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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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HOUSE CONSIDERING TEA-21 TRANSPORTATION RENEWAL BILL

On Thursday, April 1, 2004, the House of Representatives commenced floor debate on H.R. 3550, a $275 billion surface transportation bill dubbed the Transportation Equity Act: Legacy for Users (TEALU). The House is expected to vote on several more amendments and on passage on Friday, April 2.

After adoption of a floor amendment that made a variety of changes to the version adopted by the House Transportation & Infrastructure Committee the prior week (see below articles, as well as details at http://www.calinst.org/transpo.htm), much of the floor debate focused on the adequacy of funding resources in the bill. Many lawmakers cited safety, economic and congestion shortfalls included in the scaled back version of the bill, preferring the original $375 billion TEA LU bill proposed by members of the Transportation & Infrastructure Committee. TEA LU author Don Young (AK) and various California members cited $375 billion for highways and transit as the minimum amount necessary to maintain and slightly improve the national transportation system.

Legislators from so called "donor states" expressed concern over the Minimum Guarantee (MG) portion of the bill. The bill retains TEA-21's (MG) formula, instituting a 90.5 percent rate of return to states for every dollar contributed to the Highway Trust Fund (HTF) in highway user federal taxes. The original version of TEA LU would have sent a guaranteed minimum of 95 percent back to each states for every dollar invested. A "reopener provision" included in the bill would require Congress to revisit the issue of funding equity by the end of 2005, however, which may sidestep the issue for discussion at a later date. An amendment to address the minimum guarantee -- to be offered Friday by Reps. Isakson, Mica, and others -- would broaden the scope of programs counted for calculation of the MG by including High Priority Project earmarks and projects of regional and national significance (mega projects).

Before the debate opened, members adopted an initial amendment (as part of the accompanying rule) to incorporate the Highway Trust Fund related actions of HR 3119 approved by the House Ways and Means Committee in March -- namely, the extension of the ethanol excise tax bill through 2010, and its shifting from the HTF to the General Fund for compensation. This action would reportedly increase HTF receipts by $9.4 billion over 6 years and boost general revenue by $4.3 billion over 10 years. The restoration of 2.5 cents of highway gas tax revenue currently going from HTF to the General Fund would generate more revenue to help pay for TEALU.

Transportation and Infrastructure Committee Rep. Juanita Millender-McDonald (Carson) praised Chairman Young and Ranking Member James Oberstar (MN) and expressed gratitude for the bill's retention of the new "Projects of National and Regional Significance" or "Mega Projects" program and goods movement support programs, noting that such programs would promote mobility in her district. She also remarked that the I-710 in her district a connector to the ports of LA and Long Beach manage half of containerized goods in the nation.

During floor debate, the House adopted an amendment authored by Rep. Adam Schiff (Burbank) -- with the support of Rep. Darrell Issa (Vista) -- to allow states to elect not to charge tolls for gas-electric hybrid vehicles that use HOV lanes. It also rejected an amendment by Rep. Maxine Waters (Los Angeles) to prevent certain development activity at LAX Airport on the grounds that it would be disruptive to the local community.

An amendment by Rep. John Shadegg (AZ) sought to add particulate matter standards to the formula for the Congestion Mitigation and Air Quality (CMAQ) program. After concerns from the bill's managers that the language needed clarification to determine state-by-state formula funding implications, Rep. Shadegg agreed to withdraw the amendment with that understanding that he and the managers would collaborate on the subject during conference.

The House adopted an amendment by Rep. Spencer Bachus (AL) -- backed by Californians including Rep. Ellen Tauscher (Pleasanton) -- to allow the motion picture and television industry to operate under the historical hours-of-service trucking requirements, rather than being subject to new regulations that limit driver hours. Rep. Tauscher commented that the new rulemaking addresses long-haul drivers, and it inadvertently affects the motion picture and television industry, where truckers often drive less than 100 miles to a shoot, then wait for many hours, and then driving back. Amendment backers noted that other countries have used tax and other incentives to attract filming overseas, and that the Teamsters Union was among the backers of the amendment.

CHANGES IN TEA LU "MANAGER'S AMENDMENT" ON APRIL 1

The TEA LU bill under consideration on the House floor has been altered from the version passed by the House Transportation and Infrastructure Committee on March 24, 2004. The revised version has nearly an additional $1 billion in High Priority Project earmarks, $129 million of which are slated for California. With these additional funds, California's share of HPP earmarks under TEA LU would rise to $1.1 billion, or 11.2 percent of the nation's nearly $9.6 billion in total HPP earmarked funding.

An updated state-by-state table of HPP funds, as well as a full list of HPP earmarks for California and various resources, spreadsheets, and other information, are available at http://www.calinst.org/transpo.htm . The information provided was developed in part under the *Federal Formula Grants and California* project, a joint venture between the Public Policy Institute of California (PPIC) and the California Institute.

It appears that the manager's amendment would changes the bill's "re-opener" provision. The Committee-approved version of the bill would halt all funding for fiscal year 2006 and beyond after September 30, 2005 unless Congress acts to raise the minimum guarantee to 95 percent. It appears that the floor change would only suspend funding for 10 months (September 30, 2005 through August 1, 2006).

The floor amendment clarifies how Congress would maintain TEA-21's Revenue Aligned Budget Authority (RABA) provision, which ensures that increases in gas tax receipts are reinvested in highway spending. In fiscal years 2000-2002, the presence of RABA resulted in the apportionment of $7.8 billion among states. Because RABA is distributed to states according how much highway money the state already receives, California received 9 percent of RABA funds in those three years -- a total of $708 million. (With falling gas tax revenues, RABA was not used in 2003.) The TEA LU managers amendment would re-start RABA in fiscal year 2006.

Under the definitions for "High Priority Corridors on the National Highway System," the floor amendment changes the definition of the Alameda Corridor-East to extend it from Colton to dual termini in Barstow and Coachella, and it deletes from the definition of the "Southwest Passage" the portion of I–8 from San Diego to the Arizona State line. High priority corridors were designated by and funded under TEA-21's predecessor, ISTEA, which operated from 1992 through 1997. In addition, the amendment adds two new corridors, one of which (the

54th) reads "The California Farm-to-Market Corridor, California State Route 99 from south of Bakersfield to Sacramento, California."

The manager's amendment designates a lead agency for accepting federal funds for an ISTEA-designated Priority Intermodal Project to purchase right-of-way and develop a transportation corridor in existing rail right-of-way from Larkspur to Korbel, and Novato to Lombard in Marin County. It widens eligible funding purposes for a $10 million TEA-21 earmark to construct a San Diego and Arizona Eastern Intermodal Yard in San Ysidro, and it alters the designation for a $9.4 million TEA-21 earmarked project from Construct Third Street South Bay Basin Bridge in San Francisco, to instead read "Bayview Transportation Improvements Project."

The amendment provides $9 million for a study, by a two-university partnership, of metropolitan regional freight and passenger transportation, and it provides $12 million for three university transportation centers of excellence - one for environmental excellence, one for excellence in rural safety, and one for excellence in project finance.

Under transit programs, the manager's amendment would make a technical change in the formula for the Clean Fuels Bus Program, which has never been funded, but which would return a large share of funds to California if it ever were to receive funding. It would also create a $10 million per year set-aside from bus and bus facilities capital grant funds for ferry boats or ferry terminal facilities.

In provisions relating to New Starts Final Design and Construction, the amendment clarifies that the designation for the Gold Line Foothill Extension in the Los Angeles area is to run from Pasadena to Montclair; and it inserts (at number 37) a new designation for the San Diego Mid Coast Extension project.

(In addition, the manager's amendment may alters the overall spending limits for highway programs, but leaves transit program spending ($51 billion) unchanged. The highway program obligation limitation figure appears to increase by $6 billion, from $217.4 billion to $223.4 billion, though this may simply reflect the inclusion of the $6 billion in transportation safety spending that was previously designated separately.)

High Priority Project Earmark Changes in Newest TEA LU Version

The Manager's Amendment incorporated into TEA LU on the House Floor on Thursday, April 1, makes a variety of adjustments to High Priority Project earmarks. The largest changes in the earmarks were increase in two Alaska projects -- one from $3 million to $125 million and the other from $3 million to $200 million. California's largest changes were the addition of two projects at $50 million each in Kern County and the addition of $19 million to a project to reconstruct an I-10 interchange in Loma Linda, bringing its total to $23 million. (Unchanged from the Committee version of the bill, the two other California HPP earmarks in excess of $20 million are the widening of SR 46 in San Luis Obispo County at $33.4 million, and upgrading and reconstructing the I-80/I-680 interchange in Solano County at $21 million.)

The changes to California's earmarked projects include the following:

- increases funding from $150,000 to $1 million for an earmark to construct sound barriers at the interchange between Interstate 5 and State Route 54 in National City;
- clarifies language for an $838,690 earmark for the construction of a bridge to connect highways Camino Capistrano and Cabot Road in Mission Viejo;
- clarifies that a $4 million earmark for Folsom is intended to construct of new interchange freeway lanes, including HOV lanes at US HWY 50 and Empire Ranch Road (adding the word "interchange");
- reduces funding for an earmark to develop bicycle paths and public park space adjacent to the New River in Calexico from $5 million to $4.15 million;
- clarifies that a $2 million earmark for undergrounding of an Auburn Boulevard reliever route along I-80 is in Citrus Heights rather than Sacramento;
- increases funding from $6 million to $7.5 million for an earmark to improve farm-to-market roads in Tulare County;
- eliminates one $8 million earmark to upgrade and reconstruct the I-80/I-680/SR 12 interchange in Solano County, but later increases another earmark for the same project by the same $8 million amount;
- adds an $8 million earmark to purchase three ferry boats and construct dock work in Long Beach;

- clarifies that a $2.5 million earmark for a 2.8 mile bikeway is in the City of Whittier and deletes language that had specified that it be constructed "in conjunction with the City of La Habra";
- similarly deletes separate language that had specified that an additional $400,000 earmark for the same bikeway was to be constructed "in conjunction with the Whittier";
- clarifies that a $12 million earmark in San Francisco is for Muni Geary Boulevard improvements;
- removes language that would have limited a $3 million earmark for a technical feasibility study for a tunnel on the 710 freeway to only be used for a connector to the 210 freeway;
- reduces an earmark to construct the Dry Creek and Enterprise canal trails in Clovis from $700,000 to $200,000;
- clarifies that a $125,200 earmark to improve the Antonio Parkway signal system is located in Rancho Santa Margarita;
- reduces funding to upgrade the Save Mart Center intersection in Fresno from $1.5 million to $500,000;
- eliminates a $1 million earmark to widen the Boulder Avenue Bridge in Highland;
- increases funding to reconstruct the overcrossing and interchange at Interstate 10 & Tippacanoe Ave in Loma Linda from $4 million to $23 million;
- increases funding to construct a new interchange at I-15 and State Route 18 (Falchion Road) and provide new highway access to U.S. 395 (near Apple Valley and Victorville) from $2 million to $6 million;
- increases funding from $1 million to $2 million for construction of a 4-lane connector between I-40 and Arizona Route 95 in Needles;
- eliminates a $2 million earmark to widen the Mountain View Avenue Bridge in Loma Linda;
- inserts a $1 million earmark to improve pedestrian safety on State Highway 62 in Yucca Valley;
- increases funding for installing a new crossing at Ranchero Road in Hesperia from $2 million to $6 million;
- inserts a $50 million to reconstruct and widen SR 46 to a 4-lane expressway between Kern County line and I-5; and
- inserts a $50 million earmark for road construction and surface transportation improvements in the Bakersfield metropolitan area.

JUDICIARY SUBCOMMITTEE MARKS UP PIRACY AND COUNTERFEITING BILLS

The House Judiciary Subcommittee on Courts, the Internet and Intellectual Property marked up two bills on Wednesday, March 31 dealing with counterfeit labels that infringe on copyrights (H.R. 3632) and piracy of intellectual property over the Internet (H.R. 4077).

H.R. 3632 prohibits knowingly trafficking in counterfeit labels attached to computer programs, phonorecords, motion pictures or other audiovisual works, documentation or packaging. It also expands the definition of "counterfeit label" to include genuine labels distributed for a product for which it was not intended, or altered to falsify the number of authorized copies. Subcommittee Chair Lamar Smith offered an amendment in the nature of a substitute to narrow the scope of the legislation to clarify that it did not apply to copyrighted materials transmitted electronically or to trafficking in digital works. The Smith substitute was accepted by voice vote and the bill, as amended, reported out to the full Committee by voice vote.

H.R. 4077 is the successor to H.R. 2517, the Piracy Deterrence and Education Act. It is intended to educate the public about the illegality of downloading and sharing copyrighted works over the Internet, especially over Peer-2-Peer (P2P) networks. Among other provisions, it establishes an education program at the Department of Justice and contains provisions to increase the cooperation between law enforcement and copyright owners in preventing piracy. H.R. 4077 is also limited in scope to ensure that only the worst copyright offenders are prosecuted – those sharing over 1,000 works or a copyrighted work that is worth more than $10,000. The bill also clarifies that using a videocamcorder in a movie theater to tape a copyrighted work is illegal.

During his remarks on the bill, Rep. Howard Berman, an original co-sponsor of H.R. 4077, reiterated the egregious piracy that was occurring over P2P networks, citing one network that was sharing more than 850 million files, most of which were copyrighted works. Mr. Berman noted the paucity of criminal prosecution and argued that H.R. 4077 would give law enforcement the necessary tools, incentives, authority and resources to deal with copyright infringements.

Rep. Zoe Lofgren (San Jose), while allowing that there was much good in the bill, expressed concern that the "reckless disregard" standard used in the bill for copyright violations was too broad and could reopen liability issues for Internet service providers dealt with in the Digital Copyright Millennium Act. She noted that she would like to work with the Subcommittee to clarify the definition before the full Committee markup.

Rep. Lofgren also offered an amendment to the bill, which was defeated by a vote of 4-14. The amendment would have limited the information sharing allowable between the FBI and other law enforcement agencies and copyright owners. Ms. Lofgren believed the amendment was too broad and might lead to the FBI sharing information that facilitated the filing of civil lawsuits.

Rep. Richard Boucher (VA) offered an amendment to strike the provisions establishing an education program in the Department of Justice. It was defeated 4-14.

Rep. Maxine Waters (Los Angeles) also offered an amendment to protect the funding of the Office of Civil Rights. Chairman Smith accepted the amendment and it was approved by voice vote. The bill was then reported to the full Committee by voice vote.

DOT Announces New Nonstop Flights Between DCA and LAX

The U.S. Department of Transportation (DOT) on April 1, awarded Alaska Airlines one takeoff and landing slot exemption for direct flights between Reagan Washington National Airport (DCA) and Los Angeles International Airport (LAX).

Under the "Vision-100-Century of Flight Aviation Authorization Act" signed by President Bush on Dec. 12, DOT was directed to grant, among other exemptions, a total of 12 slot exemptions at DCA for flights to destinations more than 1,250 miles from the airport. One such slot permits one takeoff or landing, resulting in the equivalent of 11 new round-trip flights, according to DOT's announcement. Also, in granting the exemptions, the Department followed the statutory criteria, which required for beyond-perimeter exemptions, that the granted slot would: 1) provide air transportation with domestic network benefits, 2) increase competition by new-entrant carriers or in multiple markets, 3) not reduce travel options for communities served by small-hub airports and medium-hub airports, and 4) not result in meaningfully increased travel delays.

Several California members of Congress have previously sent letters to DOT Secretary Norman Y. Mineta urging him to consider a number of cities for such non-stop service to the state. (*See, Bulletin, Vol.11, No.4 (02/05/04)*). In their bi-partisan letters, members of the Delegation pointed out that "California - the largest state in the country - does not have nonstop air service to DCA", and identified several airports in the state that would be able to handle such air traffic, including LAX. The state was awarded two DCA takeoff and landing slot exemptions for nonstop service in July of 2000, which were going to be provided by Trans World Airlines (TWA). However, after TWA declared bankruptcy in 2001, the two slot exemptions were rescinded and other carriers used the DCA slots for flights to destinations in other states.

For more information about the non-stop air travel awards, please visit the U.S. Department of Transportation website at: http://www.dot.gov .

$6 Billion Bipartisan Senate Child Care Increase Added, But Welfare Bill Still Incomplete

The Senate voted to attach $6 billion in child care funds to a multi-year welfare reauthorization bill on Tuesday, March 30, 2004, before the bill got held up in a partisan stalemate a day later. A failed cloture vote introduced by the Republican leadership to limit debate on the bill on April 1st places the bill's timetable for completion in a state of uncertainty. Meanwhile the House approved the sixth temporary extension of welfare programs by voice vote this week, extending federal welfare programs at current levels through the end of June, though with the Senate bill in gridlock, sources are predicting that more temporary extensions are to come.

The Senate started debate on their long-delayed welfare bill, H.R. 4, on Tuesday, 18 months after the 1996 welfare law, known as the Personal Responsibility Work Opportunities and Reconciliation Act (PRWORA), expired in October 2002. PRWORA converted federal welfare entitlements into block grants to states, established weekly work participation requirements and set 5 year time limits for those on the welfare rolls. Congress's approval of a number of temporary extension measures have kept welfare programs in operation since the expiration.

The Senate's welfare reauthorization bill maintains the $16.5 billion Temporary Assistance for Needy Families (TANF) block grant at level funding, while increasing work requirements from 30 hours to 34 hours. The original bill also provided $1 billion in additional mandatory child care funding and $1 billion in marriage promotion activities over 5 years.

A stricter House welfare bill, backed by the White House, boosts work requirements from 30 to 40 hours per week for welfare recipients, while also increasing mandatory funds for child care and marriage promotion activities by $1 billion each. The House bill was reported out of the House on a party-line vote on February 13th, 2003.

During Floor consideration of the Senate bill, Sen. Olympia Snowe (ME) together with Sen. Chris Dodd (CT) offered an amendment increasing child care funds by $6 billion over 5 years. By a vote of 78 to 20, the amendment was approved with broad bipartisan support, including 31 Republicans, 46 Democrats and 1 Independent voting in the affirmative.

Rising in opposition to the amendment, Sen. Rick Santorum (PA) noted that extra funding for child care was unnecessary, and that low income families could turn to a number of other federal programs for child care support.

Though the welfare discussion was buoyed by a spell of bipartisanship, it was later obstructed after Democrats pressed to include in the bill a number of labor and workplace issues. Specifically an amendment that would increase the minimum wage from $5.15 to $7 sought by Sen. Barbara Boxer, prompted Senate Republicans to call for cloture on debate. Failure to invoke cloture by a vote of 51 to 47 (60 votes are required) created a stalemate that could lead Senate Majority Leader Bill Frist (TN) to shelve the bill indefinitely.

Meanwhile, the House on March 30, 2004 approved by voice vote a temporary extension, S.2231, keeping welfare programs in operation through the end of June 2004. The bill sailed through the House, but a contentious debate centered around the House's multiyear welfare bill, with Democrats lamenting that they had been unfairly blocked from participating in the authorization bill's crafting. Rep. Wally Herger (Marysville) responded to criticisms of inadequate child care funding by indicating that although only $1 billion of new funding was available under the House bill, billions more were available to states in unspent TANF surplus funds and discretionary funds and that twice the amount of child care funds are available to low income families today than were available in 1996, due to significant cuts in welfare rolls.

For details regarding California's share of federal TANF funding, see *Federal Formula Grants and California: TANF and Welfare Programs*, a joint product of the Public Policy Institute of California (PPIC) and the California Institute, available at http://www.calinst.org/formulas.htm .

FASB Announces Stock Options Rule

As expected, the Financial Accounting Standards Board published a proposed rule requiring the immediate expensing of stock options that companies offer to employees. The public comment period for the FASB Exposure Draft ends June 30, 2004. The rule would take effect in 2005.

According to FASB's press release accompanying the announcement, "all forms of share-based payments to employees, including employee stock options, would be treated the same as other forms of compensation by recognizing the related cost in the income statement. The expense of the award would generally be measured at fair value at the grant date."

Among other reasons, the Board cites as support for its decision the fact that the proposal would bring U.S. accounting standards more in line with international standards, and that about 500 U.S. public companies are now treating stock options as an expense or are planning to do so in the near future.

Requiring the expensing of stock options is opposed by many U.S. information technology companies, which argue that start up companies need to be able to offer stock options to employees as an incentive to stay with the firms. Legislation has been introduced in Congress to overturn FASB's decision. *See, Bulletin, Vol. 11, No. 7 (3/4/04)*. Sen. Barbara Boxer is a co-sponsor of the Senate bill, and Rep. Anna Eshoo (Atherton) is the author of the House legislation. In responding to the proposed rule, Sen. Boxer said it would have a negative impact on the economy. Rep. Eshoo argued that the proposal would eliminate an important tool used by start up companies and pointed out that the rule ignores the fact that no accurate model for valuing employee stock options has been identified.

SUBCOMMITTEE CONSIDERS U.S.-CHINA TRADE STATUS

The House Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection held a hearing on Wednesday, March 31 to consider U.S.-China trade in preparation for the U.S.-China Joint Commission on Commerce and Trade annual cabinet-level meeting to be held April 21st and 22nd of this year.

The subcommittee heard from a number of witnesses, including: Charles W. Freeman III, Deputy Assistant U.S. Trade Representative; Fritz E. Attaway, Executive Vice President & Washington General Counsel, Motion Picture Association of America; and Joe Papovich, Senior Vice President, International Recording Industry Association, and Douglas Lowenstein, President, Entertainment Software Association (ESA).

Mr. Freeman outlined the current U.S.-China trade status, testifying: “Total U.S.-China trade in 2003 topped $180 billion, with imports from China exceeding U.S. exports by $124 billion. China has now surpassed Japan and become the United States' third largest trading partner. China has become our second largest source of imports, with most of the increase displacing imports from other sources, including economies in Asia and Latin America. China has also become the sixth largest market for U.S. exports. In fact, China is currently the fastest growing export market for U.S. goods. Indeed, over the last three years, while U.S. exports to the world have decreased by 9 percent, exports to China have increased by 76 percent. China is now a major importer of U.S. manufactured exports, such as electrical machinery and numerous types of components and equipment, among other goods. China is also a major importer of agricultural products from the United States, and U.S. service suppliers in many sectors have been able to increase their share of China's market.”

Nevertheless, Mr. Freeman acknowledged that China’s accession to the World Trade Organization has been “uneven at best.” As a result, the USTR continues to push China to do better, Mr. Freeman testified, and detailed several specific areas where pressure has been exerted, including pushing China to substantially improve its enforcement of intellectual property rights, “including through the use of deterrent level criminal penalties, and the crackdown on those who export or traffic in counterfeit or other IPR infringing products.”

During questioning, Mr. Freeman emphasized that the way to reduce the $124 billion trade deficit with China was to increase exports to that country, not to decrease imports from China.

Mr. Attaway testified that a combination of trade barriers and rampant piracy have thwarted American entertainment firms efforts to establish a foothold in the Chinese market,
“resulting in losses that top $175 million in 2003 alone, the highest annual loss since 1995.” He stated that MPAA hopes that the commitments made at the April 21 meeting of the U.S. - China Joint Commission on Commerce and Trade (JCCT) will contain specific provisions on improving enforcement against piracy and improving access to China's market for all aspects of filmed entertainment, and set forth several specific steps and commitments MPAA feels should come out of the meeting, including commitments from China to address piracy issues “on a fixed timetable.” Mr. Attaway also addressed the commercial barriers to the U.S. entertainment industry’s entry into the China market, stating: “The piracy problem, itself a barrier to market access, is compounded by other, more formal barriers, such as (a) government monopoly on film importation, (b) quantitative limits on imports, (c) a slow and cumbersome censorship process, (d) a theatrical distribution duopoly, (e) limits on the retail sale of legal home entertainment, and (f) restrictions on foreign investment, foreign satellite channel carriage, and foreign program content in the television sector.”

Mr. Lowenstein reiterated the significance of the piracy issue with regard to software products, but nevertheless stressed that the software industry remains optimistic about opportunities to build a viable market in China. He detailed a number of market barriers and other problems that the industry faces in China and suggested several enforcement- and legal reform-related objectives that ESA hopes will come out of the April meeting, including more and harsher criminal prosecutions by China of pirates.

Testimony of all the witnesses can be obtained from the Committee’s website at: http://www.energycommerce.house.gov .

SENATE APPROPS HEARS FROM HOMELAND SECURITY BUREAUS

On March 30, 2004, the Senate Appropriations Committee on Homeland Security met to discuss FY 2005 appropriations for Customs and Border Protection, Citizenship and Immigration Services, and Immigration and Customs Enforcement.

The first witness was Eduardo Aguirre, Director of Citizenship and Immigration Services, who reiterated his Bureau's goal to eliminate the immigration application backlog and improve customer service by increasing fee's and improving the efficiency of the application process, and requested resources that would match those needs. Robert Bonner, Commissioner of the Bureau of Customs and Border Protection (CBP), testified next. His department's priority is to prevent terrorists and arms from entering the U.S., with initiatives such as a unified border patrol agency. His funding requests pertained to the enhancement and expansion of border control programs (in areas such as the southern border), greater supply chain security, and tracking aliens who have overstayed their visas. Last to testify was Michael Garcia, assistant secretary of Homeland Security, Bureau of Immigration and Customs Enforcement (ICE), whose many objectives include the location and removal of illegal aliens with initiatives like Operation Predator (aimed at deporting child predators). He also stated that ICE is identifying areas where its budget can become more fiscally responsible.

Throughout the hearing, several members questioned the existence of the budget shortfall that caused recent hiring freezes at the Department, arguing that the problem may be due to the aggressive spending habits of the Department that need to be slowed down. Chairman Thad Cochran (MS), Sen. Richard Shelby (AL), and Senator Robert Byrd (WVA) all asked what amount of funding would be sufficient to accommodate their needs, but neither Garcia nor Bonner could provide the answer, noting the difficulty of making estimates. Shelby also inquired about the number of illegal aliens in the U.S. with overstayed visas. Bonner responded by saying there are "tens of millions," which is driving the Bureau's efforts to get control of the problem.

The hearing ended after several rounds of questions from the Chairman and other members all echoing the necessity to receive more precise funding figures from each witness and calling for more effective and efficient safeguarding of the U.S. by the various Bureaus.

CALIFORNIA'S HEALTHCARE COSTS RISING FASTER THAN NATION'S

Health insurance premiums for California workers grew 15.8 percent in 2003, while the national average increased 13.9 percent, reports a new survey released on Tuesday, March 16, 2004. The annual report by the Henry J. Kaiser Family Foundation and the Health Research & Educational Trust (HRET) is based on a survey of 864 private California firms.

The survey found that although the state's health insurance premiums increased at nearly seven times the rate of inflation, California premiums ($8,504 for a typical family policy and $3,102 for single coverage) remained slightly less expensive than the national average ($9,068 for a family policy and $3,383 for single coverage). The authors suggest that California's lower premium rates are in part due to the high level of health maintenance organization (HMO) enrollment, with 52 percent of workers enrolled in HMOs in the state in 2003 versus 24 percent nationally. The study notes, however, that over the past three years total premiums for family coverage increased by almost 42 percent, while worker contributions for family coverage increased by nearly 70 percent (from $1,450 in 2000 to $2,452 in 2003) over the same period.

Despite the rising healthcare costs, employers in California are not dropping coverage, with 70 percent of employers offering coverage in 2003. However, employees are contributing increasingly more for coverage, especially for family coverage. In 2003, 68 percent of large firms (those with 200 or more workers) reported increasing the amount workers pay for coverage, 46 percent increased the amount workers pay for prescription drugs, 32 percent increased the amount workers pay for deductibles, and 42 percent upped the amount employees pay for office visit co-payments and co-insurance. When asked about the future prognosis, 51 percent of all large firms surveyed said they are very likely to increase the amount employees will pay for insurance in 2004, while 14 percent said they were very likely to raise deductibles, and 21 percent said they were very likely to raise the amount employees pay for prescription drugs.

To obtain a copy of this survey, please visit the Henry J. Kaiser Family Foundation website at: http://www.kff.org .

NEW PPIC STUDY EXPLORES FACETS OF PLANNED HOUSING COMMUNITIES

According to a new report released by the Public Policy Institute of California, residents of planned housing communities in California are older, more prosperous, and less racially and ethnically diverse than residents in comparable neighborhoods, although differences between planned developments and other neighborhoods account for only 2 percent of statewide metropolitan area segregation. The report, titled *"Planned Developments in California: Private Communities and Public Life"* and written by Tracy Gordon, provides a comprehensive portrait of the state's planned housing communities, and attempts to respond to criticism that such communities heighten racial and economic segregation and reduce levels of civic engagement among their residents.

Planned housing communities, which currently account for 12 percent of the existing housing stock and represent approximately 40 percent of new single-family homes, provide many goods and services traditionally provided by local governments. The services available to their residents include garbage collection, street cleaning and lightning, and security patrols. In return, their homeowner associations levy assessments, adjudicate disputes, and regulate land use and other aspects of community life within its boundaries.

The report found that planned communities are less diverse racially and ethnically than other neighborhoods. In planned developments located in cities, 60 percent of residents are white, 20 percent are Hispanic, 12 percent are Asian, and 10 percent are black. In comparison, in other city neighborhoods, 41 percent of residents are white, 34 percent are Hispanic, 12 percent are Asian, and 10 percent are black. Planned communities also include more residents age 65 and over and slightly more residents age 40 to 64.

The report found that the residents' voting patterns do not differ markedly from those of similar populations. However, while planned communities are less diverse racially and ethnically than other neighborhoods, they are more diverse with regard to income. Planned communities have about the same number of middle-income households as other neighborhoods: 47 percent of households located in suburban planned developments have incomes between $35,000 and $100,000, compared to 48 percent in other suburban neighborhoods, while planned developments in cities have slightly more households (46 percent) in the middle income range, than other city neighborhoods (43 percent). At the same time, the report reveals that planned communities house a disproportionate share of California's highest-income residents, with up to 26 percent of planned development households earning more than $100,000 annually, compared to 15 to 17 percent of households in other neighborhoods.

However, contrary to some critics alleging lower civic engagement on behalf of planned neighborhood residents, the report argues that residents of planned developments actually have higher levels of voter registration and turnout than residents in other neighborhoods with similar income, education level, and racial-ethnic makeup. The study reports that voter turnout is 74 percent among planned developments, compared to 68 percent in other neighborhoods. In addition, the report also found that although voters in planned developments are generally more conservative, their policy preferences do not differ widely from those of similar populations in other neighborhoods.

The report concludes with a prediction that the character and demographic makeup of planned communities will likely become increasingly important to policymakers due to their growing prevalence.

To obtain a copy of this report, please visit the Public Policy Institute of California website at: http://www.ppic.org .

SOME PROVISIONS OF THE NORTHWEST FOREST PLAN DROPPED

On Tuesday, March 23, 2004, the U.S. Forest Service (USFS) dropped some wildlife provisions from the Northwest Forest Plan, and announced it will change the way watershed and aquatic protections are applied. The USFS will no longer require that forest managers look for rare plants and animals associated with old-growth trees before logging. In addition, instead of making sure individual logging projects meet all the guidelines, managers will only have to meet the goals on a broader scale. The changes will clear the way for more commercial logging on lands, other than those in reserves, that harbor old-growth trees, which the USFS estimates will result in an additional 70 million board feet of lumber cut.

The Northwest Forest Plan, a set of rules adopted in 1995, slashed timber harvest levels on federal lands in the Pacific Northwest and parts of Northern California. The plan covers 24.4 million acres of Forest Service, National Park Service, and Bureau of Land Management holdings, of which 6 million are located in northern California. It created old-growth reserves and established streamside and wildlife protections designed to prevent the decline of the northern spotted owl. Under the Northwest Forest Plan, forest managers are allowed an annual timber harvest of some 800 million board feet.

SEA CARGO SECURITY HEARING HELD

The Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce held a hearing on Wednesday, March 31, 2004 to assess progress with the Bureau of Customs and Border Protection's Targeting Program for sea cargo.

The Subcommittee members heard from several panels of witnesses, although most of the testimony was classified and as such not available to the general public. Witnesses before the Subcommittee were: Mr. Jason Ahern, Assistant Commissioner, Bureau of Customs and Border Protection (CBP), Department of Homeland Security (DHS); Mr. Clark Kent Ervin, Inspector General, DHS, Office of Inspector General (OIG); Mr. Richard M. Stana, Director, Homeland Security and Justice, General Accounting Office (GAO); Ms. Vera Adams, Port Director, Long Beach Port, CBP, DHS; Mr. Kevin McCabe, Chief Inspector, Newark, CBP, DHS; and Mr. Steven E. Flynn, Senior Fellow for National Security Studies, Council on Foreign Relations.

Mr. Ahern testified about the progress CBP has made with respect to sea cargo, noting that CBP is responsible for deploying approximately 42,000 employees. He said that CBP has reserved, since February 2004, 50 percent of training slots for domestic Manifest Review Unit Personnel, with the remainder allotted for personnel stationed overseas with the Container Security Initiative (CSI). According to Mr. Ahern's testimony, 38 ports that ship ocean-going containers directly to the United States have agreed to participate in CSI, and that multi-disciplinary teams have been deployed to 18 ports overseas to perform targeting and screening of containers destined for the United States (*See*, *Bulletin, Vol.11, No.10 (03/26/04)*). He also offered updates about CBP's Automated Targeting System (ATS), which is used to inspect high-risk cargo.

Joining Mr. Ahern, Mr. Ervin testified that OIG also uses ATS, although it relies on manifest data to target high-risk containers. Mr. Stana, on the other hand, countered that a GAO study found that a targeting strategy, including ATS, used by CBP to screen incoming cargo, neither incorporates all key elements of a risk management framework nor is entirely consistent with recognized modeling practices. He conceded that CBP has taken several actions to improve their screening process, including refining the ATS and implementing national targeting training. However, he noted that the GAO report found that CBP has not performed a comprehensive set of assessments vital for determining the level of risk for oceangoing cargo containers, and did not subject the ATS to adequate external peer review or testing. He testified that GAO also found that CBP lacks an adequate mechanism to test or certify the competence of students who participate in their national targeting training, and has not been able to fully address longshoremen's safety concerns related to inspection equipment.

California is home to 12 major commercial ports, including the Los Angeles-Long Beach port, which is the largest port in the United States. Forty percent of all goods that come to the United States come through the state's ports. In 2002, approximately 7-9 million containers arrived at U.S. seaports, which accounted for more than 95 percent of the nation's non-North American trade by weight and 75 percent by value. According to the GAO report, in a 2002 simulation of a terrorist attack involving cargo containers, every seaport in the United States was shut down, resulting in a simulated loss of $58 billion in revenue to the U.S. economy, including spoilage, loss of sales, and manufacturing slowdowns and halts in production. During a brief and recent lockdown of the western port facilities, the nation experienced approximately $1 billion in lost business everyday.

CALIFORNIA DELEGATION STAFF BRIEFED ON CENTRAL VALLEY ISSUES

On April 1, 2004, California congressional staff participated in a luncheon briefing sponsored by the Great Valley Center and the California Institute on the "other California," the Greater Central Valley. Tim Ransdell of the Institute began the by discussing the federal funds share that California and the Valley counties receive. Richard Cummings, Director of Research and Communications for the Center, provided a brief presentation addressing the rapid growth of the Central Valley since 1925, which he noted is largely attributable to "natural increase," rather than migration. Carol Tomlinson-Keasey, Chancellor of the new UC Merced campus, discussed the importance to the Valley of opening the new four-year university and the economic value that it will bring to the

Valley. Tomlinson-Keasey stressed the need to address the educational requirements of the growing young population in California, while also enriching the valley by turning it into a land of opportunity. Carol Whiteside, President of the Greater Valley Center, whose organization's goal is to improve the economic, social, and environmental well being of the Central Valley concluded the presentation. She addressed both the promising outlook for and the challenges facing the area. She highlighted poverty levels, air quality, limited employment prospects related to educational attainment, and scarcity of federal spending in the Valley as obstacles.

Rep. Dennis Cardoza (Atwater), who represents Merced and surrounding areas, addressed the attendees at the end of the lunch, stressing the need for the delegation to work in a bipartisan fashion to resolve the problems facing the Valley over the next several years.

For additional information, visit http://www.greatvalley.org .