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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.

CALFED LEGISLATION REPORTED OUT; HOUSE RESOURCES COMMITTEE MARKS UP NUMEROUS WATER-RELATED BILLS

The House Resources Committee reported out unanimously the monumental CALFED legislation, H.R. 2828, on Wednesday, May 5, 2004. H.R. 2828 enjoys bipartisan and bicameral support, and carries a \$389 million price tag. Introduced by Rep. Ken Calvert (Corona), the bill re-authorizes federal participation in the CALFED Bay-Delta Program, establishes a centralized office aimed at providing coordinated regulatory approaches on federal permitting activities, and includes numerous plans for new water conveyance and levee reconstruction projects and measures to increase storage. The Senate passed a similar, though a less expansive, measure authored by Sen. Dianne Feinstein last week (*See, Bulletin, Vol. 11, No. 14 (4/30/04)*).

As he introduced the substitute to the original bill, Rep. Calvert applauded the bipartisan effort on this long-delayed piece of legislation. Joining Chairman Richard Pombo (Tracy), Rep. Calvert pledged to work with Sen. Feinstein on any outstanding differences between the House and the Senate versions of the bill. Rep. Calvert offered an amendment that includes Bay Delta water quality protections and allows the Secretary of Interior to approve water storage projects (though they remain subject to appropriations). In addition, the Calvert amendment included the right-to-know provision, and incorporated language that would allow the Secretary of the Interior to begin work on the Salton Sea restoration project.

During the discussion on the bill some members of the Committee, particularly Reps. Grace Napolitano (Norwalk) and George Miller (Martinez) noted that H.R. 2828 has been modified to address several concerns they had, though they emphasized that several issues remain unresolved. In particular, they objected to a provision in H.R. 2828 that would allow for an approval of water projects outside of the regular Congressional process. Under the current language, the Secretary of Interior would be able to approve water projects without Congressional oversight, though Congress would be given 120 days to disapprove or veto the projects. Rep. Napolitano also said she continues to have concerns over some provisions of the bill that slow down or stop land acquisitions, and those provisions that change the

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definition and purpose of the Environmental Water Account. She argued that such are a direct contradiction of the CALFED Record of Decision (ROD). Rep. George Miller offered an amendment to substitute the language included in Feinstein's bill for the Calvert bill. His amendment failed on a 28-11 vote.

In addition to the CALFED bill, the Committee also marked up and passed by unanimous consent a list of other water-related bills, including H.R. 142 by Rep. Gary Miller (Diamond Bar), H.R. 2991 by Rep. David Dreier (San Dimas), H.R. 3706 by Rep. George Miller (Martinez), H.R. 3874 by Rep. Mary Bono (Palm Springs), and H.R. 3932 by Rep. Devin Nunes (Pixley). H.R. 142 authorizes the Secretary of the Interior to 1) participate in the Inland Empire regional water recycling project, 2) carry out a program to assist agencies in projects to construct regional brine lines in California, and 3) participate in the Lower Chino Dairy Area desalination demonstration and reclamation project. H.R. 2991, the Inland Empire Regional Water Recycling Initiative, authorizes the Secretary of the Interior to participate in the Inland Empire regional recycling project and in the Cucamonga County Water District recycling project. H.R. 3706 adjusts the boundary of the John Muir National Historic Site. H.R. 3874 conveys for public purposes certain federal lands in Riverside County that have been identified for disposal. H.R. 3932 amends existing statutes to authorize the continued use of certain lands within the Sequoia National Park by portions of an existing hydroelectric project.

For more information about this hearing, please visit the House Resources Committee website at: <http://resourcescommittee.house.gov/archives/108/full/index.htm> .

MEASURES TO TREAT AND PREVENT WILDFIRES IN THE WEST CONSIDERED

On Wednesday, May 5, 2004 the Government Reform Subcommittee on Energy Policy, Natural Resources, and Regulatory Affairs held a hearing entitled "Wildfires in the West - Is the Bush Administration's Response Adequate?" The hearing focused on the Administration's preventive efforts in fighting fires in the West and ways to increase coordination and collaboration between state, local, and government bodies.

Congressman Doug Ose (Sacramento) chaired the hearing, opening with his statement that despite the efforts of the Bush Administration through the Healthy Forests Initiative (HFI) and Healthy Forest Restoration Act (HFRA) wildland fires in the West will not become obsolete. He also brought up the need for the public's awareness to get involved with fire prevention, unlike the failure of four ballots improving fire protection in San Diego. Rep. John F. Tierney (MA) inquired about where tax dollars are being spent in regards to preventing wildfires and the taxpayers' right to know where it goes. Rep. Chris Cannon (UT) also asked about the effectiveness of collaborations between local, state, and government and about the reduction of the hazard fuel budget.

The first panel of witnesses were P. Lynn Scarlett, Assistant Secretary for Policy, Management, and Budget, Department of Interior, and Mark E. Ray, Undersecretary for Natural Resources and Environment, Department of Agriculture. Scarlett discussed the effectiveness of the Administration's efforts to decrease the threat of wildfires through less costly and more time efficient assessment paperwork, adoption of a new categorical exclusion for certain fuels treatment activities and fire restoration, and better procedures to meet the goals of the Endangered Species Act. She also talked about community involvement and partnerships between local, tribal, state, and federal actors such as the California Fire Alliance, which represents 100 local fire safety councils. Rey discussed the different strategies implemented, such as the establishment of the Wildland Fire Leadership Council and the long-term purpose of the Comprehensive Strategy Plan to reduce wildland fires by aiding communities and their environment. However, he also urged a more proactive approach to treat the problem of wild fires.

The last panel consisted of William Campbell, Chairman of the Blue Ribbon Fire Commission, whose task is to assist in the ability of military and other resources to respond to wildland fires more quickly, train personnel, update building and planning regulations, and improve public safety communications. Campbell outlined the Commission's recommendations to federal agencies. Also testifying was Bruce Turbeville, Chairman of the California Fire Safe Council, a nonprofit organization preserving and enhancing California's natural resources by providing leadership and support to aid communities and protect the environment from wildfires. He called for more efforts to educate the public on how to protect themselves from wildfires, emphasizing "for every dime spent on prevention, we save a dollar in suppression." Amy Mall, Senior Forest Policy Analyst from the Natural Resources Defense Council, testified that the Bush Administration's response is "disturbingly" inadequate, saying not enough money is spent to prevent fires but rather is spent on activities with uncertain outcomes, which might aggravate the risk of fires.

In FY 2004, California will receive \$61.4 million in hazardous fuel reduction and \$28 million for state and local communities to reduce wildfire hazards. Also noteworthy is a recent statement from Senator Dianne Feinstein (CA) announcing that the Department of Agriculture will waive the 25% local cost-share requirements under the Natural Resources Conservation Service's Emergency Watershed Protection Program, which will provide \$120 million (already appropriated) to remove hazardous fuels in San Bernardino Riverside, and San Diego counties.

FUTURE OF SPACE VEHICLE LAUNCH EXAMINED

On Wednesday, May 5, 2004, the Science, Technology and Space Subcommittee of the Senate Commerce, Science and Transportation Committee held a second hearing on the space shuttle program and the future of the space launch (see related article elsewhere in Bulletin).

The Subcommittee members heard testimony from the following witnesses: Mr. William F. Readdy, Associate Administrator for Space Flight, National Aeronautics and Space Administration (NASA); Mr. Craig E. Steidle, Associate Administrator for Exploration Systems, NASA; Mr. Mike Kahn, Vice President of Space Operations, ATK Thiokol Propulsions; Mr. John C. Karas, Vice President, Space Exploration, Lockheed Martin Space Systems Co.; Mr. Robert A. Hickman, Director, Advanced Spacelift and Force Application Directorate, Aerospace Corp.; Mr. Elon Musk, CEO and Chief Technology Officer, Space Exploration Technologies Group.

In his testimony, Mr. Readdy applauded the President's space exploration initiative calling it forward thinking while being affordable and achievable. He spoke a little about NASA's Implementation Plan for Space Shuttle Return Flight and Beyond, which details anticipated work schedules and costs estimated for Return to Flight activities, and updated the Subcommittee on NASA's plans to complete assembly of the International Space Station.

Mr. Kahn testified about the future options available for the human space flight program, particularly those that allow putting exploration payloads into orbit in an affordable and sustainable manner. Like Mr. Readdy, he threw his support behind the space exploration initiative proposed by the Administration and also for the U.S. space policy that supports a mixed fleet of launch vehicles. In his written testimony, he noted the critical need to return the shuttle to space in order to continue the U.S. presence there and to achieve the space exploration mission. Mr. Karas also emphasized the latter point in his testimony, while admonishing his audience that the move forward needs to incorporate the lessons and recommendations contained in the Columbia Accident Investigation Board report. He offered testimony about the space transportation capabilities that will be needed for near-term or future space exploration, particularly those assets required for human and robotic missions.

Mr. Hickman described studies conducted by the Aerospace Corporation that relate to advanced launch system design. The Aerospace Corporation is a private, nonprofit corporation, headquartered in El Segundo, which operates the Federally Funded Research and Development Center (FFRDC) sponsored by the Under Secretary of the Air Force, and managed by the Space and Missile Systems Center (SMC) also in El Segundo. Mr. Musk addressed the role of the private sector in the launch of space vehicles. He advocated an increased and extended use of prizes for achievement in space as a way to save federal money on failed space projects, a rigorous examination of how any new proposed vehicle will improve the cost of access to space, and a more balanced approach to awarding government contracts. NASA administers the international space exploration program and California receives about 25 percent of federal funding appropriated to NASA.

For more information about this hearing, please visit the Senate Commerce, Science and Transportation Committee's website at: <http://commerce.senate.gov/hearings/index.cfm>.

INTERNATIONAL SPACE EXPLORATION ISSUES EXAMINED

The international space exploration program was the topic of discussion during the Senate Commerce, Science and Transportation Committee's Science Technology and Space Subcommittee hearing held on Tuesday, April 27, 2004.

The Subcommittee members heard testimony from the following witnesses: Mr. Sven Grahn, Vice President of Engineering and Corporate Communications, Swedish Space Corp.; Dr. John Logsdon, Director, Space Policy Institute, Elliott School of International Affairs, George Washington University; Mr. James Oberg, Aerospace Operations Consultant, Soaring Hawk Productions, Inc.; and Ms. Marcia S. Smith, Specialist in Aerospace and Telecommunications Policy, Congressional Research Service, Library of Congress.

Mr. Grahn updated the Subcommittee members on the status of the European Space Agency's (ESA) space exploration plans, and in particular the development of SMART-1, Europe's first space probe to the Moon. He said that the spacecraft's development relied on an industrial approach, since it used the standard, well-tested building blocks permitting the developer to concentrate on product-specific work. Mr. Grahn testified that although ESA provided Swedish Space Corporation with such standard building blocks, the approach needs to be applied systematically.

Dr. Logsdon, on the other hand, focused his remarks on the exploration plans of Japan and India. He said that the two countries, either by themselves or in cooperation with one of the space superpowers, have made robotic explorations of the solar system a high priority of their space efforts. He warned that if Congress chooses not to accept the Administration's recently proposed space exploration initiative, other countries will assume that exploratory leadership.

While Dr. Logsdon spoke about Japan's and India's intentions, Mr. Oberg addressed China's intentions regarding lunar exploration. Mr. Oberg testified that China and the U.S. will be mutually interacting in this arena for several upcoming decades. He spoke about a recent Chinese manned flight, Shenzhou-5, and offered his observations about the Chinese approaches to selecting space goals and developing space technology, particularly its practices regarding acquisition of foreign space technology and its exploitation of usable lessons from foreign space experience. He noted that the United States spends \$30 billion annually on space, while the Chinese spend approximately \$2 billion, and that the Chinese have indicated that they will not duplicate across-the-board all of the activities funded by the United States.

Ms. Smith did not testify about exploratory ambitions of any particular country; rather she spoke about potential international cooperation in President Bush's space exploration initiative, and provided an overview of the international space setting, and the roles that Europe, Russia, and India might play.

President Bush directed NASA in his January 14, 2004 announcement of the space initiative to focus its activities on returning humans to the Moon by 2020 and someday sending them to Mars and “worlds beyond.”

The National Aeronautics and Space Administration (NASA) administers the international space exploration program. California accounts for a large portion of federal space activity and funding.

For more information about this hearing, please visit the Senate Commerce, Science and Transportation Committee’s website at: <http://commerce.senate.gov/hearings/index.cfm> .

CALIFORNIA ROADS ARE BUMPIEST, ACCORDING TO TRANSPORTATION REPORT

The most recent study published by The Road Information Project (TRIP) on the condition of roads in America’s cities contains bad news for California. According to the report, California housed six of the top ten cities in the nation with among the poorest road conditions in 2002, including the four worst ranked.

Of urbanized areas with 500,000 residents or more, Los Angeles was identified as the city with the roughest road conditions for the second consecutive year, with the report showing 66 percent of LA roads as substandard. Meanwhile, San Jose wasn’t far behind in second place with 65 percent, San Francisco-Oakland was third in the nation with 61 percent, San Diego fourth with 60 percent, Sacramento was seventh with 50 percent of its roads in poor condition, and Riverside San Bernardino was eighth with a 42 percent rating. Nationally 25 percent of roads are in bad condition.

The poorer than average conditions in California do not come without added costs to motorists. Angelenos pay on average \$705 annually in extra operating costs to their cars, compared to the \$400 drivers spend on average nationally due to wear and tear, the report finds.

Nationally the report claims that road improvement investments have slumped by 18 percent over the last two years while 20 percent of major metropolitan routes are in poor condition.

Citing a Department of Transportation (DOT) national estimate showing \$272 billion in federal needs to maintain road and bridge conditions, the report supports the inclusion of higher funding levels for the surface transportation bills being considered in Congress.

Based in Washington D.C. and established in 1971, TRIP is a nonprofit organization that promotes transportation policies that relieve traffic congestion, improve air quality, make highway travel safer and enhance economic productivity.

To view a copy of the report visit the TRIP website at: <http://www.tripnet.org>

HOUSE SUBCOMMITTEE HEARS AGAIN FROM FASB

On Tuesday, May 4, 2004 the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises held another hearing on the impact on the economy and jobs of the Financial Accounting Standards Board’s (FASB) draft proposal to change accounting standards. The mandating of stock options has fueled endless concerns about its effects on small businesses, a company’s ability to attract talent through stock option compensation packages, and its ability to sustain a competitive edge in overseas markets.

Congressman Ed Royce (Fullerton) chaired the hearing, declaring his deep concern over the issue and the long-term consequences if the rule were enacted. Royce stated that companies will not be able to attract employees without granting options and noted the overall difficulty in the comparability between companies’ financial statements with differing valuation methods. Brad Sherman (Sherman Oaks) argued that FASB is not considering the effects on high-tech firms, pointing to the issue of which valuation methods to follow and calling for more research to see if the draft can be effective. Barney Frank (MA)

also expressed concern over the accounting rule, but questioned who is being hurt with the current accounting standard.

Robert Herz, Chairman of FASB, and George Batavick, FASB member and chair of the Small Business Advisory Committee, testified in support of stock option expensing, citing the positive economic impact of more efficient capital allocation and transparent and comparable accounting. Batavick then went on to describe provisions in place in the proposal related to small business concerns, such as use of the intrinsic value-method, a less costly transition for most small nonpublic enterprises and the delay of the rule applicability until 2006 for most small businesses. During questioning, Royce brought up an old memorandum endorsed by Herz that opposed using the options pricing model. Herz replied that the views were those of the client and now he personally has had a more in depth look at the issue. Sherman argued for conducting more field tests to make sure the proposal was effective. In response to Frank's question of who is hurt by the current standards, since all the information is made known in the financial statements, Herz replied that many individual investors are misled, stating "Disclosure does not cure bad accounting."

Further information on the hearing can be obtained through the Committee's website at: <http://www.house.gov/financialservices> .

MIXED RESULTS OVER CALIFORNIA'S CURRENT ECONOMIC STATE

There is both good news and bad news for the economic conditions facing California. According to reports by The Economic Data Global Express (EDGE), California should pay close attention to the areas of unemployment, population, possible inflation, and the upcoming 2002 Economic Census Data to analyze trends occurring in the state.

The recent release of the March Jobs Report by the Employment Development Department (EDD) showed a mixed bag of increases and decreases in unemployment rates throughout the state. Overall, California's employment rate improved from 6.3% in February to 6.5% in March, but monthly advancements in rates are moving slowly. Although, the report revealed some good signs, with additional temporary work in the leisure and hospitality, administrative services, and construction sectors, companies are still hesitant to add more jobs due to associated costs. The EDD also showed a negative side to the news with substantial job loss in the government and manufacturing sectors. Nonetheless, improvements in Southern California counties (LA, Ventura, Riverside, San Bernardino, and San Diego) and the drop in unemployment in the Bay Area, especially in San Francisco from 7.1% to 6.0% just a year ago, are signs of recovery for California.

Population growth is another important area, sourcing its rise to natural increase (births minus deaths) and net migration. More and more international migration and natural increase is attributed to LA, Ventura, and Orange counties, while the Inland Empire (Riverside and San Bernardino) are attracting more net domestic in-migration largely due to lower housing costs. The California Department of Finance also released its own population data stating LA county had broken the 10 million mark in early 2003, demonstrating the need for more investment in housing and transportation to ease the boost in the states's population.

With the U.S. Consumer Price Index rise of .05%, fear of inflation is on everyone's minds. Evidence found in food, energy, and gas increases, cause worries about what is to come in the future. However, looking closely as to what led to the increases can alleviate some fears of inflation. The cost of lodging away from home increased by 3.8%, but will likely be a one time event. Also, the rise in apparel prices should not be startling since overall prices were still somewhat lower than a year ago. According to the report, more attention should be paid to longer term effects such as the alarming jump in medical costs,

which were 4.5% higher than the previous year, housing costs, and energy prices, moving up 1.9%, following February's increase of 1.7%, and January's 4.7%.

First reports are arriving for the 2002 Economic Census Data comparing 1997 and 2002 data (done quintennially). The regional and local reports are expected later this year, but the national summary is now available. Two components relevant to California concern the apparel manufacturing and motion picture and sound recording industries. Though U.S. apparel manufacturing establishments experienced a downfall of sales by a third, and employment by a half, the average wage increased by 25%. This is possibly due to structural changes with the emphasis being placed on design and marketing, not manufacturing. The motion picture and sound recording industries showed sales rising by 37%, payroll 25%, and employment by 21%. The average wage only grew by slightly over 2.8%, but that is not considered a good indicator because of the number of part-time and temporary workers. Threats also facing the industry are ascribed to filming in foreign locations and other states, which is resulting in lost productions.

For more information about the Economic Data Global Express and other related information, please visit <http://www.e-edge.org>.

REPORT ON GOVERNMENT-OWNED LAND IN U.S. REVEALS SURPRISING STATS

The Republican Study Conference (RSC) recently issued a report on the amount of land and buildings owned by the federal government. It revealed that "almost three-in-ten acres in the United States are owned by the federal government," with the government sometimes owning more than half of the land in some states.

Other key findings of the report show, as of September 30, 2003, 29.6% of all land in the U.S. was owned by the federal government, with total acreage of 671,759,297.7. Some of the states with the largest percentage of federal land ownership were:

- | | | |
|-------------------|------------------------------|------------------------|
| 1.) Nevada: 91.9% | 5.) Wyoming: 50.6% | 9.) Colorado: 34.9% |
| 2.) Alaska: 66.7% | 6.) Arizona: 50.2% | 10.) New Mexico: 34.1% |
| 3.) Utah: 66.5% | 7.) Oregon: 49.7% | 11.) Montana: 31.3% |
| 4.) Idaho: 66.4% | 8.) California: 46.9% | 12.) Washington: 31.0% |

The District of Columbia has only 26.3% of its land owned by the federal government although it was established as the federal city.

The report also detailed the location of federal land by region: West: 55.5%; Alaska and Hawaii: 36.4%; North Central: 2.9%; South Central: 2.9%; South Atlantic and DC: 2.2%; and Northeast: 0.2%. The RSC study also points out that only 2.4% of federal land is used for military purposes.

For buildings owned by the federal government, as of September 30, 2003 the RSC reported:

- Buildings owned in U.S. by the federal government – 432,791
- Number of square feet of office space within owned buildings – 3.03 billion
- Number of buildings leased by the federal government – 42,246
- Number of square feet of office space in leased buildings – 333.8 million

The report found that about one-fifth of the buildings owned and leased by the government are used for housing.

The General Services Administration published the data entitled "Overview of the United States Government: Federal Real Property Profile as of September 30, 2003." For more information about the article, please visit <http://www.gsa.gov>.

HOUSING BRIEFING TO BE HELD

The Population Resource Center, in conjunction with the National Low-Income Housing Coalition, Northeast-Midwest Institute, and the California Institute for Federal Policy Research will hold a breakfast briefing on Monday, May 10, 2004 that will address a myriad of housing issues. The briefing will be held in Room 121 of the Cannon House Office Building, starting at 9:30 a.m.

Titled "*Boom or Bust: Public Investment in Home Ownership*", the briefing attendees will hear from a panel of housing experts including: Ms. Jeanne Woodward and Ms. Ellen Wilson, Survey Statisticians, U.S. Census Bureau, who will offer statistical data on historical and current housing trends; Mr. William C. Apgar, Senior Scholar at the Joint Center for Housing Studies, Harvard University, who will speak on costs and benefits of public investment in housing; Mr. Mark Calabria and Mr. Jonathan Miller, Majority and Minority Staff respectively, Senate Committee on Banking, Housing, and Urban Affairs, both of whom will address federal housing policy. The panel will be moderated by Mr. William A. Davis, Jr., President of Davis Developments, Inc.

This briefing will detail the trends in homeownership over the past 40 years. The briefing will also discuss public investment in housing, particularly as it relates to minority groups in an effort to evaluate the current trajectory of housing policy in the U.S.

For more information about this briefing, please visit the Population Resource Center's website at: <http://www.prcdc.org/programs/housing04/housing04.html> .

WINE EXPORTS UP SIGNIFICANTLY REPORTS A NEW STUDY

The U.S. wine industry saw a 17 percent increase in export value during 2003 up to \$643 million, according to a new report released by the Wine Institute on April 26, 2004. In addition, wine exports increased 29 percent in volume, up to 96 million gallons over the same period. Over 90 percent of U.S. wine is produced in California. The study was based on data from the U.S. Department of Commerce and USA Trade Online. The study credits new product introductions and favorable dollar exchange rates with helping to expand California wine exports abroad.

According to the study the United Kingdom is the top market for U.S. wine. Revenues rose 13 percent to \$212.9 million and volume increased 25 percent to 31 million gallons. The other leading markets include: Canada, \$112.4 million; Japan, \$76.3 million; The Netherlands, \$74.8 million; Federal Republic of Germany, \$19.5 million; France, \$14.5 million; Switzerland, \$14.4 million; Belgium, \$14.0 million; Ireland, \$13.0 million; and Denmark, \$10.4 million.

The report also found that packaged California brands accounted for most of the sales, which, along with other bottled U.S. table wine exports totaled \$519 million, up 17 percent, for an 81 percent share of the sales. Bulk wine exports totaled \$44 million; U.S. champagne and sparkling wine was \$20 million; dessert wine, \$32 million; and grape must and other fermented beverage exports, \$28 million. In the last decade, wine export revenues have increased 228 percent, from \$196 million in 1994 to \$643 in 2003. The volume shipped grew from 35 million gallons to 96 million gallons during the same period.

To obtain a copy of this study, please visit the Wine Institute website at: <http://www.wineinstitute.org>