

Fast Facts

A Quarterly Newsletter

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City of Chicago to Move Into SoCal Over the Next Five Years

SCAG Report

I was fortunate enough to have attended the Ninth Annual Regional Economic Forecast Conference for Southern California of SCAG (Southern California Association of Governments) at Santa Anita Park on January 26th.

The conference ran from 8am to 1pm and was most enlightening. What truly terrified everyone was the realization that Southern California will increase in population by the size of Chicago over the next five years. Here is a condensed version of what was discussed and conclusions made:

According to their findings, California will continue to experience large growth, coming from exports, tourism, home sales, and retail spending. The state's income will actually exceed its expectations. Strong earnings continue in the tech sector. The housing market has weakened in some areas and home prices appear to be leveling off.

Job growth in '05 was modest and is expected to remain that way throughout 2006. Surprisingly, the job growth we have and will continue to experience is coming from inland California.

Overall, SCAG is predicting less residential building, modest to high interest rates, a tighter rental market, rising rental rates, a softer housing market (no bubble bursting) and a slow down in spending on automobiles. Inflation should stay in check and there are no signs of a recession. The manufacturing sector should hold steady while trade, transportation and utilities will continue to grow at a modest 1%.

Going back to housing for a moment, it was pointed out that the rise in housing prices is not just a California or US phenomenon. The truth is that this is a global phenomenon.

What became reality at this conference was the fact that LA County represents 57% of the seven counties that comprise Southern California. For example, LA County will have the least employment growth on a percentage basis, while San Bernardino/Riverside will experience another burst. But a 1% increase for LA County represents 20,000 jobs.

Where the job growth will be:

- Health Care
- Professional Services
- Leisure/Hospitality
- (Manufacturing is stabilizing)

The Unknown: The leakage of jobs moving from one county to the next versus jobs going offshore.

They felt the two primary caveats could be the price of oil and a spike in interest rates. Both could be disruptive.

Growth Issues to be addressed:

- Workforce
- Infrastructure
- Housing/Quality of Life

What SoCal Needs to Do to Win and Stay Ahead Over the Next Several Years

The number one critical factor to be addressed is mobility. We have a traffic crisis that is horrendous. If in fact we are to grow another 30% over the next five years (here comes the City of Chicago), we will have to do something with our infrastructure to accommodate it. The average SoCal commuter now spends 93 hours per year sitting in traffic. Imagine what will it be in five years if we don't make changes now. In spite of adding more public transportation, it is being used by less than 5% of the commuters.

If we don't fix the mobility problem, we will have a far larger problem than we could ever imagine. Washington Mutual and Countrywide, among others, have already moved their headquarters out of SoCal because of the congestion and California's unfriendly attitude toward businesses.

The Bigger Picture

We are no longer in a state versus the rest of the nation competitive environment. Today, it is truly global. Which makes the SoCal region such a prime place. Long Beach and Los Angeles Harbors are huge players in the world economy, as is LAX. The Southern California region is a tremendous global gateway that is literally bursting at the seams.

As a result, it is imperative that goods get moved and transportation is seamless. The gridlock is killing us and the number of transfers the goods go through to get from port to final destination is not helping either.

Next, add the cost of housing to the mix. The labor force can't afford to buy a home near where they work so they buy where they can afford. They either find a job closer to home or commute. Commuting means more and more cars on the road. (Some companies are now moving to where the workforce is moving because they are having difficulty finding workers.)

As SoCal continues to grow, it puts more and more stress on an already overworked infrastructure. Unfortunately, all of the wants far exceed the dollars available to fulfill them.

Land use development and planning will require drastic changes.

The affordability of a strong education system is imperative to our overall success as a global gateway. Yet, not more than half of our current SoCal population ever finished high school.

One of the more profound statements made at the Conference was this: *The economy succeeds when you can move goods, provide good housing, have a skilled workforce and have reliable and affordable water and power.*

To accomplish that will take some \$90 Billion. According to SCAG, they can see \$35-40 Billion being raised, leaving us \$50 Billion shy of what's needed. And no one thinks that a 45¢ per gallon gas tax would go over with the public.

Some of the things being looked into are more synchronized traffic signals. Another is toll paid HOV lanes and toll paid truck lanes. There is talk of fines for using appliances during peak hours.

A Few More Realities

- Every \$40,000.00 per year job creates \$5,000.00 in California taxes.
- Our focus needs to be on business growth, but it is not. Some 13,000 jobs leave the state every year.


The state of California is anti-business and is considered to be downright hostile toward business. Then it wonders why companies like Countrywide and Washington Mutual pull out.

It just costs too damn much to do business in California!

Surprisingly enough, it was actually stated during the conference that politicians are clueless about business and need to be educated. Which is why the LAEDC (Los Angeles County Economic Development Corporation) created the Southern California Leadership Council -- a group of select business and community leaders from all seven Counties in Southern California and four former California Governors coming together to create a unique single public policy voice for regional solutions. The council's primary objective is to engage business leadership and help them enable public sector officials, policy makers and other civic leaders to address and solve a select set of public policy issues critical to the region.

The first policy issue selected by the Leadership Council is a "Green Freight Initiative."

The objective is to support the development and implementation of a near-term plan to rally business and public sector leaders around the ideas of reducing diesel pollution, modernizing our goods movement and trade infrastructure, and increasing the management, security, safety and velocity of our freight corridor system. (To learn more about the Leadership Council, contact the LAEDC.)

If you'd like more info about the actual statistics and data provided at the conference, contact Jim Altfeld at jaltfeld@altfeldinc.com. 

Milken Institute State of the State Conference

On Monday, October 31, 2005, I attended the Milken Conference held at the Beverly Hilton Hotel to discuss some of the more pressing challenges facing California. Housing prices continue to soar. Pollution and traffic gridlock remain very serious issues. The political stalemate in Sacramento is becoming a bigger and more painful case of constipation than we've experienced in years.

Here are my notes from that conference:

Housing

The average home in LaJolla goes for \$1.875 Million. The price of a home in California has appreciated by over 110% in the past five years. But before you get too excited thinking about that figure, consider this one: While the median house price has grown almost 130% since 1990, the median household income has grown by only 47%, making affordability a major problem.

Add to that the fact that the cost of living has escalated dramatically. Housing and gasoline prices have gone through the roof and the question is how high is high.

According to Milken's Regional Economic Group's findings, California's government and fiscal policies ranked among the least business-friendly in the nation. It also ranked poorly in the category of infrastructure, which includes, but is not limited to travel time to work, electricity prices and average apartment rent.

They also concluded that the state's unattractive taxes, worker's comp rates and electric utilities are the main reasons California ranks #50 on the Small Business Survival Index. Washington, Nevada and Colorado all rank in the top ten.

The fervent desire to get into the home market is far less than it was. That whole movement is pretty much over. The buying frenzy has subsided.

Where employees are located is a major driver for where people live and work.

Expecting a price depreciation in the Condo Market. There is an over supply and the condo market appears to be spinning out of control as a result of new condos and conversion condos happening simultaneously.

Loans are based on the investors' estimated sale price per condo. With supply outweighing demand, many investors will want out and unload.

Condo sales are beginning to weaken.

Condo sales have doubled from 500,000 to 1MM.

3-4 years out there will be a major adjustment in condos.

Affordability vs cost of home. To buy or stay where you are is the question.

Refi mortgages are far outweighing origination loans.

There is a flood of money coming into California from foreign investors. Warehouse space is shrinking as they are being turned into lofts and condos.

Cap rates are low on apartment buildings. Rents are rising and occupancy rates are great. Apartments are very strong and there is getting to be a shortage of apartments.

OC and LA is pretty well balanced between supply and demand. Inland empire is beginning to out build demand.

California is the fourth most expensive state for business behind Hawaii, New York, and Massachusetts.

Much of California's job losses have come in the manufacturing sector as the high cost of doing business here is driving companies out of the state.

Difficult to grow our way out of debt in California because our debt rate never changes. We are a percentage based spending state. Expenditures grow faster than tax revenue and the ones reaping the benefits are teachers, firemen, cops, nurses, etc. and their retirement funds.

We Need Major Restructuring

If growth goes up 6.5% but expenditures increase 8% we're still behind. We need to change our social spending and tie it to actual growth and revenue.

California's population exceeded 36.3 million in 2005. It added 413,430 residents between '04 and '05 for a 1.2% growth rate. Racially, Hispanics now account for 33% of the population, while Asians account for about 12%. On an education basis, Asian had the highest percentage of people with a BA/BS, master's or higher degree. A large portion of the Hispanic population aged 25+ lacked a high school diploma. Hispanics also had the lowest percentage of BA/BS or higher graduates, as compared to Caucasians, Asians or Blacks. The scary statistic is that about 24% of all unauthorized migrants in the United States live in California.

A Quick Look at the Asian Market

- California has both the largest Asian population and the largest numerical increase of Asians since April 2000.
 - In comparison, Hawaii is the state where Asians make up the highest proportion of the total population (58 percent).
- As more Asians immigrate to the U.S., traditional communities not only grow but also evolve as they absorb the new arrivals and adapt to the non-Asian environment around them.
- In terms of growth among the six major Asian American ethnic groups, the Vietnamese were the fastest growing from 1980 to 1990. However, since 1990, Bangladeshis have become the fastest growing, largely because their population was very small to begin with. The next fastest-growing Asian ethnic groups from 1990 to 2000 were Pakistanis and Asian Indians. It is also clear that Chinese are the largest Asian American ethnic group as they comprise 22.6% of the total Asian American population, followed by Filipinos and Asian Indians.

Our Politicians at Work

Social spending is out of hand. We've expanded eligibility and it gets locked in. Once new money is targeted for education it never comes out. Retirement programs get increased 5 – 6.6% regardless of growth.

We are one of only 14 states that does not fix a budget in mid-term. We wait until the end of the year. 36 states address the problems when they happen.

We need a mid-term correction. Instead we wait until the end of the year when we run out of money. How embarrassing. California is ranked #48 in fiscal government policy. Again, how embarrassing.

Colorado has a fixed cap on what they can spend.

We spend \$1.09 for every \$1.00 we make. We need to stop the formulas and freewheeling and go back to reality. Plus, our bad "A" credit rating is costing us a great deal of money on higher interest rates on our loans.

It's not what we pay our employees, it's what the state of California charges us that is the problem.

California tax rate is very high, second only to Pennsylvania. We even tax purchases by manufacturers for capital equipment. 47 states don't do that!! In whose interest did the legislature create the 4-10 overtime law? It's bullshit!

Managing by Spending Cuts is Prime For Disaster

No single point of clarity for answers to questions.

For a copy of the Milken Institute State of the State Briefing Book dated October 31, 2005, contact the Milken Institute at 310.570.4600 or visit their web site at www.milkeninstitute.org

The Milken Institute Best Performing Cities Index ranks 379 U.S. metropolitan areas based on their economic performance and their ability to create, as well as keep, the greatest number of jobs in the nation.



Conservative Jim Altfeld speaks with Mayor Villaraigosa

The top positions in the 2005 index are dominated by Florida metros, which hold not only the index's top three slots, but five of its top six and 12 of its top 30. Palm Bay-Melbourne-Titusville is No. 1, followed by last year's top scorer, Cape Coral-Fort Myers in second and Naples-Marco Island in third place.

The 2005 winners have similar characteristics: strong and growing service sectors, a robust recovery in tourism, growing populations and an increase in the number of retirees. As evidence, six metros in the top 20 come from the Southwest, including three in California (Riverside, Santa Barbara and Santa Ana) and two in Arizona (Tucson and Phoenix). The other is Las Vegas.

By comparison, the Midwest has none. The top-rated Midwest metro is Madison, WI, at 35th. Nine of the bottom 10 spots on the index were from the Midwest – five from Michigan and four from Ohio – reflecting the region's troubled manufacturing sector. Flint, MI, is at the bottom at No. 200.

The index enables businesses, industry associations, economic development agencies, investors, academics, governments and public policy groups, to assess and monitor recent metro performance.

The Best Performing Cities index is outcomes-based. Its components measure job, wage and salary, and technology growth. **A**

NFIB Political Issues

We have an interesting political situation brewing in California with Arnold facing a stiff challenge from both Angeledes and Westley. According to the NFIB (National Federation of Independent Businesses), who openly supported Arnold in the last election, they are now concentrating on the following issues:

- Minimum Wage & Flex Time
 - Restore flexible overtime rules
 - Restore the 40 hour work week
- Private Property Rights
 - Prohibit the government from taking property by the power of eminent domain
- Health Care
 - Reduce the cost
 - Expand the availability of affordable health care for small business
- Taxes
 - No New Taxes
- Tort Reform
 - Stop abusive law suits
- Worker's Comp
 - Protect historic reforms and rate reductions from trial lawyers

If you want to know more or wish to get involved, contact the NFIB at www.nfib.com. **A**

China & The Committee of 100

As you may recall from the previous issues of Fast Facts, China has and remains a major topic of interest. Since the last issue I have been spending a great deal of time becoming involved with China. I have joined several organizations, including the Asia Society, Asian Business Association, and the British American Business Council. I have been involved and participated in several others, including the Chinese Elected Officials, the Hong Kong Association, Asian Pacific USA Chamber of Commerce, Pacific Chamber of Commerce, the Committee of 100, Asian Business League, and the US-China Chamber of Commerce. I've even attended events where major Chinese cities have come to Los Angeles courting business people and witnessed one where \$146 Million in orders were written.

What have I learned from all of this?

Doing business in China is like riding into Dodge in the 1800's before there ever was a Matt Dillon. China is a corrupt, almost wanton place to do business. It is a place where it is difficult to determine where business and government split. Because the truth is, business in China is political. It is seldom if ever, *what does the company want?* It is mostly *what does the government want?*

What's interesting is that I'm not sure whether the motto "To Get Rich is Glorious" is a Chinese motto or an American motto. Many American business people go to China either to get rich quick or to seek out a genuine opportunity. And many of these same people go in believing that Chinese law and US law are one and the same. Well, they're not.

Your challenge in trying to do business in China is to find the actual right person or persons who can truly either make the decision, lead and introduce you to the right person, and/or open doors for you that will create genuine opportunities. Sounds simple, but it ain't. Almost everyone you meet will tell you they're the right person and you'd better put something in their pocket if you want to make anything happen. In most cases, you do and they don't.

On the other side of that coin, or con, are the multitude of experts popping up all over the place right here in the USA, who tell you all the wonderful things they can do for you to get you to the right people. Some of these people are Chinese from the PRC, some are Chinese/Americans, and some are non-Chinese but Americans having done business in China.

My point is that if you're going to go on safari and step into the jungle, be certain of your guide. You can easily find yourself a lot lighter in the wallet than you'd ever expected and still come away empty handed. There are NO guarantees. The best you can hope for is the truth every step along the way. But, by all means, bring money. Like the Al Capone era in Chicago, money talks and you're going to have to bribe a lot of people along the way.

The greatest advice you can be given is this:

- Be Honest and Open.
- Be Very Circumspect.
- Be Careful. Trust, but Verify.
- Be Patient. You're Going to Need It.

If you're dealing with a Chinese manufacturer, do your due diligence. Find out what their QC practices are, what are their manufacturing processes, who are their major customers and are you dealing with the owner or a middleman? Do in China what you would normally do here. Set criteria for what you want before you even begin looking.

Now, that's if you are looking for someone to make what you're selling. Then there is Proctor and Gamble perspective. They want the Chinese to buy P&G products. P&G's problem is that it is a government run economy.

China Ain't Stupid

China fully understands that things are changing. Their middle class now represents about 18% of the country while the lower class hangs in around 60%.

They also know that the cheap labor they offer today is not going to stay that way. They too, understand that impermanence is a fact of life, so get used to it. As their economy improves and their middle class grows, so will their labor rates.

In addition to the obvious, they do have a few other hurdles to get over. For one, they have NO Brands. For another, they don't make a profit. They're economic growth has been based upon a profitless expansion.



John Chiang, Chairman, State Board of Equalization and current candidate for State Controller, Lily Lee Chen, member of the Committee of 100, former mayor of Monterey Park and first Asian elected official in the United States with Jim Altfeld.

So what are they looking to do? They're coming to America. Not only are many of the Chinese taking their money and running to the United States, but some major Chinese industrial cities are actually looking to build factories right here in California.

More on China

Having attended several conferences regarding China, here's more on what I've come away with:

The Sino/USA relationship is becoming more mature with fewer surprises. Without question, Los Angeles is the number one player in Sino/US relationship, as we have the largest Chinese community.

China's future growth rate, in spite of being dynamic, is still unpredictable due to the country's political instability. I think the riots we witnessed in Paris not too long ago, scared the hell outta the PRC.

As I stated before, the Chinese government is very corrupt, but then again, so is India and Phillipines. The plus side to China is they can't ever go on strike because there are no unions.

The banking system remains horrible. Privatization and reform are critical, but there is absolutely no commitment by the government to go that route. The fact is that the State is obligated to its State Owned Enterprises. As a result, there is a very high percentage of non-performing loans outstanding that have been made and continue to be made to the State Owned Enterprises. Add to that, that the Chairman of the State Banking system is assigned by the Communist Party and not the shareholders, so of course he or she will have an unwavering loyalty to the SOE's.

Until there is an even playing field where foreign banks are allowed to do business in China fairly, the State Owned Banks will not stop the practice of handing out non-performing loans to the SOE's.

But, because of so much corruption in China's banking system, they will be hard pressed to reform. The reality is that bank embezzlements are routine. The other reality is that China's success has come from the manufacturing, not the financial sector. The pressure will now be on the financial sector.

At the same time, they are shooting themselves in the foot because if their banking system is incapable of handling their growth, it's game over.

According to the Rand Corporation study, they found eight fault lines:

1. Rural Poverty & Unemployment
2. Corruption
3. HIV and Epidemic Disease Control
4. Water & Pollution
5. Energy
6. Non-Performing Loans
7. Change in Foreign Investors
8. External Security Issues

Zeroing in on #4 above, environmental protection is a huge problem in China. They have undrinkable water and un-breathable air with limited resources for enforcement. It appears that silver dioxide has been controlled, but nox and other carbon emissions from automobiles has gone up dramatically. Being the second largest energy user behind the United States will only cause their

environmental issues to get bigger. Being a betting man, my money's on clean burning coal and nuclear power. But, I've been wrong before.

In addition to the eight listed by the Rand Corporation, here are three more to consider:

- Land Seizures. The government recently began seizing land from the farmers in Guangdong because it was needed to build factories. The farmers didn't take this lightly.
- Censorship. Trying to control the Internet and the local press is like trying to pick up Mercury. The more China thinks it is in control the more it will come to find it is out of control.
- Insurance and Healthcare. China's high cost hospital system will easily overwhelm any health insurance policy and quickly wipe out any savings a Chinese family has. You literally cannot afford to be sick in China.

Committee of 100 Sponsors Survey on American Attitude Toward China-- The Findings

The Committee of 100 is a national, non-partisan organization composed of prominent American citizens of Chinese descent. The study was done to assess the attitudes of the general public, opinion leaders, congressional staff, business leaders and Chinese Americans toward China and US/China relations. Interestingly enough, all but the congressional staffers had a positive impression of China. Some 59% of the General Public, 63% of the Opinion Leaders, 63% of the Business Leaders, and 75% of Chinese Americans viewed China favorably. Only 19% of Congressional Staffers had the same view.

In areas of concern, Human Rights lead the way. Next came seeing:

- China as a Military Threat
- Little support from China as an ally in the war on terrorism
- China as an economic threat
- Environmental degradation

To learn more about the survey, Google The Committee of 100 Survey.

The Flip Side

Simultaneously, another survey was done in China with some startling results. China sees the United States as the greatest economic and military threat and doesn't trust us. Furthermore, they see Russia and North Korea as trusted allies, while Japan and the US are looked upon with a jaundice eye.

I am hoping to find out more on this survey, and was rather taken aback by it when it was presented by the Committee of 100 at an Asian Society Conference.

If you're hell bent for leather to do business with or in China and would like to speak with some reliable people who are genuinely out to help you, let me know and I'll put you in touch with them. FYI, Altfeld Inc. has no financial relationship with these companies and receives no compensation for referrals. We just want you to go in with your eyes wide open, have the best, most

experienced and trustworthy guide to take you through the process and be aware that there are few if any guarantees when it comes to doing business with or in China.

Furthermore, should you wish to reach the local Asian community here in Southern California, I again can introduce you to some very good people who can help you accomplish your goals. **A**

You're Invited to Santa Anita

I apologize for three things. One, that this is the first issue of Fast Facts in over a year. Two, that I have not been sending out copies of articles to you on a regular basis. Three, that we've been remiss in updating the web site. We have many more books and articles to recommend and report on, but just haven't had the time to get them up on the site.

For the past two years I've been extremely tied up doing management consulting for Santa Anita Park, helping to re-engineer a local SoCal milk processor and re-structure the sales force for an o-ring company, with some minor assignments sprinkled in between. Fortunately I don't sleep much, especially when the racetrack and the dairy are union and both operate 24/7. (I've been known to show up at the wee hours of the morning, as I work with all shifts.) All told, progress has been very good and the results are truly being realized on all fronts. I have had to develop sales and management training classes that have proved to be very effective, as well as having to teach basic business to the employees in order to get them more involved. Strategically, the goal has been to get everyone aligned, horizontally integrated and customer focused. Some of the greatest challenges have been to establish goals, objectives and measurements for individuals while holding them accountable; implementing a bifocal vision mentality of looking ahead towards tomorrow while paying close attention to today; getting people to buy into continuous improvement; breaking down the silo mentalities; and getting people and departments to communicate, cooperate and collaborate, while pushing the three I's (inform, involve and inspire). The ultimate goal is and has always been to get everyone within the company to work as a team, pulling on the same rope in the same direction – sort of a one team, one company, one coffee pot philosophy.

Should any of these things hit home for you and you feel you can use a little help, call me and let's talk about it. My cell phone number is (818) 216-2903. I can assure you that business is a lot more fun when your people are involved, communication is wide open and continuous improvement is a major part of your company's culture. And, if you don't want to take my word for it, just call Gino Roncelli at Roncelli Plastics in Monrovia, or Jerry Barnett at All Seals in Santa Ana.

The Invitation

I can't get you a discount on milk, or o-rings, but I can get you a couple of tickets to Santa Anita's Club House or Turf Club. If you'd be interested in going, contact me at jaltfeld@altfeldinc.com. If you'd like to make it a group event, I'll be glad to have their head of Group Sales contact you. I assure you that a Day at the

Races is not only a GREAT time, but with two bucks on a horse, you can really find out a lot about a person. For more information on Santa Anita, visit www.santaanita.com.

Some Poignant Words from Peter Drucker

“An organization that is not capable of perpetuating itself has failed. An organization, therefore has to provide today the men who can run it tomorrow. It has to renew its human capital. It should steadily upgrade its human resources. The next generation should take for granted that what the hard work and dedication of this generation has accomplished. They should then, standing on the shoulders of their predecessors, establish a new ‘high’ as the baseline for the generation after them.

An organization which just perpetuates today's level of vision, excellence, and accomplishment has lost the capacity to adapt. And since the one and only thing certain in human affairs is change, it will not be capable of survival in a changed tomorrow.

An executive's focus on contribution by itself is a powerful force in developing people. People adjust to the level of the demands made on them. The executive who sets his sights on contribution, raises the sights and standards of everyone with whom he works.” **A**



Jim Altfeld with six year old, multi-grade one stakes winner, Miss Terrible. Trained by Brad Ross and owned by Chip & Carol Hammersmith.

Recommended Reading

- *Winning* by Jack Welch
- *Confronting Reality* by Larry Bossidy
- *An Empire of Wealth* by John Steele Gordon

Visit our website for more information.

Links

www.altfeldinc.com

We are in the process of updating our library. If you haven't been by recently, you may be missing out on some useful information.

www.ypio.com

This site has been completely updated. Much more information and easy to navigate.

www.gsrescue.com

Many dogs still need a good home. Please help if you can.



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