



# THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH

419 New Jersey Avenue, SE, Washington, D.C. 20003 202-546-3700  
fax: 202-546-2390 e-mail: [randsell@calinst.org](mailto:randsell@calinst.org) web: <http://www.calinst.org>

## California Capitol Hill Bulletin

**Volume 10, Bulletin 34 – November 14, 2003**

*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.*

### SENATE PANEL APPROVES SIX-YEAR HIGHWAY REAUTHORIZATION PROPOSAL

Congress took its first step toward reauthorizing major surface transportation law after a Senate panel approved a multi-year, \$255 billion version of the Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2003 (SAFETEA) on November 12, with strong bipartisan support. The highway bill, S.1072, passed the Senate Environment and Public Works Committee by a 17 to 2 vote, the two dissenting votes from Sens. Bob Graham (FL) and Ron Wyden (OR) were to protest the absence of formula language identifying how much highway funding each state would receive from the bill.

The bill's report indicates authorization levels of \$201 billion for federal highway programs and \$46 billion for transit over six years. This would increase highway funds from current levels by 31 percent, while maintaining budget controls used to prevent transportation dollars from being directed to other federal programs. The bill that passed the Committee does not include the Revenue Aligned Budget Authority (RABA) and highway trust fund minimum guarantee, though both provisions are expected to be added before the bill's consideration on the Senate floor.

To the Congestion Mitigation Air Quality (CMAQ) program, the bill proposes to add a factor for "fine" particulate matter (currently based on ozone, carbon monoxide, and coarser particulates), and it would expand the program's funding levels to \$2.23 billion by 2006. Sending dollars to states based on the severity of air pollution, CMAQ currently awards 21.3 percent of total program funds to California, making it the state's highest yielding core highway formula program.

The Senate bill would also add a new core funding category dedicated to safety improvements.

Committee Chair James Inhofe (OK) presiding over the three-hour markup of the bill was criticized a number of times by Sen. Graham for sidestepping the "donor-donee" struggle and not providing him with an analysis of S.1072's state formula distributions. Sen. Graham's effort to carve out and revisit the formula issue at a later date failed by a vote of 4 to 15. The donor-donee debate is centered around the minimum guaranteed rate of return to states comparative to how much each state sends to the highway trust fund in federal highway taxes. Advocates for some donor states argue the minimum guarantee in

CONTENTS:	
Senate Panel Approves Six-Year Highway Reauthorization Proposal . . . . .	1
California To Receive Nearly 20% of Homeland Security Urban Grants, Softening Yet Not Erasing Low Per Capita Share of Formula Grants . . . . .	2
Bipartisan Delegation Sponsors PPIC/California Institute Briefing for Staff on State's Share of Federal Taxes, Spending, and Formula Grants . . . . .	3
FCC Adopts Anti-Piracy Rule For Digital TV . . . . .	4
Senate Banking Examines Accounting Standards Board Actions . . . . .	4
Environmental Policy at the Top of Agenda for State's Populace . . . . .	5
Health of California's Seniors Examined . . .	6
November 21 PRC / California Institute Briefing to Examine Foreign and Domestic Migration Patterns . . . . .	7

current transportation law is too low and have put pressure on Washington to lift the rate of return from 90.5 percent to 95 percent or more. Doing so would reduce subsidization burdens for states such as Michigan, Florida and Texas at the expense of states that currently receive a more highway funding than they pay in gas taxes and related taxes and fees. California, to some extent a donor state regarding highway funding, has largely steered clear of the equity discussion due to the threat of possibly losing funds if minimum guarantee were imposed on transit programs (California receives nearly one quarter of transit funds). The fate of ethanol subsidies could also adversely impact California's rate of returns should an ethanol mandate be included in the pending energy bill.

Among Chairman Inhofe's highway reauthorization goals was streamlining environmental regulations that he argues delay highway infrastructure development and project delivery. The bill does include language that would expedite certain environmental planning reviews, but some controversial amendments were withdrawn by committee members. Sen. Barbara Boxer expressed her concern about the inclusion of streamlining provisions that she said would lessen public participation and weaken Clean Air Act standards. Sen. Boxer also asked Sen Cornyn (TX) to expand his proposal that would give Texas special consideration in the maintenance and protection of infrastructure along high priority corridors. Sen Cornyn agreed to opening the plan to include other states and working with Sen. Boxer's staff before the amendment is reintroduced on the Senate floor.

### **CALIFORNIA TO RECEIVE NEARLY 20% OF HOMELAND SECURITY URBAN GRANTS, SOFTENING YET NOT ERASING LOW PER CAPITA SHARE OF FORMULA GRANTS**

On Thursday, November 13, 2003, the Department of Homeland Security (DHS) released its distribution plan for \$725 million in FY 2004 Urban Area Security Initiative funding, which is intended to help urban areas enhance security and terrorism preparedness. The funds are to be distributed by the Department's Office of Domestic Preparedness (ODP) in two pots: \$675 million for general urban area grants and \$50 million for urban mass transit security grants.

California will receive \$142.5 million, or 19.7 percent of the urban area funds announced November 13. Nevertheless, the large share of urban area funding is still insufficient to raise California's per capita homeland security grant funding for 2004 to the national average, but it will lift the state out of its last-place position in funding per person. When combined with California's \$176 million from ODP's state homeland security formula grant funding announcement of November 3 (*see [Bulletin, Vol. 10, No. 33 - 11/6/03](#)*), California's share of 2004 ODP grants announced to date will be approximately \$9 per capita, still below the \$10 per capita national average and far below the \$38 per capita to be received by top-ranked Wyoming. The urban area grant funding will let Texas displace California as the lowest per capita funded state, and also move California above Florida, Georgia, North Carolina, Puerto Rico, and Virginia in per capita receipts.

California is expected to receive \$135.7 million or 20.1 percent of the nation's total urban area formula grants in 2004, with grants to go to Los Angeles (\$28.3 million), San Francisco (\$26.5 million), Santa Ana (\$15.1 million), Long Beach (\$12.1 million, San Diego (\$10.5 million), Anaheim (\$10.3 million), San Jose (\$10 million), Sacramento (\$8 million), Oakland (\$7.9 million), and Fresno (\$7.1 million).

California is will receive \$6.8 million, or 13.6 percent, of the nation's mass transit security grants in 2004, with \$2 million slated to Los Angeles for Metrolink, \$1.6 million to the San Francisco Bay Area Rapid Transit District (BART), and \$800,000 each to the San Francisco area for Caltrain, the San Jose area for the Altamont Commuter Express (ACE), the Los Angeles County Metropolitan Transportation Authority (MTA), and the San Diego Coaster.

The \$675 million is titled urban area “formula” grant funding, but (for security reasons) DHS declines to release the formula by which the funds are allocated, except to say that it takes into account factors including critical infrastructure, population density and credible threat information. Funds will be allocated to states, which must award 80 percent to the designated cities and contiguous counties within the designated urban area and use the remaining 20 percent for security enhancements within the urban area.

The \$50 million for metropolitan rail transit authorities will also be distributed via states, with recipients reportedly selected based on the number of annual riders and overall track mileage. Allowable uses of funds include physical barricades, area monitoring systems such as video surveillance and motion detectors, thermal/IR imagery and chemical/radiological material detection systems, integrated communications systems, and prevention planning, training and exercises.

For details of the DHS announcement of urban area grant funds, visit <http://www.dhs.gov> . For a detailed table of 2004 state allocations from ODP grant programs (formula and urban area grants), as well as a chart showing states’ per capita shares of state homeland security formula grant funds, see <http://www.calinst.org/datapages/DHS.htm> .

## **BIPARTISAN DELEGATION SPONSORS PPIC/CALIFORNIA INSTITUTE BRIEFING FOR STAFF ON STATE’S SHARE OF FEDERAL TAXES, SPENDING, AND FORMULA GRANTS**

On Wednesday, November 12, 2003, the bipartisan California Congressional Delegation sponsored a briefing for California Congressional members and staff regarding California's share of federal taxes and expenditures – and the "balance of payments" between the two – with particular focus on the effect of grant formulas on California's federal receipts.

At the briefing, Tim Ransdell, Executive Director of the California Institute, noted that California taxpayers have for 15 years sent more tax dollars to Washington than the federal government has spent in the state on grants, contracts, salaries and direct payments. California Institute figures show that, in 2002, the deficit was a record \$58 billion, meaning the state received 77 cents for every \$1 paid in federal taxes. He noted that most of the imbalance is to be expected, as the state houses fewer older persons (reducing Social Security and Medicare payments) and more high-income persons (raising income tax payments) than the national average. He added, however, that discussion of the discrepancy has focused greater public attention on the state-federal fiscal relationship.

Formula grant programs – used to fund state and local activities in health care, transportation, education, nutrition, social services, law enforcement, and other areas – are the fastest growing component of the federal budget and strongly influence state receipts. The information for the formula grant aspects of the briefing is derived from the *Federal Formula Grants and California* series, a joint venture between the Public Policy Institute of California (PPIC) and the California Institute that has released six reports during the past year. Two of those reports examined general topics – California's share of all formula grants and the factors that drive those shares – and four reports detailed the mechanics of major grant programs: welfare, highway programs, special education, and Head Start. (The next report, to be released in January, will examine homeland security grants.) The series was developed at the request of the bipartisan leadership of California's congressional delegation and is produced by PPIC – an independent, nonpartisan policy research institute based in San Francisco – in collaboration with the California Institute.

During the briefing, Ransdell provided an overview of California’s balance of payments and California receipts under a number of federal formula programs, including Medicaid, highways, welfare, disabled education, and Head Start. He commented that California receives slightly less than its population share in federal formula grants (due in part to special formula features designed to boost receipts for smaller

states). He also pointed out that California has a higher proportion of poverty than most other states while its share of federal salaries, and defense procurement has declined significantly over the last twenty years, adding that base closures hurt California's federal wage receipts far more than other states'.

Of federal formula grants, the fastest growing component of the federal spending budget, California receives 11.8 percent or \$48 billion out of \$407 billion of state distributions via formula programs. Special formula features such as small state minimums sometimes attached to federal formula language often adversely impact California's share of formula dollars. As an example, Ransdell highlighted the small-state minimum in the state homeland security grant program that will provide California \$5 per capita in 2004, compared to \$38 per capita for Wyoming.

Finally, Ransdell discussed the unique formula features of several programs that the *Federal Formula Grants and California* project has examined more thoroughly. California's share of the nation's total funding for highway programs and special education is lower than its population share; whereas the state receives an equitable share of Head Start funds and a very large share of welfare program funds. Ransdell also noted that the state's share of Medicaid is below its share of population and well below its share of the nation's poor persons.

For more information on California's balance of payments or to view federal formula program publications visit the California Institute's or PPIC's website at: <http://www.calinst.org> or <http://www.ppic.org>.

## **FCC ADOPTS ANTI-PIRACY RULE FOR DIGITAL TV**

On November 4, the Federal Communications Commission adopted its first rule to restrict the possibility of piracy of programs on digital broadcast television. The mechanism is known as a "broadcast flag," and it is aimed only at preventing the mass distribution of digitally broadcast TV programs over the Internet.

Under the rule, by July 1, 2005, products that are capable of receiving DTV (Digital TV) signals over-the-air must comply with the broadcast flag requirements. At the discretion of the broadcaster, a digital code, or broadcast flag, could be embedded in a program, which would prevent it from being recorded by a device not equipped with the technology to read the flag. A personal computer, for instance, would be unable to copy a flagged DTV program onto its hard drive for retransmission over the Internet.

According to the FCC, however, copying of a flagged program for individual use in the home would not be affected. Additionally, other products, such as digital VCRs, DVD players and personal computers that are not built with digital tuners installed, are not required to comply with the new rule. Also, the FCC stated that existing televisions, VCRs, DVD players and related equipment will remain fully functional under the new broadcast flag system.

The entertainment industry has strongly supported requiring the broadcast flag in order to encourage the availability of high value digital programming on over-the-air broadcasts, which are harder to shield from piracy than satellite and cable channels.

For more information, visit the FCC's website at: <http://www.fcc.gov>.

## **SENATE BANKING EXAMINES ACCOUNTING STANDARDS BOARD ACTIONS**

The Senate Banking Subcommittee on Securities and Investment held a hearing on Wednesday, November 13 entitled *The Financial Accounting Standards Board and Small Business Growth*. The panel heard from a number of witnesses, including: Robert Herz, Chairman, Financial Accounting Standards Board; Mark Heesen, President, National Venture Capital Association; and Walter Moore, Vice President for Government Affairs, Genentech.

The purpose of the hearing was to examine the role of small business in our nation's economy and the important role played by the Financial Accounting Standards Board (FASB) in establishing accounting standards.

In his opening statement, Chair Michael Enzi (WY) stated: "Since the rise of the accounting scandals, FASB has become more active in updating and establishing accounting standards. The Board in its attempt to quell the accounting problems of companies in the Fortune 500 may have overlooked or have not paid enough attention to how the draft statements and interpretations may affect small entities. In addition, FASB may not have sought enough input from small firms."

In his testimony, Chairman Herz stressed the importance of the Board's independence, as well as its commitment to carefully consider the burdens its accounting standards may place on small businesses. He outlined the actions that FASB takes to encourage the participation of small businesses in its activities. He also testified that, because it recognizes that the costs of accounting standards may fall disproportionately on small businesses, FASB is often willing to consider deferring implementation of standards to provide more time for small businesses to comply.

Mr. Moore addressed the issue of expensing stock options. He testified that proposed accounting rules mandating that companies expense employee stock options will be detrimental to biotechnology firms – particularly small, biotech start-up companies, which often use stock options as an enticement for employee recruitment. Mr. Moore stated FASB's proposal to require the expensing of stock options would "greatly impact all companies that use broad-based employee stock options without providing investors with consistent, comparable and reliable financial information." He also testified that existing problems with current option valuation methods applied by the FASB must be addressed or new models must be developed before wide scale accounting changes are implemented.

For the testimony of all the witnesses, access the Subcommittee's website at:

<http://www.senate.gov/~banking> .

## **ENVIRONMENTAL POLICY AT THE TOP OF AGENDA FOR STATE'S POPULACE**

Despite the looming budget deficit, the natural disasters and political change to have hit the state in the past couple of months, a large majority of Californians continue to place a high value on the health of the state's beaches and ocean, reports a new survey released today by the Public Institute of California (PPIC) and the Hewlett, Irvine, and Packard Foundations. Titled "*PPIC Statewide Survey: Special Survey on Californians and the Environment, November 2003*", the report is sixth in a series of eight surveys that focus on population growth, land use, and the environment. This report's central issues of interest are marine and coastal areas and an overall environmental policy for the state.

Some of the major findings of the survey are:

- The vast majority, or 88 percent, of Californians say that the condition of the ocean and beaches is personally important to them, while 60 percent indicated it is very important. Strong majorities of Californians also believe the coastline's condition is very important to the state's quality of life (69 percent) and economy (61 percent).
- More than half (52 percent) of the state's residents believe that the quality of the ocean along the state's shoreline has deteriorated in the past two decades, and 45 percent say ocean conditions are likely to worsen over the next twenty years.
- Three in four residents (77 percent) support protecting wetlands and beach/bay habitats even if it means less commercial activity near the coast.
- Fifty percent of those surveyed favor prohibiting new off-shore oil drilling along California's coast, even if it means higher gasoline prices.

- Nearly all Californians agree that environmental protection should be a priority for an incoming Schwarzenegger administration. Approximately one-third (32 percent) think it should be a top priority, while a large majority (57 percent) think it should be an important priority.
  - Nearly half (48 percent) of those surveyed support funding environmental programs at current levels, even at the expense of other state programs, while 35 percent support reducing environmental funding.
  - More residents trust the state (42 percent) rather than local (30 percent) or federal (14 percent) governments to manage marine and coastal issues.
  - Residents of the South Coast region place greater importance on the shoreline than those who live in the North Coast or Inland regions. More residents of the South Coast (62 percent) than of the North Coast (45 percent) or Inland (46 percent) regions think ocean and beach pollution in California is a big problem.
- To view the report, visit the Public Policy Institute of California website at: <http://www.ppic.org> .

## HEALTH OF CALIFORNIA'S SENIORS EXAMINED

Higher numbers of Latinos above the age of 65 and seniors with limited English lack preventative health care and suffer from poor health reports, a new statewide survey done by the UCLA Center for Health Policy Research finds. The study, titled "*Health of Older Californians: County Data Book*", is based on data from the California Health Interview Survey (CHIS) 2001 and 2000 U.S. Census. It is the first comprehensive evaluation of the state's seniors' health that includes county-level information for different racial/ethnic groups, women with low incomes, limited English proficiency speakers, and Medi-Cal recipients.

The report examined specific health behaviors, such as smoking and drinking habits, and health status in relation to heart disease, diabetes, asthma, hypertension, arthritis, skin cancer, difficulty in climbing stairs and emotional problems. In addition, the report looked at the use of medical, dental, prescription medication services, and preventative care. According to the report, approximately 44.7 percent of the state's older Latinos and 46.2 percent of seniors with limited-English abilities report poor or fair health in contrast to 30 percent of California's, and 26 percent of the nationwide, 65 and over population reporting the same. "Most older persons are working to maintain their health by following recommended schedules....Yet some groups, such as Latinos, have more health problems than average and obtain fewer preventive services" argues lead author Steven P. Wallace.

The report also found that less than 10 percent of California's seniors smoke and even fewer drink alcohol. At the same time, half of senior citizens in the state report having arthritis and 24 percent report heart disease in comparison to nationwide figures of 55 percent and 21 percent respectively. The report states that 11.5 percent of Californians 65 and over report that emotional problems like depression or anxiety impair their daily activities, and points out that those most likely to report mental health problems include elders of color, those with limited-English abilities and Medi-Cal recipients. When it comes to preventative measures, the survey reports that 45 percent of older Latinos, in comparison to 33 percent of seniors statewide, do not receive flu shots, though California seniors fare better than seniors elsewhere in the nation with respect to colon cancer screening, where 37 percent of statewide seniors and 48 percent of nationwide seniors report never having had a colonoscopy. In addition, the report found that 15 percent of older people statewide lack insurance coverage for prescription drugs. However, in comparison to 78 percent of non-Latino whites who report having private supplemental health insurance, only 37 percent of limited-English speakers report having such insurance.

Overall, the survey found that older people in Tulare and Kings counties had the poorest health profiles, while older people in Marin County were the most healthy.

For a full copy of the report, please visit UCLA Center for Health Policy Research website at:  
<http://www.healthpolicy.ucla.edu/pubs/publication.asp?pubID=77> .

## **NOVEMBER 21 PRC / CALIFORNIA INSTITUTE BRIEFING TO EXAMINE FOREIGN AND DOMESTIC MIGRATION PATTERNS**

On Friday, November 21, 2003, from 9:30 a.m. to 11:00 a.m. in Room 121 of the Cannon House Office Building, the Population Resource Center, in conjunction with the California Institute for Federal Policy Research and the Northeast-Midwest Institute, will host a breakfast briefing entitled “Three Americas – How New Movers and Immigrants are Changing the Demographic Landscape.”

The briefing will feature presentations by renowned demographer Dr. William H. Frey, Visiting Fellow at the Brookings Institution Center on Urban and Metropolitan Policy and Research Scientist at the University of Michigan’s Population Studies Center, who will give a talk entitled “Metropolitan Migration Magnets: A Transition for America.” In addition, the briefing will feature a presentation by Roland V. Anglin, Executive Director of the New Jersey Public Policy Research Institute, entitled “The Challenges and Costs for a Changing Nation.”

The presenters will note that each year, hundreds of thousands of people move to the United States and millions of Americans relocate within the country. The destinations of choice for these two groups have a profound impact on public service needs, business patterns, and the political landscape, both for the destinations, and for the places left behind.

Census data indicates that certain metropolitan areas are domestic migrant magnets, while others are immigrant magnets. Over time, the resulting dynamics of age structure, education levels, and race and ethnicity show definite and distinctive differences between regions. Some areas experience net gains in population due to immigration, even though losing significant numbers of residents through domestic out-migration. The presenters will examine the emerging “Three Americas” and discuss some of the possible implications of these trends for metropolitan America in the coming decade.

RSVP (acceptances only, thank you) to [prc@prcdc.org](mailto:prc@prcdc.org) , or fax to 202-467-5034.