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# California Capitol Hill Bulletin

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*To expand communications between Washington and California, the California Institute provides periodic faxed bulletins regarding current activity on Capitol Hill which directly impacts our state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods. The e-mail edition is made possible in part by in-kind contributions from Sun Microsystems and IBM Corp.*

## **BIPARTISAN CALIFORNIANS LEAD FUSION ENERGY SCIENCES FUNDING EFFORTS, COSPONSORS SOUGHT**

Last week, bills were introduced in the House and Senate to strengthen the U.S. domestic fusion program, to authorize U.S. participation in the ITER project and to require the Department of Energy to report to Congress on addressing fusion materials and technology issues.

On March 13, Reps. Zoe Lofgren (San Jose) and Randy “Duke” Cunningham (San Diego), joined by 27 other Members from both parties, introduced the “Fueling the U.S.A. Through Unlimited Reliable Energy (FUTURE) Act of 2003”, designated H.R. 1282. On March 12, Senators Diane Feinstein and Larry Craig (ID) introduced the “Fusion Energy Development Act of 2003” (S.600). The text of each bill or similar language may be included in omnibus energy legislation that is moving in Congress.

The House bill authorizes the Secretary of Energy to cooperate in the international magnetic fusion burning plasma experiment, or alternatively to develop a plan for a domestic burning plasma experiment, for the purpose of accelerating the scientific understanding and development of fusion as a long term energy source. In findings, the bill notes that the U.S. fusion research community “has developed a strong consensus that the first option for United States involvement in a burning plasma experiment should be through the international project known as ‘ITER’, and, that should the ITER project fail to go forward, then the construction of a domestic burning plasma experiment known as the Fusion Ignition Research Experiment or ‘FIRE’ should be pursued aggressively.” The would make it the policy of the nation “to develop the scientific, engineering, and commercial infrastructure necessary to ensure that the United States is competitive with other nations in providing fusion energy for its own needs and the needs of other nations, including, by demonstrating electric power or hydrogen production for the United States energy grid utilizing fusion energy at the earliest date possible.”

The House bill would require the Secretary of Energy to develop a plan within six months for accomplishing these goals, and would authorize \$272 million from FY2004 through FY2008 for ITER

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(or FIRE) participation, as well as \$1.8 billion over the same five-year period for the Fusion Energy Sciences Program. The Senate bill includes similar language.

California is a perennial winner of a large share of federal expenditures on fusion energy sciences as well as for the inertial confinement fusion program.

Offices of California Members wishing to co-sponsor H.R. 1282 should contact either Rep. Lofgren's or Rep. Cunningham's office.

### **REPS. FARR AND CALVERT CIRCULATING MANUFACTURING EXTENSION LETTER**

Reps. Sam Farr (Carmel) and Ken Calvert (Corona) are circulating for signature by California Congressional delegation members a bipartisan letter to the leadership of the House Appropriations Subcommittee on Commerce, Justice, and State in support of the Manufacturing Extension Partnership (MEP) program.

The letter states that small manufacturers are "the backbone of our State's middle-income jobs and key to innovation in this country," and that, "For California alone, the MEP program directly results in approximately 5,360 jobs annually and \$25 million in tax revenue." According to the letter, one dollar of federal investment in MEP generates \$3.30 in federal tax revenue. It adds that, "as a result of the program, in FY 2002 California manufacturers reported \$182 million in increased/retained sales, \$41 million in cost savings, and a \$39 million increase in investment."

Recent data indicate that manufacturers provide 14% of California's employment and 21% of the state's wages. Data from the California Manufacturers and Technology Association (<http://www.cmta.net>) show that the state is home to 1.8 million manufacturing employees, a reduction of 6.4% from one year prior.

The letter requests that the subcommittee appropriate \$110 million for MEP in FY 2004. Offices of members wishing to sign the letter should contact Pamela Barry (5-2861 or [pam.barry@mail.house.gov](mailto:pam.barry@mail.house.gov)) with Rep. Farr or Deena Contreras (5-1986 or [deena.contreras@mail.house.gov](mailto:deena.contreras@mail.house.gov)) with Rep. Calvert.

### **DREIER & ESHOO INTRODUCE STOCK OPTION BILL**

Reps. David Dreier (San Dimas) and Anna Eshoo (Atherton) introduced the "Broad-Based Stock Option Plan Transparency Act of 2003" on Thursday, March 20. The bill is intended to ensure that investors have accurate and meaningful information about a company's use of employee stock options, whether they are given to high level executives or lower level workers.

The bill directs the Securities and Exchange Commission (SEC) to require, by rule, enhanced reporting disclosures of all employee stock options given by publicly-traded companies. Additionally, the SEC would not be permitted to recognize any new accounting standard related to stock options until it has submitted a report to Congress on the effectiveness of the new disclosures, following a three year period of study. The bill would also require that the Secretary of Commerce study for one year the impact of broad-based employee stock option plans in expanding corporate ownership, recruiting skilled workers, stimulating research and innovation, and expanding the U.S. economy.

Recent efforts by the Financial Accounting Standards Board to require companies to account for stock options as an expense on their profit-loss statements has raised concern among California's information technology industry. They argue that stock options are a necessary component in their ability to recruit and retain highly-qualified employees during a company's early years. When used this way, they posit, stock options are offered to rank-and-file employees as often as they are offered to highly-paid executives.

## **CALIFORNIA PUBLIC SCHOOLS SPENT NEARLY \$7000 PER PUPIL IN 2000-2001; HIGHER STATE SPENDING LEVELS WILL YIELD MORE FEDERAL TITLE I MONEY**

On March 11, the Census Bureau released its "Public Education Finances 2001," an annual examination of federal, state and local government financing of school systems which provides various data on state and local expenditures for K-12 education. The report is an important source of data for distributing federal formula grant funding under Title I, a \$10 billion federal formula grant program which helps school districts provide services to educationally disadvantaged children.

The report shows that California's per pupil expenditures in the 2000-2001 school year had risen considerably faster than the corresponding growth rate for the nation as a whole. California spent a total of \$6,965 per pupil in 2000-2001, whereas the national average spending level was \$7,284 per pupil. California's spending level was thus 95.6% of the national level, a marked increase from the 92.1% of the national average in 1999-2000, and 89.8% of the national average in 1998-99. It is a significant increase over the state's relative low point in 1995-96, when the state ranked 35th and spent at 86.8% of the per pupil expenditure national average.

The funding formula for federal Title I expenditures weights grant funding based partly on state per pupil expenditures (as well as child poverty), so a relative increase in this statistic will result in increased federal funding for the state.

The progressively higher spending levels by the state continues a trend whereby California has risen from 32nd ranking among the 50 states plus DC in 1998-99 to 29th ranking in 1999-2000 and now to 24th in 2000-2001. The top-ranked state was New York, which spent \$10,992 per pupil (New Jersey and DC were a close second and third), and the bottom-ranked state was Utah, which spent \$4,625 per pupil on public education.

In the prior year, California had spent \$6,298 per pupil in 1999-2000, compared to a national rate of \$6,835. Thus, California's per pupil spending rose by \$667 (or 10.6%), whereas national spending rose \$449 (or 6.6%).

Detailed data for the past 10 school years are available on the Census Bureau's website, at <http://www.census.gov/govs/www/school.html>.

## **HOUSE ARMED SERVICES EXAMINES BALLISTIC MISSILE DEFENSE PROGRAMS**

On Thursday, March 20, 2003, the full House Armed Services Committee, chaired by Rep. Duncan Hunter (Alpine), held a hearing to examine funding for ballistic missile defense (BMD) programs.

Chairman Hunter noted that the 106th Congress passed the National Missile Defense Act of 1999, officially committing the United States to the deployment of a national missile defense system "as soon as is technologically possible." (On December 19, 2002, President Bush made the decision to deploy a limited BMD capability beginning in 2004.) Chairman Hunter lauded the Administration's decision to withdraw from the Anti-Ballistic Missile treaty, which he described as obsolete and counterproductive, adding, "By ridding ourselves from the artificial constraints of this treaty, we can now fully explore all options for basing sensors and weapons to provide the most comprehensive defense possible."

The Committee heard testimony from E.C. "Pete" Aldridge, Jr., Under Secretary of Defense for Acquisition, Technology and Logistics, who said that the Pentagon has made progress toward BMD with a revamped management structure. He disagreed with concerns that have been raised that BMD development urgency "might result in the fielding of systems that are unproven and unsuitable for battlefield conditions." Instead, he said, "Quite the contrary, the revolutionary nature of missile defense and the threat posed by ballistic missiles have prompted us to take steps to ensure that deployed systems meet effectiveness and suitability goals through rigorous testing throughout development." He also described the importance of integrating a BMD system with U.S. allies.

Assistant Defense Secretary for International Security Policy J.D. Crouch commented that some nations have recently developed long-range strike capabilities. He noted that North Korea “caught us by surprise when it launched its three-stage Taepo-Dong I space-launch vehicle/ballistic missile in August 1998.” He added that “North Korea has the Taepo Dong II long-range missile capable of reaching parts of the United States with a nuclear weapon-sized payload,” and that the U.S. intends to field initial BMD capabilities in 2004 and 2005. Much of the concern over long-range capabilities focuses on the ability to attack west coast cities such as Los Angeles and San Francisco. He commented that, “since the beginning of 2001, we have had four successful tests out of five for the long-range, ground-based interceptor, three successful tests out of three for the short-to-medium-range sea-based interceptor, and five successful tests out of seven for the short-range, ground-based interceptor. In the next two years, we plan to conduct over 120 flight and ground tests.” He also stated, “The capabilities planned for 2004-2005 include 20 ground-based interceptors (GBIs) against the intercontinental-range ballistic missile threat; 16 located at Ft Greely, Alaska and 4 at Vandenberg Air Force Base in California.”

Assistant Secretary Crouch stated that the Administration for FY 2004 and FY 2005 seeks \$7.7 billion and \$8.7 billion respectively for BMD, which includes an additional \$1.5 billion dollars to provide those initial capabilities directed by the President for 2004 and 2005. He expected that funding requests for BMD programs would “remain relatively constant at roughly \$8+ billion dollars per year from FY04 to FY 09.”

For more information, see <http://armedservices.house.gov/schedules/2003.html> .

## **EL PASO NATURAL GAS WILL REPORTEDLY PAY CALIFORNIANS \$1.7 BILLION**

According to press reports on Thursday, March 20, El Paso Corporation preliminarily agreed to a \$1.7 billion settlement over accusations that the company artificially restricted supplies of natural gas into California to inflate prices. The reports indicate that parties will file a motion asking that the Federal Energy Regulatory Commission to defer consideration of the FERC case, which Chairman Pat Wood had recently indicated was expected to be decided in the next few weeks. One press report

In a September 2002 ruling, a FERC judge found that El Paso had "withheld extremely large amounts of capacity that could have flowed to its California delivery points" between November 2000 and March 2001, and that the company had been a demonstration of the exercise of market power. California officials and utility companies had estimated that El Paso's actions cost the state between \$3 billion and \$4 billion in excess energy costs. The ruling found that the company substantially tightened the supply of gas" from at least one fifth of its pipelines at the California border, effectively delivering only 79% of its capacity during the California crisis.

## **NEW JUDGE CONFIRMED TO THE U.S. 9<sup>TH</sup> CIRCUIT COURT OF APPEALS**

Jay S. Bybee, a ranking Justice Department official, was confirmed by the U.S. Senate to a judgeship in the U.S. 9<sup>th</sup> Circuit Court of Appeals on Thursday, March 13, 2003. The 9<sup>th</sup> Circuit Court's jurisdiction covers nine western states, including California. Bybee was rated “highly qualified” by the American Bar Association and will become the 25<sup>th</sup> active judge on the circuit, which currently has three additional vacancies. The confirmation vote was 74-19, with seven senators not voting. Both California Senators, Dianne Feinstein and Barbara Boxer, voted no on the confirmation.

## **CALIFORNIA'S HOUSING ELEMENT LAW EVALUATED**

Nearly four cities in ten and a quarter of counties are out of compliance with the state's housing element law, according to the new study released by the Public Policy Institute of California. In addition, 37 percent of cities and 27 percent of counties failed to meet the state's planning requirements as of

January 2003. Among other findings, the report, entitled *California's Housing Element Law: The issue of Local Noncompliance*, also finds that a large majority of localities have been noncompliant at some point since 1969, when the original law was enacted.

The housing element law requires that all cities and counties in California engage in detailed planning for their residential needs by including housing as an element of their comprehensive plans. The law incorporates a "fair-share" premise, which outlines a regional process by which each local community works to accommodate a fair proportion of the region's housing need as determined by the regional council of governments.

The study found that contrary to the law's intent of increasing availability of affordable housing, local housing elements rarely result in new affordable housing being built. Looking at the city compliance rates between 1990 and 2000, the report finds no relationship between housing element compliance and the percentage increase in housing. The study examines several explanations for the lack of such connection: the state's failure to take local specific realities into consideration; aversions to new housing on the part of upper-income communities; local antigrowth policies; and simple lack of planning capacity. The study suggests that better indicators of housing growth include an area's demographics, position in the urban hierarchy, and expansion capacity.

The study alleges several problems with California's law, namely that: it goes against local politics when it requires a consideration on behalf of the cities of the needs of the wider region; it represents a mismatch of goals and policy tools; it consists of several unmanageable objectives; and it is difficult to comprehend. Rather than relying solely on the statutory requirements of its housing element law to promote affordable multifamily housing development, the study suggests that the law incorporate financial incentives or rewards to local governments for the addition of housing units.

For more information or to obtain a full copy of this report, please visit the Public Policy of California website at: <http://www.ppic.org>.

## **IMMIGRATION STUDY ARGUES THAT IMMIGRANT WELFARE USE BACK TO 1996 LEVELS**

The Center for Immigration Studies, which advocates limiting immigration to the United States, has released a study showing that immigrants' use of welfare programs, after declining after the passage of the 1996 welfare reform law, is now back to the pre-1996 level. The study, "Back Where We Started: An Examination of Trends In Immigrant Welfare Use Since Welfare Reform," was written by Dr. Steven A. Camarota, the Center's Director of Research.

According to Dr. Camarota's study, in 1996, 22 percent of immigrant-headed households used "at least one major welfare program." After declining in the 1990s, the percentage rose to 23 percent in 2001. The study finds, however, that the increasing use of welfare by immigrants stems primarily from their use of Medicaid. Other welfare program use has, in fact, fallen. TANF use, for example, has gone from six percent in 1996 to a little over two percent in 2001, and food stamp use declined significantly from ten percent in 1996 to six percent in 2001. Both rates are only slightly above those of native-born U.S. residents.

Dr. Camarota attributes the use of welfare by immigrants to their overall lack of education, not to an unwillingness to work. In 2001, the study finds, almost 80 percent of immigrant households using welfare had at least one person working.

A complete copy of the report can be found on the Center's website at: <http://www.cis.org>.

## **PPIC REPORTS ON STATE'S PENDING INFRASTRUCTURE PERIL**

Without intervention, demands and systemic failures could overwhelm California's infrastructure - water, roads, classrooms - over the next two decades, according to a report released by the Public Policy Institute of California (PPIC).

The state's population, now roughly 35 million, is expected to exceed 50 million by 2020, and the report finds that the currently planned expansion in State spending will be insufficient to meet the state's future needs. (If the current budget crisis in Sacramento manages to derail those expansion plans, the problem could be even worse.) The report advocates fundamentally changing the way infrastructure is planned, delivered and maintained.

PPIC visiting fellow David Dowall, who coauthored the report along with Jan Whittington, criticized the inefficient allocation of funding without adequate data and said, "We will not be able to accommodate future growth unless we address these issues and start planning and prioritizing projects, introducing demand-oriented methods of management and ensuring proper maintenance."

After surveys of more than 100 state officials, the authors developed several policy recommendations, including: 1.- Planning (Developing an integrated plan for the future which links regional and metropolitan plans into a unified whole or else develops a statewide plan); 2.- Demand Management (controlling demand for infrastructure with such techniques as water conservation, water recycling, toll roads and road usage fees, and year-round higher education operation); 3.- User Fees (expanding water tariffs, raising gas taxes and vehicle registration fees, and higher tuition and fee levels at state higher education institutions, especially professional schools and colleges); 4.- Accountability (instituting goals and standards for agency implementation); and 5.- Lifecycle Costing (viewing projects in the long term, rather than on a year-by-year basis, as well as an increased focus on maintenance of capital facilities).

The report suggests that equity and ability-to-pay provisions could temper unequal impacts of proposed changes. Innovative suggestions include charging more for road use at peak times of the day, and hiking fees for state college and university students who take longer than four years to graduate.

PPIC is a private, nonprofit organization dedicated to improving public policy in California through independent, objective, nonpartisan research on major economic, social, and political issues. The report is available on the PPIC website at <http://www.ppic.org>.

## **BAY AREA ECONOMIC FORUM EXAMINES GLOBAL OUTLOOK 2003**

The Bay Area Economic Forum (BAEF) recently released its report on *International Trade and the Bay Area Economy - Regional Interests and Global Outlook 2003*. The report was prepared to assist public and private leaders of the importance of international trade to the Bay Area's economy.

The report finds that the global economy should expand modestly in 2003, with a growth rate of 3.7 percent. The U.S. and other major economies will continue to experience slow growth. Most Latin American economies will see very slight growth, according to the report, but Mexico and Canada, the U.S.'s NAFTA partners, are expected to fare better.

The report finds that exports from California have grown faster than exports from the U.S. as a whole, and the state accounts for a higher share of U.S. exports (16%) than of GDP (12.8%). Because of California's focus on Asian trade and its heavy concentration on technology exports, the report posits that "international trade agreements that improve access to Asian markets and improve intellectual property protection will be particularly important to Bay Area companies." China will also be an increasingly important trading partner; already exports to China have increased 12 percent since 1990, raising China to the United State's fourth largest trading partner.

Although global information technology markets are weak, the report expects the accelerating growth evidenced in the last quarter of 2002 to carry into 2003, noting that the Semiconductor Industry Association projects 20 percent market growth for 2003. Although agriculture exports are also expected

to grow only modestly in 2003, the report expects services exports to see significant growth, reaching \$350 billion by 2005.

A complete copy of the report can be found on the BAEF website at: <http://www.bayeconfor.org>

## **GOLDEN STATE ROUNDTABLE LUNCHEON TO FEATURE REMARKS BY U.S. TREASURER ROSARIO MARIN**

On Tuesday, April 1, the next Golden State Roundtable luncheon will feature remarks by the Hon. Rosario Marin, a Californian who serves as Treasurer of the United States. The event will be held Tuesday, April 1, 2003, from 12:00 noon to 1:30 p.m., in the Eisenhower Lounge at the Capitol Hill Club, 300 First St, SE, in Washington. (Please note that the Roundtable luncheon speakers' remarks are intended to be off the record unless otherwise specified.)

U.S. Treasurer Rosario Marin, a native of Mexico and resident of Huntington Park, California, is the highest-ranking Latina in the George W. Bush Administration. Before taking this office, Ms. Marin served as mayor and councilwoman of Huntington Park (a city of 85,000 residents with a population that is 99 percent Hispanic) and worked for AT&T as Public Relations Manager for the Hispanic Market in the Southern California Region. Previously she served in the administration of Governor Pete Wilson and as Chair of the State Council on Developmental Disabilities. Ms. Marin is a graduate of California State University, Los Angeles and of Harvard University's John F. Kennedy School of Government Programs for Senior Executives in State and Local Government.

Lunch cost is \$30 for CSS members and Congressional/federal staff, \$35 for non-CSS members, and complimentary for members of the California Congressional Delegation. Companies are encouraged to buy tables of 8 for \$240. Please note: If you RSVP for the lunch and are unable to attend, you will still be billed for the full cost of your seat at the lunch.

Seating is limited, and persons interested in attending should send an email to [castatesociety@yahoo.com](mailto:castatesociety@yahoo.com), or if not possible, call 202-997-0274. Make checks payable to the California State Society and mail them in advance to California State Society, 419 New Jersey Ave, SE, Washington, DC 20003-4007.