR. NICKELSBURG: So this has been probably
3 mentioned, but I think it's important. The California labor
4 force is going through a structural change, and it's a huge
5 structural change, and sort of reasonable estimates would
6 say that it's 300,000 to 400,000 Californians are currently
7 unemployed, were previously employed in one way or another
8 in supporting residential construction in this decade will
9 not be employed in those industries. They have to first of
10 all recognize that, second, figure out what they want to do,
11 and they'll dabble in a number of things, and what happened
12 to aerospace workers in the '90s is a real good object
13 lesson for this, and then decide what they're going to do,
14 get trained to do that, and move into those fields, whatever
15 they are. That process historically takes a long time, and
16 that's probably the slow growth, the slow adjustment part of
17 California because, if you look across California in the
18 balance, it actually does not look too bad right now.

19 MR. KOLKO: Jerry, thanks. So, again, that hasn't
20 been mentioned. Steve.

21 MR. LEVY: Potential success in reducing the growth
22 in retirement benefits nationally and controlling healthcare
23 costs, on the one hand, and second, I don't know whether
24 it's been mentioned, but certainly for us, we're tied to the
25 world economy and either very much above average or below

1 average growth in our major trading partners, I think, could
2 make a substantial difference to California.

3 MR. COCHRANE: You stole my thunder, Steve. This is
4 Steve Cochrane. I was going to talk about the global
5 economy and maybe I could just be a little more specific.
6 Two specific risks for the global economy, one is that if
7 the European debt crisis were to really explode, it would
8 probably have a very direct impact on U.S. Equity markets,
9 which would then multiply through the pace of investment
10 spending around the country, that would certainly hurt
11 California. And then, at the other side of the globe, you
12 know, the assumption is that the Chinese economy will, you
13 know, slow down to a sustainable six to seven percent rate
14 from its eight, 10, 12 percent rate over the past. If the
15 Chinese are a little - if the slowdown is a little more
16 bumpy, there is some difficulties there, then that could
17 affect California through trade, as well.

18 MR. DIFFLEY: Okay, honestly, first I'm going to add
19 a California condition that is less important, I mean,
20 clearly what is going on in Washington, D.C. now, in terms
21 of macroeconomic policy could have a huge effect if Congress
22 and the President do something [quote] "stupid," that would
23 be something - and I don't want to focus on that since it's
24 about California, but one thing that wasn't mentioned, and I
25 don't consider this a big factor, but I'm actually surprised

1 it wasn't mentioned because it's actually a big issue back
2 east, in the eastern half of the country, and that is the
3 opening of the expanded Panama Canal. Believe me, all of
4 the Ports along the East Coast are assuming all that
5 shipping that is coming in to LA - Long Beach is going to be
6 coming around to their side, and they're getting ready.

7 MR. MICHAEL: I'll connect it to the earlier
8 question about uncertainty in your forecasts and we haven't
9 talked a lot about innovation and its role in driving the
10 California economy, it's something that sort of vexes me as
11 a forecast, is inherently unpredictable and it's going to be
12 important to our recovery. You know, we observe the venture
13 capital continuing to flow into California, we know that we
14 have entrepreneurial climate and lots of smart people here,
15 but innovation is going to be very important to our
16 recovery.

17 MR. MEYERS: Can I have a different question. I
18 think they've all answered it. I'll echo a little bit of
19 what Jeff said, actually, I think it could be a big issue,
20 could be a small issue, hard to know where it's going on,
21 but California, I think, has a unique combination of skills
22 and industries here to capitalize on this whole
23 communication infotainment revolution we're going through.
24 We all know it's happening, right, we all know that you can
25 see movies a thousand different ways from every spot in the

1 state, and this is causing some really dramatic
2 transformations in the telecommunications field, the
3 entertainment industry, in the computer technology and
4 computer services industries, you know, that's going to have
5 global consequences. And California really is the focal
6 point for a lot of those developments, a lot of brain powers
7 here, a lot of research is done here, all the companies are
8 headquartered here, and it's hard to see where that's going
9 to go because we're in the middle of it, you know, but I
10 think there's a potential there, and it may not be a next
11 year thing, or a two-year thing, but that's an area where a
12 lot of good things may come the next few years and
13 California could capture a lot of that, potentially, given
14 our educational background, our existing industries, and the
15 business environment here. This is actually really very
16 good for those kinds of industries. So, that's sort of, I
17 think, a little wild card out there that might blossom
18 someday.

19 MR. KOLKO: Let me thank all of you for those
20 answers and audience for questions. It is 12:00, we're
21 going to break for an hour for lunch. When we come back, we
22 will be five or 10 years into the future, which is a neat
23 trick, talking about the long-term California economy. A
24 couple of logistics. For those of you that have pre-ordered
25 lunch, it should be waiting for you in Hearing Room B. I

1 assume most of you know what that means probably better than
2 I do. But that's where that is. And I believe it is still
3 the case that the Energy Commission will be taking written
4 comments until February 2nd, and that process is announced in
5 the workshop notice for additional comments based on
6 anything you've heard so far today. I also want to mention
7 that many of the questions that people have written down on
8 cards will come up in the panel right after lunch because
9 many of those are at least as relevant to the long-term as
10 they are to the short-term future of the California economy.
11 So, particularly questions about climate change, cap-and-
12 trade, AB 32, several questions on that, we'll be sure to
13 get to that after lunch. So, thanks, and see you at 1:00.

14 (Off the record at 12:02 p.m.)

15 (Back on the record at 1:05 p.m.)

16 MR. KOLKO: Welcome back. In this second panel of
17 the day, we'll be focusing on the long-term future, so in
18 the first panel we focused very much on the short and
19 medium-term future, so what was likely to happen with
20 recovery in California and beyond, and how long that would
21 take. For the next hour and half, we're going to focus on
22 the longer term view, what is California likely to look like
23 once recovery is complete, whatever that turns out to mean,
24 and what does normal mean as we think about getting back to
25 normal. We'll have the same format as before, so I'll say a

1 couple more things, turn it over to each of our panelists to
2 give some two or three-minute opening statements, and then I
3 will start a conversation going, open it up to questions and
4 comments from Commissioners, and then continue with
5 questions that you've put on index cards. You'll be getting
6 index cards again if you haven't already, as before. Please
7 write down anything you'd like to ask on those cards. Those
8 who are joining by WebEx, we're getting your questions over
9 the WebEx, and including those as well.

10 So, in thinking of the long term California economy,
11 I'd like to begin as before with a view of the recent - in
12 this case, not so recent past. When we think about what has
13 happened in the recent past, the data that you saw was a
14 picture that California looked an awful lot like the U.S.
15 In good times, California did well, in poor times,
16 California does poorly, as well, but roughly rose at the
17 same rate, when we look at job growth, as the U.S. overall.
18 While this has been true for several decades, it wasn't
19 always true and, in fact, the difference is quite striking.
20 When we look at the three decades immediately after the
21 second World War, from 1950 to 1980, job growth in
22 California significantly exceeded job growth in the U.S.
23 overall. California is the lower bar, as you'll see in a
24 minute, the green bar, where growth over this three-decade
25 period was roughly 3.7 percent per year, well above the

1 national annualized growth rate over these three decades of
2 about 2.2 percent. Now, when we look at the most recent 30-
3 year period from 1980 to the present, growth has been
4 roughly the same in California and in the U.S. overall, but
5 clearly much less rapid, both for California and the U.S.
6 Now, I don't mean to imply that something sudden happened in
7 1980 that caused a change, I'm choosing 1980 somewhat
8 arbitrarily in order to divide this into two roughly equal
9 time periods. There are, of course, things that happened
10 around 1980. We could play a bit of a game trying to assess
11 which policy factor or global development, or whatever else
12 might have contributed to this difference, but the bigger
13 point is that, even though in some sense California's
14 economy relative to the U.S. may not seem so bad compared to
15 those who argue that California has a terrible business
16 climate that causes lots of firms to leave the state, the
17 fact is, over several recent decades, growth in California
18 has looked a lot like the U.S. But, if we have in mind this
19 heyday period of post-World War II, when California's growth
20 consistently exceeded the U.S., then the most recent 30
21 years, just keeping up with the country does indeed look
22 like a disappointment and perhaps not as well as California
23 should be doing long-term.

24 These are the types of questions that will inspire a
25 lot of the discussion in this panel for the next hour and a

1 half - what is California's economy like, what it will look
2 like longer term, what are the factors that will affect jobs
3 and other types of growth as we look beyond the recovery,
4 how will demographics affect this, how will sectoral change
5 affect policy factors of this, as well.

6 I'd like to start first with Brad Williams, who is
7 the one person on this panel who wasn't with us in the
8 morning. He is now with Genest Consulting and we're
9 delighted to have you here for the second panel. We will
10 start with him and then go down the panel to your left,
11 hearing just a brief opening statement from each. And if
12 you have slides that you want me to turn to, just let me
13 know as you go.

14 MR. WILLIAMS: Okay, well, thank you, Jed. I think
15 I'll just work off of your slide for my opening
16 presentation. It's very interesting, I talked to Jerry
17 Nickelsburg at lunch and one of his predecessors at UCLA, I
18 remember about 20 years ago, said if you wanted to have a
19 Nickel forecast of California and don't want to spend a lot
20 of time, just take the national forecast for employment
21 growth and add about a percent, and that was in the 1980's.
22 So when we got into the 1990's, I think our rule of thumb
23 kind of changed to maybe half a percent, and now, as you can
24 see, I mean, over that whole period and certainly recently,
25 we're perhaps about even. I think there's no question that

1 California's heyday is long gone. I mean, back in the '50s
2 and - 1950 to 1980 period - you know, population was 10-15
3 million people on average, now we have 38, there is simply
4 less developable land, we have more water constraints, we
5 have more people, more infrastructure constraints, and so
6 it's unrealistic to ever expect that we're going to go back
7 to anything remotely like what we looked at in that earlier
8 period. But I think over the next few years, and perhaps
9 over the next decade, I think we probably can do as well, or
10 perhaps slightly better in the nation, part of that is
11 simply, you know, I heard the panel this morning, it's where
12 we stand in our economic cycle, California lost so many
13 jobs, I think there is some potential on the up side for a
14 little bit more growth in the near term, but kind of
15 standing back and looking at it over a longer period of
16 time, what's sort of interesting to me is, when you look at
17 like California the last 15 or 20 years, it's really hard to
18 kind of see what the underlying trend in the economy has
19 been because the last 15 or 20 years have been so dominated
20 by extraordinary events. You know, I think starting in
21 1990, you had the defense bust. I mean, California had
22 built-in economy around aerospace and defense, that changed
23 forever, and we lost a tremendous amount of jobs in the
24 early 1990's that we've been struggling to replace, and we
25 have to some extent, but that was kind of a permanent

1 downsizing of a very very big part of our economy. Then,
2 you get into the late '90s, you had the stock dot-com boom,
3 the stock market boom, that created a tremendous amount of
4 wealth in the economy, followed by the bust and the downturn
5 that happened. And then, of course, over the last decade,
6 the extraordinary real estate cycle. I think just one
7 example - and we talked about this, this morning, about how
8 much the real estate cycle has affected the overall growth -
9 I was just looking at, if you looked at the share of GDP and
10 you look at construction, real estate, construction-related
11 manufacturing, and finance, it counts over the whole period
12 from about 1997 to today of about eight percent of the
13 overall economy. It accounted for 34 percent of the growth
14 in the economy between 2001 and 2006, and 34 percent of the
15 decline between 2006 and 2009. So, I think what, kind of,
16 you know, looking ahead and looking kind of what the
17 potential is for California, I think you have to try, and
18 it's very difficult to do because of all the ripple effects
19 of all these bubbles, to look at what California's
20 underlying economy is doing when you take away those bubbles
21 and those extraordinary sectoral changes. But, when I look
22 at it, and I look at kind of how we've been doing sector by
23 sector in a lot of different industries, my sense is that we
24 haven't been doing all that poorly, even over the last 15 or
25 20 years. If you look at GDP, the estimates, which I

1 understand the data isn't great, but we've actually gained
2 market share relative to the country from 1997 to 2009, even
3 though 2009 was, you know, the end of an extraordinary
4 recession in California. And even within industry,
5 manufacturing, high tech services, business services, we've
6 seen some increases. It's partly a reflection of our
7 industry mix, we have a lot of high value added industry, so
8 the fact that they've been growing nationally, the fact that
9 we have a lot of those, the industry mix has sort of favored
10 us. But I think, even when you get down to very individual
11 sectors, the picture doesn't look all that bad. It doesn't
12 look as good for employment as it does for output because
13 these high value added sectors are the ones that have seen
14 incredible increases in productivity. So, businesses have
15 met the increases and output primarily through capital
16 investment and increased output per unit of labor. But
17 that's generated a lot of wealth in the economy and I think
18 that's a trend that we hope will continue. You know, there
19 certainly are some big questions as we move ahead, you know,
20 positive - we certainly have an innovative economy, a very
21 creative economic environment, world class universities,
22 companies, networks of venture capital and financing, and a
23 lot of talented people with great ideas, and those are
24 certainly key positives. I think one question, among many
25 is, you know, we have a reputation as not having the best

1 business climate in the world, we have tremendous challenges
2 at the state and local governments right now, which were
3 talked about this morning. And so I think it's going to be
4 a challenge for the state to kind of maintain or enhance its
5 infrastructure, maintain a tax system that is friendly,
6 skilled workforce, functioning public sector. And I think
7 that goes back, I think, a little bit - a key is how we
8 grapple with the fiscal price that is facing the state here
9 in the near term, I think that is going to have implications
10 not only for economic growth over the next couple years, but
11 perhaps in the longer term. So, I think those are my
12 opening comments.

13 MR. KOLKO: Can I just remind everyone to introduce
14 yourself each time you talk, so those who are joining us
15 virtually know who is saying what.

16 MR. MICHAEL: Hi, I'm Jeff Michael from the
17 University of the Pacific. Looking at your graph there, the
18 first thing that I noticed, you know, I always think of the
19 '80s as the rapid growth period in California and part of
20 that is, you know, I can't remember life before Bon Jovi and
21 Madonna, I'm in that generation, so I tend not to think
22 earlier that much, and I think if we were to split that off
23 in just the last 20 years, I think it would be even smaller
24 -- or even slower growth. And I think that's important
25 because I think, the more we get the '80s out of our - I say

1 the '80s out of our models of California, and even the
2 periods before that, and come to grips with the fact that
3 we're a slower growing state in the long term, and we need
4 to bear that in mind when we make our plans. So, being a
5 slower growing state isn't necessarily a bad thing, it
6 doesn't necessarily mean we're going to be less prosperous.
7 In some ways it could improve our quality of life, you could
8 think of it as a maturing state. But it does have
9 implications. And I'm sure we're going to talk a lot about
10 those implications here, but one of them that concerns me is
11 that I think it means that we need to be very careful about
12 debt. Debt is a lot easier thing to manage when you're
13 growing jobs at 3.7 percent a year and GDP at 10 percent, or
14 whatever comes along with that. Certainly, rolling over
15 long-term debt is a lot easier. I'm concerned our state is
16 going in the wrong direction when it comes to debt, and we
17 need to bear in mind this long-run growth when we get
18 involved in these things. Second, I know we're going to
19 talk a little bit about infrastructure later on, so I won't
20 get deeply into that, but you know, we need to think a
21 little bit about some of where we're investing and I'm very
22 concerned about some of the mega projects that are being
23 discussed in a state that is shortening its school year and
24 what that means about our future. And I think we need to
25 look at this slower long-run growth rate, not so much in the

1 energy area, but in some of the other areas, and the big
2 ones that are headlines now, in particular, are the high
3 speed rail, and water, and take another look at these things
4 with sort of a different projection of how fast we're
5 growing in the future, and make sure they still make
6 financial sense, and that we don't get ourselves into
7 serious debt trouble.

8 MR. DIFFLEY: All right, Jim Diffley from IHS again.
9 I thought your graph from decomposing the period from the
10 1950 to 1980 would open you up to the obvious political -
11 and you could view it that 1980 was when Ron Reagan went to
12 Washington, right? I ended earlier by emphasizing the
13 robustness of the coastal economies of Los Angeles and the
14 Bay Area and San Diego. Nevertheless, there, relatively --
15 in this relatively superior performance during housing
16 cycle, seems to me leaves them, the coastal California, as
17 very expensive places to live, nonetheless, right? As such,
18 California remains at a competitive disadvantage with other
19 states in the U.S. in terms of cost of living and, hence,
20 cost of doing business, particularly with respect to much of
21 the sunbelt where home prices fell so dramatically. So, we
22 project moderate gains for California over the long term,
23 about 1.1 percent job growth annualized, if you think about
24 it over - talk about a 10 or even 20-year horizon, with
25 business services and leisure spending actually leading the

1 way in terms of jobs. We have about five percent - very
2 close to 5.0 percent average income growth over that time,
3 about 3 percent growth in real Gross State Product, just to
4 put the forecast out there. Housing construction, we think,
5 when it comes back, which will take a number of years yet,
6 at a bit over 150,000 starts per year, with fully a third of
7 them multi-family starts, which may or may not agree with
8 some of the things that others said this morning. What are
9 the big issues, though, going forward? Water, especially in
10 the light of - or possibly even more severely in the light
11 of climate change, congestion and infrastructure, generally,
12 environmental both concerns and advances, I mean, dealing
13 with environmental problems, but also taking advantage of
14 green job or green technology opportunities where,
15 obviously, California is well positioned to lead. Asian
16 trade - Asian trade both in goods for reasons we've
17 discussed, but also in people. The migration, the
18 immigration into California of knowledge workers, in
19 particular. Those are positives. The universities and
20 training of California residents and the entrepreneurial
21 vitality of the state, the continued entrepreneurial
22 vitality of the State. If you think about doing a long-term
23 forecast, the way we do this, we assume essentially, you
24 know, the implicit assumptions in our forecast are that
25 these problems are solved to the extent they're problems,

1 like water and congestion, or continued to be solved in the
2 sense of the Asian economies being strong, and
3 entrepreneurial vitality and venture capital, etc.,
4 continuing to be drawn to the Bay Area and elsewhere in the
5 state. So you remain with these comparative advantages over
6 the rest of the U.S. if you think of the distribution of the
7 U.S. growth. Regionally, the long-term growth in California
8 in terms of numbers of people in jobs, and we alluded to
9 this earlier, will be higher in the interior sections for a
10 number of structural reasons, but the higher value added
11 contribution to the economy will continue to come from the
12 coastal areas. Thanks.

13 MR. COCHRANE: Thanks. Steve Cochrane from Moody's
14 Analytics. When I started thinking about this, the
15 introduction to this section, my thoughts were similar to
16 Jeff in sort of thinking about when my preconceived notions
17 of California were all about. Now, it happened about a
18 decade earlier for me, back in the 1970's, maybe, and
19 actually my recollection of the economy then was pretty bad
20 in that, when I graduated from UC Davis in 1974, there were
21 no jobs to be had in 1974, so I was thinking, "Well, geez,
22 is that really what California is about?" And actually, of
23 course, it's not, it's much better than that, but that was
24 sort of my first beginning of thinking about this place as
25 an economy and not as a place. I thought, given that

1 looking at the 1970's isn't really enough, and looking at
2 the 1980's isn't really enough, independently, but very
3 similar to what Jed did, I put a chart together that
4 actually goes farther back to help me sort of look at how,
5 if we're looking at the long-term outlook, we need to be
6 looking at - if you go down to - if you're trying to look
7 forward, you need to look back a long way. So I went back a
8 century, actually. And when looking really long term,
9 again, I tend to return to demographics, but I look at a
10 population, and what I did, we just have a new figure for a
11 population for 2010, so I wanted to look at the 10-year
12 intervals of population growth, California vs. the U.S., as
13 a way of sort of defining California's economy. So, that
14 bar that you see there, it's not the growth rate, it's the
15 difference between the growth rate of population in
16 California over a 10-year period, and the growth rate of the
17 U.S. So, you know, looking at relative performance. And
18 the figure above that bar is the actual population growth
19 rate for that 10-year period, not an annualized percent, but
20 an actual percentage change. So, California's strongest
21 decade was the 1920's, the population grew by 60 percent in
22 the 1920's, and that was about half again as fast as the
23 U.S., that bar going up to 50. And so, I looked at this and
24 I saw that, really, there's three different periods that we
25 can view California, and one is that California certainly

1 had a long period where it was a pioneer economy, where
2 people were moving to California in droves, and in good
3 times and bad, even during the Depression, you know, of
4 course it was very weak, but still pretty good in terms of
5 California out-pacing the U.S. And then, that lasted, in my
6 view, right through the 1950's after the war, and a lot of
7 servicemen moved here, and kept that pioneer mentality.
8 Things seemed to change in the '60s, '70s, and '80s, where
9 California still out-paced the U.S., but not be so much, I
10 call that the expanding period when the economy was
11 expanding and growing and becoming what it is today. And
12 then you look at the 1990's and the last decade, the first
13 decade of this century, and that bar, you can barely see it,
14 and that is indicative of the fact that California's
15 population is just growing right about at the U.S. growth
16 rate, very very little difference. And rounding off
17 numbers, we can say that, you know, one percent growth on
18 average in California is about the same as one percent
19 growth in the U.S., it has been slowing a little bit, but
20 just to round numbers off. Now, if we think of California
21 as being a mature economy, though, that's really not all
22 that bad, and the key for California is that it can at least
23 continue to keep up with the U.S. If you look at other
24 mature economies in this country, if you looked at New York,
25 Illinois, Michigan is not a fair comparison, but many of the

1 older mature economies, you know, they're lucky to get .2,
2 .3, .4 percent per year rather than one percent per year,
3 population growth. So, if California can maintain that,
4 that's great, and that means it's still fairly good, long-
5 term pace of growth over the next 10 to 20 years, and I
6 think there's good reason to think we can for the reasons
7 that you mentioned, in terms of immigration being an
8 important driver, that California doesn't depend, like
9 places like Florida, Arizona, Nevada, for huge waves of in-
10 migration to support population growth, it's much more
11 endogenous here. So, if we can assume that, then I think
12 it's also, when we look at the combination of labor force
13 growth and productivity growth, that we can assume that,
14 over the long-term, California has the potential of beating
15 the U.S., although given certain structural constraints in
16 this economy, maybe we don't beat the U.S., but we're about
17 the same. If population growth can continue to be .8, .9,
18 one percent per year, my assumption is the labor force
19 growth, at least in California, can outpace the U.S. because
20 of the demographics, because of the young population, so
21 that California has a comparative advantage in terms of
22 growth of its labor force. Also, if we assume - and this is
23 a big assumption because this depends on state policy,
24 education policy, investment, and so forth, but if
25 productivity growth can modestly outpace the U.S., as well,

1 then you've got a good mixture of pretty good long-term
2 growth because if you think of what the long-term potential
3 rate of growth of the economy is, a quick back of the
4 envelope method is to take labor force growth plus
5 productivity growth, add those together, and you get sort of
6 long-term rate of growth of the economy. So, if we can
7 assume that labor force growth is something at one percent
8 or slightly above per year, and if we can assume
9 productivity growth being at a historical trend of maybe
10 about one and a half percent per year, which is slightly
11 above the U.S., and again, based on continued investment,
12 continued attraction of well-educated folks, and development
13 of well-educated labor force here, then we get a long-term
14 rate of growth of maybe about two and a half percent, which,
15 again, if we compare to the U.S., I would say, it would
16 maybe be 2.2, 2.3, by a narrow margin, but over the years
17 that compounds to be something significant over the long-
18 term. So that's just to give you sort of a broad framework
19 of my thinking of the long-term economy. In terms of
20 industrial drivers, my just one quick point, we've been
21 talking about technology, we've been talking about high
22 value-added services, and so forth; the other driver that I
23 think is very positive for the California economy, and we
24 don't want to forget it, is agriculture. Now, maybe it's
25 the Cal Aggie in me that makes me look at agriculture, but

1 given the potential for global growth and what that means
2 for demand for commodities, and particularly some of the
3 specialty commodities that are produced in California, I
4 think it produces another very important driver for the
5 economy longer term and is a positive for the inland areas
6 of California.

7 MR. LEVY: Jed, I want to show one of the population
8 charts. I'm Steve Levy from the Center for Continuing Study
9 of the California Economy. One more, one more, one more,
10 okay. Three points, one, that the pattern of population
11 growth, and these are actually Mary Heim's numbers from
12 earlier this year, the pattern of population growth by age
13 is pretty set in stone. Those percentages could go up or
14 down a little, depending on how well we do in job creation
15 as a share of the nation, but the pattern of that growth and
16 its implications for energy demand are pretty stark. One we
17 talked of before is that the demographics suggest people
18 wanting smaller units because there's very little growth in
19 the family household formation age groups, that you have two
20 groups of people, kind of young professionals and retiring
21 baby boomers who so far seem to be choosing to live in the
22 more expensive, but more active amenity rich urban areas. I
23 would also suggest that, as the Commission staff looks at
24 the transportation demand going forward, that we get the
25 level of detail necessary to really think about what a bunch

1 of 75-year-olds and 85-year-olds are going to be doing in
2 terms of VMT per capita, or auto use, or their car
3 preferences, rather than just merging it in a blob. So, I
4 think this point is pretty much written in stone. Go to the
5 next chart and if we could just look at that for a moment.
6 The second piece, and I think we're all agreeing, that will
7 determine the relative rate of population growth compared to
8 the nation is the strength of what Economists call our
9 Economic base, those sectors that primarily export goods and
10 services around the country and around the world. We have
11 two of them that are not really in what you call the
12 creative, innovative economy, Steve just mentioned one,
13 Agriculture, where probably the outlook is for fairly
14 sustained output growth as we export around the world, and
15 the second is the ports, and I take what Jim said about the
16 Panama Canal opening up, or whoever said that, very - it's
17 well spoken, but the growth and demand from the people who
18 trade with us is very large, so I think we're going to
19 continue to see ports. But once you get beyond that, and
20 you ask this question of economic strategy or
21 competitiveness strategy, or business climate, or whatever,
22 we live or die on creativity and innovation, whether that's
23 the entertainment industry, or creativity in the design of
24 furniture, or apparel, or buildings, or the many varieties
25 of technology, our one dollar out of every two in venture

1 capital, our competitiveness policy is about attracting very
2 talented entrepreneurs and people, and having communities
3 and infrastructure and schools that say, "Come and live and
4 work in Palo Alto." We can't be everything to everybody
5 and it's unlikely that the return of auto plants, or paint
6 manufacturer, or low cost manufacturing is in our domain of
7 possibilities, so I think we're building a state for the
8 kind of economy we have. This is just a couple of fun
9 things. I like to push back on the "California is terrible,
10 everybody is leaving" idea, so you have Nevada ranked fourth
11 by the Tax Foundation in Business Tax Climate, but they are
12 actually better than fourth, they're first, they have the
13 highest unemployment rate, the highest foreclosure rate, and
14 the highest percentage of budget deficit. Or, you could
15 take Florida, which is ranked fifth by the Tax Foundation,
16 which has the fourth highest unemployment rate, the fifth
17 highest foreclosure rate, and I'm not quite sure where they
18 are on the deficit. Go to one or two more. Go one - oh,
19 you've also got New York ranked 50th in Business Tax Climate,
20 having the same unemployment rate as Texas, who is ranked
21 13th, while Maryland, who is ranked 44th as having the worst
22 Business Tax Climate, actually has an unemployment rate a
23 percentage lower than both Texas and New York. But here is
24 the one that Steve talked about that's important. Somehow
25 this economy, despite average job growth, which is not so

1 bad, has had productivity gains, which has led to real Gross
2 State Product per capita above the national average and
3 tripled what they had in Texas. And so, I'm suggesting that
4 this whole issue of what makes a state competitive, of
5 knowing your industries, of tailoring policies for your
6 industries, and not the industries in Mississippi, is pretty
7 complicated if you actually look at some numbers, it's not
8 absolutely clear that low tax rates, or low regulatory
9 policy, have saved Nevada, as opposed to having a huge
10 decline in housing and a huge decline in the tourist
11 industry. I think it's better thought about as your
12 industries, in addition to your policies.

13 MR. NICKELSBURG: Thanks. Jerry Nickelsburg, UCLA
14 Anderson Forecast. The nice thing about going last is that
15 my colleagues have given all of my opening remarks, except,
16 sorry, Jeff, I go back to the Mamas and Papas and Beach
17 Boys. So, what I'd like to do is talk about long-term
18 trends in industrial structure in California. And if you
19 look back at the last three recessions, it looks like
20 California has done a lot worse than the U.S. The
21 unemployment rate really has jumped up to two, even close to
22 three percent higher than the U.S., and there are lots of
23 reasons that we can point to - aerospace, dot-com, housing
24 bust, and so on. But underlying that, California has been
25 in the process of change, a very fundamental and profound

1 change, over the last 30 years. And you saw the demographic
2 slides kind of going way back, and I thought that was great,
3 the way the periods were characterized. What really
4 happened was, in the '80s, which was a time of enormous
5 immigration to California, California kind of filled up.
6 So, it wasn't the case that we no longer had cheap land, we
7 started to have competition for the California lifestyle,
8 particularly along the coast. That got built into the price
9 of land, and that changed what we economists call
10 comparative advantage because, basically, the concept of
11 comparative advantage is you do what you're best at, and
12 that has to do with your natural resources, with the people
13 who are attracted there, and the skills they have, and the
14 cost of land, and transportation infrastructure and all of
15 that. And so, what happened was that, when California
16 filled up, we lost our comparative advantage in large, metal
17 bending, riveting factories. And we used to do a lot of
18 that, we were second only to Detroit in the manufacture of
19 automobiles, and if you go back in the '60s and look at the
20 forecasters there, they're saying, well, California is going
21 to surpass Detroit. It's why Los Angeles has a huge auto
22 show every year, even though you can't find any automobile
23 plants in Los Angeles anymore. We used to manufacture the
24 majority of the airplanes in the world, commercial aircraft.
25 We don't do that anymore, we don't do that kind of activity

1 and that's part of the change. And is that going to come
2 back? Are we going to start making Barbie Dolls and
3 commercial aircraft and all of the tires, all the things we
4 used to? It's not coming back. It's not coming back
5 because our comparative advantage has changed. Now, if you
6 take this concept of the way in which jobs sort themselves
7 out between regions, depends on what's in the different
8 regions. And you look at, for example, Texas will be our
9 whipping boy, I guess, for today because everybody likes to
10 compare Texas with its better performance in this recession
11 to California with its worse performance. So, if you take
12 the jobs that have been created in Texas and compare those
13 to the jobs that are created in California, and if you
14 assume that the business climate were identical between the
15 two, and you went to just economic theory and said, "What
16 jobs do you predict would happen," you're going to get a
17 match. Texas is creating the jobs that is their comparative
18 advantage, they have cheap land, ample supply of labor, good
19 transportation, they're doing the metal bending. That's not
20 a California function anymore. But we're not losing jobs
21 wholesale, we are gaining jobs and doing better than Texas
22 in those things where we have a comparative advantage - the
23 high value added technology, knowledge-based, trade-based
24 jobs. And that's kind of a fundamental change. And so
25 that's going to affect how energy is used, and how much

1 energy is used in California, and where, and it's going to
2 affect and has been affecting kind of the shape of the
3 state. So, as we come out of this recession, we're closer
4 to the completion of this transition, but historically major
5 transformations in industrial structure takes decades and
6 we've been at this for about three decades and we're
7 starting to get close to kind of the end of this, and some
8 people spoke of this as a maturing economy. It's really
9 kind of a changing economy, which is an economy with a lot
10 of dynamism in it. So, I'm not pessimistic about the future
11 of California, I think it's been sort of a rough go making
12 this change, but that's what's kind of dictated by the way
13 in which the comparative advantage works.

14 MR. KOLKO: I'd like to start out the discussion by
15 going deeper into this question about industrial structure,
16 the shift both in the U.S. overall, and in California from
17 manufacturing to services, understanding that both
18 manufacturing and services are extremely broad categories,
19 each of which includes some very high weight, some very low
20 weight, some skilled, some unskilled, types of professions
21 and industries. But the shift from manufacturing to
22 services has gone on for decades, it has gone on in
23 essentially every region of the country. In fact, the only
24 exception was during the period of 1950 to 2000, LA's share
25 of manufacturing actually went up, but that's the only

1 metropolitan area in the country where that was true. It's
2 been a long-term trend. So, two questions for all of you.
3 One is, will this trend continue, and even more importantly,
4 what does that mean? What does that mean for employment
5 prospects? What does it mean for energy? What does that
6 mean for the population? Anyone who would like to begin,
7 please do. Steve.

8 MR. LEVY: Go back to -

9 MR. KOLKO: Yes. And while we're switching back
10 slides, I just want to remind everyone here and online to
11 please be writing down questions on cards or over the WebEx,
12 that we'll be getting to in a little while.

13 MR. LEVY: Back, back one more. I'll defer to Steve
14 and Jim, I think my reading of their long-term models is
15 that there is no future revival in manufacturing jobs, that
16 we'll be lucky to hold the losses to moderately long
17 numbers, small numbers over the long-term. I think
18 everybody here will agree that manufacturing output is
19 rising, the productivity, however, is rising faster, and
20 that we're producing more with fewer people. And so,
21 whether you say manufacturing is less important than it was
22 depends on whether you're looking at jobs or output and
23 exports, and value added. It's not something that would
24 rank high on my list of activities to chase, unless you're
25 talking about the potential for developing some new product.

1 Think of Tom Friedman in can we be the ones that invent the
2 next battery, or something related to energy. But the
3 routine products - I have to just throw this in because I
4 looked it up the other day - China has fewer manufacturing
5 workers than they did in 1996, productivity is worldwide in
6 this sector. But even more important, if you look and ask
7 what are the high wage, high growth areas of potential for
8 California, it hasn't been manufacturing for a long time,
9 it's the information sector, the folks around the Internet,
10 the folks at Facebook and Google, doing the Internet
11 applications and the social networking, it's the folks in
12 professional and business services - show the next chart -
13 those were good across in roughly the last couple of years,
14 except for the recession, they're going to cross fairly soon
15 when you talk about venture capital in my region in Silicon
16 Valley, there is some early manufacturing, but mostly you're
17 talking about people in computer services, and research and
18 scientific services, R&D labs, who are developing the
19 prototypes, it's my iPad designed in Silicon Valley, made in
20 China, it's why in Southern California every global auto
21 firm has an auto design center, even though we don't make
22 cars. They pay really really well. The entertainment
23 sector pays really well. So, it's a history to equate
24 manufacturing with the path to high wages. The places where
25 manufacturing is going in the country, in the world, are no

1 longer paying high wages relative to what they did in the
2 past, that's why some of the jobs have moved from Detroit or
3 from California to other states. It is, as I think we're
4 all saying about industries and the high growth industries
5 here, there are plenty of them outside manufacturing. So,
6 no, I'd like to say we invented the next battery here, and
7 the Tesla took off and we manufacturing 200,000 electric
8 vehicles, maybe, but the mature products are just going to
9 get ground down by productivity and jobs are going to go
10 lower.

11 MR. KOLKO: I'd actually like to shake this up a bit
12 because, so far, it's been - maybe this is a post-lunch
13 phenomenon, but there is a lot of acceptance of how things
14 are in this discussion so far. I'm wondering, does anyone
15 have any concerns from this picture? I expect, by the way,
16 the third panel today will have a very different sort of
17 answer to this, and so, you know, that's fine if you're
18 forecasting different things, but for right now, what are
19 the concerns with this picture?

20 MR. NICKELSBURG: So, the concern that I have with
21 this picture is not that these trends are reversible or
22 irreversible, it's what they really mean about the path to
23 the middle class for Californians. And so, I'd like to kind
24 of illustrate that, you know, it used to be that what you
25 would do is, as a kid, you would go into the garage with

1 your dad while he was fixing your car, and you'd learn a lot
2 about mechanics. And then you'd go to a factory and ask for
3 a job, and you know, "What do you know about mechanics?"
4 "Well, I fixed a car." "Great." You can't do that today,
5 you can't go to the hospital and say, you know, "I'd like a
6 job running an MRI machine, I saw my dad run one in the
7 garage." So, that's really a fundamental change. We don't
8 address that at home because we can't. And we don't address
9 it in our education system because our education system
10 today is really a 20th Century education system, it's
11 predicated on the same thing, that you learn the mechanical
12 skills to get into the middle class and to get a good paying
13 job at home, and here, you're going to learn how to go to
14 college. And there's a huge middle road which I think we're
15 neglecting. I think that's the scary part of this picture,
16 is that that road to good paying jobs, which there are going
17 to be quite a few, is not being paid very well in
18 California.

19 MR. MICHAEL: This is Jeff Michael from Pacific and
20 I spend most of my time interior in California, and so when
21 I hear people talk about manufacturing, a lot that I hear
22 about is, "Don't worry about it, we do other things here,
23 we're high value added," and I spend a lot more time
24 worrying about the interior California, so I do worry about
25 it. You know, we have a huge unemployment problem there, we

1 have a workforce - I think if we look at a macro level of
2 this decade, I think we're going to see some transformation
3 and some growth in manufacturing in the United States. I
4 don't know whether that's going to occur in California or
5 not and one of the problems is energy costs. There's no
6 doubt that it's one of the constraints, as well as housing
7 costs, and all these things that it's very difficult to make
8 a good life in California on what manufacturing wages are in
9 2010 and will be in the future in the United States. But I
10 don't want to - I think it would be a mistake to turn our
11 back on this sector, I think it's for the regions in the
12 state that we're looking to for growth, it's important they
13 haven't - interior regions haven't been able to generate
14 much of a manufacturing base beyond food processing and
15 things that support the building industry. Sacramento is an
16 example of a region which has very little manufacturing
17 base, but probably has the potential for that to grow, and I
18 don't want to write off this sector, I think it's important
19 that we think about it.

20 MR. KOLKO: I'd like to follow-up with something
21 that Jeff just mentioned and that was about the regional
22 view, when we think about sectors. One of the ways in which
23 manufacturing industries as a generalization are very
24 different from services industries is that many
25 manufacturing industries tend to be very concentrated in one

1 place, and when we think of the big company towns, or places
2 that center on a single industry, those tend to be around
3 manufacturing industries. And as manufacturing declines as
4 a share of employment, that has meant that there have been
5 many individual places that have been very reliant on a
6 single industry, that have been disproportionately hurt.
7 Typically, most service industries exist embedded in a
8 network of lots of other local service industries, whereas,
9 often a manufacturing industry may be the only game in town.
10 And, so, when we think at a local or regional level, often
11 the most extreme cases that we see of places losing
12 employment is due to the decline of a particular
13 manufacturing industry, not always, there is recently, of
14 course, Las Vegas, but often. Other comments. Steve.

15 MR. LEVY: Back to the last one. Okay. I consider
16 what I'm saying a fact-based economic strategy, not turning
17 my back on anybody. Texas, which probably did the best of
18 any state, only lost 200,000 manufacturing jobs in the last
19 10 years, right? I don't want to chase the 20th Century.
20 Jerry had a really good point, I sit on a work force Board
21 for the past 10 years, I wrestle with that point all of the
22 time, there are two points, 1) job growth is different than
23 job openings. Over the next decade, I know it's hard to see
24 now, there are going to be huge numbers of baby boomer
25 retirements, carpenters, and plumbers, and auto mechanics,

1 and repair people, all of the people who repair computers.
2 The way to a middle class job, and most do - Jerry was
3 calling mechanical jobs you now do, even if it's auto
4 repair, you do with computers, so Puget Sound and our
5 Community College has an auto mechanic program, but you
6 better have good math and learn how to use a computer in
7 diagnosing things. I think there are a lot of middle class
8 job opportunities for people that don't have to graduate
9 from a four-year college. I think - I was talking at lunch
10 with Tim Rainey about the workforce boards, I think, are way
11 behind on making this adjustment. And I make the comments
12 about manufacturing so we can move forward and give middle
13 school counselors and high school counselors a correct
14 message to tell their students who don't want to be a rocket
15 scientist, or aren't going to graduate from U.C. how they
16 get a good middle class job, not applying for something
17 that's not in the cards.

18 MR. KOLKO: Let me add one more question to the
19 discussion. And then I'd like to see if there are questions
20 or comments from the Commissioners who are here. But first,
21 I'd like to tackle a related question to the manufacturing
22 that actually came up in many people's comments in the first
23 panel, and that is the effect of long-term growth in
24 California of climate change and other environmental
25 policies. So, several people wrote on the cards. What do

1 you expect to be the long-term effects on economic growth in
2 California of climate policy, in general, or cap-in-trade
3 and other elements of AB 32, in particular, again, looking
4 long-term. So, anyone who would like to start with that.

5 MR. LEVY: I've been talking a lot, but I've
6 actually studied the issue for the ARB, so I'll defer, but -

7 MR. KOLKO: Anyone else - Brad looks ready to go.

8 MR. WILLIAMS: You know, when I think about AB 32, I
9 kind of divide it into three general categories of effects
10 and I think the first two, we can sort of identify and we
11 might be able to quantify, the third one, I consider to be
12 the wild card, the first two, I think, upfront, you know,
13 the added investment that fossil fuel, using industries are
14 going to have to make, the compliance with regulations. I
15 think standard economic theory says it's increased cost on a
16 business, it's going to result in reduced profits, perhaps
17 reduced output, perhaps higher prices of their products,
18 some modest negative impact. I think in the longer term,
19 you get the benefits of perhaps less reliance on fossil
20 fuels, more reliance on alternative fuels, better air
21 quality, fewer emissions, those kinds of things. I think
22 the real wild card in the long term is this hope that we
23 have that, you know, by being a leader, California will be
24 in a position to attract the new green technologies, the new
25 green industries. We obviously have a lot of competition in

1 this area from other states, and certainly from China, and
2 you know, I think we can hope that this will happen. My
3 sense is, in terms of policies, that if we have the right
4 kinds of policies that continue to spur innovation,
5 entrepreneurship, that we might have breakthroughs in this
6 area that will enable us to kind of capture this industry.
7 it might be, though, that we capture other industries that
8 we don't know about yet.

9 MR. MICHAEL: One impact of climate change policy, I
10 think, is going to be to sort of - its impact is going to be
11 to marginally slow growth in California, and I think is
12 going to reinforce some of these trends we talked about
13 earlier about having a slightly slower growing economy, but
14 it doesn't necessarily mean that it's economically
15 devastating, I mean, slower growth can be associated still
16 with prosperity and a better quality of life. So, I'm in
17 favor of our climate policy, but I do think it slows our
18 long-run growth path. What does concern me about it is
19 there hasn't been enough, and I hope we see more discussion
20 of the regional impacts of climate change policy and how it
21 hits across California. I've seen some analysis of sectoral
22 - industrial sectoral impacts, and what I see is, this isn't
23 a bad thing for the service sector, but it's a bad thing for
24 construction, it's a bad thing for transportation and
25 logistics industries, and potentially a risky thing for

1 agriculture and some manufacturing activities. And these
2 are a lot of the activities that are really at the heart of
3 the economic base and a lot of interior California, some of
4 the places that are suffering the most right now. These are
5 also the areas where, you know, people need to use their
6 air-conditioning, they don't have BART to ride around town.
7 So I think I'd like to see, as we move forward in
8 implementing our climate change strategies, I'd like to
9 think a little bit about the regional differences. And one
10 of the reason why I think it could potentially slow growth
11 and, again, I think I'm talking about population growth and
12 sort of the big picture of growth, not just the growth in
13 incomes or prosperity, is because I think those growth
14 slowing impacts are going to be in inland California and
15 those are the very same places where we're all counting on
16 that we think are going to grow like gangbusters because
17 that's where the land is.

18 MR. DIFFLEY: Could I ask a question - Jim Diffley,
19 by the way. Could I ask a question back to you, Jud?
20 Because I noticed we're talking about the impacts, not of
21 climate change, but the impacts of climate change policy
22 change. Which is your focus here?

23 MR. KOLKO: So I had said policy, but answer either
24 way, the effect of either climate change policy or climate
25 change, itself.

1 MR. DIFFLEY: I'll just briefly then, and I haven't
2 thought about the policy. It seemed to me, the question is
3 very much dependent on what policy decisions are made, which
4 is a wide open field, I'm sure. But the point I was going
5 to bring it back to water concerns and the biggest concern,
6 looking regionally at the U.S., at the western part of the
7 U.S. is water going forward. Under a global warming, or
8 even a moderately global warming scenario, that is a big
9 negative risk for California, I am sure. I can't imagine
10 how it's not. I mean, that's the underlying forecast,
11 essentially. And Steve can respond. The biggest question I
12 get when I represent the 30, or 40-year forecast - and we do
13 this, but the way - is how are you modeling water demand in
14 Nevada and Arizona and California? And, boy, I don't have a
15 good answer.

16 MR. LEVY: You know, the modeling work that was done
17 on the impact of AB 32 using, I don't know, either *Global*
18 *Insight* or *Economy.com*, or both, we had a bunch of models,
19 show negligible macroeconomic impacts over a 10-year period,
20 you know, a half percent of the economy one way or the
21 other, that's well within the margin of error. This is a
22 race to the future and how you look at it depends on whether
23 you think the future embodied by the policies of the
24 Commission and of AB 32 is a cost-effective, environmentally
25 friendly, better future for California, and whether you

1 think, as Brad said, there is some advantage of being the
2 state that gets to the future first. There's no question -
3 well, there's a little question now because of the recession
4 that our energy and emission use is so much lower than it
5 was before, that the transition might be easier - but,
6 initially, there was no question that the policies we're
7 adopting are asking or inducing certain industries to cut
8 back on their production. I mean, you're not going to be
9 able to reduce immediately the emissions from a cement or
10 petroleum refinery, or even automobiles, without cutting
11 back until the efficiencies come in, so there are going to
12 be some cutbacks. There will potentially - and the
13 Commission went back and forth and eventually decided to
14 give away the allowances free on this leakage issue of
15 whether activity would move out of state - there is some
16 potential loss of economic activities in certain sectors,
17 but if you stop the policy every time a sector got hurt,
18 rather than basing your policy on what happened to the whole
19 economy, you'd be running around chasing your tail.

20 After 2020, the models show, much like the
21 healthcare reform, that if you are on a path to success, the
22 economics changes after 2020 because you've absorbed the
23 cost because petroleum-based products are going to be fairly
24 expensive, then, and you're into the only benefits period.
25 And so, the only question is whether this state wants to

1 absorb what the models say are some very small short-term
2 restrictions in activities and slightly higher prices to
3 induce us to get to a period where lower prices kick in
4 because the economies of scale in the alternative energy
5 generation become larger if we get to the targets. Whether
6 we're willing to do that - Jim's question is a really good
7 question because it raised the question of what's the
8 alternative. And if the alternative is that climate change,
9 if not mitigated, or local emissions, if not mitigated, are
10 going to eat us up eventually, then it becomes a no choice
11 situation. Whatever the short-term economics are, the
12 economics in the long-term of not doing it are terrible.

13 MR. KOLKO: Let me now turn to the Commissioners and
14 ask if either Commissioner Boyd or Commissioner Byron has
15 questions or comments.

16 COMMISSIONER BYRON: I do, but I'm going to defer to
17 the Economist on our Commission, and that would be
18 Commissioner Boyd. My interest is certainly around the
19 clean tech, and I guess it has to do with - I think the
20 opportunities as to how it affects our economy from a policy
21 point of view, but, of course, most of what we're doing here
22 has to do with how - did I get the crummy microphone?

23 VICE CHAIR BOYD: No, this is it.

24 COMMISSIONER BYRON: So, from how growing the Clean
25 Tech industry can affect us from an economic point of view,

1 but also how will it affect our energy demand. And I think
2 Commissioner Boyd and I were just whispering to each other -
3 I'll defer to him to ask some questions. I also see that
4 you're getting a lot of cards, so I'd like to hear from our
5 audience on their questions, as well.

6 MR. KOLKO: Thank you.

7 VICE CHAIR BOYD: Thank you, Commissioner, but I
8 want to hear your questions, too. I want to engage in the
9 dialogue just a tiny bit on climate change, which I've been
10 studying for a decade and a half, back in the days when it
11 was unsafe to say "mitigation." There was no AB 32, so we
12 talked about "adaptation," or "adapting to what is going to
13 happen because it's too late to do anything about it."
14 You'll never mitigate what's happened so far, and we still
15 don't talk much about the cost. And water is a key thing.
16 I've spent eight years of my long working life in water and
17 I've always seen the water system as very vulnerable, and it
18 is in all the climate studies, and the Delta is a disaster
19 waiting to happen. So, adaptation to continue delivering
20 that scarce and necessary resource, water, is going to be an
21 expense that we don't talk about much. The adaptation
22 people within government were having a tough time standing
23 on the same plateau as the AB 32 mitigation people were for
24 some time, and it's going to come back, and it's going to
25 have - the Natural Resources Agency did an Adaptation Plan,

1 finally, and not enough attention is being paid to it, but
2 it will be. But I agree that water has always been gold in
3 California, and it's going to be a serious issue. And I
4 don't have any disagreement with what I've heard. I've
5 watched, and I think of poor Jack Stewart every time I hear
6 what's happening to manufacturing, but he is the CEMTA now,
7 and he's got to really emphasize the "T" part of that, the
8 technology. But manufacturing has been slipping away from
9 us over the years and I go back to the Limelighters and
10 stuff like that. I was just wondering, we've got this push
11 on Green technology, this agency is investing a hundred
12 million dollars a year in alternative vehicle and
13 alternative fuel technology incenting, and of that, we've
14 spent \$30 or \$40 million in workforce development and
15 training for that industry. And I'm just wondering, is
16 California, in your opinion, going to do any manufacturing
17 of green technology? Or are we just going to invent and
18 China is going to build? I don't know the answer to that,
19 but I thought green technology development - and you can
20 hear a lot of politicians are depending on developing a
21 green technology and manufacturing capability in California,
22 I don't know if you see it has much of a future, and I come
23 from a family that was in Ag and have always been a fan of
24 Ag, and I think that's Interior California's last great hope
25 if they don't build houses on all - well, they're not

1 building anything right now on all the Ag land, but, in any
2 event, I guess, except for the green tech, it's just kind of
3 a comment on my part, I am curious about whether we've got
4 any prayer of green technology manufacturing in the state,
5 or whether you just don't think our labor costs can handle
6 it and we're going to invent it all, and then it's going to
7 be outsourced for manufacturing.

8 MR. NICKELSBURG: So, let me try to give an answer
9 to that - it's Jerry Nickelsburg, UCLA Anderson Forecast.
10 The answer is really yes and no. We did the innovation, the
11 invention, and we do the manufacturing so long as that
12 manufacturing needs to be close to the engineers and the
13 designers and the scientists. Once it becomes routine
14 manufacturing, then our high cost of labor and high cost of
15 land means that you're better off not doing it here. And I
16 think the perfect example of this - this is not green
17 technology, but it's really illustrative - is Northrop-
18 Grumman's Global Hawk. They designed it as a very
19 sophisticated unmanned aircraft and they designed it in
20 Southern California, they tested the prototype, they did the
21 first production run, and then it became, at least part of
22 it became, routine manufacturing. So, they manufactured the
23 very sophisticated parts, it's all shipped off to Moss Point
24 Mississippi, the assembly is done, it's brought back to
25 California to Palmdale for final integration. That's really

1 the model that we're going to see. So, again, you're not
2 going to see the large factories with Rosy the Riveter in
3 there making green technology devices, but you are going to
4 see smaller factories as these products grow and they're
5 manufactured. And there's going to be a turnover, and
6 that's what we're seeing continually in California is this
7 kind of turnover in manufacturing. As soon as it gets
8 large, as soon as it gets to be routine activity, it goes
9 elsewhere.

10 MR. COCHRANE: I would just add, this is Steve
11 Cochrane, you know, you mentioned high labor costs. When
12 you look at labor costs from the point of view of a unit
13 labor cost, how many hours of labor to create one dollar of
14 output, unit labor costs in California are actually just
15 about average, but they're average because the things that
16 we produce, the fiscal goods that we produce, and the
17 service, are a very high value. And so, I'm only
18 reinforcing, really, what's been said about this constant
19 turnover in the manufacturing industry and, indeed, it's
20 services, as well, it's not limited to manufacturing. But
21 anything that becomes a commodity and prices then drop, all
22 of a sudden unit labor costs soar if the value drops of that
23 product. So it is the constant reinvention of itself that
24 keeps California going, and that's sort of how I think of
25 Silicon Valley and Orange County and San Diego, these places

1 that are sort of the innovation leaders, is that they
2 reinvent themselves with every single business cycle, just
3 about. I mean, there's a reason why we have business cycles
4 as old technologies kind of go by the wayside and new ones
5 come on board. But I think you have to think about it as
6 how can we keep reinventing goods and services, rather than
7 how do we just expand - target one product to be a growth
8 engine. How do you manage that? It's the turnover that
9 really counts, and that's what keeps this economy going.
10 So, I basically do agree with you.

11 MR. KOLKO: Thank you for those questions and
12 comments. Are there other questions and comments,
13 Commissioners Boyd or Byron?

14 COMMISSIONER BYRON: Open it up.

15 MR. KOLKO: What I'd like to do, as we did in the
16 first panel, is try to cover a range of topics, and so I
17 would ask if one person could sort of handle the answer for
18 each question and, then, if anyone has strong alternative
19 feelings or dissent, in that case, speak up. So, one
20 question is about regional growth in California, long-term.
21 What regions in California will see the fastest and slowest
22 growth, and why? And, again, we're talking long-term.

23 MR. WILLIAMS: I'll just make a quick comment - Brad
24 Williams. You know, I think listening to this panel today,
25 when you talk about what is the key to our growth, you know,

1 continued innovation, a lot of high value added, it seems
2 like you're talking about the coast. And you know, you have
3 the coast, then you have the inland sector, or part of the
4 state, they're all sort of subject to the same overriding
5 tax system, regulatory system, but you do have the
6 prevalence of the high valued industries and the location of
7 most of the workforce, and so forth, on the coastal regions.
8 So, that would suggest pretty clearly the next 10 years,
9 coastal doing better than the inland.

10 MR. KOLKO: Is that consensus or are there any
11 dissenting views on that?

12 MR. MICHAEL: I think the economy will do better in
13 the coastal areas than the inland. Some of the things we're
14 talking about, I think, are going to slow the rate of inland
15 growth. I think five years ago, some people were talking
16 about some pretty crazy growth rates for the Central Valley
17 that were kind of unrealistic in terms of two, three, four
18 percent growth for some of the metro areas, they said, "It's
19 going to be nothing like that," yet they will still be the
20 fastest growing areas in California just by the force of
21 demographics, alone.

22 MR. KOLKO: But let me ask this regional follow-up
23 question and, again, I might sort of rely on Mary Heim from
24 Department of Finance for demographic insight, are we at
25 risk of a mismatch, where the fastest economic growth is on

1 the coasts, where the factors that we talked about, like
2 innovation, are most prevalent, yet the fastest population
3 growth is inland? And if there is that sort of mismatch,
4 does that mean very big differences within the state around
5 employment rates? Does it mean very long commutes where the
6 fast growing population inland commutes to the faster
7 growing economies on the coast? Or is there some other
8 solution to this puzzle? And before I turn that question
9 over, I'm going to ask Mary if there's anything on the
10 demographic forecasting side you want to add about where
11 population is expected to grow in the state. Okay, so
12 mismatch where economic growth is and where population
13 growth is in the state, long-term problem, or not?

14 MR. LEVY: Most of what we call the inland areas are
15 commute residential areas for the coastal economy. The
16 Inland Empire lives or dies on the Central LA/Orange County
17 economy, it's not a separate area. The locust of economic
18 activity within the regions has been shifting eastward, and
19 so western Riverside and San Bernardino County, Ontario, now
20 have huge labor markets and office and industrial complexes,
21 and so the regions have been accommodating that way. In the
22 Bay Area, there's been an eastward movement, and so all of
23 the East Bay activity is now actually fairly close to what
24 we call Inland Empire folks in Tracy and Stockton and Los
25 Banos, so the regions are adapting with an internal mix of

1 activities. My guess is that the differential between the
2 Inland Empire, the inland areas that used to be cheaper, and
3 the coastal areas that are expensive, is going to be
4 counterbalanced by this demographic factor where all of the
5 new housing growth is for folks over 55 or 65, and in the
6 young adult category, where those folks are not primarily
7 driven by cheap, large single-family homes, that the
8 existing stock of single-family homes in places like
9 Stockton and the outer parts of Riverside and San Bernardino
10 Counties may be sufficient to house the demand in the
11 future. So, all of the new growth may have a tendency,
12 along with SB 375 to move in. I think we'll adapt to that.

13 MR. DIFFLEY: I would add, you know, the story of
14 Regional Economics is a matter of jobs and people moving in
15 both directions of causation, right? Migration will be the
16 equilibrating factor. The reason why growth projects in the
17 Central Valley started going up, say, 10 years ago, was the
18 observation that migration was going up there in response to
19 high housing prices on the coast. So, you know, one thing
20 Americans are, and certainly Californians are, is mobile.

21 MR. KOLKO: Jerry, were you -

22 MR. NICKELSBURG: Yeah, I just wanted to add that
23 this is actually a very difficult question and the reason
24 why is that, you know, where we find the bulk of the
25 unemployed construction workers is in the inland parts of

1 California. And they're the ones that are going to redefine
2 what they're doing, they're going to be inventing their new
3 jobs, we don't know what those are going to be, first of
4 all; second, the Inland Empire has been driven for a long
5 time by a logistics industry. As the U.S. grows, as U.S.
6 consumers buy more and more goods, a wider Panama Canal
7 notwithstanding, the Inland Empire is going to grow because
8 the Inland Empire is where you have the transportation
9 network and less expensive land. And then, we've had some
10 talk today about the demand factors revolving around
11 agriculture and California supply of agricultural products
12 and processed foods, to the burgeoning countries of Asia,
13 and we don't know how that's going to change. So, all of
14 those things are really going to affect the inland parts of
15 California. If those jobs don't grow, and grow fast enough,
16 exactly as was pointed out, the migration is not going to be
17 there, these won't be the fastest growing areas. We're kind
18 of projecting based on past experience that they'll be the
19 fastest growing areas from a demographic point of view, but
20 it really depends on, you know, are the jobs created there.
21 And I think that's a very hard question to answer at this
22 point in time.

23 MR. MICHAEL: Yeah, I would generally agree with
24 that, you know, the incremental difference in the population
25 growth could be quite a bit less than we've been thinking

1 about for the last decade here in California, but one of the
2 - the challenges for these regions is, I mean, education, we
3 have young populations, they don't have a strong education
4 achievement, and it's really probably the biggest deterring
5 factor from the development of other industries in the
6 region. It's going to be interesting to look at some of
7 these different areas and some of them are better positioned
8 to take advantage of these things, and one of them is
9 actually right here in Sacramento. Sacramento economy, you
10 know, for the last 12 months has been horrid, potentially
11 the worst in the State. And when you think about these
12 long-run trends, and I think about these inland areas that
13 have lower land costs, potential to take advantage of some
14 of these trends, Sacramento is one of them that has got a
15 little bit better educational infrastructure, much of that
16 leads to the State Government, it has a lot of the
17 advantages that other Central California areas have with
18 respect to housing costs and available land. So, I think
19 there are some areas in inland California that do better
20 than others, and I think Sacramento is going to be one place
21 to watch, especially when - I think some of the clean tech,
22 green tech stuff is a little bit - you know, we can get a
23 little carried away thinking about the scale that's going to
24 get to, but there are some areas that have some potential
25 there and I think Sacramento, again, is one of the areas

1 that has potential to develop that industry.

2 MR. KOLKO: So, we have about 10 minutes left in
3 this second panel. I'd like to ask a question that ties the
4 first panel to the second panel a bit. Somebody asked, "How
5 much of the high unemployment that we see right now is
6 transitional vs. permanent?" And I'd actually like to
7 expand that question to be a broader question of what, if
8 any, do you think will be the permanent effects to the State
9 economy of this recession? Permanent high unemployment
10 might be part of your answer, something else might be,
11 instead. So, permanent effects of the recession, if any.

12 MR. DIFFLEY: Let me start, then. Jim Diffley. I
13 think essentially all of the increased unemployment is
14 cyclical and not structural. I forget - how did you phrase
15 the different - transitory vs. permanent? But that's not to
16 say that we don't have a very big problem with people who
17 have been very long spells of unemployment, and then make
18 themselves -- and that becomes a situation whereby skills
19 erosion, etc., they themselves become structurally
20 unemployable, you might argue, as an effect rather than a
21 cause.

22 MR. KOLKO: I'm sorry, Jeff?

23 MR. MICHAEL: I would agree with Jim, I mean, a lot
24 of it is cyclical, unfortunately, it is a very long cycle,
25 so this housing industry isn't a factory that off-shored to

1 China or something, I mean, there will be some recovery
2 there.

3 MR. NICKELSBURG: So, I'd like to disagree a little
4 bit on that and say, you know, I think more of it is a
5 structural and, of course, it may be just a definitional
6 thing. The large number of people who are unemployed now,
7 who were previously employed in the last decade in building
8 homes, when we were building homes like crazy, at a rate
9 above our average home requirements, you know, it's cyclical
10 in the sense that, if they wait around long enough,
11 eventually the housing market will grow as California's
12 population grows, but I don't think they can wait around
13 long enough. I think we do have a skills mismatch in
14 California, where there are people with one set of skills
15 and there are jobs opening up with other sets of skills.
16 And that kind of unemployment, you know, lasts a long time,
17 and that's what I call structural unemployment. There's a
18 second piece to structural unemployment and that is, if you
19 look at the duration of unemployment in the U.S., it's been
20 rising over time, not just with recessions, it has a secular
21 rise to it. And one actually fairly good explanation of it,
22 although we Economists are looking at this and trying to
23 find better data and really understand it, is that Americans
24 are becoming more skilled, and more narrowly defined in
25 their skills. And that means that, when you're unemployed,

1 your duration of unemployment is longer because you try to
2 protect that investment and those skills, and then you go
3 out and you search, and you have to find out, well, maybe I
4 need kind of a little bit different, so I'm going to lose
5 some of the return on that investment. And so, I think
6 we've got those things going on. There is certainly a big
7 component of cyclical unemployment associated with this
8 recession. In September 2008, basically consumption
9 collapsed, that's all cyclical employment. But I think that
10 which is related to the housing sector, particularly in
11 California, and the growth in jobs which is not in the
12 housing sector creates this mismatch of skills for what I
13 call structural unemployment.

14 MR. COCHRANE: I think the - Steve Cochrane - I
15 think the structural shift in unemployment goes to the shift
16 in growth by industry that we talked about earlier, that in
17 past years or decades, there was always kind of a safety net
18 for employment in that, if you lost your job, well, you
19 could always at least go get a job in retail somewhere; or,
20 if you were skilled with your hands, you could go get a job
21 in construction, there was some kind of a safety net in
22 going to those industries that depending on either the
23 demand for housing, or demand for consumer services. And
24 over the next 10 years, again, the growth just isn't going
25 to be there, that safety net of alternative employment, even

1 if it's at a lower wage just isn't in there. If you look at
2 unemployment rates for skilled labor, and for the high value
3 occupations, the unemployment rates are remarkably low, very
4 very low. But this is where some of the mismatch comes in,
5 is that the structure of the economy now is a little bit
6 different than the structure of the labor force, and that's
7 where all sorts of policies in terms of education, labor
8 force development, and economic developments intersect.

9 MR. MICHAEL: I think one quick comment, just a 10-
10 second comment about agriculture, the people talking about
11 it in the Central Valley is important; it's important to
12 realize, though, for unemployment and job generation that
13 there is a structural component of unemployment related to
14 that and also that, you know, it's really been a good decade
15 for agriculture, but we have not seen any job growth in this
16 area, it's very much like manufacturing, that the labor is
17 being pushed out of the process. So, while it's a good
18 sector for investment and certainly a promising sector for
19 our future, we shouldn't look to it or expect it to create
20 the jobs that are going to solve some inland unemployment
21 problems.

22 MR. KOLKO: One last question. I would like to be
23 sure everyone has a chance to answer, and we'll start with
24 Brad and go that way to Jerry, what would it take for
25 California to grow once again faster than the U.S. in a

1 permanent long-term sort of way?

2 MR. WILLIAMS: Well, you know, this is Brad
3 Williams, I think that, again, going back to what I had
4 talked about earlier and what I think Steve had talked
5 about, I feel that our current mix of industries, our focus
6 on high value added industries, means that, if you look at
7 output as a benchmark measure for how we're going to be
8 doing relative to the U.S., I think that, you know, if we
9 get through this recession, the State balances its budget,
10 and that no longer becomes a major drag on the economy, we
11 perhaps undertake some more meaningful long-term reforms in
12 terms of our State tax system, maybe our State and local
13 system of government, we will create a positive environment
14 that we can have an economy that will grow at or slightly
15 better than the national economy, certainly in terms of
16 output. In terms of employment, what would it take for us
17 to get significantly above the national average? Hard to
18 say. I think if one were to look at the next four or five
19 years, I could construct a scenario where simply housing has
20 been so low, so long, that even if it doesn't come back at
21 historical levels, that a rebound creates little bit more
22 growth and that we have high tech industries that are -
23 right now, we have a lot of stock values, we see more stock
24 option type of income, that reverberates through the
25 economy. I can see that in the near term. I think, over

1 the longer term, though, you kind of go back to some pretty
2 basic constraints. We're more crowded than we used to be,
3 we have resource constraints. It's going to be hard to put
4 together a scenario where we have a lot more growth than the
5 nation in terms of jobs and population.

6 MR. MICHAEL: And I think, as we get out after next
7 year and into the future, we're likely to grow a little bit
8 faster than the U.S. for reasons that have already been
9 discussed, and people will continue to discuss, to get back
10 to those extreme levels where we're really outpacing the
11 U.S. I mean, that would have to be generated by low cost
12 housing and a complete transformation of local land use
13 laws, which is not going to happen.

14 MR. DIFFLEY: Jim Diffley. I agree, demographics
15 will prevent such an experience, as you saw from 1950 to
16 1980. But the answer, quickly, to the question is Clean
17 Tech, or, what I really mean, is *the next big thing* coming
18 out of California.

19 MR. COCHRANE: I think it's almost impossible to
20 expect that California will outpace the rest of the country,
21 just the structure of the economy right now in California
22 is, in a sense, a mature economy, and keeping pace with the
23 U.S. is good, an average growth for California is good. I
24 think the demographics are just so, at this point, against
25 California in terms of being able to compete with some of

1 the faster growing states in the Southeast and the
2 Southwest, but it goes back to how do you create that
3 productivity growth. And you create that productivity
4 growth, again, by (1) making sure the education system is
5 there. How do you do that? I think there has to be a
6 wholesale transformation of tax policy in the state so that
7 it's more transparent, and easier to make real policy rather
8 than go along in some proscribed nature that was proscribed
9 maybe 10, 15 years ago, based on a collection of laws and
10 referendums. In an economy like California, too, it's so
11 much about quality of life, that if California can't deliver
12 on quality of life, there are plenty of other places to turn
13 to. And again, that goes to primary education, can a family
14 move to California and expect that their kids are going to
15 get that great education that we all expected when we were
16 kids? I think I keep coming back to education a lot, and
17 I'm a little bit like a broken record, but that is one very
18 important aspect of quality of life and of long-term
19 productivity growth.

20 MR. LEVY: I don't know whether you all can read
21 this "invest or die," it's really what Steve said, we are in
22 an economy whose only potential to do well, much less
23 outpace the nation, lies in a set of creative industries and
24 you can throw in the Ports. So you ask what do you do to
25 succeed with creative industries? I can say "invest or

1 die," or I can say make California a place that people want
2 to live and work, live and work, we compete for people and
3 companies, so Sarah and Jose have to find a school that
4 their kids can go to that isn't a private school, and a
5 house that they can live in that doesn't require a two-hour
6 commute or a public transit system that gets them there, so
7 we're a world class economy. You want great schools, you
8 want world class infrastructure, and you want communities
9 that say, "Come here and live and work," and that's going to
10 take some investment, the key to which I think is what Brad
11 and, before him, Dennis and all of us have said, is that
12 that's why getting the budget balanced and started again on
13 a growth path is the key because, without that, we're simply
14 not going to have the money or the trust to ask Californians
15 to make the investments that are critical.

16 MR. NICKELSBURG: So, in thinking about this
17 question of how could California grow faster than the U.S.,
18 one of the things that occurs to me is that California needs
19 something that is going to stimulate it more than the rest
20 of the U.S., and we've heard a lot of kind of the things
21 that might do it, that might happen internally, but if you
22 think externally, the free trade agreement that looks like
23 it's going to go through with South Korea is going to
24 benefit California more than the rest of the U.S. And more
25 of that, more international trade, we sit here in California

1 and we tend to forget this, but we sit here on the edge of
2 the Pacific Rim and we're, in fact, the capitol of the
3 Pacific Rim, that throughout California, our large ethnic
4 communities with deep economic, social, and language ties to
5 every single country in the Pacific Rim, and not just Asia,
6 but also in Latin America, and the more we are opened up,
7 we, the U.S. are opened up, to international trade, the
8 faster California will grow. So, that can be an external
9 engine of growth. It will be good for all the U.S., but it
10 will be especially good for California. And then, kind of
11 along those lines, one of our major trading partners is
12 Mexico, and if Mexico could ever solve their political and
13 drug war problems, and the Mexican consumer could start
14 earning more income and buying goods, that would be
15 certainly a big boost to California's growth.

16 MR. KOLKO: Let me once again thank the panel. We
17 started the day with near consensus about what was happening
18 in the short run, and ended these first two panels with a
19 range of visions from the very local, talking about the cost
20 of housing and local land use laws, to the most global. So,
21 clearly, the answers are diverse, you lived up to the set of
22 Economists having at least as many opinions as there are
23 Economists. So, thank you, and thank the Commission for
24 organizing these first two panels. We're taking about a 10-
25 minute break, back here at a quarter to 3:00 for the last

1 panel where we focus more on specific industries. Thanks.

2 (Break at 2:37 p.m.)

3 (Reconvene at 2:55 p.m.)

4 MR. RHYNE: Well, good afternoon and welcome back.

5 This is Panel 3. Our panel topic this afternoon is the
6 Economic Downturn Impacts and Recovery Prospects for
7 California Business and Industry. My name is Ivin Rhyne and
8 I'm a staffer here at the California Energy Commission, I'm
9 also an Economist and, in a previous life, worked out in the
10 industrial sector in food processing and some other things.
11 Joining us today is a panel of experts who bring to the
12 table something slightly different than what our first two
13 panels did, they are representatives of the business and
14 industrial sectors in California and I will try to
15 coordinate here the introductions from right to left. We
16 have Bob Raymer with the California Building Industry
17 Association, to his right is Iris Andre, is it, of CB
18 Richard Ellis, to her right is Jack Stewart of California
19 Manufacturers and Technology Association, to his right is
20 Robert Callahan with the California Chamber of Commerce, and
21 then, to his right is Karen Mills, California Farm Bureau
22 Federation, and then, on the end is Sean Randolph with the
23 Bay Area Council of Economic Institute. Today the panel
24 structure will follow a similar structure to what we had
25 this morning, we will open with about a three-minute

1 introduction from each of the panelists, and we have some
2 slides available that they brought to kick off the
3 discussion. After that, we will have a discussion led by
4 myself, I have some questions here, some areas of interest,
5 some questions, part of which have been talked about to some
6 extent through the first two panels this morning, but we
7 will bring a new perspective to that, we will also invite
8 questions from the Commissioners and, following that, we
9 will have questions from the audience. I will remind the
10 audience that if you have questions for our panelists, that
11 we have the index cards that are available and going around,
12 you can raise your hand, we have some staff members who can
13 collect those, pick them up, they will be brought up to me
14 and we'll include those in the discussion later this
15 afternoon.

16 Again, as was mentioned this morning, our panelists
17 today are here not necessarily as energy experts, but as
18 experts in the economic questions at hand that relate to the
19 energy sector. And so we will be kind of focusing on the
20 economics, we'll be focusing on the business aspects of what
21 we have here, and what we are discussing today, touching to
22 some extent on energy questions as we get through the
23 discussion later. So, with that, I think we'll start with
24 Bob. I think you have some opening remarks.

25 MR. RAYMER: Yes, I do. If you could go to the

1 first slide, the California Housing Production, last six
2 years? There you go, thank you. I'm Bob Raymer, I'm Senior
3 Engineer and Technical Director of the California Building
4 Industry Association. And today I'll be focusing my
5 introductory comments on the state of the housing industry,
6 and that's not an Olympic ski jump up there, that's the
7 state of the California housing industry. And we'll be
8 covering that chart in depth. To put things in perspective,
9 the home building market in California is experiencing its
10 worst economic downturn since we began keeping statistics in
11 1955. Quite frankly, it probably goes back before that,
12 probably to the Great Depression, but it's just that's when
13 we started keeping statistics. Although the graph doesn't
14 show it, 2004, the graph starts at 2005, 2004 was actually
15 slightly higher than 2005. We want to give you -- just
16 simply look at the downturn here - in 2005, we had 209,000
17 units, that includes both multi-family and single-family,
18 and we took a significant drop in 2006 to 164,000, and then,
19 in 2007, we were down to 113,000 units. Now, given past
20 practices, at the end of 2007, this is when you would
21 normally have expected to see either a leveling off or an
22 upturn in the economy. It's also why columnists like Dan
23 Walters with *Sacramento Bee* was indicating that revenue
24 projections that the Governor at that time was using were
25 somewhat rosy, and the same thing with the Legislature.

1 Well, the fact is, past practice shows that we would have
2 been leveling out, or starting to move up. In fact, when we
3 went to 2008, the bottom had dropped off. We only did
4 65,000 total units in 2008. Instead of a recovery, we had
5 seen a 40 percent drop over the last year. At that point in
6 time, and once again, because no one would ever anticipate
7 five years of reduction, the Legislature and the Governor
8 were looking at rather rosy revenue projections for 2009;
9 unfortunately, the bottom dropped out yet again, and we went
10 to 36,000 units, another 40 percent drop, making 2009 the
11 worst year on record. We then go forward to 2010, we've
12 gone up, way up, to a total of 44,000 units. And, you know,
13 I'm being facetious, that makes 2010 the second worst year
14 on record, back to 1955, at least. Now, let's talk for a
15 moment about 2011, what's coming. Our analysts with the
16 Construction Industry Research Board used to do three to
17 four-year outtakes of projected construction. He's backed
18 that off, he only does the one-year projection now, and he
19 doesn't like being all that public about this, but our
20 internal office, we get these reports. Back in August, his
21 projection for 2011 was 76,000 units for 2011, but in
22 September, he downsized that by 2,000 units, to 74,000.
23 Then, in October something rather remarkable happened, it
24 was downturned yet again by 10 percent, he was now
25 projecting for 2011 67,000 units, a 10 percent drop in

1 projected production in just one month. In November, it
2 dropped again to 64,000, and just recently, the December
3 report came out, we're looking at 62,000 units for 2011.
4 Now, given past practice, that is probably a rosy
5 projection. We usually see a drop from the projection to
6 actual construction. I anticipate we'll probably see
7 anywhere between 50,000-55,000 units done. Now, according
8 to the Department of Housing, what does all this mean in job
9 loss? In 2006, we had 960,000 jobs related to residential
10 construction. By 2010, that had dropped to 179,000. We
11 have effectively seen 81 percent of our workforce go to the
12 wind. A great many of these individuals have found
13 alternative jobs outside of the construction industry, going
14 into building rehab, a whole lot of them are still
15 unemployed and collecting unemployment. Governor Brown and
16 the Non-Partisan Legislative Analyst's Office are projecting
17 a return to the normal job market occurring in the third
18 quarter of 2016. So, in no way, shape, or form, are we
19 going to see a rapid increase here within the next, I would
20 say, two to four years; it's going to be very slowly, very
21 gradually heading back up. It would be great to beat that
22 100,000 units of single-family homes by 2016, as one of the
23 previous panelists was talking about. Simply put, we're at
24 an economic abyss here that is as historically deep as it is
25 wide. I guess later on we can get into some of the key

1 factors inhibiting the return to the housing industry, the
2 areas of norm, but I guess we could just go ahead and let
3 the other speakers go ahead.

4 MS. ANDRE: Hi, my name is Iris Andre, I'm with CB
5 Richard Ellis, and I'm the Managing Director. I oversee
6 both on the brokerage side of our business, and we cover an
7 area from the San Joaquin and Fresno boundaries, all the way
8 up to the north state line with Oregon and over to and going
9 to the Reno area, so we have a little over 200 employees
10 that we work with, and obviously the larger company CB
11 Richard Ellis, so I utilized here on our graphs that I'm
12 showing - sorry if you guys can't see it, and if anybody
13 would like any of this information, I can definitely forward
14 it to you - but we have a group that is a sister company
15 with our office, and it's called Torto Wheaton, and it's our
16 Econometrics group, and they basically analyze data across
17 the United States and across the world, and can piece in
18 what is going on in each of the regions, both on forecasting
19 for vacancy on the office, industrial, manufacturing, multi-
20 family divisions, and they basically take that information
21 from each market and then create forecasts and modeling of
22 what they see going forward. What I've done here is I
23 basically showcased on the top graph showing the
24 projections, where we stand today on forecasts, and what
25 average vacancy for the office market is, I only took one

1 segment of our business, which is office, and I showed that,
2 where we stand on vacancy across the United States, which is
3 in that 17 percentile, so 17 percent of the market shows the
4 average vacancy in an office building. Obviously, certain
5 markets have higher and lower vacancies, but that is an
6 average across the United States, and what we're forecasting
7 is that we probably won't get back to an average, what would
8 be a forecasted average, until 2014 or 2016. Obviously,
9 certain segments of the market will be more successful and
10 some will be less successful, depending on where they sit
11 across the United States. Some of the pressure that you're
12 seeing here is that the pressure on lack of tenancy, or
13 having tenants that are going to occupy the office buildings
14 create a pressure on your rent, and so you also have now
15 rent pressure by the landlords, so the landlords are seeing
16 a squeezing of what they would normally collect in rent, as
17 your average rent, and that is being pressured down, and we
18 don't see any normalcy of that coming back, and we don't see
19 that coming back to the high that we saw in years past, so
20 we believe that it will come back to a normalcy back in
21 2016, but not to the levels that you saw at the high point.
22 If you also see a pressure that we're getting that we're
23 concerned about more negative pressure by lenders, many of
24 you are probably seeing that the buildings that were sold
25 two to three years ago were at their peak, and they weren't

1 sold on the economics of it making rent, so they were sold
2 on a price per square foot, and you may see a building trade
3 at a price of \$50 million alone of maybe \$43 million. What
4 we're seeing is those same buildings are actual physical
5 costs right now if you were to go and rebuild them, they're
6 probably at one-third of that cost. And so, someone could
7 go and build a new building for what that building doesn't
8 show to pay back for that loan, and then, if you were to go
9 out and value it on income stream, we're seeing that, again,
10 you're probably at maybe 50 percent of that cost. So,
11 lenders are putting pressure on the borrowers to do
12 something with the buildings and, in the end, it may be a
13 give back and the banks will be taking back the buildings.
14 We're seeing increased opinions of values by our lenders,
15 and putting pressure on the lease ability and whether or not
16 these buildings will be taken back. So, it will again kind
17 of put pressure on where we see this comeback of the
18 economics of rent and whether or not there's going to be
19 tenants to fill that space. On that second graph, it's just
20 talking about - and if you can't see the colors, the bottom
21 two are showing where the west and south sit - I'm sorry,
22 the west and the Midwest sit - on the comeback of the
23 economy, and they're showing to be lagging behind the other
24 parts of the United States, and the reason for that is that
25 we have a little more pressure on our labor cost here in the

1 Midwest, so those things put pressure on it. Do we want to
2 go through the balance of those slides real quick? Can I go
3 to the second slide?

4 MR. RHYNE: We can go to the second slide, sure.

5 MS. ANDRE: On the top one, I'll go ahead and read
6 through that if you can't see that. If I took the
7 California statistics, just really quickly took the
8 California statistics just for office, we have a little over
9 171 million square feet vacant in office across California.
10 So, of that, we had negative absorption of 1.3 million
11 square feet, so we went backwards last year and so that's
12 where we're showing is that, for us to get back and caught
13 up, it's going to take a long time to fill up that 171
14 million square feet. And then, the second part of that,
15 which you may or may not see, it's just the state climate,
16 it shows where California ranks and where businesses are
17 looking to relocate. So, most businesses right now are
18 basically looking at their labor costs, looking at a variety
19 of costs, and basically trying to make good business
20 decisions to relocate across the United States and some of
21 them, this is just showing the trends and California doesn't
22 come up in the trends of where they want to relocate. So,
23 we definitely need to see that change, we'd like to see
24 that, and for them to locate in our markets. Thank you.

25 MR. RHYNE: Thank you.

1 MR. STEWART: Hello, I'm Jack Stewart, I'm with
2 California Manufacturers Technology Association. And boy,
3 weren't all those Economists depressing? Let's start off
4 with that. You know, it just seems to me that, to write off
5 manufacturing as an important part of our industry mix in
6 California is a mistake and I just really can't take it that
7 simply and say it's not going to be here, I think we have to
8 work to keep it here. In the past, California's
9 manufacturing has been dynamic because we've always had a
10 churn of manufacturing jobs. We invent products here, we
11 innovate products here, we scale up to production, and then
12 we sell them to Californians and other customers around the
13 world. Certainly, what's happened in recent years is that
14 that equation has changed. We're doing innovation here, but
15 we're not - and once we come to scale, it's not happening in
16 California, it's happening someplace else, not necessarily
17 in China. A lot of it happens in China, but it happens all
18 other places in the United States. Just since the first of
19 the year, I think there were three solar manufacturing -
20 solar panel manufacturers with California headquarters, who
21 have announced manufacturing facilities in other states,
22 South Carolina, Mississippi, and I think Wisconsin. And
23 these are, I mean, hundreds up to a thousand jobs that are
24 related to a California company, but we're not getting the
25 value of the middle class jobs that are being created, so

1 it's not all going off-shore, it is going to some other
2 states. In fact, one of the CEOs of one of the companies,
3 it's ATQ Solar, the CEO's name is Michael Bartholomeusz - I
4 think that's right - said that, you know, California is a
5 great place to incubate new products, but when it comes time
6 to scale up to production, then we have to go look other
7 places because - he didn't say "because," but it is because
8 of the cost structure is so high in California. We did work
9 with the Milken Institute and know that manufacturing
10 operating costs are 23 percent higher in California than the
11 average of the rest of the country. Our industrial
12 electricity rates, alone, are 50 percent higher than the
13 average of the other states. And, really, it's been low,
14 plentiful electricity or energy, actually, not just
15 electricity, has really allowed economies to grow both in
16 this country and in other countries around the world. And
17 if we took off that plentiful and low cost energy in
18 California, it's definitely going to have an impact on our
19 growth and our economy going forward. Some of the slides I
20 have, let me just start off with those, higher pay scale
21 sectors are declining in California, this is a snapshot -
22 none of this is original research, it's stuff that comes off
23 from the other sources, this comes from EDD, EDD's Database,
24 Jobs Database, looking at sectors of the economy that are
25 growing and shrinking, and this particular chart looks at

1 2001 through 2008, and as you can see, there are sectors of
2 the economy at the top, including manufacturing, that were
3 shrinking over those years, and also at the bottom of the
4 chart are the growing sectors of the economy, basically the
5 service sector. The sad part about this is, the really
6 concerning part, is that the jobs we lost during those eight
7 years were valued at about \$69,000 a year. The jobs we
8 created were valued at about \$43,000 a year. And that has a
9 direct impact on not only the individuals who suffer those
10 wage losses, but on the state. We asked Milken to do just
11 kind of a quick back of the envelope calculations on what
12 that meant to state revenues, and basically, at \$43,000 a
13 year, an individual family of four doesn't pay state income
14 taxes, they are pretty much exempt at that level. But you
15 pay these state income taxes above \$43,000 a year, and up to
16 that \$70,000 a year, and that turned out to be about \$5
17 billion a year revenue hit to the state just on income tax,
18 alone. So, it does have a really direct impact on the
19 ability of California to balance its budget when we lose
20 these high wage jobs. You can go to the next slide.

21 COMMISSIONER BYRON: And, Mr. Stewart, I just note
22 this only through December of 2008, so it might be a lot
23 worse.

24 MR. STEWART: Oh, yeah, it does get worse. The
25 reason we cut it off at 2008 is we wanted to capture the

1 trend of this decade and, once you get into the recession,
2 it really skews those numbers because of the layoffs and
3 losses of jobs in various sectors. But we fully believe
4 this trend will continue into the future unless we figure
5 out a way to make California more hospitable to business
6 creation. Again, this is not a downhill slalom course, this
7 is actually the loss of manufacturing jobs in California,
8 thank you, Bob. As you can see, in the early part of the
9 decade when we had the first recession of this century, we
10 lost quite a number of manufacturing jobs, but the
11 interesting thing that happened is, unlike other post-war
12 recessions, we didn't see a return or rebound in jobs, they
13 continued to fall off during the recovery of the middle part
14 of this decade, and then, when you get into 2007 and beyond,
15 you lose more manufacturing jobs. The total loss now is 34
16 percent of our manufacturing jobs we had in December of 2000
17 are now gone, that's 34 percent of our industrial workforce
18 has been displaced. Now, that is not all because companies
19 have moved out of California, some of it is, part of it is
20 the high cost of doing business here requires companies to
21 be more productive, and California certainly has a higher
22 rate of productivity than other states. We rank at the top
23 of that, and I always tell my companies - my members - that
24 you congratulate them because they are the most productive
25 manufacturers in the world and the most efficient; if you're

1 not, you can't be here, you can't succeed, and you can't be
2 competitive in California. Go to the next slide. Mr. Levy,
3 Steve Levy, talked about the VC investment in California and
4 I think that's important, and California does get a lot of
5 venture capital, in fact, over the last 20 years, we've
6 received somewhere in the neighborhood between 40 and 50
7 percent of all venture capital has ended up in California.
8 This particular slide is the work of a magazine or an
9 organization called Conway Data that produces a magazine
10 site selection, and what they do is they track for all
11 manufacturing start-ups and expansion, nationwide, by state.
12 What we did to create this chart is, then, we normalized
13 that for population and this chart shows how many start-up
14 or manufacturing start-ups or expansions you have per
15 million workers in the various states. As you can see, the
16 national average is 28.7 start-ups per expansions for
17 manufacturers, for the average in the country. California
18 is getting 3.7 of those. And so, we're getting 3.7 per
19 million. Or, as that turns out, we're getting 1.3 percent
20 of industrial start-ups and expansions in California, vs.
21 the rest of the country. And with 12 percent of the
22 population, you'd think we'd get somewhere near that fair
23 share, but we're not getting it. And I think it goes
24 directly to the fact that we don't have a predictable
25 investment climate in California. California has become

1 very regulatory - a high regulation state. And, you know,
2 maybe that's fine, I think there are a lot of very important
3 things that we're addressing - environmental, workplace
4 regulations, etc., that are there, but what we're missing is
5 we're missing some common sense in how we apply regulations
6 in California. We really think we need to get a process
7 called - what I call - "Smart Regulations," so that we know
8 upfront what regulations are going to do to the economy, to
9 jobs, and to the state revenue before they're implemented.
10 I think it will have a positive effect on the regulatory
11 agencies if they know there has to be an economic analysis
12 done, and I'm not talking about an economic analysis done by
13 the individual agencies that are writing the regulations,
14 I'm talking about an economic analysis done by an
15 independent body, so we can have confidence in the results.
16 While the Energy Commission, I'm sure, does very good
17 economic analysis, I really would prefer to see somebody
18 else do that so that we have a better idea. And I think the
19 Legislature also needs to have that information because they
20 have to understand what it's going to do to the long term
21 viability of our tax system and our revenues to California.
22 We have played a game, a game of Russian Roulette, almost,
23 with regulations. We have a lot of good ideas, we implement
24 regulations, and then suffer the consequences once the
25 regulations are implemented. I just think there's a smarter

1 way to do it and I think that California needs to move in
2 that direction. And then, go to the final slide. And this
3 is - I didn't do this slide, this came from SCAG, Southern
4 California Association of Governments, and they used Dunn
5 and Bradstreet to look at business locations out of
6 California from '07 to '09, this is the - all states were in
7 the same recessionary period, the same economy we were, and
8 I think there are 2,500 plus businesses that have actually
9 changed locations from California in that period. This is a
10 trend that can't continue. We need to preserve our quality
11 of life without high income jobs, high salary jobs, and to
12 just say that we just need to write that off and figure out
13 what we're going to do next, I think it's incumbent on all
14 of us to try to figure out how we're going to get more of
15 the production back in California. So, I'll stop, I'm sure
16 I'll have more to say later. But, for now, that's fine.

17 MR. RHYNE: All right, thank you, Jack.

18 MR. CALLAHAN: Well, thank you. I'm Robert Callahan
19 with the California Chamber of Commerce, and I'm slideless
20 today, so bear with me. I think I agree with a lot of what
21 Jack has just stated and a couple of things jumped out at
22 me, the conversation of the previous panel, and I think
23 Commissioner Boyd asked a question, as well. Really, what
24 are we doing when so much of our economic rhetoric coming
25 from policy-makers in the state in 2009-2010 has been the

1 reliance on green jobs, green facilities, green
2 manufacturing, and the future really helping to carry our
3 economic recovery, and sort of the scenarios that Jack just
4 highlighted of solar panel companies leaving the state, you
5 know, domestically or internationally. That should be very
6 concerning to all of us. It is to us. The prospects of
7 recovery for California, as the earlier panel noted, there's
8 a lot of forces outside of our control that are going to
9 play into that, but what can the State do to really, on the
10 margins, improve the strength and depth of that recovery
11 through sound policy making? And we see, you know, at the
12 Chamber of Commerce, we've kind of come up with what we call
13 the "Five Pillars to Economic Recovery," you know, Governor
14 Brown has a very heavy task ahead of him, he has to focus
15 like a laser on economic recovery in no small part because
16 economic recovery is vital to fixing the incessant budget
17 problems we have. We always talk about our budget deficits
18 as being a symptom of the down economy and not vice versa,
19 so what can you do, really, to improve that? Broadly, our
20 five pillars of economic recovery as we see them, 1)
21 reducing the regulatory and litigation costs for the job
22 creators, the businesses in the state, to hire new employees
23 and keep them on the job; 2) ensuring certainty and
24 stability for private investment, that gets to our
25 regulatory environment in terms of stability and certainty

1 for those investors, so they know that their investments in
2 California are going to have long term payback and be sound
3 investments; 3) the third pillar, investing in public works,
4 including expanding our state's energy infrastructure, we
5 think, is vital as the population increases, if we want to
6 build our economy again, you know, there is an artificial
7 low demand for energy right now due to the recession; as the
8 state rebounds in the future, you know, that's going to
9 increase again as we look more towards renewable energy,
10 renewable portfolio standard, how are we going to get that
11 transmission in order to achieve a 33 percent renewable rate
12 in California? There are myriad issues of delivering those
13 renewable energy sources to the places that need them, not
14 the least of which is environmental regulations, the
15 California Environmental Quality Act, we've seen the
16 controversy surrounding the Sunrise Power Link, there are
17 many California policy priorities that are constantly sort
18 of running into each other, butting heads, if you will, as
19 we try to protect our environment, protect our land use,
20 endangered species, etc., but at the same time we want to
21 build transmission for renewable energy sources, wind and
22 solar, as we want to infill, develop to meet our SB 375
23 sustainable community strategy goals, but at the same time
24 have environmental justice concerns in those same areas.
25 It's very complex and there are a lot of issues that need to

1 be addressed. I think, in order to invest in the public
2 works that we need to maintain the attractiveness of
3 California it's going to require some regulatory reform of
4 some kind; 4) a couple of the panelists, I think Steve,
5 really hit on this several times, which was education,
6 maintaining and providing a world class education system
7 that can really help our students be geared toward the needs
8 of employers in California. High skilled jobs, career
9 technical education, etc., it's a tough issue, but it's one
10 of our top 5; and 5) ensuring transparency and
11 accountability in government, which Jack just alluded to.
12 Economic analyses of regulations, economic analyses of
13 legislation, currently policy-makers, legislators, only
14 bills go to Appropriations Committee and Appropriations
15 Committee looks somewhat artificially only at the impact of
16 the State coffers. Again, if you recognize that our robust
17 times financially were when the economy was booming, you
18 have a situation where it's really - it's not a complete
19 picture if you're not looking at the effects on the economy
20 and jobs, as well. Primarily, I specialize more in
21 environmental regulations and legislation for the Chamber,
22 you know, uncertainty is a big issue currently for
23 employers, and that's because there are several large 800
24 pound gorillas in the room, regulatory things coming down
25 the path that we have to be cognizant of, AB 32, green

1 chemistry and, again, the ongoing issues with CEQA. AB 32,
2 you know, in the past five years we have two massive
3 unprecedented undertakings in green chemistry, in AB 32, we
4 have not yet implemented AB 32 to where we are - we haven't
5 ascertained full consequences economically or on the
6 regulated entities. Cap-and-trade, a lot of important
7 policy decisions will be made this year, which will really
8 determine what that impact will be. It is dependent upon
9 State policy-makers to really keep the economy in mind. The
10 EAAC Committee, Environmental -- Economic Allocation
11 Advisory Committee, which Steve Levy sat on, and which was
12 part of the Air Resources Board, the AB 32 analysis team,
13 their own independent study showed that, if we did a 100
14 percent auction of allowances in the cap-and-trade program
15 over nine years to 2020, we'd have a \$143 billion impact on
16 the regulated entities, that's \$143 billion just to continue
17 operating at existing levels. The LA Department of Water
18 and Power would have incurred anywhere between \$200 and \$400
19 million annually just to continue operating. These unmade
20 policy decisions, when you're an investor of a business,
21 private investment, trying to consider moving to California
22 is going to be a threshold issue, and we don't know what it
23 is yet. The same goes for Green Chemistry. Green
24 Chemistry, the previous Administration failed to meet a
25 deadline for adoption of that new regulation, so it's up to

1 the Brown Administration now to really rescue that
2 regulation, which is supposed to provide a level of science
3 and certainty and be left to those who want to politicize
4 the chemical management process which was what we were
5 seeing at the Legislature. The two most recent draft
6 regulations under the Schwarzenegger administration were so
7 open-ended, we cannot look a certain member of our 15,000
8 members in the face and say, "You will or will not be
9 regulated by the Green Chemistry Program." We just
10 couldn't, it was so much discretion left to the department
11 on how they would regulate those companies, you couldn't
12 tell. So, again, just hitting on the theme of certainty and
13 stability being important to economic recovery, that's kind
14 of our mantra, going to be this year, in what we think as
15 far as what California policy makers can control for
16 economic recovery in the near term, things that will be
17 vital to a not lagging recovery with the nation, but
18 hopefully leading.

19 MS. MILLS: Good afternoon, I'm Karen Mills with the
20 California Farm Bureau Federation. I appreciate your
21 including the Farm Bureau in the discussion today and, with
22 all the talk about green jobs, I'd like to point out that I
23 think agriculture is probably the original green industry in
24 California, and we like to continue to think of it that way.
25 I'm not an Economist by training, education, or avocation,

1 but you really can't represent anyone in any of the business
2 sectors without a cognizance of the bottom line, and the
3 policies and regulations that impact the members' bottom
4 line. I've provided a handout that provides some important
5 facts about California Agriculture. You can see, and if you
6 scroll down a little bit, it has some more facts, as well,
7 that it's a significant segment of California's economy and
8 actually very unique from the rest of the nation in terms of
9 agriculture, the crops grown and the value of the crops, as
10 well, and it also provides a significant job multiplier
11 effect in the State. The farms and ranches in California
12 represent steady and important contributors to the economy.
13 We've heard some of the bad news, and in the last few years
14 there was a bit of a dip for the agricultural sector, but it
15 bounced back very quickly and it continues to remain strong
16 and provide some high value crops and important export value
17 to the state, as well. The farmland in California is a
18 vital, important resource, and California's strength is
19 based on its resources that it has available, and that
20 includes land and water. And water, of course, continues to
21 be a key issue for farmers in the state. It's the system in
22 the state stretched beyond its limits, it continues to have
23 a great deal of demand placed on it, and the availability of
24 water and the impacts continue to affect the rural
25 communities and their economic recovery, as well. You know,

1 I would also like to point out that food security is
2 becoming a more important issue and its availability and
3 that affects how we view the strength of what California has
4 to offer in terms of the diversity and strength of the
5 agricultural products. And so the importance in terms of
6 the energy focus, the importance of this information and the
7 impacts to agriculture in California for the purposes of the
8 IEPR, as we're talking about today, is it's an important
9 driver of California's energy policy decisions. The IEPR
10 refers to the number of venues that the PUC has relied upon
11 in terms of what the projections are when we're talking
12 about infrastructure being built, and also affects focus on
13 how rates are to be set because of the revenues that will be
14 approved for the utilities. And so, the energy rate saw a
15 big driver for inputs to our sector in Agriculture and the
16 focus on those, but also there is long-term impacts on
17 California Agriculture from some of the decisions that are
18 made on energy policies, and those include large-scale
19 renewable resources that are being considered in the State,
20 and have been approved, and impacts on land resources and
21 transmission infrastructure, as well, which was mentioned
22 earlier. So, as the rates go up and the impacts on land
23 continues, California Agriculture will continue to look for
24 innovative ways to grow their crops and produce new sources,
25 but they will also look for innovative ways to grow their

1 own energy, as it were, and there is a great deal of
2 interest by our members in looking for ways to provide for
3 on-site energy, whether that's bioenergy, which the
4 Commission is involved in looking at, or solar, or wind, or
5 other opportunities for that, even micro-hydro electricity,
6 we have members who are interested in very small hydro
7 opportunities. But as we continue to focus on that, there
8 will also be a need to look at how the structure of moving
9 forward with on-site generation is played out because there
10 are some difficulties right now in getting it on the grid,
11 as it were, in interactions with the utilities that are
12 required. So, there's a lot of opportunities for change and
13 improvement when it comes to the industry as a whole, and
14 also as it relates to energy innovation on-site. Thanks.

15 MR. RANDOLPH: Thanks very much, Commissioners. I'm
16 Sean Randolph with the Bay Area Council Economic Institute
17 and I won't speak from an industry-specific standpoint, more
18 toward how the economy is looking from the Bay Area, and
19 while it's anything but rosy, I would say that the Bay Area
20 is probably doing a little bit better and looking a little
21 bit better than the rest of the State, and to the extent
22 that the Bay Area sometimes leads where California is going,
23 that might be taken as a little bit of good news. I've got
24 some slides, but in the interest of time, won't necessarily
25 go through them, but I'll rattle off just a few data points

1 that would be relevant. The Bay Area Council did a survey
2 of 500 CEOs in December and a reasonably positive outcome;
3 about 40 percent thought that Bay Area economic conditions
4 at the end of the year were better than they were six months
5 previously, and that was six points better than the previous
6 quarter survey, so that was a trend. More than half, 53
7 percent, felt the economy would be better six months from
8 now, which was up nine points from the previous quarter, so,
9 again, a trend there, 56 percent expected their workforce to
10 remain the same, but 27 percent planned to increase hiring,
11 which was good. Half the companies, 50 percent, with more
12 than 10,000 employees, expected to increase hiring within
13 the next six months, that was a 41 point increase over the
14 preceding quarter, and the optimism that business conditions
15 would improve in the coming six months was especially to
16 note for business and professional services, manufacturing,
17 IT, financial services, and hospitality, in particular. So,
18 that only looks ahead about six months, but if we look back
19 over the previous two quarters into mid-2010, we're seeing a
20 growing optimism from the middle part of 2010, at least
21 looking ahead into the middle part of 2011. Part of that
22 moderated optimism is based on a sustained revival in global
23 and national technology markets, which is of course very
24 important for our economy. In the region, and is really
25 driving growth in Silicon Valley right now, last year global

1 PC shipments were up about 14 percent, corporate and
2 government IT spending and IT products rose about eight
3 percent. And I think semiconductors are a pretty good
4 stand-in for where tech is going because they're
5 incorporated into virtually any tech product you can put
6 your hands on, whether it's very high, or very simple
7 things, and last year the global semiconductor market grew
8 about 30 percent. The Semiconductor Industry Association is
9 expecting a continued rise this year, powered especially by
10 markets in Asia as they've powered the industry for quite a
11 few years, which is good for us because a lot of what we've
12 produced is sold in Asia. And to the extent that one
13 company can be seen as a stand-in for where the industry is
14 going, it would probably be Intel. Their last quarter of
15 2010 saw a 48 percent jump in profits and 8.4 percent
16 increase in revenue. A lot of that was powered by sales of
17 servers to support growing Internet traffic and they're
18 looking now to a 73 percent increase in spending on new
19 plants and equipment to keep up with chip demand. So, I
20 think all of that bodes reasonably well for continued growth
21 and recovery in technology, which is good for California and
22 it's especially good for the Bay Area. Hotels and tourism,
23 which is another big one, especially in San Francisco, it is
24 well below its last high in 2008, but last year saw recovery
25 in both occupancy levels and daily average room rates, a

1 modest recovery, nothing spectacular, but a recovery there
2 that's being reflected in hospitality across the board. And
3 I think there's optimism that that's going to continue to
4 improve this year, as well. Commercial real estate, sort of
5 a mixed picture, but looking a lot better than last year.
6 Right now, we have seen a pretty significant pick-up in
7 commercial real estate activity in Silicon Valley, and in
8 the second half of 2010, a lot of new leases, a lot of lease
9 renewals, trends are decreasing vacancy rates, expectation
10 that there will be more than a million square feet of net
11 absorption in the Valley this year, compared to about
12 75,000-feet of negative absorption the first half of 2010.
13 So, the Valley is picking up. The City of San Francisco,
14 itself, vacancy rates will probably stay in the 12-15
15 percent range, which is better than 18-20 last year, so we
16 are a little bit better. A lot of the good news there is
17 being driven South of Market where tech firms like
18 SalesForce and Zynga and Facebook and Google are expanding,
19 in Silicon you have a lot of space very quickly, which will
20 probably expand into the Financial District later on in the
21 year. Last year, downtown rents grew about two percent
22 South of Market, a lot of the tech stuff going on about
23 seven, so commercial real estate not flying, but coming back
24 and it should continue to come back again this year. I
25 think, consistent with what we were hearing earlier, housing

1 is really a mess and that may not come back to prior
2 valuations until 2015 or 16, depending a lot on where you
3 are, the City or the County you are in, tremendous
4 variation, so San Francisco is wildly different from Contra
5 Costa County. It's very location specific. But
6 nevertheless, at the end of last year, as from November, new
7 and resale home and condo sales were down 11.2 percent from
8 the previous year. Median price was down 1.8 percent from
9 the previous year, and that was, let's see, \$380,000; our
10 peak was \$665,000 in 2007. So, a long way to go and so far
11 not bouncing back, although, again, you have to look at the
12 specific city and county to get your real answer.
13 Foreclosure sales, almost 30 percent of the market, and one
14 reason we don't think housing is going to be coming back any
15 time soon is there's a huge inventory of foreclosed homes,
16 homes that are two months delinquent and will go into
17 foreclosure properties; banks have been holding off the
18 market, they're going to put on the market, and a lot of
19 banks held off foreclosures for a number of months last year
20 because of processing issues, but they're going to pick that
21 up again. So, I don't think we're going to see any relief
22 in the housing market this year and it's a slow crawl-back
23 for the next three years, at least. So, not great for
24 construction, and even the pick up, I think, in commercial
25 occupancy is not at a scale that's going to stimulate

1 commercial construction for several years, at least. So,
2 that takes us to unemployment. Right now, San Francisco,
3 it's 9.1 percent, up a little from last year. Oakland-
4 Fremont up a tenth of a percent from last year, so it's not
5 really going down, but better by half a percent in San Jose,
6 Sunnyvale. So that means Silicon Valley is actually coming
7 back pretty well. Again, I think a lot of the net issues
8 are in terms of sustained unemployment, I think, as Steve
9 Levy has written, are due to the lag in construction
10 activity. The rest of the economy is actually doing
11 reasonably well. The last thing I would mention is venture
12 capital because it's a pretty good indicator of where the
13 economy is going, and tech. The number of funds is
14 shrinking, the size of funds is shrinking, it's getting
15 harder to raise capital. Nevertheless, despite there being
16 contraction, I think a lot of VC firms will tell you that's
17 not a bad thing, there are probably too many VCs spending
18 too much money. The better firms are surviving and
19 investing and they'll do just fine. The good news is that
20 the number of venture exits right now, either through M&A
21 and IPOs is actually getting close to the number of the last
22 peak in 2007, so they're coming back. Venture companies can
23 make money now. The bad news is the figures are far far
24 below the net in 2007. They were \$39 billion last year,
25 they were \$69 billion in '07. A lot less money on the

1 exits, but at least companies are being sold or exiting, and
2 that's good for venture firms, and the latest polling or
3 survey of venture firms found that, and I think this is,
4 again, pretty good news for us, more than half the VCs
5 surveyed expect to increase their investment in 2011, and
6 two-thirds of VC's, 40 percent of venture-backed CO's expect
7 to increase the number to see more venture companies going
8 public this year, and also expect to see more hiring by
9 venture-backed companies. So we're seeing growth and new
10 activity on the venture side of the equation. International
11 trade is good for us, too, this was probably discuss a bit
12 earlier, but it fell dramatically in '09, that's bad for us,
13 it's about 60 percent of everything we make is sold outside
14 the U.S., trade through the region fell 10 percent last year
15 in '09, but it grew 15 percent in 2010. So, that's going to
16 be good for the economy, we think if the global economy
17 recovers faster than ours, that's going to be helpful on the
18 trade side. Lastly, we're seeing pick-up in airport
19 activity, partly domestic, primarily international traffic,
20 international cargo is up, so, again, another good indicator
21 of what's going to be coming. And, finally, clean tech, a
22 lot of optimism about clean tech, but I think, you know, the
23 numbers for clean tech hiring are wildly disparate, they
24 range from 120,000 to 500,000 in California and you can't
25 even define what a clean tech job or a green job is, it's a

1 little bit hard to say what the impact is going to be,
2 except that we are concerned that we're probably not growing
3 the production jobs the we could and should to benefit from
4 our advantage in R&D and venture investment, we think it's a
5 great long-term play for California, but not enough to move
6 the ball very much in terms of the current recession, or the
7 recent recession. So, I think long-term, we're seeing - I
8 think we're out of the woods in the Bay Area, we're seeing
9 positive growth, positive trends, except for employment and
10 residential real estate, but real concerns about some long-
11 term issues, including under investment in infrastructure
12 and under investment in education.

13 MR. RHYNE: All right, thank you. So, we're going
14 to move into the part of this where I get to ask a little
15 bit and get some responses. So, one of the keys to this
16 panel is that I think that industry has what I'll call "skin
17 in the game" in the sense that forecasts aren't just an
18 interesting number, that they must make investment
19 decisions, business decisions, and actually take risks based
20 on those forecasts. And so, I'm going to ask the members of
21 the panel, first of all, what do you think the strategies
22 are for your particular industry or for your region for
23 businesses in the short-term to deal with this uncertainty?
24 In other words, how robust is the recovery going to be? How
25 prolonged will the drop in demand for different products or

1 services continue? And so, what are the strategies being
2 taken to deal with that? And then, when do you expect this
3 to kind of turn to a more optimistic or, if it is
4 optimistic, to an even more robust outlook? And we'll
5 start, again, with Mr. Randolph here.

6 MR. RANDOLPH: Well, again, I don't think we're
7 going to see anything in the way of good news on
8 construction of any kind for at least three years, and
9 there's not very much to be done about that. I think
10 housing construction will be the slowest. Again, I think
11 there's a lot of optimism about green tech, certainly there
12 is a good amount of venture capital going into it, lots of
13 R&D going into it, lots of federal money that got poured
14 into R&D, and loan guarantees, a lot of it through the
15 Federal stimulus program, that's making its way to the
16 system, some of that is going to pay off, new companies,
17 more production. I think the question is not all that will
18 work, or survive, but how to capture that. Again, I think
19 for us, you know, so much of our economy is also linked to
20 global markets, and to the extent that we can continue to
21 benefit from that, things like passing the U.S. Free Trade
22 Agreement, a big trading partner can help, what happens with
23 access to China's market can help. More than half, or about
24 half of all that we sell in the Bay Area, which is true of
25 the entire state, goes to Asia, so our interests are already

1 frontloaded in Asia, and I think that gives us something to
2 work with because right now, aside from a few other places
3 like Brazil, Asia is where the growth is, and where the
4 growth is likely to be for the foreseeable future, much more
5 so than in Europe or anywhere else in the world.

6 MR. RHYNE: Thank you.

7 MS. MILLS: Yeah, for Agriculture, I think one of
8 the important things to keep in mind is the difference
9 between permanent crops and annual crops, and so, as growers
10 look at inputs and whether it's water, and what their
11 decisions are going to be made based on water availability,
12 I know here are increased allotments this year, but it will
13 help annual crops, but not so much permanent crops, and that
14 has an impact in certain parts of the state. And that
15 applies to the dairy industry, as well, other types of
16 permanent crops or segments of the industry. Obviously,
17 when you're not sure about what's going to happen in the
18 future, based on inputs, your changes go slow, and certainly
19 that's the case for some of the inputs, whether it's water,
20 or fuel costs, and labor availability, of course, is a big
21 issue for many of the segments of agriculture in California,
22 so if the outlook doesn't - isn't set and assured in those
23 areas, folks will be slow to change what they're currently
24 doing.

25 MR. CALLAHAN: Robert Callahan. Just real briefly,

1 we represent a broad, diverse business as we don't represent
2 a particular industry. I think, generally though, the
3 feeling of economic and regulatory uncertainty has been an
4 impediment to investment in the short-term, and I'll give
5 you a quick example. AB 32, we had several member companies
6 who had money and were profiting, ready and willing to make
7 energy efficiency investments in the short-term; however,
8 due to regulatory uncertainty, didn't know how they would be
9 treated and if those energy efficiency upgrades would be
10 used against them in the future under an AB 32 regime. So,
11 that's an issue in terms of investment. Green chemistry, we
12 don't know how any innovative new products, greener
13 products, less toxic products, what sort of protection those
14 products have for confidential business information, or
15 trade secrets under the program, we don't know what level of
16 micromanagement the Department of Toxic Substances Control
17 could have in regulating those products. So, with that
18 uncertainty, we see even those with the capacity a bit
19 unwilling to invest in the short term due to all the
20 uncertainty.

21 MR. STEWART: For manufacturers, I think orders are
22 up slightly, but there is a great deal of caution into
23 whether or not we're going to actually invest more dollars
24 in California plant equipment, one, and in new workers. I
25 think the question is, as we've stated several times now,

1 there's a predictability of what the costs are going to be.
2 Certainly, AB 32, looking forward, although we decided to
3 distribute the emissions credits this first go around, three
4 years after that, there will be another process used for
5 that, whether it's an auction, or they decided to issue them
6 free again, that could happen. But, for a business who is
7 looking at investing in California, that is a huge unknown,
8 and you have to make your decisions on what your costs are
9 going to be. And when you don't know what your own energy
10 costs are going to be, except you know that they're going to
11 be 50 percent higher than the rest of the country already,
12 with some added costs on that in the next 10 years, then I
13 think you're going to hold back and wait until you see. And
14 I think we all thought that the clean tech industry was
15 going to do much better in California. I mean, my guess is
16 that most of the modeling that was done by CARB and by
17 others factored in a growth and manufacturing in clean tech
18 products.

19 MR. RAYMER: They did.

20 MR. STEWART: And unfortunately, we're not seeing
21 that some. In fact, there was a study that was released last
22 month by UC Berkeley looking at green jobs, clean tech jobs,
23 over the next 10 years, and I think the number was somewhere
24 just north of 200,000 total jobs in the economy, in
25 California, I mean, that's about the growth of our work

1 force in one year, not really as a salvation or a solution
2 to our unemployment problems. And I think this all kind of
3 comes back to - the economists talked about - the Economists
4 talked about construction, well, you're not going to get
5 construction until you have workers who can afford to buy
6 houses, and can afford to invest, and you're not going to
7 get workers who can afford to invest until you do some
8 predictability and some certainty in the investment climate
9 in California. And so, I think it's a multiple piece
10 equation and we have to start by looking at how we're going
11 to encourage investment in California beyond just the VC
12 investment of innovation and for the start-ups, and how
13 we're actually going to get those companies to come here. A
14 couple months ago, I was at a conference and heard the CEO
15 of a company called Blue Fire Renewables talking about they
16 have a cellulosic ethanol process by which they use the
17 waste stream to create ethanol. They're a start-up company
18 based in Irvine, California. They spent two years and \$9
19 million trying to cite a plant in California, and they
20 wanted to cite in California, Lancaster, California, and
21 finally realized it just wasn't going to happen. They
22 switched their focus to Mississippi, and in nine months,
23 they had their permits and they're ready to break ground in
24 Mississippi, and the plant will produce five times as much
25 ethanol as the plant they were looking at in California.

1 We've got to get our priorities straight. Do we want jobs
2 here? Or do we want a clean environment? I believe you can
3 have both, I really do. But I think there has to be some
4 better consideration used in how we get there, it's - we
5 talked earlier in the earlier panel on AB 32, you know, the
6 difference between policy costs and adaption costs. Well,
7 California is likely to get both hits, one is the policy
8 cost first, and then the adaption cost coming behind it, and
9 it just seems that we need to be more realistic about how we
10 go forward on global warming in our policies when we really
11 don't have a very clear view, or - I guess we do have a
12 clear view that California going it alone will not solve the
13 problem, it's not going to fix global warming. How do we
14 make sure that our economy doesn't suffer the unattended
15 consequences of a policy that is really not going to make a
16 dramatic difference in the worldwide climate, the worldwide
17 economy?

18 MS. ANDRE: You know, what our clients are doing is
19 they're looking to keep their tenants, they're doing
20 everything in their power to keep the tenants that they
21 have. If tenants have to downsize or there needs to be rent
22 adjustment, there's rent adjustments that are being made.
23 There's rent abatements. In retail, we can look at the cost
24 of their business and make determination of how to abate the
25 rent and get the rent to something so they will continue to

1 survive. So, our clients are doing everything in their
2 power, but all of it is a cost to the landlord. The
3 landlord is having to take a hit on their books and their
4 profitability, and basically keep tenants. At the same
5 time, what they're doing is looking at ways to reduce
6 operating expenses. We've gone through and done everything
7 we can to implement energy and energy efficiency controls,
8 we've gone through everything that we can to be able to
9 equate to anything that's out there, but beyond that, that
10 cost was small in comparison to where we see our largest
11 operating expense changes is going back to the end-user, the
12 vendor, and asking the vendor to make cutbacks. When the
13 vendor makes cutbacks, he's making cutbacks to his labor
14 pool, to effectively do the same sweeping, the same
15 janitorial, the same services, at a lesser cost because he
16 wants to keep his business. I think the biggest concern is,
17 in the end, we're all hurting ourselves because we're all
18 being impacted by the fact that we're asking everybody to do
19 more for less, and I think we all feel that in our daily
20 workforce that we're doing more for less, and we're asking
21 our vendors to do that, our tenants are asking us to do
22 that, to give them more, and get less, and we're having to
23 all adjust our mindset of what we're doing to do business
24 here in California. And I think it's hard to see where the
25 success is of this. I mean, I see every single lease

1 transaction that takes place, and where I see a number of
2 lease transactions taking place, but are they successful
3 lease transactions? Are they better than what they were?
4 No. They're basically resetting. If you go back 10 years,
5 we're back at rents that were 10 years ago. And this reset
6 is something that's hard for most people who are doing
7 business here and buying businesses here, and buying
8 buildings, to say, "Is this a new normalized level? And
9 should I re-expect this as my future?" And I think there is
10 going to be a reset point, and I think everybody has put
11 this downward pressure on all of our operating, and we need
12 to see that as something that everyone is going to continue
13 to have to feel, that pressure, because just like at home,
14 if you can't afford the dry cleaning and some of the other
15 services, you find other ways to do it, and our tenants are
16 doing that, and our vendors are doing that, so we're all
17 trying to skinny up as much as we can. I think you were
18 asking for what would be the success, I think at the same
19 time where the successes are is that we're seeing that
20 businesses will look at California again, once that number
21 and that cost to do business in here is met to that number
22 where they can sell how many pieces of t-shirt it takes to
23 sell and that rent equates out to a number that they can
24 sell again. So, it's that resetting that number to a cost
25 where they can do business here in California. And we are

1 starting to see that, but it's at a terrible hurt to
2 everyone involved.

3 MR. RAYMER: Okay, Bob Raymer with CBIA. Looking at
4 sort of the growth industries in California, the residential
5 sector and, to a certain extent, the commercial sector,
6 there's most definitely the rehab and remodeling of the
7 existing homes and condominiums out there, to a much lesser
8 degree apartment buildings. Why is this so key at this
9 point in time? We've got 13.5 million dwelling units in
10 California, that's a combination of both multi-family and
11 single-family. Of that 13.5 million, two-thirds of them
12 were constructed prior to the effective date of the first
13 set of energy efficiency standards. So, effectively one out
14 of three homes in California was built to some level of
15 energy efficiency mandated by local and state government.
16 And so, given the inability or the tightening of lending
17 regulations that the lending institutions have put forth for
18 both builders, developers, and home buyers, the home buyers
19 are in many cases staying in the home, they're trying to
20 figure out a way to increase the value of that home, they're
21 also trying to figure out a cost-effective way to reduce the
22 monthly energy bill. And so we're definitely seeing a lot
23 of the unemployed workers from new construction move
24 directly into rehab and remodeling. In addition, in the
25 next three or - by the way, all of these have an asterisk

1 that I'll cover at the end - local government, we're going
2 to see, not that you would think that's a growth industry,
3 but right now, they have had staffs decimated, the local
4 building departments in the 500 cities and counties in
5 California have seen their staffs reduced significantly. A
6 case in point is we were doing training for the new energy
7 Regs and the new Green Building Standards, we're doing
8 training down in the San Diego area. What used to be a
9 large jurisdiction had two representatives there. They used
10 to have a staff of 23; their entire staff of two was there
11 in 2010. And one of these guys was a transfer from Planning
12 and Land Use. So, the people that would normally be doing
13 plan check and out in field inspection in this jurisdiction
14 for both residential and commercial, they're the whole show.
15 And one of them has no experience in this area. As the
16 economy starts to slowly increase, we're going to have to
17 see this local government sector sort of increase along with
18 it. Tied to that is third-party entities performing plan
19 check and inspection. This has been sort of a relatively
20 new phenomenon over the last 15 years, we have seen private
21 sector entities set up firms that effectively assist in
22 contract with local government to take over some or all of
23 their plan check and inspection duties. This first started
24 with structural requirements in the Codes, certain fire
25 safety, disabled accessibility, and then, of course, energy

1 efficiency in the late 1990's. Now, we're seeing these
2 companies look at green building, as well. We've also got
3 other companies that are out there that do green building
4 only, and the local jurisdictions can, if they don't have
5 the in-house staff, can go ahead and contract out with these
6 private sector entities for some or all of their other
7 duties. In addition, given the fact that we've got well
8 over 9 million units out there that were built to no energy
9 Regs, they may have had some type of retrofit over these
10 many years, but we're going to see a huge increase in
11 residential energy audits and commercial building
12 benchmarking. There are requirements that are either
13 already in place, or are going to be in place, it's simply -
14 this is where the state is headed. And we're going to have
15 to have competent people that can go into either
16 residential, commercial facility, have the understanding of
17 how these energy systems are supposed to work, and how they
18 can ascertain whether or not they're doing the job that
19 they're supposed to do, that they were designed for. And so
20 all of these are sort of tied together and we'll see growth
21 in them providing that people, homeowners, either those in
22 the existing homes, the ones that want to buy new homes, can
23 get the loan and that the builders and the developers can
24 also get the loans to go forward with the project. For
25 those of you in the audience who have tried to buy a home in

1 the last year, it probably hasn't been a pleasant
2 experience; it's certainly been a very expensive one in
3 terms of out-of-pocket. We've seen the upfront down payment
4 that is required by both builders and homebuyers rise
5 substantially, depending on your credit rating and your
6 relationship with the bank, developers have seen this down
7 payment go up between 20 to 50 percent. For homebuyers,
8 it's not uncommon to see major lending institutions
9 requiring, instead of a two and a half, or five percent down
10 payment, now requiring a 20 percent. Last week, Wells Fargo
11 announced that they're thinking about going to 30 percent
12 for a home. So, just do the math, a \$300,000 home, you're
13 getting very close to an out-of-pocket expense upfront of
14 \$100,000, just to purchase that new home. So, with that,
15 one of the things that needs to happen is we need to get the
16 lending institutions to embrace both energy efficiency and
17 distributed generation. They have been, I would say,
18 talking a good talk for the last 15 years over at the
19 Legislature, but they need to get down to it and do it here
20 in California. Unfortunately, what is considered an energy
21 efficient home in Mississippi is much different than an
22 energy efficient home in California, and the fact is, the
23 banks look at things somewhat similarly throughout the
24 States. And what we need to be able to do is explain to
25 them clearly in a way that they can understand that there is

1 value to the home that will be built to the standards that
2 take effect in 2014, vs. the home that was built to the 2010
3 standards. And that is a very difficult task. The lending
4 institutions need to embrace that, they need to embrace the
5 fact that, by trying to go to zero net energy, we're not
6 going to have one or two kilowatts on the roof, we're going
7 to need six to seven kilowatts on the roof, and that's going
8 to be a \$40-50,000 price tag in today's dollars. That's
9 going to knock a whole lot of homebuyers out of the market,
10 but if the lending institutions begin to embrace this and
11 understand that an individual purchasing that style of a
12 home is basically going to have anywhere from \$100 to \$150
13 per month freed up for other expenses, that loan ratio
14 should go up accordingly; right now, we're not seeing that
15 happen. So, these are things that can help kind of get us
16 into the next step of energy efficiency and distributed
17 generation. Right now, we've got a heck of a hurdle to
18 climb.

19 MR. RANDOLPH: May I add something very quickly?
20 Not to be a chorus, but on AB 32, it is a significant issue
21 that the Bay Area Council was the principal business
22 organization in the state that initially supported AB 32
23 when it was signed, and was very active opposing Prop. 23,
24 so we've been completely on board behind the AB 32, but even
25 with that said, I think there's a recognition in the

1 business community that supports it, that there's a lot of
2 uncertainty out there, there's just a lot of blanks to be
3 filled in which did contribute to this issue Jack raised of
4 unpredictability and uncertainty in the business climate.
5 So, I think that is going to be a big one that needs to be
6 addressed. There are other issues of CEQA and things out
7 there, and the regulatory issues, but that is maybe the
8 biggest unknown for the next few years. And that's even
9 among people who strongly support the policy and the
10 strategy. On the clean tech side, I think it should be
11 noted that there are some companies coming into California
12 from outside the U.S. and elsewhere in the U.S., we are
13 finding that they're coming in to be close to the
14 innovation, to be close to the R&D labs and the universities
15 and to where markets are growing, and things like Green
16 Tech, so quite a few Clean Tech related companies from
17 China, from Germany, from elsewhere in the U.S., biotech
18 companies coming into be close to what's happening in the
19 Biotech world, so there is in-migration of some companies in
20 those highly innovative cutting edge places where they feel
21 they need to be here because this is the cutting edge. I
22 doubt that offsets the out-migration of companies that Jack
23 was referring to, but we have leverage points to attract
24 companies to come in. And finally, how are companies
25 reacting to the last couple of years, and even now? I think

1 a lot of them just became necessarily very very lean. They
2 cut back, they reduced staff, their minimum, they used this
3 as an opportunity to shed deadwood, and they were maybe low
4 productivity, they could get rid of, and then they shed
5 other people, and they've ended up, as often happens with
6 recessions, with a much smaller workforce, often, but in the
7 end a more thinly stretch, but high productivity workforce.
8 And I think they will stay with that as long as they
9 possibly can because it's worth it - not great, but it's
10 working. They will start to hire when they see sustained
11 growth in the economy and a level of predictability where
12 they can follow where the revenues are going to come from.
13 So, they have been holding back on that score, so I think
14 employment is being held by a lot of things, but I think one
15 of them is companies have become very lean and efficient and
16 the longer then can get away without doing new hiring,
17 especially when there's unpredictability in the business
18 environment, they're going to continue to do that.

19 MR. RHYNE: Well, thank you. So, the next question
20 and I have a series of questions here from the audience, and
21 I'll throw it out to whoever would like to answer. There
22 was some discussion earlier about what the Bay Area and
23 Northern California looks like. Could someone maybe speak
24 to what the regional differences are, just Southern
25 California, San Diego and the LA area, possibly.

1 MS. ANDRE: This is Iris Andre. The LA region and
2 Orange County region are struggling, probably more similar
3 to the Valley, in what we see. They have large office
4 vacancy and are continuing to struggle. San Diego is also
5 struggling. The Bay Area has always been kind of the fair
6 haired child. I think a lot of people like the Bay Area
7 because of that, the Silicon Valley, and Stanford University
8 and a number of other institutions that sit there, have been
9 the seed bed of a number of the venture capitalists, and
10 where the technology is, and that is a beautiful place to
11 be, and to be located. It's not been - it's always been our
12 nice liaison that we've had with that Bay Area because, as
13 the Bay Area grew, the Valley grew, because at some point,
14 they always came to a point of saying, "We could go and put
15 our manufacturing, we could put our office over into the
16 Valley at a cheaper cost, and be only two hours away to get
17 back there." But the Southern California is definitely
18 probably more similar to, you know, the Sacramento area,
19 than the Bay Area.

20 MR. RANDOLPH: Sean Randolph again. I think an area
21 that is looking better in Southern California is trade.
22 Again, I mentioned it is improving for the Bay Area, but
23 international trade is a much bigger deal for the economy of
24 the LA Basin, between the Ports of LA and Long Beach and the
25 logistics industry there, so as international trade has come

1 back, especially trade with Asia, I think you will see a
2 boost to the Southern California economy. Now, all the
3 ports in California are facing some pretty serious costs
4 related to emissions compliance in the vicinity of the
5 ports, so they're going to have to absorb that, but the
6 longer term trend, I think, is that trade is going to be a
7 net contributor in the Southern California economy, too.

8 MR. RHYNE: So just a follow-up question to that.
9 So, to what extent, then, is the economy of Southern
10 California tied to the economies of the Pacific Rim and,
11 therefore, partially determined by the movements there,
12 rather than being solely tied to the larger U.S. economy?

13 MR. RANDOLPH: Others may be able to speak to this
14 better than I can, but in terms of the distribution of the
15 state and relative dependence on, say, markets in Asia as
16 compared to Europe or Latin America, or other places, across
17 the board in California, Asia is the number one market, so
18 Southern California is like Northern California in that
19 respect, with the difference that San Diego is more focused
20 on Mexico, comparatively. I think trade is probably a
21 somewhat - it's a bigger deal for the LA Basin from a
22 logistics standpoint, just because the ports are so much
23 larger than Northern California Ports. I think from a
24 physical export standpoint, it's probably a bigger deal for
25 Northern California because Northern California companies on

1 average tend to export more to global markets because it's
2 more technology, and a lot of the Ag exports out of the
3 State go out through the Port of Oakland, so I think it
4 depends whether you're looking at logistics or whether
5 you're looking at the physical export of product.

6 MS. MILLS: This is Karen Mills. For the Farm
7 Bureau, and for Southern California, specifically for the
8 San Diego area that has a tremendous greenhouse nursery
9 production, they've been hit very hard by the housing
10 downturn because they grew a lot of product for landscaping
11 and for those purposes, so that part of the agricultural
12 economy down there is slow to recover and had a big impact,
13 and then, also, of course with water being the issue, there
14 continues to be significant impacts on prices and
15 availability of water both in the San Diego area, Imperial
16 County has a big impact, so those issues continue to be
17 strained.

18 MR. CALLAHAN: Robert Callahan, California Chamber.
19 Just to echo the importance of trade and international trade
20 in Southern California, the impact it has on the economy and
21 jobs down there, the Ports of LA and Long Beach are hugely
22 important and, just to remain cognizant as a state in terms
23 of policy about the increase in competitive pressures that
24 California ports are facing to international ports on the
25 west side of North America, those are increasing. And 2009

1 was a bad year for trade, but that is spiking up again. But
2 that competition is going to increase in the near future.

3 MR. RANDOLPH: Sean Randolph. The competition will
4 be not just with West Coast ports, but east coast and gulf
5 ports, when they expand the Panama Canal, there is likely to
6 be more shipment going through the Panama Canal, but it has
7 been coming to California for transshipment by rail across
8 the U.S., so I think we're dealing with competition not just
9 from the Pacific Northwest, but Ports in Mexico, Ports in
10 British Columbia, but I think the bigger challenge for us is
11 going to be market share vis a vis gulf coast and east coast
12 ports in the future.

13 MR. RHYNE: Thank you. We're coming close to the
14 time when we would wrap up. I still have just a couple of
15 questions here from the audience and I'll look to the
16 Commissioners, and with you indulgence, we'll just close out
17 some of these questions here and make sure that we have them
18 kind of on the record. There was a mention earlier about
19 the loss of manufacturing jobs not being strictly to
20 movement out of state, but also to improvements in
21 productivity. Would anyone like to maybe try and estimate
22 or speak to what they think the percentage split is, in
23 other words, the percentage of jobs lost to movement out of
24 state vs. jobs that are lost to productivity increases and
25 perhaps try to address that question?

1 MR. RANDOLPH: We looked at this question four or
2 five years ago and in some depth, and concluded that there
3 are more jobs [quote] "lost to productivity gains" than out
4 of state movement. But that was, I think, 2004-2005. I
5 think it would take another look today to see what's going
6 on currently.

7 MR. STEWART: I think most - and I don't know what
8 the percentage is, but I think most of the technology
9 companies who manufacture here in the '90s and early 2000's
10 have not - there are not very many high tech manufacturers
11 left in California. The only products, I mean, whether it's
12 an iPad or a Smart Phone, that manufacturing is all done
13 someplace else - designed here, probably, but manufactured
14 in other places.

15 COMMISSIONER BYRON: So that pick-up in air travel
16 that Dr. Randolph has noted out of San Francisco, they're
17 all one-way tickets?

18 MR. STEWART: No, they're actually round trip
19 tickets because you have the corporate headquarters still
20 here, they fly over there, and manage their operations, and
21 then they fly back.

22 MR. RANDOLPH: I actually was once in a house tour
23 and saw the basement and there was this amazing high tech
24 set-up, and the owner there actually was managing a factory
25 floor in China from his basement, meeting every day with his

1 foreman and all the rest. I think some of that traffic is,
2 you're right, Jack, people moving back and forth to
3 supervise operations in China and elsewhere.

4 MR. CALLAHAN: And real fast, just to hit on this
5 point of manufacturing in California and how it has
6 decreased so much, I agree with Jack, we don't want to give
7 up on this sector of the economy, not just because it is
8 vital to the economy, but because there are environmental
9 concerns with having things manufactured in China and
10 elsewhere, when you talk about we're very into cumulative
11 impacts of activities these days -- the cumulative impact of
12 producing something with cheap labor, cheap facilities, etc.
13 in China, developing in California, manufacturing it there
14 and shipping it to California, are very expensive when it
15 comes to the environment, and we can't forget that when we
16 try to analyze these - the various special interests tend to
17 look at things through their own lenses and we need a more
18 holistic view of it, and I think that's where we're going,
19 and there's value to that because there are costs and
20 tradeoffs that will need to be addressed.

21 MR. RHYNE: Thank you. So, another question, I'll
22 ask you to put on a little bit of a forecasting hat of your
23 own; when you look at California out over the next decade,
24 the mixture of houses, whether they're single-family, or
25 multi-family, has been changing to some extent and there's

1 some debate right now whether or not that's driven primarily
2 by the recession or perhaps some more fundamental change.
3 When you look out over the next decade, what do you see as
4 the split between single-family and multi-family homes? And
5 how does that differ from today?

6 MR. RAYMER: Yeah, Bob Raymer with CBA. It'll be a
7 two to one split. Historically, that's sort of been where
8 things have been and that's where it's heading back. We had
9 two anomalies in that chart that I showed you earlier.
10 There were two years where multi-family and single-family
11 were the same, that's extremely rare. And so we'll go back
12 to that two single-family, for everyone, multi-family. But
13 we are going to see some significant changes. The square
14 footage of the single-family home will be dropping. About
15 three years ago, the average was around 2,400 to 2,500
16 square feet, that will be dropping to 1,900 to 2,000 feet.
17 We're already seeing those types of designs popping up all
18 over. And then, a great many of the single-family home
19 projects will largely be going vertical. If you go back 20
20 years, it was not uncommon to see most of the single-family
21 homes in a new project being one-story, they're going to be
22 two and three story, and they're going to be tightly packed.
23 For environmental purposes, you're going to see the minimum
24 distance between lot lines, which has just recently changed
25 from five-feet to three-feet, we're going to see homes

1 packed that tightly, just like they were a few years back
2 before that regulation changed, and that's for environmental
3 purposes, that you want to see more productive use of the
4 land. You'll see for many of these types of designs where
5 the garage, and perhaps a family room, will be located on
6 the first floor, you'll have the kitchen, maybe the dining
7 room, living room on the second floor, possibly a bedroom or
8 den, and then sleeping quarters up on the third. That will
9 be a very common high density style design. We're also
10 seeing a big push by local jurisdictions for industry to go
11 vertical in terms of multi-family, and that is high-rise,
12 but then again, this has a problem; a lot of lending
13 institutions want to phase their financing of residential
14 projects. You can't really phase a high-rise building, you
15 can't say, "Well, I'm going to build five stories today and
16 10 stories down the road," you've got to do it all at once.
17 And so, while that can be very environmentally friendly,
18 trying to pack that amount of humanity into a small area,
19 it's going to be very difficult to get funding for that.
20 And, of course, for SB 375 and AB 32 purposes, the larger
21 companies are looking at designs that incorporate entire
22 communities into a single proposal and, in essence, you're
23 going to be mixing your residential with commercial and
24 school facilities. Many jurisdictions will say that they
25 want to see that school facility not only funded, but

1 breaking ground before you start pouring the concrete for
2 the pads for the residential dwellings, they don't want to
3 take a chance of that residential project going to
4 completion without that school facility being up and
5 running, ready to go. And so, you're going to see a more
6 holistic type design where you're looking at large
7 communities. I'm not sure where this is going to put the
8 small business person in the future. Given the recent
9 downturn in the economy, we've seen the larger production
10 builder companies, particularly those that do business all
11 out the country, and in some cases, other countries.
12 They've done major contraction. A case in point, a very
13 large company here in Sacramento pretty much dissolved their
14 Sacramento division of 180 people and shipped four of the
15 best employees to the Bay Area division, which they also
16 contracted. A lot of small builders aren't building
17 anymore, they're gone. And they're going to be looking out
18 for start-up capital down the road and, once again, that's
19 going to be hard to do. So, there's a very strong
20 possibility that, as we go forward, the major buildings in
21 California will be losing well over - I would say 90 percent
22 of single-family homes in California. Small builders are
23 getting pushed out.

24 MR. RHYNE: All right, thank you. So, the last
25 question, and this is for the entire panel, I'll ask you to

1 briefly - and it actually is a synthesis of a couple of
2 questions and some of you have started to address some of
3 this in your earlier remarks, I'll ask you to be brief with
4 this, but what specific recommendations would you make to an
5 energy-related policy-making organization as a way to help
6 make California more business friendly? In other words,
7 what changes in energy policy would make California more
8 business friendly, keeping in mind that we are not going to
9 throw away our environmental goals, our commitment to
10 improving the environment we live in here in the state?

11 MR. RAYMER: Bob Raymer with CBI again. Having
12 worked a great deal with the Energy Commissioner for the
13 past three decades, and with a whole lot of agencies that
14 produce regulations impacting housing in the commercial
15 sector, there has been a great deal of emphasis put on the
16 development and adoption of regulations and, quite frankly,
17 it's sexy. Adopting more stringent regulations, that gets
18 headlines. Going out to 500 jurisdictions, training plan
19 checkers, inspectors, subcontractors, site superintendents,
20 that's not sexy, but it's absolutely vital that that happens
21 if that regulation is going to work well. More importantly,
22 if we're going to have a series of transitions from one set
23 of regulations to another, regardless of whether it's the
24 Energy Commission's regulations, or 8CDU of the Fire
25 Marshal's, or whatever, the agency, as it is developing

1 those regulations, needs to take account for how we are
2 going to make the transition. That's one of the things that
3 we don't hear talked about a lot at ARB right now with AB
4 32. I realize it's very controversial. But small
5 businesses, in particular, have been testifying at these
6 hearings on AB 32, "You're telling us that in 2020
7 everything is going to be great, maybe it will, but what
8 about the time period between 2008 and 2020?" The Latino
9 Chamber of Commerce from LA, the Black Chamber of Commerce
10 from LA, and the Asian Chamber of Commerce from LA all drove
11 up here because they couldn't afford to fly, they drove up
12 to several of these hearings, indicating that they had a
13 great deal of fear over the development of AB 32's
14 regulations and the fact that no one at ARB could really
15 tell them with any kind of certainty how this is going to
16 impact them during this transitional period. And that
17 raised a lot of fear in their minds. To the extent that the
18 agency, as it develops and adopts regulations can focus on
19 not only transition, but making sure that transition runs
20 smoothly, that would really help the business community.
21 Case in point with the Energy Efficiency Standards, we
22 recently had a circumstance where we were able to get a hold
23 of the compliance - well, the Performance Compliance tool
24 for the Energy Regs only two weeks before the effective
25 date. Well, the good news is the economy was in the tank,

1 we weren't really building anything, and so by getting that
2 compliance software that late, it didn't really have an
3 impact. But what if the economy had been doing better?
4 What if it had been 2002 and 2005 when the last series of
5 standards had taken effect and we couldn't get our hands on
6 compliance software so we could design these units, so
7 they're going to get built down the road? That's a disaster
8 waiting to happen. We need to have the tools to implement
9 new regulations at least six months prior. I mean, that's an
10 absolute cut-off. It would be best to have it a year to a
11 year and a half. A house that you start construction on
12 today was probably designed 18 months ago, and so, once
13 again, fortunately the economy was in the tank, otherwise we
14 would have had a huge problem back in January 2010 with the
15 last set of Energy Regs. Now, I understand the Energy
16 Commission staff has already taken a step to make sure that
17 never happens again, we'll work with them on that. But
18 there has to be smooth transition from one set of Regs to
19 another, where it's energy efficiency, or any other building
20 code. Thank you.

21 MR. RHYNE: Thank you. Iris.

22 MS. ANDRE: Well, you know, I think that when you
23 motivate somebody with tax credits, and you look at it both
24 from two sides, you look at it from the business owner, and
25 the operator that's in the building, if you motivate them

1 with a tax credit to say, "I want you to be in a greener
2 building, and I'm going to give you a tax credit if you go
3 and lease in a greener building, it also then motivates the
4 landlord to say, "I want to make my buildings greener," and
5 you find ways to give them credits, I think you motivate in
6 a positive fashion, you'll get where you need to go, and
7 you'll find that people will be more embracing of that kind
8 of plan because people are all looking for efficiencies,
9 we're all looking for ways to clip our coupon and check it
10 in, and I think that's exactly how you kind of have to
11 motivate this plan and this moving forward.

12 MR. STEWART: Well, let me, both for the Energy
13 Commission and other regulatory agencies, and really for the
14 State as a whole, I think what we really need to have is to
15 put jobs in California on the same level as our regulatory
16 process. So often, when a business - businesses in
17 California, as I said earlier, are very competitive, and any
18 time there's an increase in taxes, an increase in energy
19 cost, fees, regulatory costs, the first thing that gets
20 squeezed is the human resource, the individual, nobody out
21 there is making money that they can absorb these costs
22 anymore. So it's the individual, it's the worker that gets
23 hit first. So, I think what California really needs, just
24 as we have a long-time energy policy looking out 10, 15, and
25 in the case of AB 32, until 2050, 40 years on emission

1 reduction, we need to have a plan of what we want our
2 economy to look like in 10 years or 15 years, and then, once
3 we get that, what kind of mix of industries do we want, and
4 what kind of mix of jobs do we want, what kind of growth do
5 we want to see over those years? Then, you figure out what
6 the barriers to getting there are, and then do your best to
7 fix those barriers. And if part of that is putting some
8 economic and job requirements on new regulations, or at
9 least making sure that the new Regs aren't hurting the
10 economy to the extent that we really believe it has over the
11 past 10, 15, 30 years, what we need to do is we need to move
12 forward - I hate that word, move forward, I'm sorry I said
13 it, we have to figure out how we're going to create the
14 economy of the future of California and somehow reduce the
15 unintended consequences that come with new costs that are
16 imposed, all with good intention, but often with very
17 disastrous results.

18 MR. RHYNE: Thank you.

19 MR. CALLAHAN: A very brief answer. I think
20 business-friendly energy policies will consist of a focus on
21 technological feasibility, cost-effectiveness, and the
22 regulatory agency being very cognizant of the upfront costs
23 facing those implementing it on the ground. We do not
24 believe that environmental protection and economic growth
25 are mutually exclusive concepts, so...

1 MS. MILLS: Karen Mills for the California Farm
2 Bureau. I want to support what Iris said about incentives,
3 I think that's a really good point to make because if you
4 set the incentives right, you get the type of investment and
5 behavior that you're looking for, and also in terms of -
6 Jack has mentioned a couple of times about trying to assess
7 what's going to happen in the future, it's important to put
8 some effort into that and try to predict and estimate it
9 accurately. But, when that fails, as it has in the past
10 because I think with some of these aggressive goals that
11 we're setting for ourselves, you can't predict accurately
12 all the inputs and the outcomes that will result from it, I
13 think it's very important for policy makers to recognize the
14 need for off-ramps when things go haywire, we saw that with
15 the restructuring of our electric industry, and things don't
16 always go the way you expect them, so there needs to be off-
17 ramps and the renewable energy and the push for renewable
18 energy is driving a lot of our policies, and a lot of where
19 our rates are going, and I don't think we know yet what the
20 cost of those will be because we don't really have any large
21 scale renewable energy, at least solar, on and being paid
22 for yet by the ratepayers. So, thank you.

23 MR. RANDOLPH: I think I agree with everything that
24 everybody has said up until now. The only thing I might add
25 is, companies will to a large degree choose to move here and

1 expand here and invest here based on the perception that
2 there is a significant and growing market that they can make
3 money in California, especially of clean tech-related
4 companies. And so, whatever can be done to help sustain and
5 grow that market to the point where it becomes commercially
6 self-sustainable is going to be a helpful thing; I think
7 there is a lot of opportunity in California in the medium to
8 long-term to create jobs, including manufacturing jobs and
9 to make California a global center for clean tech industries
10 across the board. We have a lot of competition, though, a
11 lot of competition from China, a lot of competition from
12 Europe, not to mention elsewhere in the U.S., so we don't
13 own it by any means, and we don't own the growth that's
14 going to occur in the future by any means. So, it's very
15 much up to grabs, despite our R&D, and despite what we do in
16 venture capital. And so, policies that can help to grow and
17 sustain that market will help in the end grow companies here
18 and attract companies here to California.

19 MR. RHYNE: All right, so thank you very much. I
20 want to thank the panelists this afternoon. I want to
21 remind the audience before we go to closing comments, and
22 I'll ask the Commissioners for their closing thoughts, that
23 written comments can be submitted, they are due, I should
24 say, by February 2nd, so those comments can be provided to
25 the Dockets Office and the Energy Commission website has

1 information on how to file those comments. So, with that,
2 I'll ask the Commissioners if they have any closing
3 thoughts.

4 VICE CHAIR BOYD: Well, first, I just want to thank
5 everybody who came today and participated on panels, I want
6 to thank the, still, pretty good sized audience, who has
7 been with us for most of the day. A lot of us came into
8 this hearing and I think I, for one, and others probably,
9 will leave this workshop, rather, knowing full well the
10 economy is very important to the future of California, a
11 healthy economy is necessary, I'm glad to have heard so many
12 references to the desirability for and almost the necessity
13 of a healthy economy and a healthy environment going hand in
14 glove, I think California has proven historically that
15 that's true. Certainly, a health economy is necessary to
16 address California's quality of life goals, and I was glad
17 one of the panelists referenced, because I think this has
18 been a key goal to California since some of those charts
19 started in the 1950's, I think that's what led to what I
20 hope is not the late great Golden State, the building of an
21 incredibly big and strong middle class that wanted a quality
22 of life, and thus supported so many of the mixed goals of
23 the state. That quest, in turn, feeds the collective desire
24 to support challenging and innovative programs, and that's
25 been very historical in this state - education, which I

1 think we heard a lot of comments about, that maybe has
2 suffered some, taking care of our infrastructure, be it
3 transportation, water, and various public works, the
4 environment, of course, and I guess trust is suffering a lot
5 these days. Sitting in the seat I now occupy, it's been
6 pretty obvious for quite some time that energy fuels the
7 economy engine, if I can call it that, its price, it's
8 availability, the reliability of that availability are
9 important to the success of keeping this engine going. I
10 think we heard today an awful lot about housing and what's
11 happened to housing and how that's hurt California so much,
12 it dominated a lot of the discussion this morning. And to
13 me, and I may be wrong, housing relies - I mean, for housing
14 to be healthy again, in my mind, relies on other components
15 of the economy, and if you want to look at this as some
16 giant multi-wheeled vehicle, fueled by energy that moves
17 California forward, a lot of these other smaller wheels have
18 got to get turning first for housing to get the push start;
19 it's perhaps housing - they are the biggest set of wheels,
20 but they don't have a starter of their own, they need
21 everything else to feed in, in my consideration. So, it's
22 pretty obvious, we've got to get the whole thing moving
23 again. This is the Energy Commission; one of the things I
24 hoped for was a lot of discussion about energy. I thank
25 this panel for talking about energy the most, we couldn't

1 tease it out of most of the other panels much, albeit your
2 concern was the high cost of energy in this state, and I
3 guess that's been some of our concern for all of our tenure
4 on this Commission, certainly I am an artifact of the energy
5 electricity crisis in California, and that is - I paid
6 little attention to it until then and learned more than I
7 ever wanted to know about it, and got punished or rewarded
8 with two terms as an Energy Commissioner. But, in any
9 event, this agency has to spend an awful lot of economic
10 stimulus money invested in energy savings and efficiency in
11 this state, in an effort to drive down the cost of
12 California's energy, and I think most of the regulations we
13 pass are intended to meet that same goal, no matter how
14 painful they may seem to the affected industry in question.
15 And, Bob, to your point about lack of lead time, CEC does a
16 lot of unsexy work, also, and we're hurting just like all
17 the rest of you are hurting, we don't have a fraction of the
18 staff we used to have, and we're not even a General Fund
19 agency, so I get to whine a little bit in this forum, too.
20 There was no transportation energy discussion to speak of,
21 and I'm personally disappointed in that fact, but I couldn't
22 tease it out early on and I gave up, but I do think that's
23 the third leg of the energy stool in California, and we
24 obviously as an agency talk about it a lot in other forums,
25 and staff will have to tease out what it can from those

1 forums in order to provide input to the Integrated Energy
2 Policy Report, or IEPR, as we call it. We were dominated by
3 electricity, the CEC to me sometimes stands for the
4 California Electricity Commission, not the California Energy
5 Commission, but that's important to us, and natural gas is
6 carried along, both those tracks and trails. So, we will
7 take and the staff will take from what they've learned here,
8 and perhaps meld it with California's long history of
9 leadership and challenges to conventional wisdom and
10 conventional views in order to make energy recommendations
11 for our future. And I think I'll let it go at that. A lot
12 of talk about climate change and AB 32 and that's something
13 multiple State agencies will have to continue to deal with.
14 A thought as a pseudo-economist, the push to do cradle-to-
15 grave full fuel cycle analyses or develop carbon footprints
16 that AB 32 is pushing is doing two things, it's making
17 multiple government agencies talk together like they never
18 have before and realize some of these adverse consequences
19 to other people's programs that you were hoping that will be
20 envisioned, and the other thing it's doing on an
21 international basis is focusing more attention on that
22 factor, and the point that was made about pushing things off
23 to China only to have it come back and haunt us here is
24 something we have to live with and deal with, and nations
25 are going to have to talk about more because I would tend to

1 agree that the transportation carbon footprint of moving
2 things over and bringing them back, or shoving everything to
3 China so it can be made with coal- borne electricity, needs
4 to be taken into account, but now I'm dealing in
5 international relations and we've got two world leaders in
6 Washington now who will struggle to even deal with that
7 question, I'm sure. But I guess we'll all do what we can.
8 But, you know, California finds itself on the cutting edge,
9 I don't think because it's sexy, just because there's such a
10 long history of California being on the cutting edge and
11 leading us to what has been the Golden State, that I think
12 there is still a desire to maintain that, and we just need
13 to find the balance and the strength. We got burned by our
14 heavy dependence on Defense and Aerospace, and it fed us
15 well, and we are still working to recover from that, and I
16 think a lot of people are capable of dealing with that. So,
17 again, I thank you all, and that's kind of my reflections on
18 what I've heard today and how it fits into what we do as an
19 agency. Commissioner.

20 COMMISSIONER BYRON: Thank you, Commissioner Boyd.
21 I certainly would like to thank you all for being here
22 today, the trouble that you went to, to come and participate
23 in these discussions, it is very helpful, but I thought the
24 Economists were a fun group this morning, and you guys are a
25 barrel of monkeys. Let me - there is some ironic good news

1 I would like to share with you that I saw in the newspaper
2 just this morning. San Diego Gas & Electric sold less
3 electricity than expected to homes and condos and apartments
4 last year, not unexpected. The story goes on to say that
5 meant that it took in less money than it planned. So,
6 what's it going to do? They're going to raise their rates
7 to recoup those expenses this year. So, not every company
8 hurts as a result of this downturn. There's a little irony
9 in that, I know. But, on a more serious note, this was some
10 very excellent discussion and insights and, you know, the
11 broad brush summary, as we certainly learned that
12 construction is this recession's nemesis. There is
13 obviously some optimism that the recovery is underway and we
14 can expect job recovery by 2014, according to our Economists
15 this morning, although I don't know particularly why. It
16 seems to me that, I take it, there is some light, but it's
17 mostly tunnel ahead for a long time. And this commission
18 will certainly look to the conclusions in a couple of
19 different ways; we're going to want to think more about how
20 we set our energy policies in light of the economic
21 recovery. We're also going to need to draw some conclusions
22 about energy demand, and I have to say, coming into this
23 workshop, I was thinking that would be most of the emphasis.
24 And so we'll be looking to staff to a great extent for that
25 help. I'm inclined to conclude that energy intensity, or

1 that is the use of energy as a result or during the
2 recovery, will be less, less manufacturing obviously and
3 more information and services. But because we do a forecast
4 that is long-term, we need to be prepared for that recovery.
5 We saw this coming out of the energy crisis in 2001 that
6 there was a great deal of - how I think of it is load with
7 the switch "off," a lot of real estate that is unoccupied, a
8 lot of shadow real estate, a lot of manufacturing that had
9 been turned off, and of course, after seeing Mr. Stewart's
10 slides, I'm not sure it ever turned back on again. So, as
11 Mr. Rhyne has indicated, we are certainly interested in your
12 written comments by February 2nd. Remember, the purpose of
13 this workshop was for us to better understand the economy's
14 potential effect on energy use and environmental planning in
15 California over the next decade. We welcome that written
16 input, we've already gotten some of it, and obviously this
17 record is being kept for us today. I look forward to staff
18 summarizing all that information and its synthesis, as well.
19 I'd like to thank the staff for pulling together this
20 workshop, and my thanks really goes out to the participants
21 here today. Mr. Rhyne, do you want to close us out?

22 MR. RHYNE: Well, I think with that, unless Bill or
23 Kate? So, with that, I want to again extend my thanks to
24 the panelists, thanks to the audience for attending, and
25 those online, as well. I look forward to written comments

1 and I'm sure that we'll make the best use of it we can with
2 regard to our own demand forecast. So, thank you very much.

3 [Adjourned at 4:48 P.M.]

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