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California Capitol Hill Bulletin

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To expand communications between Washington and California, the California Institute provides periodic faxed bulletins regarding current activity on Capitol Hill which directly impacts our state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods.

SENATE PASSES CORPORATE TAX PACKAGE; EXTENDS R&D CREDIT

On Tuesday, May 11, the Senate passed S. 1637, its version of tax legislation to repeal the "extraterritorial income inclusion" that the World Trade Organization has deemed a violation of international trade rules. The bill also contains about $170 billion in new tax cuts for companies over ten years. The Senate vote, after several days of debate and numerous amendments, was an overwhelming 92-5.

Of major importance to the high technology industries in California is the extension of the Research and Development tax credit. S. 1637 extends the credit for one more year to 2005, as a ten-year cost of $10 billion. The current credit is set to expire on June 30, 2004. Proponents have been working for a permanent extension of the credit, and will continue to push for that as the House considers its tax proposal.

The bill also makes permanent the welfare-to-work tax credit for certain employers who hire welfare recipients. The cost of the measure is expected to be about $5 billion over ten years.

Rep. Bill Thomas (Bakersfield), Chair of the House Ways and Means Committee, hopes to consider the House's version of the tax bill in the near future.

HOUSE APPROVES LEGISLATION FOR STOCK OPTION EXPENSING

On Wednesday, May 12, 2004, the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises approved H.R. 3574, the Stock Option Accounting Reform Act. Introduced by Rep. Richard H. Baker (LA), Chair of the Subcommittee, H.R. 3574 was reported out by voice vote with two amendments. The legislation would allow the continued issuing of broad-based stock options to rank-and-file employees, which supporters have argued will sustain the competitive advantage of U.S. companies, especially smaller, start-up and venture capital backed businesses.

The legislation mandates the recording of stock options as an expense for only the top five executives of a corporation. It also contains provisions for companies entering into initial public offerings to delay expensing options for 3 years. One of the two amendments approved was offered by Rep. Brad Sherman (Sherman Oaks), which adds companies organized in Mexico to the provision exempting small businesses. Stock options have

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been discussed in numerous hearings throughout Congress because of the significant economic impact on the business community. Companies offer stock options as part of compensation, or in lieu of, to attract talent and remain competitive in the market. They are often utilized by the technology industry and smaller businesses low on cash. Employees gain a stake in the company with the ability to purchase options at a specified price and time. They in turn profit greatly if the company's stock performs well and the options are exercised, thus motivating employees to do a better job.

However, the bill faces a difficult road on the Senate side. Sen. Richard C. Shelby (AL), the Senate Banking Committee Chairman, is not expected to consider a companion bill.

The Financial Accounting Standards Board (FASB) has called for the mandatory expensing of all stock options, regardless of whether they are extended to management or rank-and-file employees. *See, Bulletin, Vol. 11, Nos. 13 (4/23/04), 14 (4/30/04), & 15 (5/6/04).*

For further information on the hearing go to the Committee's website at: http://www.financialservices.house.gov .

HUNTER COMMITTEE BACKS DEFENSE BILL WITH 2-YEAR BASE CLOSURE DELAY

By a vote of 60-0 late on Wednesday, May 12, 2004, the House Armed Services gave final approval to H.R. 4200, a Department of Defense Authorization Bill for 2005. The bill, shepherded by full committee Chairman Duncan Hunter (Alpine), provides $422 billion for defense salaries, operations, procurement, and R&D for the fiscal year that begins October 1, 2004.

The bill, expected to be considered on the House floor next week, would delay a round of military base closures from 2005 until 2007. The delay was approved as an amendment by Rep. Joel Hefley (CO) in lieu of a rejected alternative proposed by Rep. Gene Taylor (MS) that would have cancelled the upcoming closure round altogether.

A Senate version of the DOD authorization bill, approved by the Senate Armed Services Committee on May 6, 2004, is also expected to be on the floor next week. For additional information on the House bill, visit http://armedservices.house.gov/ .

SENATE CONSIDERS, PASSES IDEA BILL

By a vote of 95-3 on Thursday, May 13, 2004, the U.S. Senate approved legislation to reauthorize IDEA (the Individuals with Disabilities Education Act), the nation's special education law. The bill proposes to increase IDEA spending in 2005 by $2 billion, approximately twice the amount sought by the Administration and a 20 percent boost from the $10 billion spent in 2004. A floor amendment by Sen Tom Harkin (IA) to make "full funding" of IDEA mandatory failed, but the Senate instead adopted an amendment by Sen. Judd Gregg to authorize discretionary funding of $12.4 billion in 2005.

The Senate Committee on Health, Education, Labor and Pensions (HELP) had approved its version of the same bill on June 25, 2003, and the House approved an IDEA reauthorization bill more than a year ago, on April 30, 2003. The measure now moves to conference.

In fiscal year 2003, California receive nearly 10.5 percent of IDEA grant funding - a total of more than $1 billion. California's receipts from the Special Education Grants to States formula grant program increased from $200 million in 1992 to $933 million in 2003.

A recent report entitled *Federal Formula Grants and California: Education Programs for Disabled Children* examines the mechanics of the IDEA formulas that determine funding levels for California and other states, and it analyzes the state-by-state effects of formula-change scenarios. (For example, California guarantees education services for disabled children through age 18, while some other states provide services through later ages. Because the law provides an incentive for states to keep that age level high, California's funding growth has begun to slow relative to that of other states.)

The report is part of the ongoing "Federal Formula Grants and California" series, a joint venture of the California Institute and the Public Policy Institute of California (PPIC). It is available on the PPIC website, at http://www.ppic.org/main/publications.asp?i=172 , or from the California Institute at http://www.calinst.org/formulas.htm .

CSU CHANCELLOR TESTIFIES REGARDING HOUSE HIGHER EDUCATION BILL

On Wednesday, May 12, 2004, the House Education and Workforce Committee received views and feedback from higher education experts and stakeholders, including California State University (CSU) Chancellor Charles Reed, on the recently unveiled College Access and Opportunity Act (HR 4283). The bill is sponsored by Committee Chairman John Boehner (OH), along with Rep. Howard P. "Buck" McKeon (Santa Clarita), Chair of the Subcommittee on 21st Century Competitiveness, which has jurisdiction over higher education policy. Boehner touted the bill as a revenue-neutral effort that would expand college access to low and middle-income students. Some panelists however thought the bill could go further to assist students with the growing cost burdens of college tuition and fees.

Boehner's opening statement outlined his bill's main provisions including: strengthening Pell Grants – by making them available to students year-round; reducing the cost of loan origination fees from 3 percent to 1 percent; simplifying the financial aid process; removing barriers for non-traditional students by eliminating the 90-10 rule; and empowering parents by making college financing and accreditation more transparent.

Rep. Boehner justified HR 4283's proposal to switch student loans from fixed rates to a consolidated variable rate, citing a GAO study making the same recommendation, and the prediction from experts that such a move would release up to $21 billion over the next seven years. Noting a recently published Congressional Research Service (CRS) report finding lower interest rates under a variable structure than under the fixed kind, Rep. Boehner considered the switch to a variable rate as a benefit to borrowers too. Dallas Martin, President of the National Association of Student Financial Aid Administrators (NASFAA) testified in support of the market-based variable provision, noting that borrowers would be protected from interest rate spikes by the bill's retention of an 8.25 percent cap on all Stafford Loans.

The Committee's ranking Democrat, George Miller, though pleased with HR 4283's provisions to reduce student loan origination fees and excessive subsidies to banks, voiced opposition to the variable rate switch, citing another CRS study that warns of $5,500 more in debt burden for the average student if variable rates were to imposed. He also opposed the bill's proposed $5,800 cap on Pell Grants through 2011.

Panelist Rebecca Wasserman, President of the United States Student Association (USSA) echoed Rep. Miller's concerns about the potentially adverse effects of instituting variable loan rates and Pell Grant limitations, stressing the need for Congress to provide added student loan protections and greater financial assistance in light of growing debt burdens for average students (now standing at $19,000). Ms. Wasserman reminded Committee members that tuition rates have increased significantly and that the 2002-2003 Pell Grant was worth $500 less in real dollars than in 1975. She considered freezing the Pell Grant as an act that would reduce higher education access to low and middle income students. All panel members agreed that Pell Grants should be boosted to higher levels than those proposed in the bill. Chair Boehner countered that a $400 million squeeze is placed on the Treasury for every $100 increase in Pell Grants, and that he did not want to mislead people about the availability of funds for appropriation during an era of fiscal constraints. Rep. McKeon defended HR 4283's Pell Grant freeze, noting that though the bill caps Pell Grant maximums, it expands grant eligibility to a larger number of students, thereby increasing access to low income students.

In his remarks to the Committee, CSU Chancellor Charles Reed expressed support for HR 4283, though he thought it could be improved in some areas. Dr. Reed, in charge of the largest university system in the nation, registered his support for year-round Pell Grant availability and was encouraged by, though he would like to see it accelerated, HR 4283's proposal to phase out and eliminate the base guarantee for campus based aid. He approved of efforts in the bill to reduce loan origination fees and to increase borrowing limits, citing such moves as ways to expand flexibility for financial aid professionals. Dr. Reed was also in favor of early outreach and student support provisions in the bill and efforts to increase funding for Hispanic Serving Institutions (HSIs).

When asked about ways to limit campus imposed student fee hikes, Chancellor Reed reported on a recent agreement he and the President of the University of California struck with Governor Arnold Schwarzenegger to peg tuition hikes to the state's per capita income rate (capped at 10%). Chancellor Reed challenged the notion that higher federal grant aid for college campuses correlates to higher fees at universities, testifying that CSU fees did not rise over ten years through the 1990s, whereas Pell Grants doubled and campus base aid grew through the same period.

Chancellor Reed also noted the CSU system's successes in striking innovative partnerships with select industries to secure resources and learning tools for students while meeting the demands of the private sector. He presented examples of collaborations such as campus partnerships with a local hospital to encourage students to study nursing, and partnerships with Disney and Dreamworks to produce more animators at San Jose State University.

For more information on this hearing visit the Committee on Education and Workforce website at: http://edworkforce.house.gov/hearings/108th/fc/heabill051204/wl051204.htm or to visit the CSU Chancellor's website go to: http://www.calstate.edu/ .

EFFORT TO PROTECT SCHOOL FUNDS COULD RESURRECT HOLD HARMLESS PROBLEM THAT REDUCED CALIFORNIA FUNDS

With recently-released census data identifying faster growing child poverty in California and other growing states, some in Congress are seeking to prevent a drop in their school districts' federal Title I funds for 2004. One result, however, might be to revive a provision that cost California more than $100 million during the 1990s.

With the new census data, 11 states -- mostly in the Northeast and Midwest -- are expected to receive fewer Title I dollars in 2004 than in 2003. The greatest prospective decreases are expected in Minnesota, followed by Massachusetts, Iowa, Kansas and Connecticut, and Minnesota members responded in the last two weeks by introducing S. 2365 by Sen. Norm Coleman (MN) and H.R. 4314 by Rep. Jim Ramstad (MN). The bills would require that no state could receive less 2004 Title I funding than it received in 2003, meaning that only school districts in the 11 states that would lose funding overall because of the new data would receive any additional funding. The cost of such a bill some estimate at nearly $80 million, but no California district would be eligible for those funds.

Funds to the 11 states could come either from adding supplemental dollars or by redistributing existing funds for 2004-2005. If no supplemental funds were provided, California and other growing states could lose gains that they otherwise would be slated to receive due to above-average child poverty growth. (States with proportionally greater gains than California include New York, Illinois, Nevada, and Florida.)

Were Congress to focus instead on shoring up funding totals for individual school districts rather than for states, however, some California school districts would benefit. A hold harmless that ensured no school district received less funding in 2004 than it received in 2003 -- even if updated data found relatively fewer eligible students than in other districts – would not provide additional funds to areas with faster-growing child poverty needs, but it would provide some California districts a funding increase. To bring all U.S. districts up to level funding up to 2003 levels, it is estimated that $230 million would be required. As the state has experienced above-average growth, California's share of that amount may be relatively small, and neither the state-level 100% hold harmless nor the school district-based approach would provide any funds to districts experiencing an above-average increase in Title I needs.

In the past, California's share of Title I funds had been reduced by the fact that the Census Bureau collected poverty data only updated every 10 years. (For example, 1992 Title I funding was based on 1980 census numbers for poverty, and California had experienced 60 percent of the nation's increase in poor children during the 1980s.) A partial remedy was devised during the 1994 rewrite of the Elementary and Secondary Education Act, when Californians successfully pushed to require updating between censuses, and revised data was first used to distribute 1998 funds. However, Senators from states that would have received less money (because their poverty child counts had not increased as rapidly as other states) blocked much of the funding shifts during the late 1990s by employing a "100% special hold harmless" provision. By ensuring that no state lose any funds, the 100% hold harmless prevented school districts in growth states from receiving need-related increases.

For general information regarding the effect on California of hold harmless proposals in the past, see *Federal Formula Grants and California: California's Share of Formula Grants, 1991-2001*, prepared as part of a joint venture between the Public Policy Institute of California (PPIC) and the California Institute, available at http://www.calinst.org/formulas.htm or from PPIC at http://www.ppic.org/main/publication.asp?i=470 .

ENERGY & COMMERCE EXAMINES COX HOMELAND SECURITY BILL

On Tuesday, May 11, 2004, the House Energy & Commerce Subcommittee on Health held a hearing to consider H.R. 3266, the Faster and Smarter Funding for First Responders Act of 2004. The bill, approved on a unanimous, bipartisan basis by the Homeland Security Committee earlier this year, is sponsored by that Committee's Chairman, Rep. Christopher Cox (Newport Beach). *(See Bulletin, Vol. 11, No. 14 (4/30/2004)*.)

The subcommittee heard testimony from Chairman Cox, as well as from Andrew Mitchell, Deputy Director of the Office of Domestic Preparedness (ODP) at the U.S. Department of Homeland Security (DHS), and from William Raub, Acting Assistant Secretary for Planning and Evaluation at the U.S. Department of Health and Human Services (HHS).

Cox outlined the various sources of federal homeland security funding over the past two years, and he noted that an analysis by his committee has found that "roughly $5.2 billion of the $6.3 billion awarded since 2001 remains stuck in the pipeline, unused." Despite this problem, however, Cox commented that an "even bigger problem, in my opinion, is that this terrorism preparedness funding is being allocated at the Federal level in a manner that does not direct the money to where we are most threatened by terrorism." He described the unusually large 0.75 percent small-state minimum that directs federal funding "where the money is not needed" and that "guarantees that every state, whether big or small gets an equal share of a large portion of the money." On top of this, Cox noted that even the smallest states (that already received a large amount of initial funds) receive additional money from the formula.

Asked by Subcommittee Chairman Mike Bilirakis why the grant money had not traveled further through the funding pipeline, Cox replied that there are various reasons but three of them stand out. First, some localities are unable to come up with the money at the front end in order to receive reimbursement later. Second, some jurisdictions have been engaged in planning and negotiating activities with state and federal colleagues. Third, in some cases a patchwork of local requirements must be met for additional approval to enter into a contract to provide services.

ODP's Mitchell touted the speed with which DHS allocated formula funding, noting that nearly all funds were made available to the States within two weeks of funding bills becoming law, and he added that 48 of the 50 urban areas designated to receive FY 2004 Urban Areas Security Initiative (UASI) funding have been awarded $631 million of the $670 million to be allocated, and all 30 of the transit systems eligible for UASI transit security grants had received their 2004 funds. Mitchell pointed out that DHS generally supports the Cox bill, and he added, that "the Administration has requested that the Secretary be provided increased flexibility under the distribution formula for ODP's Homeland Security Grant Program," which he said is "consistent with the Department's long-standing position that the PATRIOT Act formula be changed."

For witness testimony and other hearing details, visit http://energycommerce.house.gov/108/Hearings/05112004hearing1268/hearing.htm . For an analysis of California homeland security grant receipts in 2003 and 2004 and a detailed discussion of the formulas that drive the funding levels, see "*Federal Formula Grants and California: Homeland Security*," a joint publication of the Public Policy Institute of California (PPIC) and the California Institute, at http://www.ppic.org/main/publication.asp?i=481 .

T&I SUBCOMMITTEE CONSIDERS FIRST RESPONDER GRANTS

The House Transportation and Infrastructure Subcommittee on Economic Development, Public Buildings and Emergency Management held a hearing on Thursday, May 13, 2004 to examine efforts to prepare the nation for acts of terrorism and disasters and review federal funding for first responders from the Department of Homeland Security (DHS). The panel heard testimony from William Jenkins, Director of Homeland Security and Justice at the General Accounting Office (GAO), Andrew Mitchell, Deputy Director of the Office of Domestic Preparedness at the Department of Homeland Security, and George W. Foresman, Assistant to the Governor of Virginia for Commonwealth Preparedness.

Jenkins testified regarding the findings of two reports prepared by other entities -- one by the DHS Inspector General and one by the House Select Committee on Homeland Security -- that examined the distribution of grant funds to state and local first responders. Both reports, Jenkins said, found that delays in moving federal funds to first responders were generally not the fault of DHS or even states, but were due to myriad factors that varied from recipient to recipient. He said that the delays were more often due to local legal and procedural requirements, and he cited one example where four months elapsed from the date a city was notified of grant fund availability to the date when the city council voted to accept the funds. He noted that state and local procurement requirements and competitive bidding rules sometimes influence delays.

The brief hearing focused considerable attention on an "all-hazards" approach to risk and emergency management, where terrorism would be treated similarly to other natural and man-made disasters and accident. The hearing also touched on an interjurisdictional debate regarding which Committee should have authority over certain agencies (such as whether the T&I Committee or the Homeland Security Committee should oversee Coast Guard activities).

ODP Deputy Director Andrew Mitchell repeated some of his testimony from the previous day's hearing in the Energy and Commerce Committee. He noted that the homeland security community is beginning to "move away from counting widgets" -- meaning how many of this or that has been purchased yet. Mitchell noted that the Administration supports most aspects of HR 3266, and he commented that the Administration agrees that it is important to look at the distribution of grant funds. He spent some time describing "HSPD-8" (Homeland Security Presidential Directive 8), issued by the President on December 17, 2003. Through HSPD-8, Mitchell said, the DHS and state and local governments are to develop national preparedness goals, "improve delivery of federal preparedness assistance to State and local jurisdictions, and strengthen the preparedness capabilities of Federal, State, territorial, tribal, and local governments." He added that a state-local-federal task force will likely report back in or by mid-June.

George Foresman, an emergency preparedness official from Virginia, noted that whereas post-9/11 money for bioterrorism preparedness had begun by Spring 2004, funding to first responders did not begin in a comprehensive manner until a year later.

For additional information, visit http://www.house.gov/transportation/ .

ADMINISTRATION TO SIGN CAFTA, AUSTRALIA AGREEMENTS

The Administration has announced that it will sign free trade agreements with Australia and with five Central American countries – Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica – this month.

On May 18, the U.S. Trade Representative will sign the U.S.-Australia Free Trade Agreement. If approved by Congress, the agreement will immediately cut tariffs on U.S. manufactured exports to Australia. The Agreement will also eliminate tariffs on movies, music, and other entertainment and consumer products, and provide protections against piracy of copyrighted works.

California was the second largest state exporter to Australia in 2003, after Washington, with almost $1.9 billion in trade.

Under the Central American Free Trade Agreement (CAFTA), to be signed on May 28, more than 80 percent of U.S. exports will be able to enter the CAFTA countries duty-free immediately after the agreement enters into force; then 85 percent will be duty free within five years, and all products within ten years. Major U.S. exports, such as information technology products, agricultural and construction equipment, paper products, chemicals, and medical and scientific equipment will gain immediate duty-free access to Central America. In addition, Guatemala, Honduras and Nicaragua will join the WTO's Information Technology Agreement (ITA), which removes tariff and non-tariff barriers to information technology products. Costa Rica and El Salvador are already participants.

The agreement also holds benefits for agriculture. According to the U.S. Trade Representative, more than half of current U.S. farm exports to Central America will become duty-free immediately, including high quality cuts of beef, cotton, many fruits and vegetables, processed food products, and wine. Tariffs on most U.S. farm products will also be phased out within 15 years. The USTR expects that improved market access will benefit most agriculture sectors, including pork, beef, poultry, rice, fruits and vegetables, corn, processed products and dairy products.

The agreement also will open up these Central American markets to the U.S. services industries, including among others: telecommunications services; financial services, including banking, insurance and securities; computer and related services; energy services; and transportation, construction, and engineering services.

After signing the Agreement, the Administration is not under any deadline to send it to Congress for implementation. However, once the Administration submits the Agreement, Congress is limited to 90 days under fast-track procedures to accept or reject it without amendment. Approval of CAFTA this year would be difficult because of Congressional concerns about further U.S. job losses.

Of California's $92.2 billion export trade in 2002, the CAFTA countries represent a relatively minor share. California exports to El Salvador in 2002 totaled $113.18 million, to Guatemala $111.2 million, Nicaragua $20.7 million, and to Honduras $34.77 million. Exports to Mexico were $16 billion in 2002, and to Canada $10 billion.

SENATE QUESTIONS FIRE PREPAREDNESS EFFORTS OF ADMINISTRATION

On Tuesday, May 11, 2004 the Senate Committee on Energy and Natural Resources held a hearing to examine the impact of last year's fire season and the outlook for the 2004 season to alleviate problems previously faced. The Senate members along with the witnesses discussed budget issues related to fire prevention programs, assets used to fight off fires, and predictive models to aid in estimating preparedness costs. Chairman Pete V. Domenici (NM) indicated the hearing was to try and gain a better understanding of what the Administration's efforts are in dealing with the upcoming fire season throughout the nation. Ranking Member Jeff Bingaman (NM) also brought up the Administration's borrowing problem due to the 10 year averages used to estimate costs for the fire season, asserting not enough money is requested in the budget for fire readiness.

Witnesses P. Lynn Scarlett, Assistant Secretary for Policy, Department of Interior, and Mark Rey, Assistant Secretary for Natural Resources, United States Department of Agriculture testified on efforts such as the President's Healthy Forests Initiatives (HFI), which is intended to improve regulatory processes and benefit communities and the environment in protecting against fires. Both Scarlett and Rey acknowledged the unusual fire season in 2003 and the outlook for 2004, and outlined the actions they are taking for hazardous fuel reduction, with a planned treatment of 2.7 million acres in 2004, and clean up after fires. Senator Diane Feinstein thanked the departments for the changes made in the local county match, but urged both witnesses to consider using more realistic 5 year averages, as opposed to 10 year models, and to pay closer attention to hazardous fuel reduction. She also noted that the federal government has been slow to spend the $120 million approved by Congress in 2003 to further combat the potentially ravaging fire season in 2004. Ron Wyden (OR) raised concerns about what the administration is doing to fight fires since so much acreage is at stake and he is "not seeing the money get out there." Jim Bunning (KY) brought up the issue of the tanker air support that would no longer be used to treat fires because of a National Transportation Safety Board report finding that "it was apparent that no effective mechanism currently exists to ensure the continuing airworthiness of these firefighting aircraft." Bunning questioned this move because he believes it would not be effective nor efficient to fight fires without air support.

In closing, Scarlett said the goal was to get more projects going for fuel treatment and for quickly dealing with fire suppression. Rey reiterated that goal, stating the agencies were working to get the work done as quickly and safely as possible.

For further information, visit the Committee's website at: http://www.energy.senate.gov .

HOUSE SUBCOMMITTEE REVIEWS FIREFIGHTER PREPAREDNESS

On Thursday, May 13, 2004, the House Resources Subcommittee on Forests and Forest Health held an oversight hearing to examine firefighter readiness for the upcoming wildfire season. Titled *"Firefighting Preparedness: Are We Ready for the 2004 Wildfire Season?"* the hearing focused on wildfire suppression funding and airtanker fire suppression contract cancellation issues.

The Subcommittee members heard testimony from the following witnesses: Ms. Lynn Scarlett, Assistant Secretary for Policy, Management and Budget, U.S. Department of Interior; the Honorable Mark Rey, Undersecretary for Natural Resources and Environment, U.S. Department of Agriculture (USDA); Ms. Ellen Engleman Conners, Chairman, National Transportation Safety Board (NTSB); Mr. James B. Hull, Texas State Forest Service, Co-Chair, Blue Ribbon Panel on Federal Aerial Firefighting.

Ms. Scarlett testified that the Department is anticipating a challenging 2004 fire season, with portions of the interior western states expected to have an above normal wildland fire season. She noted that last year's fall wildfires in Southern California burned more than 740,000 acres consuming a mere 7 percent of the dying trees and dry chaparral lands, an abundance of which were responsible for last week's fires as well. Additionally, in her testimony Ms. Scarlett offered strong support for the President's Healthy Forests Initiative, and updated the Subcommittee members on the activities of the Wildland Fire Leadership Council, created to lead the fire management agencies in eliminating interagency differences. Ms. Scarlett testified that in FY 2003, the Forest Service expended $1.02 billion to suppress wildfires, and the Department of the Interior spent $303 million, with the overall cost for both agencies exceeding the average costs over the last ten years by 50 percent.

Undersecretary Rey addressed the joint decision by the USDA Forest Service and the Department of Interior to discontinue the use of 33 large airtankers for fire suppression purposes, in effect terminating the national 2004 airtanker contract. He testified that the latter decision was made in response to recommendations contained in the National Transportation Safety Board report on three previous airtanker accidents, which resulted in eight fatalities. He also pointed out that the Federal Aviation Administration (FAA) deems such aircraft not certifiable for civilian use. Undersecretary Rey argued that "to continue to use these contract large airtankers when no mechanism exists to ensure their airworthiness, presents an unacceptable level of risk to aviators, the firefighters on the ground and the communities." He went on to add that USDA has developed a strategy for the upcoming season to supplement firefighting efforts with other available aircraft.

Ms. Conners also spoke about airtanker safety with respect to firefighting efforts, particularly as they relate to the NTSB safety investigations. She testified that currently there is no effective mechanism that exists to ensure the continuing airworthiness of the airtanker aircraft, particularly when increased safety risks resulting from their advanced age and the severe stresses of the firefighting operating environment are taken into consideration. Ms. Conners said that as a result of its investigations, NTSB issued several recommendations, including development of maintenance and inspection programs for aircraft that are used in firefighting operations by the USDA, and the assumption of the responsibility for collecting continuing airworthiness information about surplus military aircraft by the FAA. Similarly, Mr. Hull testified in support of the airtanker contract cancellation on behalf of the Blue Ribbon Panel on Federal Aerial Firefighting.

California has already declared an early fire season, and as of May 10, 2004 wildfires have burned 31,920 acres in the state. California is one of the states that is bracing for an above normal fire season, fueled by continuing drought, unusually warm and dry weather, and lower-than-usual winter precipitation.

To obtain copies of witness testimonies, please visit the House Committee on Resource website at: http://resourcescommittee.house.gov/archives/108/full/index.htm .

SCHWARZENEGGER ANNOUNCES "MAY REVISE" TO STATE BUDGET

On Thursday, May 13, 2004, Governor Arnold Schwarzenegger released revisions to his State Budget, released initially in January. The annual "May Revise" allows for adjustments to initial funding projections. The revision proposes an additional $10 million for CALFED Bay Delta restoration efforts, which seek to improve water quality, water supply, and ecosystem restoration, and it notes that the Governor "will seek additional federal contributions" for the program.

The May Revision notes that the State is seeking a waiver for the Medi-Cal program (the state recipient of federal Medicaid funding) in order to restructure the state program, but it does not adjust funding for Medi-Cal related to the waiver effort It notes that the state will maintain sufficient spending under the CalWORKs welfare program to meet the "maintenance of effort" (MOE) requirement and continue to receive federal TANF funding.

The budget revision also anticipates increased federal funding related to Southern California's wildfires, less federal money for foster care, and an increase of $135 million for oversight resources for an in-home supportive services program (spent in order to maintain federal funding and pursue a federal funding waiver). In addition, the revision acknowledges that additional federal funds will come to the State by not implementing the Governor's earlier proposal to limit growth in a state food stamp program, provides for additional special education spending related to the federal IDEA law, and urges that the state's education leaders expand eligibility and services for the 21st Century Community Learning Center After School Programs in order to ensure that all available federal funds are utilized.

The May Revision is available at http://www.dof.ca.gov/HTML/BUD_DOCS/May_Revision_04_www.pdf .

CALIFORNIA DEMOCRATS FILE AMICUS BRIEF SEEKING ENERGY REFUNDS

On Thursday, May 6, 2004, California's Congressional Democrats, jointly with state legislative leaders, filed an *amicus curiae* brief before the Ninth Circuit U.S. Court of Appeals in a case regarding the high power prices Californians paid during the 2000-2001 electricity crisis.

The brief was signed by Senators Dianne Feinstein and Barbara Boxer, all 33 Democrats in the California Congressional Delegation, and California's state legislative leaders – Assembly Speaker Fabian Nunez and State Senate President Pro Tempore John Burton. The brief asks the Court to direct the Federal Energy Regulatory Commission (FERC) to collect evidence of energy market manipulation in an existing remedy proceeding that would be subject to judicial review. At present, FERC is adjudicating the case in non-public proceedings.

Rep. Zoe Lofgren (San Jose) argued that "Californians have waited far too long for resolution to the energy crisis." Feinstein expressed concern that FERC has now "established a pattern of entering into settlements in private proceedings without adequate input from California." House Minority Leader Nancy Pelosi commented that "California consumers continue to pay the price for illegal market manipulation during the energy crisis, and FERC continues to do little to help." And Speaker Nunez said "Californians deserve their money back, and an opportunity to close the door on the 2001 crisis."

HOUSING BRIEFING FOCUSES ON HOMEOWNERSHIP RATES

The Population Resource Center, in conjunction with the National Low-Income Housing Coalition, the Northeast-Midwest Institute, the California Institute for Federal Policy Research, and the offices of Reps. Danny K. Davis (Illinois) and Mark Steven Kirk (Illinois), held a breakfast briefing on Monday, May 10, 2004 that addressed several aspects of the housing issue.

The briefing, entitled *"Boom or Bust: Public Investment in Home Ownership,"* centered around the issue of homeownership rates in the nation. Briefing attendees heard from the following panelists: Ms. Jeanne Woodward, Survey Statistician, U.S. Census Bureau; Ms. Ellen Wilson, Survey Statistician, U.S. Census Bureau; Mr. William C. Apgar, Senior Scholar, Joint Center for Housing, Harvard University; Mr. Mark Calabria, Majority Staff, Senate Committee on Banking, Housing and Urban Affairs; and Mr. Jonathan Miller, Minority Staff, Senate Committee on Banking, Housing and Urban Affairs. The panel was moderated by Mr. William A. Davis, Jr., President of Davis Developments, Inc. and a Population Resource Center Board Member.

Ms. Woodward offered her audience an examination of housing history as well as a look at homeownership patterns over the past several decades, while Ms. Wilson spoke about recent housing trends. According to Ms. Wilson's presentation of the Census data, California ranked second in the nation as the state with the highest median value houses in 2002, preceded only by Hawaii. Ms. Woodward noted that although median home values have far outpaced the rate of inflation since 1940, most households in the U.S. attained the dream of homeownership at the end of the twentieth century. She also said that Census data shows that since 1950 there have been real increases in the median amount paid for rent and utilities, and that mobile homes comprise the fastest growing type of housing in the U.S.

Mr. Apgar, on the other hand, addressed the issue of the "housing bubble" that has been particularly pronounced in California. He said that research conducted by the Joint Center for Housing indicates that there is no imminent housing bust on the horizon as some have speculated. Rather, he argued the housing industry is expected to perform as strongly for the next 10-15 years as it has in the past decade. Mr. Apgar also addressed the issue of homeownership disparities that run along racial lines. He emphasized that homeownership rates remain low for the African-American population and continue to climb for the white population. In addition, Mr. Apgar offered several recommendations to increase homeownership rates, in particular increased regulation of the mortgage lending industry and increased transparency on home performance information.

Mr. Calabria and Mr. Miller spoke about the Congressional schedule with respect to housing issues and offered some thoughts on where the housing policy in this country is headed. Mr. Calabria said he does not expect Congress will take up any more housing measures this year. He argued that government should be involved in promoting homeownership because it encourages self-sufficiency and stability. He also allowed that obstacles to quality ownership, including income levels and the inability to produce a sufficient downpayment, should be considered when formulating housing policy. Mr. Miller agreed with Mr. Calabria's assessment of how housing policy needs to be constructed, and offered several recommendations. He said that it is necessary to formulate a "homeownership preservation" strategy, that would enable new home buyers to remain homeowners, preserve existing affordable housing in addition to building new affordable units, and maintain voucher programs.

For more information about this briefing, please visit the Population Resource Center website at: http://www.prcdc.org .

PPIC FINDS IMMIGRANTS OUTLIVE NATIVE-BORN IN CALIFORNIA

Most of California's immigrants outlive their native-born counterparts by a significant number of years found a new study released on Wednesday, May 12, 2004 by the Public Policy Institute of California (PPIC). Titled *"The Demographics of Mortality in California,"* the study relied on 2000 Census data to create detailed measurements of the mortality rates and life expectancies of 19 racial and ethnic groups and subgroups.

The study found that on average, immigrants in the state outlive natives by over four years, with life expectancies of 81.5 years compared to 77.4 years for U.S.-born residents. The state average life expectancy was calculated to be 78.4 years. The study also found that 95 percent of residents survive to age 50 and 90 percent survive to age 60, making death before age 50 in California unusual.

Furthermore, the study found that the difference in life expectancies between foreign and native-born residents is more than five years for blacks, three years for Latinos, and two years for whites. Similarly, women outlive men by almost 5 years - with the life expectancy for women at 80.8 years versus that for men at 76 years. The only exception to the general finding was the Asian population: native-born Asians have life expectancies that are over two years longer than those of their immigrant counterparts.

The study found that Asians and Latinos have relatively high life expectancies at 83 years and 80.5 years respectively, though the longest life expectancy in the state is for Asian Indians (84.3 years). On the other end of the longevity spectrum, blacks have the highest mortality rates, with life expectancies of 72.1 years, which translates into more than six years below the state average. The study notes that previous research indicated that a variety of reasons may explain higher mortality rates among blacks, such as lower quality health care, higher rates of obesity and smoking, and lower rates of health insurance coverage. With respect to varying life expectancies between immigrant and native populations, the study speculates that more healthful diets, which lead to lower rates of obesity, and engaging in fewer risky behaviors such as smoking, may partially explain why immigrant populations have higher life expectancies.

For more information about this study, please visit the Public Policy Institute of California website at: http://www.ppic.org .

UCLA HEALTHCARE STUDY ASSESSES UNINSURED IN CALIFORNIA

According to a new study released by the UCLA Center for Health Policy Research, California's 6.3 million uninsured would cost an additional $7.4 billion in direct expenditures to the state if fully insured, with significant savings likely through better health, preventive care and reduced spending by "safety net providers." Currently, the direct spending on health care by Californians below age 65 totals about $61.8 billion annually.

Using the 2001 California Health Interview Survey and 1998-2000 Medical Expenditure Panel Survey data, the study provides estimates of the direct expenditures made on behalf of Californians in the health care system. The study found that direct health care expenditures for uninsured adults and children in California already totals about $7.4 billion annually, with substantial additional spending occurring in various forms, including direct subsidies to health care facilities through Medicare and Medi-Cal, and private subsidies and uncompensated care provided by hospitals and other providers.

The study also found that adult residents who will have insurance throughout 2004 will spend far more on health care per capita (an estimated $2,793 on average) than those without insurance ($963 on average). Similarly, direct health care expenditures in 2004 for children with full-year insurance will be twice that of uninsured children (an estimated $1,428 versus $726 on average). Based on the study's findings, the authors conclude that the costs of an insurance expansion may be more affordable if the state can find mechanisms for redirecting current sources of public and private expenditures on behalf of the uninsured.

For more information about this study, please visit the UCLA Center for Health Policy Research website at: http://www.healthpolicy.ucla.edu .

RAND HIGHLIGHTS HEALTH RESEARCH

On Monday, May 10, 2004 the RAND Corporation held a luncheon briefing entitled, *"How Good is Quality Care in the U.S.?"* Dr. Elizabeth McGlynn, Associate Director for RAND Health, conducted the presentation discussing the purpose and results of research study done on health care quality in the United States.

The study was conducted in 12 metropolitan areas throughout the U.S., including Orange County, to measure the quality and effectiveness of healthcare received by individuals, in order to develop a better method to measure quality and improve healthcare in the nation. The study used 439 standards to evaluate healthcare on 30 acute and chronic conditions, while reviewing medical records of individuals for a period of two years, with criteria of people with or without insurance or healthy or sick persons. The results showed similarities between all 12 metro areas studied.

RAND's study found 55% of Americans received the recommended care needed, with under use of care a greater problem than overuse of care (46% of the time patients did not receive care needed, compared to 11% of time when they received care not needed). Overall, McGlynn said Americans were not entirely safe anywhere, since the basic level of performance was similar throughout the areas. Orange County showed less than 50% of recommended care was received by patients. What is more, the study found that there are substantial deficits in the management of chronic health problems, such as diabetes, ranging from 45% in Orange County to 56% in Miami. The briefing also discussed the consequences of not improving the quality of care, finding that 46% of patients with diabetes did not have their average blood sugar measured appropriately, and 39-55% of patients with heart attacks did not receive needed medications.

The study estimates what is taking place in the nation regarding healthcare, and cites as the first steps toward improving healthcare: are more availability of information for the public; collaboration and coordination with health professionals; community involvement; and increasing patient responsibility for their own care by becoming more proactive. For more information, please visit www.RAND.org.

ALAMEDA CORRIDOR LOANS REPAID

At a May 6, 2004 press conference, U.S. Department of Transportation Secretary Norm Mineta joined Rep. Juanita Millender-McDonald (Carson) and other members of Congress to announce the repayment of $573 million in federal loans for the Alameda Corridor project.

The $2.4 billion Alameda Corridor project, completed in April 2002, established a 20-mile link between the ports of Los Angeles & Long Beach and downtown Los Angeles. The project manages 150 trains every day, helping to facilitate expeditious goods movement, congestion relief, air quality improvements, and safety enhancements.

In remarks, Rep. Millender-McDonald congratulated the Alameda Corridor Transportation Authority (ACTA), noting that it had cleared the loan 28 years ahead of schedule, "A lot of people say a transportation project is a win-win," said Rep. Millender-McDonald, "but the Alameda Corridor has proved it." Pleased by the Alameda Corridor's success and the early repayment of the $400 million loan provided by DOT, Secretary Mineta praised the project as a model for the rest of America and an effective use of taxpayer money. The loan had accrued $173 million in interest since its approval in 1997, though it's early repayment saved ACTA an additional $66 million. In a statement, Sen. Barbara Boxer also expressed her support for ACTA, referring to the Alameda Corridor as a model for innovative financing of transportation initiatives. Federal, state and local resources were supplemented with private sector investments to pay for the project's construction.

ACTA is currently developing another goods movement project known as the Alameda Corridor Truck Expressway. For more information, visit http://www.acta.org .