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California Capitol Hill Bulletin

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To expand communications between Washington and California, the California Institute provides periodic news bulletins regarding current activity on Capitol Hill that directly impacts the state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods.

CONGRESS IN RECESS, WILL FACE AN ARRAY OF FUNDING AND POLICY ISSUES IN MARCH

Both the Senate and House of Representatives were in recess for the Presidents Day District Work Period during the week of February 20, 2006.

Congress will return to session late on February 28, and the March and early April calendar will bring a wide range of spending and authorizing topics to address. The House Armed Services Committee, chaired by Rep. Duncan Hunter (Alpine), will squeeze seven hearings into a 48 hours beginning February 28 at 6:00 p.m.; the full committee and subcommittees of House Appropriations, chaired by Rep. Jerry Lewis (Redlands), begins a series of 70 budget and oversight hearings on March 1; and many other committees have full plates as well. In addition to spending matters, issues may include offshore oil exploration, lobbying reform, Medicare, taxes, homeland security, and port security.

Some legislative activity also continues during the recess. For example, the House Resources Committee, chaired by Rep. Richard Pombo (Tracy), will conduct a full committee oversight field hearing on Monday, February 27, in Stockton to examine delta fisheries populations in the San Francisco Bay-San Joaquin Delta region.

PPIC BRIEFS HILL ON CALIFORNIA ATTITUDES REGARDING MARINE AND COASTAL ISSUES

Mark Baldassare, Director of Research, Survey Director and Senior Fellow at the Public Policy Institute of California (PPIC) briefed congressional staffers on February 23rd on the most recent PPIC Statewide Survey, which covered marine and coastal issues. This is the seventh survey in a series intended to raise public awareness, inform decision makers, and stimulate public discussions about environmental and growth-related issues facing California. The PPIC survey questioned 2,003 California adult residents from the state's three subregions, the North Coast, South Coast, and Inland Coast.

According to the PPIC survey, when it comes to environmental and coastal issues, Californians give President George Bush, Governor Arnold Schwarzenegger, and the government in general ratings that range from barely passing to positively dismal. Only 27 percent approve of President Bush's handling of environmental and coastal

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policies, while only 28 percent of all residents and 31 percent of likely voters approve of the way in which Governor Arnold Schwarzenegger has handled marine and coastal issues in California. Nevertheless, Californians say that they trust state and local governments equally, at 36 percent each, to handle marine and coastal issues, whereas only 14 percent of Californians trust the federal government to do a better job in this area.

Additional key findings reported by the survey state that coastal contamination from local street and storm drain pollution worry residents in the state's South Coast (61 percent) much more than in the North Coast (42 percent) or inland (44 percent) areas. More residents (44 percent) say the California Coastal Commission is not strict enough and has become too lax in controlling coastal development, in comparison to those who say that these controls are about right (27 percent) or too strict (10 percent). Many Californians are very concerned about the issue of fish or seafood contamination (64 percent) and commercial overfishing (46 percent), but the concern declines as education and income rise. One of the most striking discoveries made by the survey, according to Baldassare, is that more Latinos than whites say ocean and beach conditions are very important to them personally (67 to 60 percent) and that ocean and beach pollution along the Californian coast is a big problem (59 percent Latinos versus 46 percent whites).

The results of the survey show that the most controversial issue in dealing with marine and coastal policies in California is offshore drilling and marine protected areas. Offshore drilling is strongly opposed by the majority of state residents, 64 percent, and likely voters, 67 percent. PPIC researchers established that there is a definite political divide on the issue, with 80 percent of Democrats and 69 percent of Independents opposed to the idea, versus 46 percent of Republicans opposing offshore drilling. As an indication of Californians' preference for protecting the coastal environment, 70 percent of state residents are in favor of creating more marine reserves off the California coast, even if it means that some ocean areas will be off-limits to commercial and recreational fishing. Support for such restrictions tend to increase with age, education, and income and is higher among whites (74 percent) than Latinos (56 percent).

For more information on this survey or to view a copy visit <http://www.ppic.org> . To view streaming video of the briefing in Windows Media (wmv) format, visit <http://www.calinst.org/video/PPIC-Baldassare-20060223.wmv> . To download MP3 audio, go to <http://www.calinst.org/video/PPIC-Baldassare-20060223.mp3> .

LAB EXPERT BRIEFS RE NATIONAL IGNITION FACILITY, LAUDS PRESIDENT BUSH'S FUSION ENERGY INVESTMENT

At a Washington DC briefing on February 17, 2006, a laser technology expert discussed the status and benefits of a multibillion dollar facility under construction at the Lawrence Livermore National Laboratory (LLNL) in California. The National Ignition Facility, or NIF, is nearing completion of the construction phase, and is expected to be nearly 90 percent complete by the end of the current fiscal year.

Bruce Warner, Deputy Associate Director for NIF at LLNL, praised President Bush budgeting of \$421 million for the program in the Administration's FY 2007 budget request, enough to keep the project on schedule for completion in 2009.

The NIF project is a key component of the Stockpile Stewardship Program at LLNL. Once the 192-beam laser system, which is the size of a football field, is complete, it is expected to have the ability to produce small beams of energy as powerful as the Sun. NIF will be the only facility that can replicate fusion burn reaction, essential to nuclear weapons operation. The experiment will prevent

uncertainties in weapons testing and research fusion energy as a clean energy alternative, according to supporters of NIF.

The project will have reached a total cost of \$3.05 billion if the president's request is funded by Congress. Of the total budget request contained in the Administration's spending plan, \$352.4 million will go to LLNL. While the amount represents an increase from the prior year's total of \$327.5 million, most of that apparent increase actually represents funds that backfill for a shortage caused by budget cuts in 2006.

In addition, even though the program is nearly ready to transition from construction to operation, NIF funding for 2007 is by no means secure. In particular, there are perennial efforts by Sen. Pete Domenici (NM), Chairman of the Senate Energy & Natural Resources Committee, to try to cut off funding for the program -- widely assumed to be an effort to find a way to move the program and its scientific resources and benefits to his home state of New Mexico.

For additional information regarding NIF, visit <http://www.llnl.gov/nif/> or <http://www.llnl.gov/nif/project/> .

HERITAGE FOUNDATION REPORT BACKING DIVIDEND AND CAPITAL GAINS TAX CUT EXTENSION COMPARES STATES' IMPACTS

On Friday, February 17, 2006, the Heritage Foundation released a report from its Center for Data Analysis advocating permanent extension of previously-enacted relief from dividend and capital gains taxes. The report notes that the House and Senate have each passed tax relief bills recently, but that, unlike the Senate version, the House version of the bill proposes to extend by two years (past the current expiration date of December 31, 2008) the current lower tax rates on dividend and capital gains taxes.

Report authors Rea S. Hederman, Jr., and William W. Beach examine state-by-state differences in 2003 dividend and capital gains incomes in their report, entitled "Make the Dividend and Capital Gains Tax Rates Permanent to Keep the Economy Growing."

They find that, on average, Californian taxpayers who report income from either dividends or capital gains report a larger amount than the national average. In 2003, the average dividend income reporter from California showed income of \$3,824 compared to the national average of \$3,671 -- a difference that ranked California 12th among the 50 states.

The difference between California and other states was even greater for capital gains income, likely reflecting the state's high property values and significant concentration of technology companies (which return value more often in stock value appreciation than in dividend payments). Tax returns showing capital gains income in 2003 averaged \$15,870 of such income in California, compared to \$12,283 in the nation as a whole, and the state ranked 7th among all states.

However, the Heritage Foundation report found differences in the proportion of tax returns showing the two kinds of income. Whereas an above-average share of California returns reported some capital gains income (18.4 percent compared to 17.3 percent nationwide), the proportion of tax returns reporting dividend income was less in the state (21.9 percent) than in the nation as a whole (23.1 percent). California ranked 20th highest among states for the percentage of returns with capital gains and only 33rd for returns with dividend income.

Under the Job and Growth Tax Relief Reconciliation Act of 2003, rates for both types of income were lowered to 15 percent. If not extended, the capital gains rate will rise to 20 percent and the dividend rate will rise to that of ordinary income, with a current maximum of 35 percent. The Heritage report quotes a Congressional Budget Office estimate, noting that, "the current average taxation of dividends is 12 percent, but it will become 28 percent if the JGTRRA provisions are allowed to expire."

The report is available at <http://www.heritage.org/Research/Taxes/bg1914.cfm> .

COLORADO RIVER STATES REACH AGREEMENT ON SHORTAGE GUIDELINES

On February 3, 2006, the Colorado River Basin States signed a letter to Secretary of Interior Gale Norton proposing certain shortage guidelines and coordinated management strategies to be included within the scope of the Environmental Impact Statement for the Department of Interior's proposed Colorado River Reservoir Operations. The recommendations are aimed at preventing Lower Basin shortages and, thus, staving off reductions in water use in the Upper Basin.

Under the recommendations, in order to increase usable water supplies, the Lower Basin states – California, Arizona and Nevada – will take greater water conservation measures, while the Upper Basin states – Colorado, New Mexico, Utah, and Wyoming – will take greater steps to conserve water use. In addition, California cities have committed to focus greater efforts on seawater desalination to increase water supplies.

The recommendations also include guidelines on balancing the water levels between Lake Powell and Lake Mead to improve management and operation of the reservoirs. Additionally, the basin states commit to improving cooperation and communication in order to stabilize water delivery and prevent court battles.

For more detailed information on the agreement, go to <http://www.cwcb.state.co.us>.

PPIC RELEASES REPORT ON THE EFFECTS OF MEXICO - CALIFORNIA TRADE

The Public Policy Institute of California recently released a new report entitled “*Trade with Mexico and California Jobs*,” under its California Economic Policy quarterly series. The report was authored by Howard J. Shatz, a research fellow at PPIC.

The report investigates the issue of U.S. job displacement and trade, focusing on job displacements that can be traced to expanding trade and investment between the United States and Mexico from 1994 to 2002. Of the 425,000 U.S. workers certified as displaced during those years, California accounted for about 28,000 – roughly 0.2 percent of average annual employment.

For both California workers and the overall U.S. workers, the majority were displaced because of production shifts rather than imports, according to the report. Workers certified as displaced by Mexican imports totaled between 13 percent and 16 percent of all U.S. workers certified as displaced by all imports. They totaled about 3 percent of all workers displaced in the U.S. for any cause, but 11 percent of all job displacements in manufacturing. In addition, the author found, workers displaced as a result of economic integration with Mexico tended to come from low-wage industries.

The report also discusses trade adjustment assistance programs, which attempt to mitigate the costs to workers affected by increased economic integration. Schatz finds that such programs “have room for improvement.” He concludes that new reforms might include expanding the definition of workers affected by globalization and changing benefits to include wage insurance, in which displaced workers who take a new job at a lower wage would receive temporary additional payments to make up for part of the lost wages.

For further information or to view the entire report, go to PPIC’s website at: <http://www.ppic.org>.

CALIFORNIA REPS HELP FORM BIPARTISAN MIDDLE EAST TRADE CAUCUS

On February 15, 2006 a bipartisan group of lawmakers unveiled a new Congressional caucus aimed at promoting economic partnership and trade liberalization with the Middle East. The Middle East Economic Partnership Caucus co-chaired by Rep. Darryl Issa (Vista) was launched with the support of several dignitaries from the diplomatic community and featured comments from top US Trade Representative Rob Portman.

The 16-member caucus, which also includes California Rep. Ed Royce (Fullerton), seeks to build on and expand successful trade agreements already established with Jordan, Israel, Morocco, and Bahrain. Caucus members each stated their praise for the trade advances already made and commented on how free trade and economic partnerships will encourage growth, stability, peace and commonality among Middle Eastern states and the U.S. Rep. Issa, who is of Arab descent, touted free trade as a primary tool for improving America’s perception as a friend to the Middle East and presented economic reform as an important opportunity to unite the Arab world. He predicted that more members would join the caucus.

US trade policy chief Rob Portman was fully supportive of the caucus and presented the effort to liberalize the Middle East as a win-win scenario that would benefit the US economy and the export of goods, noting that the Middle East and North Africa make up the sixth largest US trading partnership. He suggested that economic freedom would impart political freedom and applauded Congress for promoting stronger free trade agreements in the region. Mr. Portman also noted the free trade and economic security recommendations contained in the 9/11 Commission Report as a strategy for countering terrorism. He expressed his desire to strengthen economic ties further through the implementation of pending trade agreements with Oman and the United Arab Emirates.

The launching of the Middle East Economic Partnership Caucus was sponsored by the US-Middle East Free Trade Coalition, a consortium of over 100 trade associations and private companies, among them being the

California Chamber of Commerce, the California Council for International Trade, Lockheed Martin and Time Warner. For more information on the coalition, visit the National Foreign Trade Council website at: <http://www.nftc.org> or the Business Council for International Understanding at: <http://www.bciu.org>.

CIVIL RIGHTS LAW EXPERTS HOLD CAPITOL HILL BRIEFING, OUTLINE FINDING THAT VOTING RIGHTS ACT PROTECTIONS STILL NECESSARY TODAY

On February 10, 2006 the Institute of Governmental Studies (IGS), and the Earl Warren Institute on Race, Ethnicity, and Diversity -- both organizations affiliated with the University of California -- briefed Congressional staff on issues related to Section 5 and Section 203 of the Voting Rights Act (VRA) of 1965. All the scholars gave some indication that the historic law was still needed to prevent potential discrimination against minority voters. The presenters consisted of lawyers and scholars who discussed their research concerning VRA's minority voter protection provisions, potential changes to Section 5, safeguards for non-English speaking voters, as well as the relevance of the VRA.

Presenter Luis Praga provided a description of Section 5, which requires certain voting jurisdictions to gain pre-clearance from the Department of Justice (DOJ) before instituting voting-related changes. Section 5, which is scheduled to expire this year, covers counties in several states in the South and West, including some in California and is viewed as a principle security measure by minority rights advocates seeking to reduce the potential for ethnically motivated gerrymandering. Dr. Praga, presenting his research on the frequency and distribution of Section 5 objections issued by DOJ, suggested that there may be a growing number of objections that are not directly observable to the public. He noted that several jurisdictions in the state of Virginia had successfully bailed out of Section 5 coverage, and that Kings County in California was currently petitioning for Section 5 exemption.

David Becker outlined some of the proposed changes to Section 5 being considered by policymakers and conveyed that all the researchers involved agreed that Section 5 was still needed, especially in the deep South where racial polarization was starkest. Changes being considered to the Act included updating the trigger which activates Section 5 coverage (currently driven by presidential election voter turnout in 1964, 1968, and 1972), altering bailout criteria, and broadening or narrowing options for minorities seeking recourse for alleged VRA grievances. Dr. Becker stated that some authorities are partially in favor of renewing the law as is, without any changes, although he was unsure of the political feasibility of legislative action on Section 5.

Professors Rudolpho Sabino and James Tucker discussed their research concerning the non-English language voter protections of VRA, namely Section 203. They noted that Section 203 coverage is activated by three triggers: first the single language minority group in question must constitute 5 percent of the jurisdiction's voting population, there must be a 10,000 person minimum, and a special trigger is included for limited English-proficient indigenous populations. In California, 56 jurisdictions offer language assistance to Spanish speakers, while two provide voter assistance to native populations and seven to Asian and Pacific islander language speakers. According to the presenters, Section 203 coverage can be overlooked because it is based on voter registration and has ignored certain native populations that use a historically non-written language to communicate. A survey conducted by Sabino and Tucker uncovered availability and quality gaps in Section 203 coverage nationally and found that 71 percent of respondents preferred reauthorization of the VRA.

For more information on the Earl Warren Institute, visit the website at: <http://www.law.berkeley.edu/centers/ewi/> to request a copy of the reports when they become available, contact Ana Henderson at ahenderson@law.berkeley.edu

CALIFORNIA BUDGET PROJECT ANALYZES 2007 BUSH ADMINISTRATION BUDGET PROPOSAL

The California Budget Project released a report estimating the impact of the Administration's FY 2007 Budget on California. According to CBP, if fully implemented, the President's proposed budget would reduce selected discretionary grants in aid to California by \$3.9 billion between 2007 and 2011 and by \$1.2 billion in 2011 alone as compared to 2006, after adjusting for inflation.

In the education accounts, funding for vocational and adult basic education would be cut by \$915.0 million between 2007 and 2011 and by \$194.1 million (74.8 percent) in 2011 alone as compared to 2006. By 2011, funding for adult basic education would be 12.9 percent below the program's 2006 level, according to CBP. Funding for elementary and secondary education would be cut by \$729.6 million between 2007 and 2011 and by \$355.2 million

(8.5 percent) in 2011 alone as compared to 2006. This category includes funding for education for the disadvantaged, school improvement, and special education. Special education, for example, would be reduced by \$574.5 million between 2007 and 2011 and by \$178.9 million (13.2 percent) in 2011 alone as compared to 2006, CBP estimates.

Discretionary programs for children and families would also be significantly affected, CBP found. Funding for the Head Start Program and programs for abused and neglected children, which would be reduced by \$446.1 million between 2007 and 2011 and by \$139.3 million (13.4 percent) in 2011 alone as compared to 2006, after adjusting for inflation. The number of Head Start slots in California would fall by at least 10,100 in 2011 - 11.4 percent of the nationwide reduction - compared to 2006 if all of the programs in this budget category are reduced proportionately, CBP states. Additionally, funding for the Child Care and Development Block Grant would be reduced by \$114.3 million between 2007 and 2011 and by \$35.0 million (13.7 percent) in 2011 alone as compared to 2006.

Funding for the Community Development Block Grant (CDBG) would be reduced by \$690 million between 2007 and 2011 and by \$162.2 million (30.9 percent) in 2011 alone as compared to 2006, CBP estimates. Funding for the Community Services Block Grant (CSBG) would be eliminated in 2007 resulting in reductions of \$304.1 million between 2007 and 2011 and \$63.4 million in 2011 alone.

The report also estimates that funding for the Environmental Protection Agency Clean Water/Drinking Water Revolving Funds, which provide funds to states for construction of wastewater treatment facilities, to improve drinking water infrastructure, and to enhance water quality, would be reduced by \$135.9 million between 2007 and 2011 and by \$33.8 million (23.8 percent) in 2011 alone.

For further information, visit: http://www.cbp.org/2006/060222_fedbudget.indd.pdf.

CALIFORNIA SENATE BUDGET PANEL CONSIDERS STATE'S TANF FUNDING CHALLENGES

A California state Senate panel heard testimony from human services and budget experts over the fiscal impact of provisions contained in the federal Deficit Reduction Act (DRA) on California's federal receipts. The first panel of witnesses testifying before the Senate Budget and Fiscal Review Subcommittee #3, suggested that the retooling of the newly reauthorized Temporary Assistance for Needy Families (TANF) block grant would be most harmful to California, confirming that the state could lose over \$1.1 billion over five years.

TANF reductions were a principle concern for the Subcommittee Chair Denise Ducheny-Moreno, one of the architects of the California welfare system named the California Work, Opportunity, and Responsibility to Kids (CalWorks) program. Throughout the hearing she expressed her disappointment in the cuts that were enacted by Congress last month. Of the changes to the welfare program, Chair Ducheny stated that she considered them an "assault on state flexibility that goes against the spirit of welfare reform."

The revised TANF law contained in the DRA requires states to use a new method of calculating work participation among cash welfare enrollees and to demonstrate compliance to federal authorities. States must show that their single parent families are meeting minimum work participation at a 50 percent rate and that two parent families are meeting the 90 percent rate by the beginning of FY 2007. States that fail to meet these rates are subject to a reduction in their share of the TANF block grant. California's maintenance of effort (MOE) spending is expected to increase by \$180 million annually starting next year as a consequence of the program changes, with federal penalties for not meeting work participation standards expected to reach a total of \$445 million by 2010, according to an analysis published by the Legislative Analyst's Office (LAO). Presenter Cliff Allenby of the Department of Social Services provided an overview of the LAO report's findings. He did not dispute LAO's estimations, although he was unsure of exactly when the additional MOE funds would kick in.

According to Jean Ross, Executive Director of the California Budget Project, the programmatic changes contained in TANF were an indication that the reauthorization of welfare reform was "intentionally designed to make states fail". She believed that the potential cuts to TANF and the extra MOE dollar demands to California's general fund were further compounded by what she termed as flat funding for child care and TANF.

TANF was reauthorized at \$16.6 billion, of which California would continue to receive 22 percent of national distributions, that's before calculating the potential cuts projected by LAO. California received a more modest 10.7 percent share of child care grants to states in FY 2004.

To address the new TANF participation requirements, LAO produced a number of strategies for the Legislature to consider in a report released on February 23, 2006. The report offers approaches to increasing participation rates through strategies that involve improving the performance of the existing caseload by finding ways to count former TANF recipients, and by assisting those who experience barriers to employment. The report also revises California's foregone block grant penalty losses, estimating a somewhat lower cut of \$173 million in FY 2009, compared to the \$185 million initial estimate.

For more information on this hearing, visit the California Senate website at: http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/_home/Sub3/20706FedBudAD.pdf . To view a copy of the LAO's new report, visit: <http://www.lao.ca.gov/PubDetails.aspx?id=1431> .

LAEDC EXAMINES THE 2006-07 ECONOMIC FORECAST & INDUSTRY OUTLOOK FOR SOUTHERN CALIFORNIA

A recent report by the Los Angeles County Economic Development Corporation (LAEDC) examines California's economy in relation to Southern California's diverse industries and what their status could mean for the state as a whole. Evidence shows that the California economy, specifically the Southern California economy, will continue to grow in 2006, although the wage and salary job growth could be stronger. However, the report asserts that below the seemingly placid surface, there will be turmoil in key industries because in California it is too expensive to hire workers. Consequently, it will force businesses to continue to invest in plant and equipment to boost productivity and will push California businesses to look out-of-state if they need to expand, according to the author.

Turmoil-prone areas in Southern California include: The motion picture and television production industry, the retail industry, the housing market in Southern California both for new homes and resale, and the business environment in the state resulting from firms moving operations out of the area or moving out completely. Furthermore, the region's economic environment in relation to land availability has become constrained in the urban cores of Los Angeles and Orange counties, LAEDC finds. Finally, the nonfarm employment industry, forecast to grow 1.5 percent in 2006 but start to drop off in 2007 at a growth rate of 1.4 percent, is also under threat.

In the meantime, prospects for the overall California economy in 2006 are similarly volatile, and the author asserts that election year politics will compound the problems. Term limits continue to produce turnover among office holders, with little concern about the state's business environment and industries. According to the report, what eludes many elected officials in California is that government is a business too, which depends upon a healthy economic base to produce tax revenue, be it personal income, retail sales, or business productivity.

The report's conclusions suggest that policy makers should do more to improve California's economy and keep businesses from relocating to other states. California businesses create new jobs and generate important tax revenue for all levels of the government, and businesses in the state are operating in an ultra-competitive global economy so they need specific attention paid to their concerns, LAEDC asserts.

For more information on this report or to view a copy visit <http://www.laedc.org>.

CALIFORNIA STATE SOCIETY EVENT ON WEDNESDAY, MARCH 1, WILL ANTICIPATE ACADEMY AWARDS NIGHT

On Wednesday, March 1, 2006, Californians in Washington DC will have the opportunity to celebrate the upcoming 77th Annual Academy Awards Celebration with an evening of food, drink, and festivity. "Cinomania: California Salutes 'Ahhhscar' Night" will take place from 7:00 p.m. to 10:00 p.m. in a grand, historic venue -- the Andrew W. Mellon Auditorium at 1301 Constitution Avenue, NW, which is across from the American History Museum on the mall. The evening will feature food and drinks inspired by the five Best Picture nominees for 2006, as well as an extensive silent auction. Tickets for the event cost \$35, AND everyone who attends must also be a 2006 member of the California State Society (which costs \$10 for the year). To sign up, or for additional information, visit <http://www.californiastatesociety.org> .