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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.

AT LAST, TAX CUT PACKAGE PASSES CONGRESS

Culminating a long period of legislative machinations, the House handily passed the nearly \$70 billion tax reconciliation package (H.R. 4297) by a vote of 244-188 on May 9, 2006, and the Senate passed the conference report on May 10 by a vote of 54-44. The bill had been the subject of months of on-again, off-again negotiations between the House and the Senate, with the version that emerged from conference closely adhering to the White House's agenda.

The two major provisions in the bill will extend the 15 percent maximum tax rate on capital gains and dividends for two additional years (to 2010), and limit the impact of the Alternative Minimum Tax (AMT) on middle-income taxpayers through the 2006 tax year. The capital gains provision is estimated to cost \$20.6 billion over five years, and the AMT provision will cost \$33.9 billion over five years. The bill also extends for a year the provision (section 179) allowing small businesses to deduct up to \$100,000 in depreciable assets in one year.

The bill, however, does not include extension of the research and experimentation credit (the popularly known "R&D tax credit"), which expired last December, nor several other tax credit extensions, such as that for tuition payments, and welfare-to-work. Senator Charles Grassley had fought for assurances that these so-called "extenders" would be considered quickly in a second package before moving ahead with the reconciliation bill. He did not receive that guarantee apparently, but said on the Senate floor that he is confident such a bill will be considered soon. However, which provisions make it into any second package are still unknown at this point.

The bill will also allow more individuals to convert traditional IRAs to Roth IRAs, which are funded with after-tax dollars. The provision would take effect in 2010. Money moved over to Roths would be taxed in equal payments in 2011 and 2012; the revenue increase is estimated to be \$6.4 billion over 10 years. The bill would also extend the two-year amortization for geological and geophysical costs to five years for some oil companies. This provision would raise an estimated \$160 million over five years and \$189 million over ten years.

The AMT relief in the tax bill could prove beneficial for California taxpayers, who are considerably more likely than residents of most other states to be caught by the AMT. Studies by the Tax Policy Center (sponsored by the Urban Institute and the Brookings Institution) as well as another by the Tax Foundation found that 4.5 percent of

CONTENTS:

At Last, Tax Cut Package Passes Congress.	1
Senate Will Go Back To Immigration Debate On Monday	2
House Panel Approves Interior & Environment Appropriations Measure, Offshore Issue Heats Up	2
Agriculture Appropriations Bill Reported in House.	3
House Approves Bill Transferring Ownership of California Pump Station	4
Industry Partners Brief Californians Regarding Joint Hydrogen Power Project Based IN Carson.	4
Senate Judiciary Addresses Voting Rights Act.	4
RAND Holds Briefing On The Quality of Healthcare in the U.S..	5
Immigration Briefing Examines Achieving Attrition Through Enforcement.	5
State Legislature Sends Infrastructure Bond Package To California Voters.	6
San Diego Supercomputer Center Briefing on May 17 To Examine Status and Future of Nation's Cyberinfrastructure.	6
May 16 PPIC Lunch Briefing To Discuss Federal Poverty Estimates and Their Shortcomings For California.	7

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California taxpayers were subject to the AMT in 2003, more than twice the national rate of 1.8 percent. Only three other states (New York, New Jersey, and Connecticut) had larger percentages of taxpayers on AMT than California. For more information, visit <http://www.taxpolicycenter.org/taxfacts> or <http://www.taxfoundation.org/publications/show/498.html>.

And regarding the dividend taxation changes, according to data from the Tax Foundation, California taxpayers would benefit somewhat more than the national average from a dividend tax exclusion. Whereas the percentage of returns in 2000 showing dividend income was nearly identical (26.2% in the U.S.; 26.3% in California), the total amount of such income was enough that Californians would receive more than 14 percent of total tax relief under an exclusion, according to data available at <http://www.taxfoundation.org/publications/show/1243.html>.

Further information on the bill can be obtained from:
<http://www.waysandmeans.house.gov>.

SENATE WILL GO BACK TO IMMIGRATION DEBATE ON MONDAY

The Senate is poised to take up the immigration issue again on Monday, May 15th after a stalemate of several weeks. Majority Leader Bill Frist (TN) and Minority Leader Harry Reid (NV) announced that there has been no agreement reached on the amendments to be considered. Instead, it will be no-holds barred with debate covering everything from strengthening U.S. borders to establishing a temporary guestworker program to providing citizenship to illegal immigrants. Numerous amendments are expected to be considered, and the bill is expected to consume most of the next two weeks leading up to the Memorial Day recess.

The Leaders did agree on the Senate conferees who will eventually be named to negotiate the final bill with the House. Reid had insisted on knowing the conferees in advance, in the hopes that those named would keep the Senate from capitulating to the House position on the major issues. Under their agreement, there will be an unusually large contingent of Senate conferees – the top seven Republicans and five Democrats from the Judiciary Committee, as well as seven other senators from each party to be named by Frist and Reid.

In other action, the House approved an amendment to the Defense Department reauthorization bill that would permit military patrols on the U.S. border if the Department of Homeland Security requests them. The vote was 252-171.

HOUSE PANEL APPROVES INTERIOR & ENVIRONMENT APPROPRIATIONS MEASURE, OFFSHORE ISSUE HEATS UP

The House Appropriations Subcommittee approved the FY2007 Interior and Environment Appropriations bill on Thursday, May 4, 2006, and the full committee followed suit on Wednesday, May 10. As passed the full committee, the bill provides \$25.9 billion, approximately \$140 million less than in the FY06 law but more than \$400 million more than requested in the President's budget. Proposed reductions are taken from grants programs, land acquisition, and construction in order to restore funding for "core, mission-essential programs," according to the subcommittee.

The bill does not include language Administration-requested to authorize the sale of federal lands to provide funding for rural schools; nor does it allow for the sale of Bureau of Land Management lands in order to raise money for the general Treasury.

Arguably the most contentious full committee issue on May 10 was an amendment proposed by Rep. John Peterson (PA) to exempt natural gas projects from an existing moratorium on new offshore drilling. The amendment, approved by a vote of 37 to 25, is focused only on the central and western portions of the Gulf of Mexico

and thus does not affect an existing Presidential ban on oil and gas exploration elsewhere -- including off of California's coastline. (That ban remains in place until 2012, unless lifted earlier.)

Nevertheless, the issue has raised eyebrows and policymakers are weighing in. Rep. Sam Farr (Monterey), Chairman of the House Oceans Caucus, expressed his intention to attempt to strip the measure from the bill during House Floor debate -- which is expected to take place next week. And Governor Arnold Schwarzenegger reiterated his position in opposition to offshore drilling, stating on Wednesday, "The action taken by Congress today is irresponsible and totally unacceptable. As Governor of California, I will do everything in my power to fight the federal government on this issue and prevent any new offshore drilling. I will continue working with the California Congressional Delegation to urge the defeat of any changes to the existing ban on offshore drilling. I will also work to get the federal government to buy out the existing federal leases."

The Interior-Environment spending bill would fully fund the National Fire Plan at \$2.7 billion, \$80 million above last year and \$65 million above the President's request. The Fire Plan is a comprehensive approach aimed at channeling firefighting resources to extinguish fires before they become large and expensive; reducing wildfire risk with active management to reduce hazardous fuels; and funding forest health and pest management activities.

Assistance grants to states and communities to help them comply with the Clean Water and the Safe Drinking Water Acts are funded at \$3 billion, \$209 million below last year and \$207 above the Administration's request. The bill also recommends a total of \$216 million for Payments in Lieu of Taxes (PILT); \$95 million for state and volunteer fire assistance; \$220 million for EPA's State air program implementation; and \$204 million for EPA's State water program implementation.

Overall, the Department of Interior is funded at \$9.65 billion, \$211 million below last year and \$40 million above the request, and the U.S. Forest Service is funded at \$4.2 billion, \$63 million below last year and \$98 above the request. The National Park Service is funded at \$2.2 billion, \$19 million above request and \$100 million below the enacted level. The Subcommittee stated that most of the reductions in the request were to Stateside land and water grants "which have no direct impact on the parks, and limiting new construction and land acquisition. The Committee has provided a \$41 million increase for park base operations." The Environmental Protection Agency is funded at \$7.56 billion, \$55 million below last year and \$254 million above the request.

Further information is available from the Committee's website at: <http://www.appropriations.house.gov> .

AGRICULTURE APPROPRIATIONS BILL REPORTED IN HOUSE

On May 9, 2006, the House Appropriations Committee approved \$18.5 billion for FY 2007 discretionary spending for the Agriculture Department (USDA). This level represents a decrease of \$96 million below the FY06 enacted level and \$564 million over the President's budget request.

During consideration, the subcommittee accepted an amendment to extend the MILC program which compensates milk producers for money lost when the price of milk falls below a government-set benchmark. The amendment will cost \$79 million. The program is set to expire one month before the Farm Bill is set to expire. Ag Appropriations Subcommittee Chair Henry Bonilla (TX) opposed the amendment, saying it should be handled by the authorizing committee not the appropriators, and predicting it will be stripped by a point of order on the floor.

The Committee also adopted an amendment that would allow drug wholesalers to import cheaper pharmaceuticals from abroad. A similar amendment to the Food and Drug Administration appropriations was struck from last year's Agriculture appropriations conference report.

The Committee rejected an amendment that would have allowed beef producers to test all their cattle for mad cow disease, something they cannot do now. Some cattle producers argue that Japan, which currently bans U.S. beef, would lift the ban if producers tested all their cattle for the disease. Committee members were concerned that if the producers did their own testing and even one cow infected with the disease was not detected, it would ruin the United States's position in the global beef market. The amendment was defeated by voice vote.

Under the bill, Animal and Plant Health Inspection Service are funded at \$904 million, \$92 million above last year and \$48 million below the President's request. The bill does not include \$8 million in new user fees proposed by the Administration. The Food and Drug Administration is funded at \$1.5 billion, \$54 million above last year and \$16 million below the President's request. This includes the full amount requested for the medical device program, and is \$6 million above the President's request for drug safety.

The bill eliminates \$2.5 million from the Healthy Forests Reserve and \$9.9 million from the Invasive Species Grant program.

More information on the appropriations can be obtained at: <http://www.appropriations.house.gov> .

HOUSE APPROVES BILL TRANSFERRING OWNERSHIP OF CALIFORNIA PUMP STATION

The American River Pump Station Project (H.R. 4204), sponsored by Rep. John Doolittle (Roseville), passed the House Tuesday, May 9th by voice vote. The bill directs the Secretary of the Interior to transfer ownership of the American River Pump Station Project located at Auburn, California, to the Placer County Water Agency. The bill also specifies that the federal costs associated with construction of the Project are non-reimbursable.

The purpose of the Project is to allow the Agency to have year-round access to divert up to 35,500 acre-feet (an acre-foot equals approximately 326,000 gallons) annually of its water entitlement on the American River.

Most of the Project costs would be paid by the Bureau of Reclamation, with some additional financing paid by the Agency and the State of California. The Congressional Budget Office (CBO) estimates that enacting H.R. 4204 would have no significant impact on the federal budget.

INDUSTRY PARTNERS BRIEF CALIFORNIANS REGARDING JOINT HYDROGEN POWER PROJECT BASED IN CARSON

As the primary participants in the joint development of California's only project of its kind, Edison International and BP discussed their partnership in the development of a Hydrogen Power Plant to be located in Carson, California. at a briefing hosted by The California Institute on Tuesday, May 9, 2006. Larry Kostrzewa of Edison Mission Energy and Jonathan Briggs of BP delivered a presentation in which they highlighted the basic technology the plant would employ, the implications for California, and a rough time line for the its completion. Additional information regarding the policy status and implications of the project and proposal was provided by Randy Davis of the Washington-based firm of Stuntz, Davis & Staffier.

As outlined by the presenters, the Carson Hydrogen Power Project will utilize a gasification process that will convert the carbon in petroleum coke (the byproduct currently emitted from California refineries) and recycled waste water into hydrogen, a clean-burning gas, and carbon dioxide. The CO₂ will then be "re-injected" deep underground, where, according to BP and Edison, it will actually enhance oil production of existing refineries by making accessible oil that previously was not. In the briefing, Kostrzewa and Briggs emphasized that each technological component of this project has been repeatedly proven and is currently in use in some capacity at scale, but has never been integrated into a single, comprehensive process the way it will be in this project.

According to the presenters, it is California's existing infrastructure and progressive energy legislation that makes it the ideal location for this project. The prospective site provides the plant with proximity to a multitude of Occidental oil fields as well as access to the power and water supplies of the LA Basin. The millions in tax and investment credits California offers to the innovators of technology that addresses the state's growing energy demand and dwindling air quality also acted as an effective incentive to attract this \$1 billion development. In addition to providing an estimated 500 megawatts of energy (enough to power about half a million homes), BP and Edison expect the project to provide a real boost for the Southern California economy, creating about 1000 construction jobs and 150 permanent positions.

For more information, please visit: <http://www.bpalternativenergy.com> .

SENATE JUDICIARY ADDRESSES VOTING RIGHTS ACT

The Senate Judiciary Committee held a hearing on reauthorizing the Voting Rights Act of 1965 on May 9th and 10th. The bill was enacted in 1965 and improved voting opportunities for African Americans and other minority groups, Section 5 and Section 203 of the law are set to expire in August 2007.

Section 5 requires that states with a history of voting discrimination must get approval from the Department of Justice before implementing any changes in voting practices or procedures. Under Section 203, communities with a large percentage of voters with limited English proficiency are required to provide bilingual language assistance.

The witness's testifying before the committee all agreed that the VRA should be renewed. However, there were varying opinions on whether or how the bill should be revised or amended. Professor Richard Hasen of Loyola Law School in Los Angeles argued that areas with recent examples of voting discrimination should be held to the pre-

clearance requirements of Section 5. The process of receiving approval from the Department of Justice prior to making any changes in voting procedures has proven successful in deterring districts from enacting discriminatory practices against voters, Prof. Hasen argued. He noted that because in the recent past the DOJ has rarely refused any of the changes requested by districts held to pre-clearance, some observers have been led to conclude that Section 5 is unnecessary. However, he argued, that the high approval rate from the DOJ indicates that districts formerly known for voter discrimination have, in fact, improved their ways and are no longer hindering minorities from voting. Mr. Ted Shaw, President of Legal Defense for the NAACP, emphasized the success and importance of the VRA, and urged Congress not to weaken the act.

On Wednesday, the Honorable Wan J. Kim, Assistant Attorney General for the Civil Rights Division of the United States Department of Justice, detailed DOJ's approval of the vast majority of changes presented to them by districts under Section 5, concluding that the Act is being complied with overwhelmingly. Other witnesses, nevertheless, voiced concerns that the removal of Section 5 would create a regression in the compliance rate, and that with Section 5 no longer acting as a deterrent, districts might take advantage of that freedom and discriminate against voters. Gregory Coleman of Weil Gotshall & Manges, however, argued that "Section 5 does not serve as an independent deterrent to voting discrimination and is no longer needed." Coleman stated that the pre-clearance process presented a financial and timely burden for any covered county interested in making the slightest change, whereas counties not covered by the section were free to shift around their districts without supervision.

On the issue of the bilingual ballot, Juan Cartagena, General Counsel of the Community Service Society, argued that it was necessary to ensure full and fair representation of the poorest neighborhoods, especially those with speakers of English as a second language. He argued that interpreters could not be relied on to relate the contents of the ballot to voters, noting that there have been cases in which voters have received the wrong interpretations from translators, changing their original vote.

Further information may be obtained from the Committee's website at: <http://www.judiciary.senate.gov> .

RAND HOLDS BRIEFING ON THE QUALITY OF HEALTHCARE IN THE U.S.

On May 9, 2006 the RAND Corporation held a luncheon briefing to discuss the quality of healthcare in the United States. Elizabeth A. McGlynn, Ph.D presented the findings of the research; she is currently the Associate Director for RAND Health and Director of the Center for Research on Quality in Health Care.

RAND surveyed 13,275 individuals representing 12 metropolitan areas, including Orange County. Its findings regarding the quality of healthcare available to individuals were different from the expectations of the researchers. All sociodemographic groups were at risk for poor care, the study found, regardless of the gender, race or age of the recipient. Moreover, the level of substandard care was similar in all of the metropolitan areas studied; that consistency across different cities indicates that there is a nationwide problem regarding the lack of quality of healthcare, according to RAND.

At the conclusion of her presentation McGlynn provided some suggestions on how to improve the poor quality of healthcare throughout America. She pointed out that overall the most important thing is to increase awareness about the availability of quality healthcare programs because the problem affects everyone. She also encouraged people to engage in open dialogue with their doctors. People should not be afraid to voice concerns or ask questions about the treatment that they are receiving. McGlynn said the most important need is for "systemwide investments in health information technology, performance tracking, and incentives for health care improvement.

For further information, visit RAND's website at: <http://www.rand.org> .

IMMIGRATION BRIEFING EXAMINES ACHIEVING ATTRITION THROUGH ENFORCEMENT

On May 10, 2006, the Center for Immigration Studies released its findings on public opinion on the current illegal immigration issue. The Center's Executive Director, Mark Krikorian, and Senior Policy Analyst, Jessica M. Vaughan, were joined by Rep. John Hostettler (IN), the Chairman of the House Immigration Subcommittee.

In his opening remarks, Hostettler emphasized that the Executive Branch needed to enforce the laws that are currently on the books. He stated that "legislative work can be done, but if enforcement is not carried out, then the job is to no avail."

Vaughan echoed Hostettler's sentiments that the U.S. is lacking in the resources to properly confront the illegal immigration population. Through the research, Vaughan found that more people are immigrating to the U.S.

without the intentions of returning home, which contradicts the traditional values of immigrants. "In the 80's about 45% of people that came to work in the U.S. returned home. Now, that rate has decreased to 25-30%," she said. Vaughan argued that the United States' "neglect of interior enforcement makes it more appealing for people to remain in the U.S." If the federal and state government worked together to regularly and consistently enforce immigration, she felt, then people would be greatly deterred from coming to the U.S. Consistent enforcement would also encourage illegal immigrants to "self-deport" rather than waiting to be forcefully removed. Finally, consistent patrol of the interior would also deter employers from hiring illegal employees for the fear of being fined and losing workers.

CIS's research found that attrition of the flow of illegal immigration through enforcement is the solution supported by the public and is probably the most effective. According to its poll, between the solutions proposed by the House and the Senate immigration bills, "the public prefers the House approach 64% to 30%." According to the CIS poll, most Americans are opposed to the Senate's legalization approach because they do not see the need for illegal immigrant labor. Seventy-seven percent of respondents believed that there are enough Americans willing to take the available low-paying jobs if the employers improve the treatment and wages of employees. Only 15% felt that there were "not enough Americans for such jobs."

Vaughan's reported that, according to the government's own cost estimates, attrition through enforcement would cost less than \$2 billion over five years, only "1% of the President's 2007 budget for the Department of Homeland Security." This would decrease the illegal immigrant population by half over five years, she said.

STATE LEGISLATURE SENDS INFRASTRUCTURE BOND PACKAGE TO CALIFORNIA VOTERS

On May 5, the California State Senate and Assembly reached agreement on a \$37.281 billion infrastructure package. The four-bond package will fund transportation, housing, education, as well as levee repairs. The bonds will be on the November 6th ballot.

The measure allocates \$19.925 billion for transportation projects, \$10.416 billion for K-12 education and colleges, \$4.09 billion for flood protection and \$2.85 billion for affordable housing

The levee repair component provides \$4.1 billion allocated as follows: \$3 billion for various levee evaluation and repair projects in the Central Valley including Delta Subventions and Special Projects; \$500 million for local subventions; \$200 million for flood protection corridors; \$90 million for flood plain mapping; and \$300 million for stormwater flood management. In addition, the legislature approved a \$500 million appropriation for the emergency levee repair work requested by the Governor.

SAN DIEGO SUPERCOMPUTER CENTER BRIEFING ON MAY 17 TO EXAMINE STATUS AND FUTURE OF NATION'S CYBERINFRASTRUCTURE

On Wednesday, May 17, 2006, the San Diego Supercomputer Center (SDSC), U.C. San Diego, and the California Institute will host a luncheon briefing focused on high-performance computing and the adequacy of the nation's cyberinfrastructure to support science and engineering community's efforts to stay at the forefront of global technological advances. The briefing will take place at 12:00 noon on May 17 in Room 1310 of the Longworth House Office Building in Washington D.C.

The 20th century brought about an "information revolution" which has forever altered the way we work, communicate, and live. In the 21st century, it is hard to imagine working without an increasingly broad array of enabling technologies and the data they provide. Much of this data will form the foundation for new discovery, advances, and policy over the next 100 years and beyond. The care and management of today's tidal wave of data has become an increasingly important focus for technology development.

Cyberinfrastructure and its critical components -- including data management and stewardship, high-performance computing, and networking, -- are essential to the economies and competitiveness of both California and the nation. The May 17 lunch briefing will feature Dr. Fran Berman, Director of the San Diego Supercomputer Center (SDSC), and recognized by BusinessWeek as one of the nation's top women in technology.

Through NSF's investments to date in California cyberinfrastructure, the state's experts are uniquely positioned to help ensure continued U.S. leadership in science, engineering, and technology, and they stand ready to make major contributions to cyberinfrastructure. Via SDSC, researchers and educators at each University of California

campus, throughout the California State University system, and at various private universities are active contributors to NSF programs.

Science and engineering data may come from many sources including sensors, experiments, simulations, etc., and one recent SDSC simulation produced over 45 terabytes (45 trillion bytes) of data -- that's more than 4 times the printed materials of the Library of Congress. Collecting, providing, and preserving data responsibly presents both opportunities and challenges. Whereas books can be accessed and preserved for years and even centuries, the access, stewardship, and preservation of digital data collections depends on infrastructure and the technologies on which they are stored. In the next 100 years, storage technologies will advance dozens of generations, and today's digital collections will need to transition through each new generation, and many times over.

Without a planned and long-term approach for digital data cyberinfrastructure, valuable data may be unavailable, damaged, or lost, and the leadership and competitiveness of U.S. researchers, educators, and practitioners may be compromised. This talk will focus on developing and deploying cyberinfrastructure for data management and preservation, challenges for today and for the future.

To attend the briefing, contact (acceptances only) 202-546-3700, or send email to randsell@calinst.org .

MAY 16 PPIC LUNCH BRIEFING TO DISCUSS FEDERAL POVERTY ESTIMATES AND THEIR SHORTCOMINGS FOR CALIFORNIA

On Tuesday, May 16, 2006, the Public Policy Institute of California (PPIC) and the California Institute will host the next event in the ongoing monthly series of PPIC Capitol luncheon briefings. The lunch briefing will examine the federal poverty definition, with particular attention paid to the problems California and other high-cost states experience because the federal poverty definition ignores differences among costs of living. The lunch briefing will be held on May 16 from 12:00 noon to 1:30 p.m. in Room 2203 of the Rayburn House Office Building in Washington, D.C.

As noted in the latest issue of PPIC's *California Counts* publication, poverty rates in California already outpace the national average. But what happens when the cost of living in the Golden State is included in calculations? To address this and other questions, Deborah Reed, Program Director, Population, and Research Fellow with the Public Policy Institute of California will discuss her recently released non-partisan, independent report that lays out the facts and consequences of using federal poverty estimates and asks whether these estimates are a valid measure in California. The publication is available at <http://www.ppic.org> .

Consider this: The federal poverty threshold determines eligibility for several federal programs, including the Food Stamp Program, the State Children's Health Insurance Program, and Head Start. Because these programs do not adjust for regional cost of living, they inadvertently provide very different levels of service to families facing different costs. For instance, rent for a year in California is often more than half the total federal poverty threshold.

Dr. Reed's research shows that California's poverty rate soars from 15th to 3rd in the nation when regional cost of living – omitted from federal calculations – is factored in and the most current poverty data are used. Examining poverty and income trends from 1969 to 2004, the report also finds that, in contrast to the rest of the nation, California has a higher poverty rate today than in the late 1960s and 1970s. Between 1969 and 2004, income declined four percent for low-income families, rose 16 percent for families at the median, and rose 41 percent for high-income families. In the rest of the country, however, income grew for low-income families, according to PPIC.

California also differs sharply from the rest of the country in its growing number of working poor. In 1969, only 12 percent of poor families in California had a full-time worker, compared to about 20 percent in the rest of the country. By 2004, the proportion of poor families with at least one full-time worker had more than doubled to 31 percent in California, whereas the rest of the nation had held steady at 20 percent.

To attend this briefing (acceptances only), call 202-546-3700, or send email to randsell@calinst.org .

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