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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.

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UNANIMOUS CALIFORNIA DELEGATION URGES GREATER SCAAP FUNDING

All 53 members of the California Congressional Delegation signed a letter to House appropriators urging that the State Criminal Alien Assistance Program (SCAAP) be funded at $750 million in FY04. SCAAP partially reimburses the states for the costs of incarcerating illegal criminal aliens.

In the FY03 Omnibus bill, SCAAP funding was drastically cut to $265 million, resulting in a $126 million loss for the state of California and its counties. In previous years, $565 million in funding was available, of which California received about $220 million. The letter states that "because of this reduced SCAAP allocation, far fewer resources are available at the State and local level for other priority programs, including critically-needed homeland security-related efforts."

Similar letters supporting increased SCAAP funding have been sent over the past several years signed by all members of the bipartisan delegation. This year's letter, to Chair and Ranking Member of the House Appropriations Subcommittee on Commerce, Justice, State and Related Agencies was sent on Thursday, April 10. Delegation co-chairs Rep. David Dreier (San Dimas) and Sam Farr (Carmel) spearheaded the letter.

FASB VOTES FOR EXPENSING STOCK OPTIONS

The Financial Accounting Standards Board (FASB) on Tuesday, April 22, voted unanimously to support treating company stock options as expenses. The seven-member private board writes the rules used as standards in the accounting industry. The vote is a set-back for information technology companies, which argue that stock options are a necessary component in the 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.

Before it can draft a new rule requiring the expensing of options, however, FASB must still deal with the difficult question of how to value stock options, and there are several possible valuation methods to choose from. The Board has said that it hopes to have a new rule in place by the end of the year.

However, Reps. David Dreier (San Dimas) and Anna Eshoo (Atherton) have introduced a bill that would prevent the Securities and Exchange Commission from enforcing a stock-options rule until it has studied the impact of the rule for three years. The Department of Commerce would also be required to study the rule. *See, Bulletin, Vol. 10, No. 7 (3/20/03)*. Senator Barbara Boxer, another opponent of stock-option expensing, has indicated that she also will be introducing a similar bill in the near future.

CALIFORNIA FARM BUREAU SPONSORING MONDAY BRIEFING ON FOOD SECURITY

On Monday, April 28, 2003, the California Farm Bureau Federation and the California Institute will host a lunch briefing regarding Food Security and Safe Trade. The briefing will take place from 12:30 p.m. to 1:30 p.m. in Room B-369 of the Rayburn House Office Building in Washington.

Following 9/11 and Operation Enduring Freedom, the California Farm Bureau is asking congressional leaders to support efforts to prevent introduction of pests or diseases that threaten food safety, including thorough inspections to ensure imported foods are safe for American consumers and adequate appropriations to maintain programming dedicated to detecting, controlling and eradicating pest and disease outbreaks.

The California Farm Bureau Federation, based in Sacramento, consists of more than 90,000 members dedicated to providing a reliable supply of food and fiber through responsible conservation of California's natural resources. California has led the nation in agricultural production for more than 50 years. Through production of more than 250 commodities, the state's farmers and ranchers produce more than $30 billion in annual farm value.

The briefing will feature remarks by Bill Pauli, owner of Braren-Pauli Vineyards and Redwood Valley Cellars and President of the California Farm Bureau Federation.

If you plan to attend the California Farm Bureau Federation luncheon, please reply (acceptances only, thank you) to ransdell@calinst.org , fax to 202-546-2390, or call 202-546-3700.

TUESDAY LUNCHEON BRIEFING WILL EXAMINE "GOODS MOVEMENT" STATISTICS RELEVANT TO FEDERAL TEA-21 HIGHWAY PROGRAMS

On Tuesday, April 29, 2003, the Public Policy Institute of California (PPIC) and the California Institute for Federal Policy Research will host a luncheon briefing to discuss goods movement – the shipment of freight – and how it impacts transportation. The briefing will be held from 12:00 noon to 1:00 p.m. in Room B-339 of the Rayburn House Office Building

In the near future, this Congress is expected to reauthorize the Transportation Equity Act for the 21st Century (TEA-21), which funds highways, roads and transit. While surplus transit funds help balance the ledger, California's $2.7 billion allotment in FY 2002 represented less than 9 percent of the nation's FHWA total and made California a net donor state with respect to highway funding.

California's geographic location provides it with important portals through which imports and exports flow, placing increased burdens on the state's infrastructure. In 2000, almost $440 billion in internationally traded goods flowed through California. More than $49 billion in exports passed through California on their way from some other mainland states to their ultimate destination. In addition, as much as $248 billion worth of imports may have entered the United States through California for ultimate use in some other state. Once California's shipments through other states are accounted for, $177 billion worth of goods, weighing 32 billion kilograms, are transshipped through California by other states in excess of what California ships through other states.

Federal highway formulas, however, do not compensate California and other states impacted by "goods movement" for the impact of these transshipments on their roads. Join us for a luncheon briefing providing detailed figures and to discuss their implications for safety, congestion and other burdens on infrastructure. The featured speaker with be Jon Haveman, a Research Fellow at PPIC.

PPIC is a private, nonprofit organization dedicated to improving public policy in California through independent, objective, nonpartisan research. The institute was established in 1994 with an endowment from William R. Hewlett.

If you plan to attend the goods movement luncheon, please reply (acceptances only, thank you) to ransdell@calinst.org , fax to 202-546-2390, or call 202-546-3700.

HOMELAND SECURITY SECRETARY VISITS CALIFORNIA, SENDS DIVERGENT MESSAGES ON FORMULA FUND CHOICE

On Thursday, April 24, 2003, Department of Homeland Security (DHS) Secretary Tom Ridge visited various sites across California. Reports varied regarding his Department's intentions for allocating $1.3 billion in grants to reimburse state and local governments for the costs of protecting against terrorism. Some reports indicate that DHS may change a formula that gives small states a major advantage over larger states. Other reports indicate that the Secretary intends to leave in place the existing scheme, which has been the object of strong criticism.

The new $1.3 billion for states comes from the supplemental appropriations bill signed last week. If those funds are distributed among states using the same formula that DHS used to distribute $566 million provided in the FY 2003 omnibus bill passed in January, California would receive $103.4 million of the supplemental funding. That level would provide the state $4.23 per capita, the lowest per capita rate of any state. At the other end of the spectrum, Wyoming would receive $11.1 million or $31.89 per capita. (A California Institute chart showing each state's per capita funding level is attached and is available at http://www.calinst.org/datapages/dhs/Homeland Security Grants Chart.gif .) For more information, see accompanying article.

In one appearance, Ridge stated that one of the first orders of business for the new Department is to ensure that homeland security funds are "channeled to communities based on not only density of population but threat, vulnerability, and critical infrastructure, both public and private." He also said, "We are going to be working on a new funding formula, and I feel very confident that the next round of federal dollars going out to the country will include significant dollars ... to California." However, in a statement that caused concern for some Californians, Secretary Ridge said funds "will be distributed according to the old formula." The San Diego Union Tribune offers an excerpt of Ridge's comments on video at http://www.signonsandiego.com/news/nation/terror/audiovideo/030424border2_hi.ram .

At a meeting later in the day, however, Ridge reportedly stated that he recognized that funds had to be better targeted based on need, threat levels, population density, and critical infrastructure and that his dept. was reviewing the allocation methodologies.

In addition, the Associated Press reported on Thursday that Ridge stated his intention for DHS to "revamp the way it distributes money" for homeland security grants. The news service reports that "The secretary says in allocating those dollars, the government will consider not just a state's population, but its vulnerability to terrorism."

In recent weeks, Secretary Ridge had been quoted by news media outlets as favoring a formula more targeted to states and localities based on relative need and threat levels.

A final decision on allocating funds is expected by next week. Legislative language gave only 15 days from last week's enactment of the supplemental appropriations bill for DHS to announce state allocation levels. The resulting deadline is May 1.

UNORTHODOX FORMULA FOR STATE AND LOCAL HOMELAND SECURITY GRANTS, FORMULA RUN TABLES AVAILABLE ON INSTITUTE WEBSITE

When the newly-formed Department of Homeland Security (DHS) allocated $566 million in Office of Domestic Preparedness grants earlier this year, it employed a very unorthodox formula. Statute requires that the funding, contained in the omnibus FY 2003 appropriations bill, be allocated such that every state receive at least 0.75% and that and that each territory receive at least 0.25% of the funds. The 0.75% level is unusually high, but DHS staff goes even further. By first giving all states 0.75% of funds and then allocating the rest by population, DHS staff actually ensures that every state got at more than 0.85% of the funds. As a result, small states received very large per capita allocations, and large states relatively little – with California receiving the least funding of all per capita.

Within the next week, DHS must decide how to divide an additional $1.3 billion for the same purpose which was funded last week by President Bush's signing of the supplemental appropriations bill. If DHS staff uses the same funding formula, California will receive approximately $4.23 per person ($148.4 million of the nation's $1.866 billion total), whereas more than seven times that amount will go to some small states, including Wyoming ($31.89), Vermont ($26.53), North Dakota ($25.90), and Alaska ($25.57).

Thanks in part to grant analysis capabilities developed pursuant to the *Formula Grants and California* project, a joint project with the Public Policy Institute of California (PPIC), the California Institute has prepared detailed state-by-state tables examining the current allocation methods and alternative, arguably more typical formula approaches. Links to the tables and to a per capita state chart are available at http://www.calinst.org/datapages/DHS.htm .

According to our analysis, California's $148.3 million allocation would increase to $189.2 million ($5.39 per capita)if DHS were to employ a more widely-used formula for distributing the new funds. Further, if DHS were to reassess the funding scheme to distribute all grants – past and current – based on a standard formula, the state's funding level would rise to $207 million (or $5.89 per capita). In either instance, small states would continue to receive large per capita shares. Wyoming, for example, would receive, respectively, $29.23 and $28.07 per capita under these alternative approaches. We also assess the use of current census data; DHS used 2000 Decennial Census data for their allocations.

WAYS & MEANS PLANS MAY 1 HEARING ON SOCIAL SECURITY PROVISIONS AFFECTING STATE'S PUBLIC EMPLOYEES

The House Ways and Means Subcommittee on Social Security has announced that it will hold a hearing on Social Security provisions affecting public employees on Thursday, May 1, in Room B-318 Rayburn House Office Building, beginning at 10 a.m.

The three provisions to be discussed are of particular importance to California's public employees, who are covered by the State Teachers Retirement System (STRS) and the Public Employees Retirement System (PERS), and do not pay into Social Security. They are: the Government Pension Offset (GPO); the Windfall Elimination Provision (WEP); and the Mandatory Social Security Coverage of State and Local Government Employees.

GPO, enacted in 1997, requires the benefit a worker receives from a spouse to be reduced by $2 for every $3 of public pension resulting from a government job not subject to Social Security taxes. WEP was enacted in 1983 to address the issue of public employees who did not pay social security taxes for the period of public employment and, therefore, regardless of income level, may have benefitted from the weighting factors used in determining their ultimate social security payments, which are aimed at replacing more of a low-wage worker's pre-retirement wages than those of a high-wage earner.

Mandatory Social Security coverage would require all state and local public employees to pay into Social Security, even if they are covered by a state retirement system.

The hearing will examine why the GPO and WEP were enacted, how they work, and options for their modification or repeal. The implications of mandatory coverage of public employees will also be examined. Finally, the Subcommittee will determine how modifications to current law would affect beneficiaries, the budget, and solvency of the Social Security Trust Funds.

CALIFORNIA FORMULA FUND LOSSES MINIMAL AFTER CORRECTIONS TO 2000 CENSUS, PER GAO

A new report published by the General Accounting Office (GAO) identifies changes in funding among states due to inaccurate estimates of the 2000 census. Examining recent adjustments made to correct inaccurate census population estimates, the report entitled "*Formula Grants 2000: Census Redistributes Federal Funding Among States*" finds a number of funding discrepancies affecting the distribution of four federal grant programs: the Social Services Block Grant (SSBG), Medicaid, Foster Care, and Adoption Assistance, each being based on population factors derived from decennial census figures. The report identifies an estimated redistribution total of $380 million affecting many of the states, with Medicaid accounting for the most significant changes in program funding.

Efforts by federal agencies to redirect funds after state population census estimates were recently corrected by grant program administrators came after substantial undercounts in federal program dollars were found among some states. Of the four programs examined in the GAO report, however, California's total estimated funding change amounted to a loss of only $2.84 million out of the nation's total of $380 million in funds redistribution.

Although California's population is purported to have been undercounted by 1.08 percent, the state lost funds from only the SSBG program. California was held harmless from losing Medicaid, Foster Care, and Adoption Assistance funds because of the fixed 50 percent Federal Matching Assistance Percentage (FMAP) used in the formula to govern each of the four programs. The FMAP guarantees a minimum 50 percent federal contribution to high income per capita states such as California, thus the correction in population had no effect. According to the report California could have lost an extra $305 million in matching aid had the FMAP floor not been fixed at its present rate.

For this and other GAO reports, see http://www.gao.gov . For detailed data regarding California's formula grant perspective, see *Federal Formula Grants and California*, at http://www.calinst.org/formulas.htm , an ongoing series of reports. A joint project of the Public Policy Institute of California (PPIC) and the California Institute for Federal Policy Research, the reports provide information on California's current and historical funding under the major federal grants and on the formula factors used to determine California's share of funding under various specific grants.

CENSUS ESTIMATES SHOW GROWING OUT-MIGRATION FROM BAY AREA; STATE CONTINUES PATTERN OF GAINING INTERNATIONAL AND LOSING DOMESTIC

New population and migration estimates among US counties released by the Census Bureau indicate continued growth in the most populous Southern California counties, while those located in and around the bay area experienced the most significant population contractions in thirty years.

According to the Census Bureau's County population change report, between 2001 and 2002 the state of California grew by 1.5 percent. The largest numerical population gains were recorded in the country's most populous county, Los Angeles. Inhabited by 9.8 million residents, Los Angeles County grew by 129,000 or 1.3 percent during the given period, according to the report. Riverside county recorded the second highest numerical growth in the state, increasing its population by 75,000 persons or

4.66 percent . Orange and San Diego counties also experienced increases of the largest numerical growth in the country. Figures also show the biggest relative population gains in the Central Valley, a region characterized by its lower property rates compared to its coastal neighbors.

In contrast, six Bay Area counties experienced the largest state declines in population between 2001 and 2002, with San Francisco County losing 1.5 percent of its residents, the largest percentage loss. San Francisco was joined by San Mateo, Santa Clara, Santa Cruz and Marin counties to round out the top five population losers in the state. According to analysts, the downward population trend in the region is a product of the effects of the tech slump.

For the state as a whole, Census estimates that California saw a significant net growth in population due to a so-called natural increase (births minus deaths) of +296,000 and net international migration (the arrival of migrants from other countries) of +327,000. These increases more than offset a negative net internal migration of -109,000. In other words, 109,000 more people moved from California to other states than moved from other states into California.

Census Bureau population estimates are based on birth and death estimates derived from county data combined with domestic and international migration effects. For more information on these results visit the Census Bureau homepage at http://www.census.gov .

PRINCIPLES FOR TEA-21 REAUTHORIZATION DETAILED IN NEW REPORT

With the deadline for renewal of the nation's surface transportation law approaching, the California Partnership for Consensus on Reauthorization of TEA-21 last month released a comprehensive publication highlighting the partnership's principles for reauthorization and providing details and statistics to support those principles. The partnership, comprised of a number of major California transportation stakeholders and state agencies, submitted the principles for reauthorization to Congress earlier this year presenting a consolidated position on California transportation needs.

The publication, entitled "*Federal Transportation Reauthorization Beyond TEA-21: California's Consensus*" breaks down the proposed funding principles by major category, focusing on funding, equity, program structure, and expedition of project delivery. It contains useful charts and data to illustrate California's unique role as an economic powerhouse and a global gateway for trade. It also discusses the level of state and local commitment to transportation projects as an indication that the state is doing its part to support mobility and congestion relief at home. A number of case studies are also presented as examples of some transportation successes thanks to TEA-21 and the commitment of public and private funding.

Lawmakers are currently considering provisions they wish to include to the successor of the 1998 Transportation Equity Act of the 21st Century but first they are awaiting the submission of the President's reauthorization blue print.

For further information, please visit the Metropolitan Transportation Commission website at: http://www.mtc.ca.gov/whats_happening/legislative_update/TEA21_Re-Auth_DRAFT.pdf .

CALIFORNIA'S UNEMPLOYMENT RATES SLIGHTLY DOWN IN MARCH 2003

California's unemployment rate was at 6.6 percent in March 2003, same as it was at this time last year, which constitutes a slight decrease of 0.1 percent from the 6.7 percent rate registered in February 2003. While the state's rate showed a slight decline, the national unemployment rate increased by 0.1 percent to 5.8 percent.

According to California Employment Development Department's newly released data, the Los Angeles unemployment rate declined by 0.4 percent, down to 6.3 percent in March from a 6.7 percent rate in February 2003. Similarly, Orange County's rate was down to 3.8 percent (a decline of 0.1 percent), Riverside County registered 5.9 percent (down 0.2 percent), San Bernardino was down 0.1 percent to 5.5 percent, and Ventura's jobless rate was at 4.9 percent in March 2003, down 0.4 percent.

While the Southern California 5-county combined rate was at 5.6 percent (down from the March 2002 rate of 5.9 percent), the Bay Area 9-county combined unemployment rate registered at 6.5 percent. Santa Clara County experienced a 0.4 percent increase, up to an 8.4 percent rate from 8 percent in March 2002. San Francisco also registered a relatively high unemployment rate of 6.8 percent, though its rate in March 2003 was 0.5 percentage points below the rate registered last year. Alameda County also had a high jobless rate of 6.7 percent, which was an increase of 0.1 percent from the previous year.

For more information about unemployment rates in California, please visit the California Employment Development Department's website at http://www.edd.ca.gov .

HOUSING NEEDS AND TRENDS EXAMINED

On Friday, April 11, 2003, the Population Resource Center in association with the Northeast-Midwest Congressional Coalition and the California Institute for Federal Policy Research held a briefing about housing issues in the nation. Titled "*Housing America - Trends, Opportunities, and Needs*", the briefing explored census data housing indicators, looked at trends in homeownership, and discussed housing policy and affordability, particularly with respect to families moving from TANF to self-sufficiency.

Presenters included Peter Fronczek, Assistant Division Chief, Labor Force and Outreach, U.S. Census Bureau; David Ledford, Vice President, Housing Policy and Finance, National Association of Home Builders; Barbara Sard, Director of Housing Policy, Center for Budget and Policy Priorities; and Mark Calabria, Majority Staff, and Jonathan Miller, Minority Staff, Senate Committee on Banking, Housing and Urban Affairs. William A. Davis, Jr., President, Davis Developments, Inc., served as the moderator for the panel of presenters.

Citing census data, Mr. Fronczek stated that 69.8 million of the total 115.9 million housing units in the nation were owner-occupied, 35.7 million were renter-occupied, and 10.4 million housing units were vacant in 2000. Mr. Fronszek said that monthly gross rent (adjusted) increased 114 percent, rising from $283 in the 1940s to $602 in 2000, translating into less than 17 percent of income in the 1940s to 25.5 percent of income in 2000. He joined Mr. Ledford in noting that ownership rates soared in the last 60 years, rising from less than 40 percent in the 1940s to 66.3 percent in 2000.

Though national homeownership rates have been steadily increasing over the years, California rates are lagging behind that of the rest of the nation. According to Mr. Ledford, California ranks third in lowest homeownership in the nation with a 56.9 percent rate, preceded by the District of Columbia and New York, with 40.1 percent and 52.3 percent homeownership rates, respectively. California also leads the nation as the state with the second highest home values, with an average home value of $283,891 in 2000, falling behind Hawaii whose average home value was $311,519.

Building on the latter, Ms. Sard spoke about the affordability in rental markets. She stated that 94 percent of low-income families pay more than 50 percent of their income for rent, and a typical family moving from TANF to self-sufficiency must pay approximately 58 percent of total income for decent modest housing. A sizable share of low-income families reside in California. Ms. Sard added that lack of affordable housing with access to jobs compounds not only the difficulties families trying to leave the welfare face, but also the problem of low homeownership rates.

Responding to the data presented by other participants, Mr. Calabria said that homeownership is the primary goal of the Senate Banking Committee Chair Richard Shelby (AL). Mr. Calabria and his minority staff colleague, Mr. Miller, agreed that the housing problem in America is an income and affordability problem.

For more information, visit the Population Resource Center's website at http://www.prcdc.org .