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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.

CONTENTS:

SCHWARZENEGGER BUDGET CITES FEDERAL SHORTFALL AND BURDENS, SEEKS SUPPORT

On Friday, January 9, 2004, Governor Arnold Schwarzenegger released his 2004-05 budget. Citing California Institute data for 2002 showing that Californians paid $58 billion more in federal taxes than the federal government spent within the state, the budget assumed the securing of $350 million in federal funds to offset state general fund costs. The budget states, "The Administration will work with the federal government and the State's congressional delegation to increase the State's share of federal funding."

The budget highlighted a number of inequities in the state-federal relationship, particularly federal formula grant programs. Programs singled out included homeland security, Medicaid (Medi-Cal in California), transportation, the State Criminal Alien Assistance Program (SCAAP), and child care, and the document also discusses Pell Grants and education tax credits.

Regarding the formula for homeland security, the budget notes that California is shortchanged due to the fact that federal funds are allocated in equal amounts to each state and per capita after that. The budget acknowledges that the California congressional delegation is seeking legislation that would require the Department of Homeland Security to distribute homeland security grant funds based on threat and vulnerability assessments rather than population, and it expresses the expectation that such a change would assist California's homeland security efforts.

On transportation, the budget notes that California represents more than 13.5 percent of the nation's Gross Domestic Product and that "Californians are doing more than their fair share to address congestion and goods movement problems, passing local transportation sales tax initiatives" and approving ballot initiatives to commit the state's gas tax revenues to transportation, but that the state still receives less that 10 percent of federal highway funding. The budget states that a top Administration priority will be: "Working with California's bipartisan delegation to increase federal investment in the national transportation program and a share for California that more appropriately reflects California's contribution to the economy and trade system."

The budget notes that the 50-plus-year-old Medicaid program shortchanges California by continuing to use per capita income (PCI) data to estimate the number of poor persons by state, despite the fact that a more appropriate federal poverty definition was created in the 1960s. Whereas most states with high PCI have low poverty, California is an exception to that rule, with both high PCI and high poverty. The budget states that the Administration plans to seek further fiscal relief under Medicaid. In addition, the budget notes that the state expects to spend approximately $182 million to provide non-emergency medical services to undocumented immigrants, and notes that the Administration will seek federal matching funds to offset some of these costs.

Stating that the state's Youth Authority and Department of Corrections expect to spend $711 million to incarcerate undocumented felons, the budget estimates that the state expects to be reimbursed for only 9.3 percent ($66 million) of these costs by SCAAP. The document pledges to work with the California congressional delegation to "secure a more appropriate level of reimbursement."

In other funding areas, the budget notes that use of a more current funding base for the federal child care program would increase California's share of funds, that increasing community college tuition will increase the Pell Grant amounts students may be awarded, and that increased awareness of federal education tax credits could raise federal dollar flows into the state.

The budget and summary documents are available at the California Department of Finance website at http://www.dof.ca.gov .

GOVERNOR'S BUDGET ADDRESSES FEDERAL MANDATES AND SANCTIONS

The Governor's budget also contains a section promoting action at the federal level to gain relief from federal penalties and requirements resulting in a savings of $560 million in incurred costs and $670 million in near term potential costs facing the state of California.

The budget proposal, Governor Schwarzenegger seeks greater federal flexibility and relief with respect to monetary sanctions levied on California for non-compliance with federal mandates and requirements. The state faces one such cost of $8.2 million in an upcoming fiscal year (of which $4.1 million will come from the General Fund) if it fails to satisfy new federal regulations concerning the Department of Metal Health (DMH). Under the new mandate, DMH is required to provide informational materials and provider lists to approximately 350,000 managed care clients, and materials and a toll-free number to request a provider directory to an estimated 3.2 million Medi-Cal recipients. The proposal notes, however, that the current requirements are a result of a compromise with the federal Centers for Medicare and Medicaid Services, and that the Bush administration may pursue additional modifications to the latter mandate.

California's unrealized statewide-automated child support system has cost $562 million in federal penalties. The penalties are estimated to jump from $195 million in 2003-2004 to $220 million in the following year. Seeing as the state began the process of implementing the system's components in 2003, and will continue developing other system components in 2005, California is appealing for a waiver of federal penalties.

According to the budget summary, California was sanctioned $176.9 million in federal FYs 2001 and 2002 due to Food Stamp program eligibility errors. Since then, the California error rate has been reduced by almost two-thirds thanks to state action. An appeal to reduce or eliminate California sanction payments is still under consideration in Washington.

Under federal child welfare rules, states must comply with comprehensive Child Welfare System/Case Management System (CWS/CMS) database requirements. As a result, the state could suffer a loss of $26 million in federal advanced funds over two years. The state is developing a plan for federal approval to access advanced funding sources currently denied and to reduce the potential of federal penalties, according to the budget.

The state's failure to meet 12 of 14 outcome measures under the California Child Welfare Services program federal review is another budget concern. In response, the state submitted an improvement plan that was approved in June, 2003. The Governor's budget includes $23.2 million to fund the plan's implementation in the hopes that California will not incur an $18.1 million penalty this fiscal year (and up to $123 million in non-compliance penalties over the following two fiscal years). State and federal officials will meet in January 2004 to consider renegotiation of the plan's terms.

The budget is available at the California Department of Finance website at http://www.dof.ca.gov .

GOVERNOR ADDRESSES FEDERAL ISSUES IN FIRST STATE OF THE STATE MESSAGE

During his first State of the State message on Tuesday, January 6, 2004, Governor Arnold Schwarzenegger touched on several federal issues and praised the bipartisan discussions held by California Congressional delegation.

Commenting on a bipartisan retreat held in Palm Springs in December, the Governor said, "the California Congressional Delegation and I agreed to put party and district boundaries aside and to speak with one united voice in Washington." He noted that he and the Congressional delegation "agreed to fight side-by-side" and seek more federal funding for homeland security, the State Criminal Alien Assistance Program, water resources, and transportation. He focused special attention on the expected 2005 round of military base closures, which he said "could mean thousands of lost jobs to California." He said, "These bases are important to national defense, and they are important to our steady economic recovery. As a state, we will fight to keep our bases open."

The State of the State address may be viewed at http://www.governor.ca.gov .

PRESIDENT BUSH PROPOSES NEW IMMIGRATION POLICY

On Wednesday, January 7, President Bush unveiled the Administration's proposal to establish a legal temporary workers program for immigrants to the United States. Entitled "Fair and Secure Immigration Reform," the policy aims at matching temporary foreign workers with employers in the United States who are unable to find Americans to fill the job. The program would be open to new foreign workers who wish to enter the United States, as well as the millions of undocumented workers now in the U.S. The government estimates that at least 8 million undocumented workers currently reside in the country. Although the legislative details of the proposal are not yet defined, the President laid out several policy goals and the broad outlines of how the program would work.

The basic policy goals set out by the President are: 1) Protecting the Homeland by Controlling Our Borders; 2) Serve America's Economy by Matching a Willing Worker with a Willing Employer; 3) Promoting Compassion; 4) Providing Incentives for Return to Home Country; and 5) Protecting the Rights of Legal Immigrants.

Under the program, U.S. employers who can show that no American worker is available will be able to hire a foreign worker under a new visa category. The foreign workers would be given a temporary work card that would enable them to travel freely between the United States and their home country without worry of being denied re-entry to the United States. The work cards would be valid for three years, with the possibility of being extended for longer periods. In addition, the temporary workers would be protected by current U.S. labor laws. At the end of the work period, the immigrant would be required to return to his or her home country. The program would not provide a new or expedited way for temporary workers to adjust status to permanent legal residence or citizenship. As an incentive to ensure the temporary workers return to their native country, the Administration would enter into agreements with participating countries to allow foreign workers to accrue and collect U.S. Social Security benefits without penalization by the home countries. In addition, a tax-preferred savings account would be available to the temporary workers.

The program also calls for stepped up enforcement against U.S. employers who violate immigration laws and tightening of the border.

The Administration's proposal will have to be implemented through congressional legislation. Whether bipartisan support for the proposal can be garnered is uncertain. The House and Senate are not due to reconvene for the Second Session of the 108th Congress until January 20, 2003.

SENATE TRANSPORTATION SAFETY AUTHORIZATION LESS THAN HOUSE PROPOSAL

On June 26, 2003 the Senate Commerce, Science and Transportation Committee approved key transportation safety components of the Senate's highway reauthorization proposal, in addition to authorization levels for Amtrak, the nation's railroad passenger service, by voice vote.

The Senate Commerce panel chaired by Sen. John McCain (AZ) is charged with setting funding levels for highway and motor carrier safety programs, and hazardous materials and boating safety activities. One of the main priorities of the Bush' administration's surface transportation reauthorization act (SAFETEA) is to improve safety measures on roads and highways, enabling congressional authorizers to devote more attention and resources to the subject of safety enhancements.

The bill, S1978, known as the Surface Transportation Safety Reauthorization Act of 2003, would boost safety program levels to $4.8 billion, maintaining transportation safety provisions from 2004 through 2009. Companion legislation in the House goes further, providing $7.5 billion to cover federal safety programs through 2009.

The McCain bill would authorize the National Highway Traffic Safety Administration (NHTSA) at $3.5 billion over 6 years, the House's proposal (HR3550) authorizes $4.2 billion for NHTSA programs. Under S1978's NHTSA section, $690 million is attached for highway safety research and outreach programs, compared to $1885 million included in the House's draft proposal. Also under this section, the Senate bill authorizes $24 million to carry out high-visibility traffic safety campaigns. The House bill assigns $60 million for the establishment and administration of similar traffic safety programs.

The Federal Motor Carrier Safety Administration (FMCSA), an agency tasked with enforcing federal safety compliance standards among commercial trucks and buses would be reauthorized at $1.314 billion over 6 years. The House bill more than doubles this funding level by providing $3.3 billion for FMCSA's activities. Senate Commerce's motor carrier grants-to-states item known as the Motor Carrier Safety Assistance Program (MCSAP) is authorized at roughly $1.2 billion while the House authorizes $1.558 billion in motor carrier safety grants to states.

The total spending level for the Senate's full surface transportation reauthorization package is expected to reach $311 billion, while the House's HR3550 price tag is estimated at $375 billion. Both chambers have yet to decide how to finance their pending proposals, although final transportation authorization levels will likely exceed the considerably more modest $247 billion price tag of President Bush's SAFETEA bill (which includes $6.2 billion for federal safety programs).

Arguably the most contentious safety mandate included in the Senate bill is a provision requiring NHTSA to establish rollover crash safety standards among larger passenger autos such as sports utility vehicles. This provision is opposed by vehicle manufacturers.

Amtrak, the nation's passenger railroad agency, long the subject of concern over financial difficulties, underwent a change in leadership last year, though some lawmakers continue to be eager to privatize the system. The Senate bill authorizes $2 billion annually to maintain Amtrak operations through 2009; an amount matching that included in the House's Amtrak Reauthorization Act of 2003, (HR 2572). This funding level constitutes an $800 million increase for Amtrak from the amount appropriated in FY 2003.

The House and Senate may act further on reauthorization proposals when Congress reconvenes later this month, though a bill is not expected to reach conference deliberations until at least March 2004, if not considerably later.

CENTER FOR CALIFORNIA STUDIES STUDY LOOKS AT ALLOCATION EQUITY OF TRANSPORTATION FUNDING

The distribution of transportation revenue does not significantly favor either rural or urban counties, contrary to inequity claims by both types of counties, found a new study by the Faculty Research Fellows Program of the Center for California Studies, which is part of the California State University at Sacramento. Titled *"Distribution of State Transportation Funding"*, the study was released in November, 2003 for the California Assembly Speaker's Office. The study addresses a claim that rural counties subsidize urban counties' pavement maintenance because they receive a lesser share of the *Highway Users Tax Fund (HUTF)* allocation, and offers state transportation policy recommendations.

Currently, a large part of the *Highway Users Tax Fund* is generated from the $0.18 state tax per gallon on the purchase of gasoline, diesel, and use fuel. Counties with the largest number of registered vehicles generate a considerable part of HUTF revenue and thus subsidize routine road maintenance and operations in all cities and counties across California. The study found that over 80 percent of the transportation tax revenue is generated by 15 counties, including San Diego, Orange, San Bernadino, Riverside, Santa Clara, Alameda, Sacramento, Kern, Contra Costa, Fresno, San Mateo, Ventura, San Joaquin, and Solano, with Los Angeles generating over a quarter of the transportation tax revenue.

The authors note that the design of the allocation formulas allows for more money to be appropriated to counties with more road miles to maintain, increased pavement damage due to greater traffic volumes and congestion and other factors responsible for pavement damage. They argue that the seeming inequity in transportation funding distribution is not a result of urban counties receiver larger shares of the funds but rather is a direct result of the fact that the HUTF revenue has failed to grow at a rate sufficient to cover the rising costs of maintaining city and county roads.

The study offers several recommendations to remedy the latter situation, including raising the user fuel tax by up to 5 cents per gallon, and re-examining truck weight fees that have been previously reduced by the Commercial Vehicle Registration Act of 2001. The study suggests that no changes be made to the state *Highway Users Fund* formulas, and urges the state to lobby for more federal funding for transportation.

For a full copy of this report please visit the Faculty Research Fellows Program website at: http://www.csus.edu/calst/Government_Affairs/faculty_fellows_program .

CBP REPORT CARD GIVES WELFARE REFORM A MIXED REVIEW

As many as one in seven former welfare recipient do not have jobs or other means of support, and many of those that found jobs still don't earn enough to provide for basic needs, such as housing and food indicates a new report by the California Budget Project (CBP). Released on Tuesday, January 6, 2004, the report *"Moving Beyond Welfare: What Do We Know About Former CalWORKs Recipients"* using data from major California metropolitan areas, other states, and the nation examined why recipients left the California Work Opportunity and Responsibility to Kids (CalWORKs) system, where they went and how much they earned if they took jobs.

According to Scott Graves, author of the report, "CalWORKs was created to help welfare recipients transition to work where they can support themselves."California began its welfare-to-work program in 1998, when the federal government enacted welfare reform, which limited recipients to five years of benefits and required them to participate in job programs. Spending on CalWORKs has remained the same each year since it began - $6.4 billion in state and federal funds. California's welfare caseload has decreased 48.7 percent between 1995 and 2003, falling from 932,345 families to 478,665 last August.

Though the welfare reform initiated in mid-1990s is hailed as being widely successful, the report found that one out of seven non-working leavers (those former welfare recipients who have been off cash aid for at least two consecutive months) have no visible means of financial support and are more likely to have barriers to work and to experience food- and housing-related hardships than working leavers. In addition, many families that leave aid do not receive supports - including food stamps, Medi-Cal, child care, and the federal Earned Income Tax Credit - designed to help them transition to employment and self-sufficiency.

The report also found that not all leavers stay off welfare permanently. About 15 percent of people who left welfare in 1999 returned at some point, though the study points out that this data indicates that a smaller proportion of California leavers return to aid than in other states. Among its other findings:

– While many recipients cite employment or increased earnings as a reason for leaving CalWORKs, only about half of the state's recipients who left welfare in 1999 were working in any given quarter during the follow-up period.

– Weaker economy has made it even tougher for welfare leavers to get jobs, with only 42 percent of 2002 leavers throughout the nation working, as opposed to 50 percent in 1999.

– The typical leaver in Los Angeles County and some Bay Area counties who worked in the late 1990's was earning well above the state minimum wage, but much less than what's needed to provide for a family's basic needs in California.

– Many leaver families experience hardships after they stop receiving cash aid, including not having enough food to eat.

The study notes that there has been no recent statewide reporting on wages and the types of jobs that leavers find, and little is known about variation in outcomes among counties. To remedy this situation, the study recommends that the state initiate ongoing monitoring and evaluation of welfare leavers, including outcomes by race and ethnicity, and include rural areas in its tracking efforts. The study also recommends that counties design welfare-to-work programs that are geared toward jobs with opportunities for advancement, and urges state and counties alike to ensure that leavers know about and receive work supports to help them make the transition from welfare to self-sufficiency.

To obtain a copy of this report, visit California Budget Project website at: http://www.cbp.org .

STATE'S EDUCATION SPENDING RATED UNFAVORABLY BY NEW REPORT

According to the newly released report by the Education Week, California spends less money per student on schools than most other states in the nation and its students rank lower than the national average in several subjects. California earned a B+ grade for "standards and accountability"and a B for "improving teacher quality" categories, while it earned low marks for the "student achievement" category, since California's students scored lower than the nationwide average on national math and English tests last year.

Using the data from the 2001-2002 school year, the report found that California's schools ranked 45th out of 50 state in per-student spending, leaving it with a grade D for school funding category. The state spent $6,258 per student, compared with the national average of $7,376, with only Mississippi($6,006), Tennessee ($5,994), Florida ($6,512), Idaho ($6,291), Arizona ($5,487) and Utah ($4,995) spending less than that. New York ($9,563), West Virginia, and Vermont spent the most.

The report also measured special education programs throughout the nation and found that most special education students in California also score lower than their counterparts in other states on national math and English tests. Spending on special education students, however is higher in California than throughout the rest of the nation; the state spent $7,526 on special education student per year, as compared to a national average of $7,194.

To obtain a copy of this report, please visit Education Week website at: http://www.edweek.org .