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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.

AGRICULTURE: CONGRESS PASSES ONE-WEEK EXTENSION TO FARM BILL, AGREEMENT NEAR

On Thursday, April 24, 2008, the Senate and House approved legislation extending the current Farm Bill law one more week. A previous extension was due to expire Friday. Conferees are still working out details, but an agreement is expected to be reached soon.

HOUSING: HOUSE FINANCIAL SERVICES APPROVES BILL TO HELP WITH FORECLOSURE CRISIS

On Wednesday, April 23, 2008, the House Financial Services Committee reported out H.R. 5818, the Neighborhood Stabilization Act of 2008, introduced by Subcommittee on Housing and Community Opportunity Chairwoman Maxine Waters (Los Angeles), which will provide loans and grants to states and cities to deal with problems associated with large numbers of foreclosures in neighborhoods across the country.

The bill would establish a \$15 billion, HUD-administered loan and grant program for the purchase and rehabilitation of owner-vacated, foreclosed homes with the goal of stabilizing and occupying them as soon as possible. The funds would be split evenly between two \$7.5 billion would be for loans and the other \$7.5 billion would be for grants.

The legislation aims to help states repair and find residents for foreclosed homes to fill vacancies that may undercut the value of neighboring properties. Under the plan, funds would be allocated based on a state's percentage of foreclosures, with the hardest-hit states benefitting most.

For more information visit <http://financialservices.house.gov/FHA.html> .

TRANSPORTATION: SENATE CST HEARS COMMISSION RECOMMENDATIONS

On Tuesday, April 22, 2008, the Senate Commerce, Science and Transportation Committee held a hearing entitled "Moving Passengers and Freight into the Future: A review of the National Surface Transportation Policy and Revenue Commission Report." The committee heard testimony from commission members on the recommendations made in the report regarding freight mobility; highway, auto, and truck

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safety; passenger and freight rail capacity and service development; intermodal transportation; and the integration of our surface, maritime, and aviation networks.

Congress created The National Surface Transportation Policy and Revenue Study Commission in 2005 under SAFETEA-LU. The 12-member Commission was comprised of U.S. Transportation Secretary Mary Peters and some of the nation's top transportation experts. It was convened by Congress and the President to examine the condition and future needs of the nation's surface transportation system, as well as short and long-term alternatives to replace or supplement the fuel tax as the principal revenue source to support the Highway Trust Fund over the next 30 years.

Witnesses delivering testimony included Steve Heminger, Commission member and Executive Director of the Metropolitan Transportation Commission in San Francisco, California. Heminger's remarks focused on two areas of the report; congestion relief and saving lives through traffic safety.

Heminger said the Commission concluded that one way to reduce congestion is to have more people moving by rail, addressing the Commission recommendation for increased inter-city rail. Metro-mobility, or addressing congestion in megaregions, is integral to improving transportation systems that affect our every day lives. This issue is increasingly important because as the population of the United States grows, the growth will occur mostly in metropolitan areas, he said.

Congestion 40 hours annually per traveler was once confined to just Los Angeles, California, in 1982; today, however, there are 25 places in the country with at least this level of congestion, including the San Francisco Bay area and the Central Valley, Sacramento inclusive. Megaregions house 68% of the country's population and have 97% of the country's congestion. The Commission also recommends that more freight be moved by rail which will help to reduce congestion near major trade corridors, such as the Port of Oakland.

Heminger went on to explain that one of the biggest tragedies in our transportation system is the amount of traffic fatalities on our nation's highways each year. He said that all states should have mandatory helmet laws for motorcycles and mandatory seatbelt laws for all vehicles; currently there are only 20 and 25 states, respectively, with these mandatory laws, he said. "Put bluntly, our track record on highway safety in this country is a national tragedy. Every year, 40,000 of our fellow citizens die on the nation's highways - that's equivalent to a 9/11 every month, month after month, year after year," he said. The commission found that the economic costs of these tragedies in lost wages, medical expenses, and other costs are tremendous as well, costing \$164 billion annually. This is in comparison to \$68 billion annually spent on reducing congestion.

The Commission report sets out an "aggressive agenda" to reduce traffic fatalities by 50% by 2025. Heminger said to reach this goal it will take effective coordination between federal, state, and local governments. Concerning all transit related recommendations proposed by the commission; he said "the time to act is now." For more information visit www.commerce.senate.gov.

ENVIRONMENT: PROPOSED FUEL ECONOMY RULES PREEMPT CALIFORNIA'S ATTEMPT TO REGULATE TAIL-PIPE EMISSIONS

On Tuesday, April 22, 2008, the Bush Administration announced proposed regulations on fuel economy that would raise fuel economy standards for cars and trucks to 31.6 miles per gallon by 2015. However, contained in the Notice of Proposed Rulemaking is explicit language stating that the more stringent limits on tailpipe emissions embraced by California and 17 other states are "an obstacle to the accomplishment" of the new federal standards and are "expressly and impliedly preempted" by federal law. Furthermore, the proposal state that "[a] conflict between state and federal law arises when compliance with both federal and state regulations is a physical impossibility or when state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."

California law makers are not pleased by the language. "The administration is continuing to block climate change progress by asserting that California doesn't have the right to move forward with its own global warming regulations. That is completely unjustified," said House Speaker Nancy Pelosi (San Francisco).

"This fuel economy plan, while attractive on the surface, is a shameful and unlawful assault on California's landmark vehicle emissions standard," said California Attorney General Jerry Brown.

Other provisions contained in the proposed rule are: For passenger cars, the proposal would increase fuel economy from the current 27.5 miles per gallon to 35.7 miles per gallon by 2015. For light trucks, the proposal calls for increases from 23.5 miles per gallon in 2010 to 28.6 miles per gallon in 2015.

According to Secretary of Transportation Mary Peters, "this proposal will save nearly 55 billion gallons of fuel over the lifetime of the vehicles affected, which is those in model years 2011 through 2015. And it will save America's drivers over \$100 billion in fuel costs over the lifetime of those vehicles."

For more information visit <http://www.dot.gov/affairs/dot5608.htm>

ENERGY: SENATE FINANCE COMMITTEE DISCUSSES CAP-AND-TRADE SYSTEM

On Thursday April 24, 2008, the Senate Finance Committee held a hearing on the tax aspects of a carbon emission cap-and-trade system. Testimony by Peter Orszag, director of the Congressional Budget Office, and Robert Greenstein, Executive Director of the Center on Budget and Policy Priorities, included information about the likely distributional effect of such a scheme and how to cushion low income populations as well as the wider economic implications of cap-and-trade legislation.

Committee members and panelists discussed available options for the implementation of a cap-and-trade system, including the auctioning of emission allowances and the likelihood of using funds raised to offset recent and expected increases in energy prices for low and middle income families. Greenstein noted that low and middle income consumers are disproportionately affected by these higher prices, both because they spend a larger fraction of their budgets on energy and energy-related goods and because they can not afford up-front investments that could reduce their energy and energy costs in the future (such as a more fuel- efficient heating system).

Markets function through incentives, and current incentives are insufficient to create the desirable amount of research and funding into new energy technologies. Many favored the idea of bringing the brightest minds in the U.S. and the world together to work on this issue: a 'Manhattan Project' for renewable and clean energy sources. Witnesses noted that this could be financed using proceeds generated through the auctioning of allowances or a carbon tax. While government funded research may also be necessary, implementation of the cap-and-trade system alone would create a price increase, spurring private sector investments in renewables and generating stronger incentives for energy conservation.

For more information on this hearing, please visit: <http://www.senate.gov/~finance/> .

MEDICAID: BIPARTISAN HOUSE VOTES TO REJECT ADMINISTRATION'S RULE CHANGES

With an overwhelming (and thus veto-proof) majority of 349 to 62 votes, the U.S. House of Representatives on Wednesday, April 23, 2008, voted to place a one-year moratorium on efforts by the

Department of Health and Human Services (HHS) to restrict the what services the federal Medicaid program covers. All Democrats and a 2-to-1 majority of Republicans voted for the measure in the House, but similar success in the Senate is not assured.

The largest federal formula grant program by a longshot, Medicaid pays back states for a percentage -- half in California -- of their spending on health care services for low-income residents and other targeted populations. In an effort to limit waste and abuse in the Medicaid reimbursement system, the Bush Administration in 2007 announced plans to pare back the range of services for which it would reimburse states and local governments. In particular, it announced sharp limits on payments for rehabilitation services, graduate medical education, and transportation of Medicaid patients.

All of the proposed cuts drew fire. Of particular concern to school districts was the fact that schools are required (by the federal Individuals with Disabilities Education Act or IDEA) to provide educational services to disabled children, many of whom require specialized transportation services. Since IDEA payments are not sufficient to reimburse those transportation costs, Medicaid has been used to reimburse at least a portion. The now-delayed HHS rules would have cut off those transfers.

The Congressional Budget Office estimated the legislation would eliminate \$1.6 billion in savings over the next 18 months. To offset most of those lost savings, the House bill proposes tighter limits on assets owned by Medicaid applicants who are seeking eligibility for program coverage, particularly prospective assisted living facility entrants.

House Speaker Nancy Pelosi (San Francisco) said the proposed regulations “would leave more Americans without the health care they need in a time of economic uncertainty.” Governor Arnold Schwarzenegger commended bipartisan action by California’s Congressional delegation to oppose the cuts and said, “This one-year delay in implementing numerous federal Medicaid regulations will allow for the necessary time to study the impacts of these rules and work to prevent the shift of billions of dollars in federal costs to California taxpayers. Clearly, this legislation has strong bipartisan support, so I urge the Senate to move ahead quickly with similar legislation and for the President to reconsider his opposition.”

President Bush has indicated his intention to veto the legislation if it reaches his desk, and HHS Secretary expressed confidence that the Senate would not approve the bill.

HEALTH: HOUSE PANEL ON HEALTH ADDRESSES DRAFT FDA GLOBALIZATION ACT

On Thursday, April 24, 2008, the House Energy and Commerce Subcommittee on Health, heard testimony addressing the food provisions in the draft language of the Food and Drug Administration (FDA) Globalization Act. The hearing, “Discussion Draft of the FDA Globalization Act Legislation: Food Provisions”, addressed the food safety provisions of the pending legislation.

The intent of the Act, in its current draft form, is to address the safety of food, drugs, devices, and cosmetics as well as make other changes relating to the agency. Some of the most noteworthy provisions of the draft are a proposed annual registration fee of \$2,000 for food facilities operating in the U.S. or exporting food to the U.S.; requiring cosmetic facilities to register with the FDA at a cost of \$2,000 per facility and requiring adverse-event reporting for cosmetics; requiring that foods be labeled to identify the country-of-origin and whether certain foods have been treated with carbon monoxide; and providing FDA with mandatory recall authority.

With regard to drugs and devices, the draft proposes a registration fee to cover the cost of drug and device inspections. It would also require country-of-origin labeling, and increase the capacity of FDA to monitor foreign facilities.

Stephen Sundlof, D.V.M, PhD, Director of the Center for Food Safety and Applied Nutrition at the U.S. Department of Food and Agriculture, delivered the pertinent witness testimony. Dr. Sundlof testified that in recent years the FDA has done a great deal to prevent food contamination. He cited a few challenges to the process, such as the rising volume of imports and changing consumer preferences that require the FDA to continually update their inspection processes. In response to concerns about food safety, the FDA has proactively created the “Action Plan for Import Safety and the Food Protection Plan,” he explained. The key

components of this plan are prevention, intervention, and response. He commented: “The *prevention* element means promoting increased corporate responsibility so that food problems do not occur in the first place. The *intervention* element focuses on risk-based inspections, sampling, and surveillance at all points in the food supply chain. The *response* element bolsters FDA’s emergency response efforts by allowing for increased speed and efficiency. In these Plans, we identified several new legislative authorities needed to help us fully implement the Plans.”

Some of the new authority required includes authorizing the FDA to use qualified 3rd parties for inspection of facilities, requiring exporting country’s regulating authorities to certify a shipment’s compliance with FDA guidelines prior to shipment, and allowing the FDA to refuse food imports that do not meet minimum standards.

Sundlof, after stating “some requirements require such substantial resources that they would not be feasible”, laid out the following guidelines that FDA recommends for the legislation:

- Any legislation should allow FDA to set requirements and priorities based on a strong scientific FDA risk assessment.
- Any legislation should be carefully designed to avoid creating real or perceived trade barriers.
- Any legislation should empower robust voluntary private sector efforts already underway. And
- The Federal government should strive to address food safety concerns while minimizing potential effects on the increasing costs of food.

For more information visit www.energycommerce.house.gov

TECHNOLOGY: SENATE COMMERCE ASSESSES NANOTECHNOLOGY INITIATIVE

On Thursday April 25, 2008, the Senate Commerce, Science, and Transportation Committee held a hearing to assess the National Nanotechnology Initiative (NNI) over the five year period since it was initially authorized in 2003 and to explore issues the Committee should consider for the next reauthorization. Currently, the federal investment, through the NNI, is nearly \$1.5 billion.

The Committee heard from a number of witnesses, including: Richard M. Russell, Associate Director and Deputy Director for Technology, Executive Office of the President; and Robert A. Robinson, Managing Director, Natural Resources and Environment Team, U.S. Government Accountability Office.

In March 2008, GAO issued a report entitled Nanotechnology: Better Guidance Is Needed to Ensure Accurate Reporting of Federal Research Focused on Environmental, Health, and Safety Risks (GAO-08-402). In its report, GAO reviewed the NNI, a multiagency effort administered by the Office of Science and Technology Policy (OSTP). The NNI coordinates the nanotechnology related activities of 25 federal agencies that fund nanoscale research or have a stake in the results. A key research area funded by some agencies related to studying the potential environmental, health, and safety (EHS) risks that may result from exposure to nanoscale materials.

In his testimony, Mr. Robinson summarized the findings of GAO’s March 2008 report, focusing on (1) the extent to which selected agencies conducted EHS research in fiscal year 2006; (2) the reasonableness of the agencies’ and the NNI’s processes to identify and prioritize EHS research; and (3) the effectiveness of the agencies’ and the NNI’s process to coordinate EHS research. In fiscal year 2006, federal agencies devoted \$37.7 million--or 3 percent of the \$1.3 billion total nanotechnology research funding--to research that was primarily focused on the EHS risks of nanotechnology, according to the NNI.. However, Robinson testified, about 20 percent of this total cannot actually be attributed to this purpose. GAO found that 22 of the 119 projects identified as EHS in fiscal year 2006 were not primarily related to understanding the extent to which nanotechnology may pose an EHS risk. Instead, many of these projects were focused on how to use nanotechnology to remediate environmental damage or detect hazards not related to nanotechnology, he said

Robinson also said that although NNI has identified 25 research needs, each is given roughly the same weight, rather than being prioritized in any way. He also testified that the NNI’s strategic blueprint does not lay out what each agency’s responsibilities will be or how they will be held accountable. In its March report,

and again at the hearing, GAO recommends better guidance to improve the accuracy of data reported by the NNI.

For further information, go to: <http://www.commerce.senate.gov> .

RESOURCES: HOUSE NATURAL RESOURCES SUBCOMMITTEES MARK-UP FOUR CALIFORNIA BILLS

On Wednesday, April 23, 2008, two House Natural Resources Subcommittees marked up four water-related bills authored by Californians.

The Subcommittee on Fisheries, Wildlife and Oceans marked up H.R. 21, authored by Rep. Sam Farr (Carmel). The Oceans Conservation, Education, and National Strategy for the 21st Century Act would establish a national policy for our oceans, strengthen the National Oceanic and Atmospheric Administration, and establish a national and regional ocean governance structure. H.R. 21 was reported to the full Committee, as amended, by a roll call vote of 11 yeas and 3 nays.

The Subcommittee on Water and Power marked up the following three bills:

- H.R. 2649, authored by Rep. Brian Bilbray (Carlsbad), amending the Reclamation Projects Authorization and Adjustment Act of 1992;
- H.R. 3323, authored by Rep. Lois Capps (Santa Barbara), to authorize the Secretary of the Interior to convey a water distribution system to the Goleta Water District (the "Goleta Water Distribution System Conveyance Act of 2007"); and,
- H.R. 4841, authored by Rep. Mary Bono Mack (Palm Springs), to approve, ratify, and confirm the settlement agreement entered into to resolve claims by the Soboba Band of Luiseno Indians relating to alleged interferences with the water resources of the Tribe, and to authorize and direct the Secretary of the Interior to execute and perform the Settlement Agreement and related waivers (the "Soboba Band of Luiseno Indians Settlement Act)."

All three bills were reported to the full Committee by unanimous agreement.

For more information visit www.resourcescommittee.house.gov .

TRANSPORTATION: STAFF BRIEFING HELD ON ELECTRIC DRIVE TRANSPORTATION

On Tuesday, April 22, 2008, the Electric Drive Transportation Association (EDTA) hosted a briefing entitled, "The Electric Drive Answer: Transportation Technologies and Policies to End Oil Dependence." EDTA is a trade association representing battery, hybrid and fuel cell electric drive technologies and infrastructure. EDTA's membership includes major automotive and other equipment manufacturers, electric utilities, technology developers, component suppliers, and government agencies.

The briefing featured a panel of industry professionals representing member organizations of EDTA, including Southern California Edison (SCE), a founding member. The panel outlined current projects involving plans for battery, hybrid, plug-in and fuel cell electric drive vehicles, components and infrastructure. They also gave recommendations on how federal policies can speed the commercialization of clean, efficient electric drive and reduce the role of oil in transportation.

The panel included Dean Taylor, Senior Technical Specialist for SCE, Charles Gassenheimer, Chairman of the Board of Ener1, and Edward Cohen, Vice President of Government and Industry Relations for American Honda Motor Company.

Taylor said that Southern California Edison has logged over 16 million miles on its battery powered electric fleet. SCE has been leading in research and development for plug-in vehicles for 20 years, he said. It has also partnered with numerous auto manufacturers in the development on hybrid vehicles, including Toyota and Daimler. SCE is looking at what role utilities can continue to play in developing vehicles. As electric cars enter the market, the company is trying to prepare for the changing needs of utility customers. SCE has a state-of-the-art electric vehicle testing center with battery testing capabilities that allows it to test up to five different kinds of lithium ion (LI) batteries. These batteries are the preferred module to power electric vehicles.

Ener1 is one of the member companies of EDTA and a developer of LI batteries. Charles Gassenheimer, Ener1 Chairman, said that the lithium ion battery is "indispensable for the electrification of the U.S. auto industry." Ener1 has the only domestic manufacturing capabilities for the LI battery. Support for the American development and production of the LI battery is a strategic investment in America's fight for energy independence, he said. It is possible for America to lose the market, so Gassenheimer urged policies that support domestic manufacturing capabilities of the LI battery. He said expansion of Department of Energy funding for battery technology to help companies get over the initial financial hurdles to enter the market is important.

Another urgent need is to address infrastructure, said Edward Cohen of American Honda Motor Company. He also argued that hydrogen and natural gas are not the final solutions for reducing energy dependence, and that we must continue to look for sustainable energy sources. Honda uses research stations in Los Angeles to experiment with direct solar and natural gas inputs to charge electric vehicles.

For more information visit www.electricdrive.org .

FAIR SHARE: CENSUS RELEASES FIGURES ON FEDERAL AID TO STATES FOR FY 2006

In April, 2008, the U.S. Census Bureau released its annual report detailing federal aid to state and local governments. The report, "Federal Aid to States for Fiscal Year 2006", is the most recent addition to the Consolidated Federal Funds Report Series.

The report presents data on federal government aid to state and local governments. Coverage is restricted to federal government expenditures for grants to state and local governments for which data are available.

The specific areas covered include agriculture, education, housing and urban development, transportation, health and human services - the largest allocation-and other services.

California received \$46 billion in aid via grants from the Department of Agriculture, \$26 billion from the Department of Health and Human Services, and \$5 billion from the Department of Education, among other allocations.

California received the largest share of civilian federal employee retirements and disability dollars (\$5 billion) and, overall, received 10.3 percent of the total distribution of federal expenditures

For more information visit www.census.gov/govs/www/cffr.html .

ECONOMY: BRIEFING HELD ON STRATEGIES FOR BOOSTING INNOVATION

The Brookings Metropolitan Policy Program and the Information Technology and Innovation Foundation (Brookings-ITIF) and the Council on Competitiveness hosted a joint briefing at the National Press Club on Tuesday April 22, 2008 to present concrete, legislatable ideas for encouraging U.S. innovation. The event previewed two major new reports on federal economic policy: "Boosting Productivity, Innovation, and Growth Through a National Innovation Foundation," by ITIF president Robert Atkinson and Howard Wial, a Brookings economist; and "Clusters for Competitiveness: a New Federal Role for Stimulating Regional Economies," by venture capitalist Karen Mills; Liz Reynolds, a Massachusetts Institute of Technology doctoral student; and Andrew Reamer, a fellow at Brookings.

Robert Atkinson spoke on the importance of creating both a business environment and an institutional environment that is conducive to innovation. There is no existing federal innovation policy and to the extent that such policies do exist they are focused largely on the supply-side, funding science education or large firms and major universities; little attention is paid to possible innovation in the service sector.

From 1995 to the present, Atkinson estimates that 100% of the productivity increase in the U.S. economy has been due to innovation and that the current trade deficit is partially due to the current lack of innovation. Innovation is the driving force behind lasting economic growth. Many other developed countries such as South Korea, Japan, Sweden, and Finland have national policies that support innovation. Atkinson and Wial have released a report that calls for the establishment of a National Innovation Foundation. This foundation, they say, should be: federally funded (because the benefits of innovation cross state borders and are nationwide), nimble, lean, and collaborative. The foundation would fund research grants to regional industry

clusters and state partnerships as part of a national technology diffusion effort that would focus on accountability and performance. This would not be a regulatory agency, and would not give out corporate welfare. They also mentioned a few options for the placement of the NIF. The NIF could act as an independent federal agency, a publicly sponsored corporation, or be contained within the Commerce Department of the National Institute of Standards and Technology.

Karen Miller discussed an alternative policy approach for fostering innovation. Markets tend to underinvest in innovation because no single firm has the proper incentives to lead as other firms may capture part of the benefit with less expense. Due to this free rider problem, there is a useful role for the federal government in helping industry clusters -- a geographic concentration of interconnected firms and supporting organizations in a particular sector -- that reach across state lines. The federal government should act as a partner in a cluster initiative that is bottom up, industry led, and collaborative. Clusters significantly facilitate innovation, creativity, productivity, access to essential inputs, and improved operating costs. The proposed Competitive Leadership for the U.S. through its Economic Regions, or CLUSTER grants, would provide funding for startup activities and state, regional, or metropolitan-run cluster initiatives.

For more information, please visit: <http://www.itif.org/>.