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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 COMMITTEE REPORTS WATER RESOURCES ACT

The Senate Energy and Public Works Committee favorably reported the Water Resources Development Act (WRDA) reauthorization (S. 2554) on Tuesday, June 22 by voice vote. What was expected to be a long and possibly contentious markup became shorter and smoother, as last minute negotiations led members of the Committee to withdraw planned amendments and Sen. Harry Reid (NV) to abandon his plan to delay the measure because of an unrelated dispute over a Nuclear Regulatory Commission nomination.

WRDA authorizes Corps of Engineers' projects for the planning, design, construction, operation and maintenance of water resource projects. The projects are intended to provide the nation with improved flood damage reduction, hurricane and storm damage reduction, commercial navigation, environmental and natural resource restoration, hydroelectric power, and recreation.

The bill authorizes numerous California water projects, including: the Santa Monica Bay Beach Renourishment Project; a Nicholas Canyon Beach Bank Stabilization/Revegetation Study; a feasibility study of flood protection and restoration of the South San Francisco Bay Salt Ponds; and a Suisun Marsh Ecosystem Restoration Study.

During the markup, the Committee accepted an amendment, supported by Sen. Barbara Boxer, that would require the Corps of Engineers to fully restore wetlands or fish and wildlife habitats that are disturbed because of a project.

The House passed its WRDA bill, H.R. 2557, by a vote of 412-8 on September 24, 2003. Senate floor action on S. 2554 could occur as early as this month.

SENATE FINALLY APPROVES DEFENSE BILL; DECISION ON BASE CLOSINGS DELAY LEFT TO CONFEREES

On Wednesday, June 23, 2004, more than a month after Senate Majority Leader Bill Frist (TN) put the bill on hold, the Senate finally completed action on a defense authorization bill for fiscal year 2005. It all, it took the Senate nearly two months to approve the $447.2 billion package. Action now moves to a conference to resolve differences with the version passed by the House on May 20. The House bill, authored

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by House Armed Services Committee Chairman Duncan Hunter (Alpine), would authorize the same spending total.

Among the highest-profile differences between the two bills is whether to delay a round of military base closures that is now set to take place in 2005. The House bill includes language to delay the closures until 2007; the Senate version contains no delay. (In May, the Senate defeated, 47-49, an amendment to kill the base closure process in its entirety. There was no Senate vote on a delay.)

The Bush Administration, a proponent of additional closures to save defense dollars for military priorities, has stated that President Bush will veto a defense bill that includes a delay or elimination.

During floor consideration of the Senate bill, several amendments were defeated that would have restricted development of the DOD missile defense program. Beginning this fall, 20 missile interceptors are to be placed in California and Alaska.

R&D TAX CREDIT EXPIRES; BACKERS HOPE LAPSE IS SHORT-LIVED

The federal research and development (R&D) tax credit expired at midnight on June 30, 2004, leaving technology-driven industries unsure of the long-term fiscal prospects for their research investments. The tax credit (sometimes also know as the research and experimentation or R&E tax credit), was first enacted in 1981, and it is cited by its backers as an engine of growth for U.S. manufacturing jobs.

Corporate tax bills approved this year by both the House and Senate include 18-month extensions of the R&D tax credit, but differences between the two bills have yet to be resolved. Supporters of the credit hope that any extension that is subsequently enacted will make the credit retroactive to July 1, avoiding any confusion and economic impact that might be result from a time window without an active credit. Ultimately, supporters have argued that a permanent R&D tax credit would allow longer-term planning for research activities, but Congress has enacted a series of short-term extensions.

IMMIGRATION SUBCOMMITTEE EXAMINES APPLICATION BACKLOG

The House Judiciary Subcommittee on Immigration, Border Security, and Claims held two days of hearings to examine the impact on families and businesses of the current backlog in processing immigration applications. The backlog is estimated to consist of approximately 3.4 million cases as of the end of 2003.

On Tuesday, June 17, the Subcommittee heard from Eduardo Aguirre, Director of U.S. Citizenship and Immigration Services, Department of Homeland Security. Director Aguirre outlined the Backlog Elimination Plan, which USCIS submitted to Congress in June. The plan calls for USCIS to establish milestones to measure its progress in eliminating the backlog, employ information technology to speed the elimination process, and ensure the integrity of the process by instituting quality assurance measures. Director Aguirre testified that the backlog will be eliminated by the end of 2006 and that immigration applications will be processed within six months thereafter. During questioning, however, members of the Subcommittee, including Rep. Linda Sanchez (Lakewood), criticized USCIS for its commitment and ability to eliminate the backlog.

On Wednesday, June 23, the Subcommittee heard from another USCIS witness as well as two private sector witnesses: Mr. Prakash Khatri, Citizenship and Immigration Services Ombudsman, U.S. Department of Homeland Security; Ms. Elizabeth Stern, Managing Partner, Business Immigration Practice Group, Shaw Pittman, LLC; and Mr. Paul Zulkie, President, American Immigration Lawyers Association.

Mr. Khatri detailed the mission of his office to assist individuals and employees with immigration problems and to recommend changes to USCIS to improve the immigration application process. Mr. Khatri pointed out the following areas that he labeled "the most pervasive and significant issues" identified so far: prolonged processing times; limited availability of case status information to applicants and beneficiaries; immigration benefit fraud, which contributes to processing delays; insufficient standardization in processing among the different USCIS district offices and regional service centers; and inadequate technology and facilities. He noted that in response to his recommendations regarding these issues USCIS has implemented four pilot programs, one of which is aimed at reducing the wait for a green card from several months or years to 75 days.

Ms. Stern and Mr. Zulkie outlined for the Subcommittee the detrimental effect on business and individuals from the immigration backlog. Ms. Stern noted a recent study which found that visa delays account for $31 billion in lost dollars for U.S. businesses. She argued that to deal with the backlog USCIS must establish a commercially-oriented approach, with unambiguous standards and goals, and effective communications, training, and technology management to streamline the process. Mr. Zulie testified that the current delay in processing an adjustment of status application – the last step in obtaining a green card – is 26 to 29 months. He detailed numerous instances where this delay has had substantial negative consequences for individuals and businesses. He acknowledged that USCIS has recently taken steps to rectify the problem, but testified that some of those changes have in fact resulted in further problems. Finally, he stated that in the end USCIS will not be able to resolve the problems because it lacks sufficient employees and resources. He argued that Congress should provide more funding to eliminate the backlog and urged that raising fees was not the answer.

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

SENATE COMMERCE SUBCOMMITTEE EXAMINES PEER-TO-PEER NETWORKS

The Subcommittee on Competition, Foreign Commerce, and Infrastructure of the Senate Commerce, Science, and Transportation Committee held a hearing on *"The Future of Peer-to-Peer (P2P) Technology"* on Wednesday, June 23 2004. The Committee heard from a number of witnesses, including: Mr. Howard Beales, Director, Bureau of Consumer Protection, Federal Trade Commission; Mr. John Rose; Executive Vice President, The EMI Group; and Mr. Michael Weiss, Chief Executive Officer, StreamCast Networks, Inc., which developed and distributes the P2P software "Morpheus".

Mr. Beales outlined the steps that the FTC has taken to educate consumers on the potential risks from identity theft, spyware, and viruses that may result as a use of P2P networks. Regarding whether P2P software potentially violates the FTC Act, however, Mr. Beales testified that the FTC is not aware of any basis under the Act for distinguishing P2P from other neutral consumer technologies, such as e-mail, that may inadvertently expose the consumer to spyware, viruses, pornography, or the like. The FTC, he stated, has also reviewed whether P2P distributors have made any false claims on their websites about potential risks of P2P sharing. It found that, although distributors could be providing more and clearer information about risks, they were not making false or misleading claims. The FTC will be providing the top ten distributors of P2P networks with FTC guidance documents on how to disclose information in an online context.

Mr. Rose cited the numerous ways that the music industry is changing its product format and distribution to respond to the paradigm shift brought on by the Internet. Nevertheless, he stressed that "Piracy affects our ability to reinvest in new and developing artists thereby imperiling the livelihood of new artists and the future of music itself. In 2002, at least in part due to digital piracy, EMI had to cut its artist roster by roughly one-fourth. We cut it by one-fourth again this year." In addition, the company has had to layoff employees as well. In 2002, according to Mr. Rose, digital piracy contributed to EMI's decision to cut its work force by about 20 percent. In April of 2004, it again cut its workforce by about 20 percent.

Mr. Weiss detailed the findings of the U.S. District Court in the recent California case against Morpheus and Grokster, pointing out that the Court found that the Morpheus and Grokster software is fundamentally different from software originally developed by Napster and should not be compelled to shut down, as Napster was, because Morpheus is not a network or a server and has no subscribers. As a result, Mr. Weiss encouraged the Subcommittee to use the District Court's opinion during their consideration of the issue. He also made several arguments in defense of P2P, including: that present and future uses of P2P software are frequently and increasingly noninfringing or unrelated to copyrighted materials; and, that commonly cited detriments to consumers of using peer to peer technology are frequently overstated or erroneous.

Testimony of all witnesses may be obtained through the Committee's website at: http://commerce.senate.gov .

EDUCATION LEADERS DISAGREE OVER INCREASED ACCREDITATION OVERSIGHT

On Tuesday June 22, 2004 a House Education and Workforce Committee panel heard witnesses testify about the quality and accountability challenges of the peer review college accreditation system. Witnesses agreed that there was room for improvement among accreditation agencies, though there was a difference of opinion as to how much federal involvement was necessary to get private accreditors to enhance college quality reviews.

Current law limits federal student aid to colleges and universities certified by a Department of Education designated accreditation agency, giving peer reviewers the authority to measure the institutional quality of a college campus independent of undue government or local interference.

In his opening remarks, Rep. Buck McKeon (Santa Clarita), Chair of the 21st Century Competitiveness Subcommittee, expressed concern at the current lack of focus on academic achievement and student learning in the evaluation of college campuses. Rep. McKeon believes that a Higher Education Act (HEA) reauthorization proposal he has co-authored would institute the right changes to make accreditation more accountable and transparent to the public.

The bill, known as the College Access and Opportunity Act (HR 4283), would: require accrediting agencies to make more information about campus assessments and accreditation processes available to consumers; require institutions to measure student academic achievement; make transfer of credit policies public to give students better credit transfer flexibility options; prohibit higher education institutions from refusing college credit transfers based solely on questionable accreditation concerns; and establish a College Consumer Profile to assist parents and students seeking information about campus quality.

Panelist Jerry Martin, Chair of the American Council of Trustees and Alumni, argued that the lack of accountability in accreditation processes as well as unfair student transfer policies have made college graduates less prepared for participation in the workforce while contributing to the surge in the cost of post-secondary education. Mr. Martin recommended that states have the option to establish their own accreditation systems in order to improve accountability and reward performance.

In the view of Dr. Thomas Dary Erwin of James Madison University, the current accrediting system is not centered enough on "what and how well students learn." He advocated a more action-oriented approach to enhance accreditation practices than that of the bill's, without going so far as to dictate policy to universities.

Speaking on behalf of accreditation agencies, Dr. James Davis of the National Association of Independent Colleges and Universities (NAICU) was in favor of striking a better balance between government and peer evaluation though he thought the accountability provisions in HR 4283 would impose on an agency's freedom and a campus's ability to innovate. He opposed Dr. Martin's proposal to give states self-accreditation authority, arguing that private "peer accreditation works". Dr. Martin countered that with $60 billion in federal student aid funds at stake, there needs to be greater transparency and a more responsible oversight of colleges and universities than is currently afforded.

HEA is set to expire at the end of this legislative session. The hearing on accreditation is one in a series of hearings conducted by the Committee to review HR 4283, in pursuit of a successor to HEA. The House has split various components of its bill into smaller measures, two of which (graduate education and teacher quality) have already been reported out of the House and referred to the Senate. The Senate has held a number of hearings on reauthorization, though no official proposal has been submitted by Senate Health, Education, Labor and Pensions Committee Chair Judd Gregg (NH).

For more information or to view testimony from the above hearing, visit the House Education and Workforce Committee Website at: http://edworkforce.house.gov/ .

SMALL BUSINESS LOAN FUNDING SOUGHT

A bipartisan cross-section of nearly half of the California's Congressional delegation joined a coalition of 155 House signatories in a letter to House Appropriations Committee Chairman C.W. Bill Young requesting that the Committee restore funding for the Small Business Administration's (SBA) 7(a) loan guarantee program in FY 2005. The program's FY 2004 funding level of $79,132,000 has been excluded from the Commerce, Justice, State, the Judiciary, and Related Agencies FY05 appropriations bill.

The SBA's Section 7(a) Small Business Lending Program provides small businesses around the nation access to capital at start-up or during key growth phases. The signatories point out in the letter sent on June 2, 2004 that Congress created the 7(a) program as the federal government's primary business loan guarantee program and that now it provides 30 percent of all long-term, small business financing. Since its inception, the program has become SBA's largest program in terms of number of loans and program level supported.

Currently, loans of as much as $1.5 million can be guaranteed, although there is a $1 million cap under the regular programs. Banks in California and several other states have been making two loans to a 7(a) borrower to cover the higher costs of doing business in the state, a process known as "piggybacking". Typically, the banks make a $1 million SBA loan, which is 75 percent guaranteed, then follow up with a second loan on a conventional basis for up to another $1 million and subordinate the SBA loan to the conventional loan. The SBA Section 7(a) program is a major program for banks in California, and particularly for small businesses who are dependent on the program for financing of start-up companies or expansion of existing ones. An attempt to reinstate funding for this program offered during the House Appropriations Committee markup was defeated on a 24-36 vote, and efforts are now being made to restore funding on the floor when it comes up for consideration, which may be shortly after the end of the July 4th recess.

SENATE PANEL REVIEWS FINAL REPORT ON THE PRESIDENT'S COMMISSION ON IMPLEMENTATION OF U.S. SPACE EXPLORATION POLICY

At a hearing of the Senate Commerce Committee's Subcommittee on Science, Technology, and Space, held on Thursday, June 17, 2004, panel members heard testimony regarding the newly-released Final Report on the President's Commission on Implementation of U.S. Space Exploration Policy, also known as the Aldridge Commission Report.

The subcommittee heard testimony from Edward "Pete" Aldridge, a former astronaut and chairman of a commission called to examine and make recommendations regarding the nation's future space exploration policy. The Commission also included Carly Fiorina, Chairman and CEO of Hewlett-Packard.

Among other things, the Commission found that, in order to meet current goals for the exploration of Mars, "NASA needs to transform itself into a leaner, more focused agency by developing an organizational structure that recognizes the need for a more integrated approach to science requirements, management, and implementation of systems development and exploration missions." Aldridge indicated that a recent ratcheting-up of agency objectives is not without cost, and that NASA could not afford to proceed without cost-cutting measures.

He also said that the 10 major NASA centers (3 of which are located in California) would need to be more "flexible" regarding contracting and personnel practices. It suggests using California's Jet Propulsion Laboratory (JPL) as a model, whereby NASA centers become "Federally Funded Research and Development Centers," or FFRDCs. The California Institute of Technology manages JPL under a contract with NASA.

At the hearing, Subcommittee Chairman Sam Brownback (KS) suggested that consolidating facilities may also be required to meet budgetary limitations. Aldridge and others reiterated a theme of "pay as you go" that has been discussed since January 2004, when the Bush Administration first floated the idea of a revised NASA mission. *See Bulletin, Vol. 11, No. 2 (1/28/2004)*.

Some subcommittee members questioned whether adequate funding would be available in future appropriations for increased mission activities, which include returning humans to the moon and a long-term goal of a manned mission to Mars.

On the day of the hearing, Chairman Brownback also introduced an $86.3 billion bill to reauthorize NASA through 2009. The bill presumes that the Space Shuttle would be retired in 2010, following completion of the International Space Station, a new space vehicle would operate by 2014, and a human mission to the moon would take place by 2020.

To read the report, visit http://www.nasa.gov/pdf/60736main_M2M_report_small.pdf .

NASA Announces Reorganization Plan

On June 24, 2004, National Aeronautics & Space Administration (NASA) Administrator Sean O'Keefe announced plans for transformation and "streamlining" of NASA's organization structure. The reorganization followed by one week the release of a report by the President's Commission on Implementation of U.S. Space Exploration Policy, which urged streamlining of NASA operations and organization to meet program goals. (*See accompanying article in this Bulletin*).

O'Keefe indicated that the agency would seek to "eliminate the 'stove pipes'" within the organization and "promote synergy across the agency." By August 2004, NASA would be reorganized to place programs into four "mission directorates" in an effort to focus more specifically on particular program goals. The four directorates, and their missions, include:

- Aeronautics Research: To research and develop aeronautical technologies for safe, reliable and efficient aviation systems [This directorate would include the NASA Dryden Flight Research Center at California's Edwards Air Force Base.]
- Science: To carry out the scientific exploration of the Earth, Moon, Mars and beyond; chart the best route of discovery; and reap the benefits of Earth and space exploration for society. [This directorate would include two California centers, the Jet Propulsion Laboratory managed by the California Institute of Technology in Pasadena, and the NASA Ames Research Center, located at Moffett Field in Mountain View and Sunnyvale.]
- Exploration Systems: To develop capabilities and supporting research and technology that enable sustained and affordable human and robotic exploration; includes the biological and physical research necessary to ensure the health and safety of crew during long duration space flight, and
- Space Operations: Direct space flight operations, space launches and space communications, as well as the operation of integrated systems in low-Earth orbit and beyond

In addition to this operational restructuring, a number of NASA's functional offices will be restructured as Mission Support Offices, including financial, management, engineering, communications and the general counsel's office. The agency would also create a number of commissions and councils.

O'Keefe indicated the agency would also "redefine its relationships" with NASA Field Centers by developing "clear and straightforward lines of responsibility and accountability."

For information regarding NASA reorganization plans, visit http://www.nasa.gov . For information regarding space activities in California, visit the California Space Authority's website at: http://www.californiaspaceauthority.org .

House Science Panel Passes Supercomputing Authorization Bill

On June 14, 2004, the House Science Committee approved a bill to create a new Department of Energy program to increase the performance and capacity of the nation's high-performance computers. HR 4516, approved by voice vote, aims to establish high-end computing facilities that would be accessible to academics and federal researchers. Proponents of the bill want the United States to regain its superiority in developing supercomputing technology. Japan, not the United States, now houses and runs the world's fastest computer, the Earth Simulator.

On May 13, the Committee had held a hearing where witnesses and panel members alike lamented the fact that the world's fastest computer now resides outside the nation's borders. *See Bulletin, Vol. 11, No. 17*

(5/20/2004). The Department of Energy reported that Japan's computer has the computing power of the 20 fastest U.S. machines combined.

The bill authorizes $165 million over three years ($50 million in 2005, $55 million in 2006, and $60 million in 2007) to support the development of computer laboratories via the DOE Office of Science, although funds would remain subject to appropriations.

During the markup, Rep. Brad Sherman (Sherman Oaks) offered and later withdrew an amendment to limit development of artificial intelligence with the supercomputers.

HEARING HELD TO REVIEW THE HEALTHY FORESTS RESTORATION ACT

On Thursday, June 24, 2004, the Forestry, Conservation and Rural Revitalization Subcommittee of the Senate Agriculture, Nutrition and Forestry Committee held an oversight hearing on the implementation of the Healthy Forests Restoration Act (HFRA). President Bush signed the HFRA, which performs parallel functions to the Administration's Healthy Forest Initiative (HFI), into effect in December of 2003.

The Subcommittee members heard testimony from numerous witnesses, including: the Honorable Mark Rey, Undersecretary for Natural Resources and Environment, U.S. Department of Agriculture (USDA); and, Mr. Chad Calvert, Deputy Assistant Secretary, Land and Mineral Management, U.S. Department of Interior (DOI);

In their joint written testimony, USDA Undersecretary Rey and DOI's Calvert hailed HFRA as an important bi-partisan Congressional work product, and reported progress on implementation of the Act since its passage seven months ago. The two government witnesses also spoke briefly on the administrative reforms that had been put in place as a result of HFI, including creation of two new categorical exclusions under the National Environmental Policy Act (NEPA), streamlined consultation procedures for threatened and endangered species with the U.S. Fish and Wildlife Service and National Marine Fisheries for National Fire Plan projects, and improved oversight by the Council on Environmental Quality on the issue of performing environmental assessments under NEPA.

With respect to HFRA's implementation, Undersecretary Rey and Mr. Calvert testified about the progress made in each area of the Act. To implement Title I, the Forest Service Agency (FSA) published interim final regulations aimed at addressing concerns raised by the public during project development and before land managers make their final decision on hazardous fuel reduction projects, and the FSA and DOI agencies have issued an HFRA implementation guide. To implement Title II, which deals with the utilization of woody biomass, the Departments of Agriculture, the Interior, and Energy have signed a memorandum of understanding that lays the groundwork for the interagency biomass committee to implement biomass projects. To address directives spelled out in Title III, Undersecretary Ray and Assistant Secretary Calvert said the Forest Service is working with state foresters and Indian tribes to develop separate guidelines for the State Watershed Forestry Assistance Program and the Tribal Watershed Forestry Assistance Program.

Steps that have been taken with regard to Title IV concern mainly the southern states, while to implement Title V the FSA has developed and published the *"The Early Warning System for Forest Health Threats in the United States"*, which describes for the first time the nation's system for identifying and responding to forest health threats, including web sites detailing information on 130 damaging insects and pathogens and containing information for port inspectors on how to identify and determine the risk of unwanted pests. Undersecretary Ray and Mr. Calvert concluded their testimony by saying that their respective agencies need to work on ensuring that future hazardous fuel reduction work, which includes tree thinning and prescribed fire, is acceptable to and understood by the surrounding communities.

For more information about this hearing, please visit the Senate Agriculture, Forestry and Nutrition Committee website at: http://agriculture.senate.gov .

SENATE SUBCOMMITTEE CONSIDERS EARTHQUAKE LEGISLATION

The Science, Technology and Space Subcommittee of the Senate Commerce, Science and Transportation Committee held a hearing on Thursday, June 24, 2004 to review H.R.2608, a bill which reauthorizes the National Earthquake Hazards Reduction Program (NEHRP).

The panel testifying before the members of the Subcommittee consisted of the following witnesses: Dr. David Applegate, Senior Science Advisor for Earthquake and Geologic Hazards, U.S. Geological Survey (USGS); Mr. Archibald C. Reid, III, Deputy Director, Mitigation Division, Emergency Preparedness and Response Directorate, U.S. Department of Homeland Security; Dr. S. Shyam-Sunder, Acting Deputy Director, Building and Fire Research Laboratory, National Institute of Standards and Technology (NIST), U.S. Department of Commerce; and Dr. Galip Ulsoy, Director, Division of Civil & Mechanical Systems, Directorate for Engineering, National Science Foundation (NSF).

Dr. Applegate testified on behalf of the Department of Interior in strong support of H.R. 2608, noting that significant progress has been made in the areas of earthquake awareness, emergency response, new building compliance, and existing structure retrofitting over the twenty-five year existence of the Act. He reported on USGS activities concerning NEHRP, which were funded at $47.4 million in FY 2004 and included funding for the Southern California Earthquake Center (SCEC). Dr. Applegate identified both Southern and Northern California as being among the regions with the greatest earthquake risks in the nation. He urged Congress to continue addressing the nation's vulnerability to natural disasters, since the seismically active areas affect 150 million people in 39 states. At the conclusion of his testimony, Dr. Applegate commented that although the coordination among NEHRP agencies is good, it can be improved.

Dr. Shyam-Sunder similarly applauded NEHRP as an exemplary collaborative effort among the federal, state and local governments. He described briefly NIST's responsibilities, activities and accomplishments under the Program. Dr. Shyam-Sunder said that at the present time, NIST 1) develops seismic design and construction standards for federal construction; 2) assists federal, state, and local agencies and other organizations in developing, testing and improving seismic design and construction provisions; 3) conducts research on performance criteria and supporting measurement technology for earthquake resistant construction; and 4) participates in NEHRP post-earthquake investigations and analyzes the behavior of structures and lifelines. Under H.R. 2608, NIST will become a lead agency responsible for the NEHRP's implementation. Dr. Shyam-Sunder said that NIST supports the bill as it will strengthen the NEHPR program.

Also speaking in support of the bill, Dr. Ulsoy testified that the National Science Foundation supports research and educational activities in areas of geosciences, earthquake engineering, and social sciences within NEHRP. He pointed out that the Southern California Earthquake Center - under NSF's oversight - has proved to be an important tool in integrating social sciences into engineering and geoscience research questions, and serves as a leader in applying the Global Positioning System (GPS) technology to earthquake hazard assessment. SCEC was established in 1991 as an NSF Science and Technology Center, is headquartered at the University of Southern California, and includes eight core university partners.

For more information about this hearing, please visit the Senate Committee on Commerce, Science and Transportation website at: http://commerce.senate.gov .

HHS STUDY OF HEAD START MANAGEMENT PRACTICES RAISES QUESTIONS

A Department of Health and Human Services' (HHS) May 13, 2004 report to Congress on administration and management practices of Head Start programs has raised concerns among Congressional leaders over potential financial abuses. Head Start, the federal government's foremost early education and school preparedness program for low income infants, came under scrutiny from Congressional leaders last year after reports of inflated pay to executives and lack of accountability at some Head Start centers were made public. The report shows evidence of some improprieties among executive directors and directors of large Head Start grant recipients, though most grantees performed good administrative practices.

The HHS inquiry examined self-reported personnel, travel and administrative spending practices at Head Start centers, finding that although the majority of Head Start Centers were directing funds appropriately, some of the largest spent between 20 and 40 percent of their annual budgets on meeting and conference travel, according to a House Education and Workforce Committee news release. The report also charges that over a dozen local Head Start executives received a larger salary than the HHS Secretary, coupled with sizable compensation packages, though not all of those funds were derived from federal sources.

Senior House Education and Workforce Committee member and author of the 2003 Head Start reauthorization School Readiness Act, Rep. Michael Castle (DE) urged action to correct the improprieties discussed in the report. In a statement, Rep. Castle said, "Head Start agencies who are diverting funding away from disadvantaged children for their own gain should reform their practices." Rep. Castle's bill (HR 2210), which cleared the House by a narrow margin last year, establishes stronger safeguards against the misuse of Head Start training and technical assistance grants, according to the House Education and Workforce Committee.

The Committee's Ranking Member George Miller (Martinez), an opponent of HR 2210, had reservations about drawing conclusions too hastily from the report, contending "the vast majority of Head Start grantees use their federal dollars wisely."

Because the report appeared to raise questions about other potential misuses of federal Head Start funds beyond the scope of the report, the findings prompted HHS Secretary Tommy Thompson to pledge to collect more specific information about financial compensation in future surveys.

California houses about 100,000 Head Start children. Head Start, a federal formula grant program, was budgeted $6.67 billion in 2004, with California receiving about 13.3 percent of program funds. The formula is primarily based on a state's share of poor children below age 5.

In related news, the National Head Start Association (NHSA), a principle Head Start advocacy group, on June 30, 2004 alleged that Windy Hill, chief of HHS' Head Start bureau intends to resign this November. Ms. Hill is being investigated by the Office of Inspector General after accusations were raised of potential financial mismanagement practices while she directed a Head Start center in Texas. HHS Assistant Secretary Wade Horn denied allegations of Hill's resignation.

Head Start was examined as part of the California Institute's and Public Policy Institute of California's (PPIC) "*Federal Formula Grants and California*" series. For more information regarding Head Start formula workings, distribution of funds, and California's performance under the current Head Start law, visit the California Institute website at: http://www.calinst.org/formulas.htm , or download the report directly from PPIC at http://www.ppic.org/main/publication.asp?i=469 .

SUDDEN OAK DEATH CONTROL ACT INTRODUCED

Last week Senators Barbara Boxer and Gordon Smith (OR) introduced the Sudden Oak Death Syndrome Control Act of 2004. After the discovery in Southern California nurseries in recent months of a pathogen that causes Sudden Oak Death Syndrome, there has been concern over the possibility that it may spread throughout the country. Boxer's office said the legislation would help protect the nation's $13 billion nursery industry and protect local communities from fire danger posed by dead, infested trees. "Sudden Oak Death is a devastating threat we need to get under control," she said, "This legislation will help ensure our forests and nurseries are healthy and our communities are protected from fire hazards."

The legislation would require the U.S. Department of Agriculture (USDA) to take responsibility for a variety of new activities dealing with Sudden Oak Syndrome management, treatment and fire prevention. It would require the department to provide grants to local governments for hazardous tree removal, establish public education and outreach programs, and meet regularly with Federal, State, tribal and local governments to exchange information.

Under the Act, $44.2 million would be allocated annually – $25 million for USDA research, regulation and monitoring, $18.5 million for management, treatment and fire, and $700,000 for education outreach.

CONTINUED CALIFORNIA WINE INDUSTRY GROWTH REPORTED IN RECENT STUDY

California wine industry leaders recently released a report commissioned by the Wine Institute, a San Francisco-based public policy advocacy group, and the California Association of Winegrape Growers, an association of wineries and affiliated businesses, entitled *"Economic Impact of California Wine 2004."*

The report's purpose, according to the Wine Institute, was to provide solid data on the state's wine industry to be used in public policy discussions. Conducted by MKF Research, it determined that the California wine industry has an annual impact of $45.4 billion on the state economy. It found that the industry grew by 40 percent between 1998 and 2002, and that during that period the industry and its affiliated businesses provided 207,550 full-time equivalent jobs, with a total of $7.6 billion in gross wages during that period. The wine industry increased jobs, it says, by a compound annual rate of more than nine percent during a period of rising unemployment in the state.

According to the report, between 1998 and 2002 the retail value of California's wine production rose 24 percent to $15.2 billion, the number of California wineries increased by 24 percent, the number of farmers growing grapes went up 9 percent, and acres devoted to wine grapes grew 11 percent to 481,264. Wine, the report says, was the state's third-largest agricultural export in 2002, valuing $486 million. And, in terms of specific wine sales, it says the state produced 3.1 billion bottles of wine in 2002 (an increase of 20 percent from 1998) with a combined retail value of $15.2 billion.

The report notes challenges facing the California wine industry, including strong foreign competition, a recent oversupply of grapes, an economic downturn and damaging insect infestations. Wine Institute President and CEO Robert P. Koch said the industry remains strong "despite the challenges of intense global competition, trade barriers, agricultural pests and the constant threat of increased taxes and regulations."

Praises of the industry and the report have come from Reps. Mike Thompson (St. Helena) and George Radanovich (Mariposa), co-chairman of the Congressional Wine Caucus. "California wine is vital to the state's economy," Thompson said, "This report will help demonstrate to our colleagues the importance of the wine industry." Radanovich, a vintner himself, called the industry a "key element" of the state's economy and said the report would "provide concrete information" for members of Congress.

To read the Wine Institute's release or for further information, visit http://www.wineinstitute.org/ .

PPIC GIVES PRINCIPALS' VIEWS OF FUNDING FOR SCHOOL ACHIEVEMENT

The Public Policy Institute of California recently published a report entitled *School Budgets and Student Achievement in California: The Principal's Perspective*. The report, written by Heather Rose, Jon Sonstelie, and Peter Richardson, outlined results from workshops conducted with 45 principals from representative schools throughout the state. During the workshops, principals were given three budget scenarios and asked to show how they would allocate resources to maximize achievement at two schools of a higher and lower socioeconomic status (SES).

PPIC's analysis focused on how allocations and predictions changed as the budget scenario changed. The authors believe that the research design of the study was advantageous because principals know the most about academic standards, resources, and outcomes, and by giving them budget scenarios where they were forced to choose between resources rather than evaluate any one resource in isolation, they felt they were able to distinguish the principals' needs from their desires. Also, they said that asking principals to predict Academic Performance Index (API) scores based on their models revealed the relative value of resources in improving achievement.

Elementary school, middle school, and high school principals participated in the study. According to the report, all three groups shared the following conclusions: They thought that more spending was required for most schools to reach the state's "relatively high" academic standards (though they said thoughtful allocations, not just big budgets, would be critical for reaching the state API), they predicted substantial differences in achievement between low- and high-SES schools with the same budget (in the low budget scenario they predicted that low-SES elementary schools would score about 120 points lower than high-SES schools in the low budget scenario and 90 points lower in the high budget scenario), and, given even the lowest budget scenario, all allocated money towards professional development and other activities to improve the quality of instruction..

The report showed that, unconstrained in the study by state incentives to lower class size in the K-3 group, elementary principals tended to balance out class sizes more between grades K-3 and grades 4 and 5. In the low budget, low-SES scenario the principals set class size at 21.5 for K-3 and 27.4 for 4 and 5. The additional resources saved in class size reduction were used for programs such as full-day kindergarten and after-school tutoring.

Middle school principals participating in the study chose higher average class sizes than elementary principals (27.3 students in core classes, 33.3 in noncore in the low budget scenario). The report indicated that larger classes permitted principals to hire counselors that California schools lack (1.7 counselors in the low-budget scenario and 2.5 in the high-budget scenario). These principals were "less optimistic" about API scores, predicting that a low-SES school would require 30 percent more funding than a high-SES school to reach an API of 750.

The report indicated that low-SES schools were not predicted to reach the state's academic standard of 800 in any of the budget scenarios in any of the groups.

High school principals allocated at least 30 percent more time for professional development than middle school principals at all budget levels but, like middle school principals, chose larger class sizes (26.6 students in core classes, 34.7 in non-core in the low budget scenario) and emphasized the importance of counseling services by reducing the student-counselor ratio to 300 to 1 compared to the 500 to 1 common in California high schools.

The authors noted that, even in highly controlled budget simulations, principals' opinions differed on allocation choices. But, they say, the models in the study provide a "funding benchmark" for the Legislature.

The Public Policy Institute of California's study is available at http://www.ppic.org .

SURVEY GAUGES PUBLIC VIEWS ON EDUCATION FUNDING, POLICY

On Wednesday, July 30, the Educational Testing Service (ETS) released their Fourth Annual ETS Hart-Teeter Survey, *Equity and Adequacy: Americans Speak on Public Funding*, conducted by Peter D Hart Research Associates & Coldwater Corporation. At the event, Leslie C. Francis, ETS Communications Vice President, said the purpose of the survey was to gain perspective on the public's view on school finance – an issue which he said is important "not because it's at the top of the public agenda, but because it isn't."

Researchers surveyed 1,309 adults nationwide between May 25 and June 10, 2004 (including parents, residents in presidential battleground states, and education policy-makers). Focus groups were also conducted in Florida and Ohio in May. Results of the survey reveal that 76 percent of adults believe funding for schools is not used efficiently, 18 percent indicating they believe "quite a lot" of money is wasted, 24 percent saying a "great deal" of money is wasted. Pollster Peter Hart, one of the lead researchers who conducted the study, said that these public views are bipartisan and that although education is still a primary concern for Americans, the public wants to know how education funds are being spent. "Discussion has to be about goals, objectives – what the money means and where it's going," Hart explained.

The survey indicated that people are generally split over the No Child Left Behind (NCLB) Act and how to achieve accountability – 39 percent of adults are favorable to NCLB, 38 percent are not. However, only 16 percent of respondents said they were "very favorable" to NCLB compared to 23 percent who said they were "very unfavorable." According to the survey, the public generally agreed that the state should play a larger role in education. Although respondents were split over whether funding should be distributed equally to students or whether increased funds should be allocated to schools with greater need, 80 percent of adults surveyed felt that the state should be involved in some form in directing funding through one of these two options. Equal numbers of respondents, 55 percent of those surveyed, felt that money for schools in low-income areas and quality of schools in their own area were major concerns. And, although the survey indicated disagreement between respondents regarding how to ensure equity in schools, 65 percent of adults indicated that it is appropriate to allocate tax revenue raised in other areas to schools in low income areas.

Francis said that the survey results tend to show “an information gap between what’s going on and what parents know.” He said that although responses to the survey do not point to a clear policy direction they highlight areas where the public is ready to engage in discussion.

The survey will be available for review at http://www.ets.org/ .