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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.

HOUSE JUDICIARY REPORTS BILL TO DETER PIRACY

The House Judiciary Committee on Wednesday, September 8, favorably reported H.R. 4077, the Piracy Deterrence and Education Act of 2004, after accepting a Manager's amendment that incorporates H.R. 4586 into the bill, which is intended to exempt from copyright infringement the home use of filtering technology that blocks out portions of DVD movies that the viewer finds inappropriate or offensive.

H.R. 4077 requires the FBI to develop a system to educate the public about, and warn them against committing, acts of copyright infringement through the Internet, and to facilitate the voluntary sharing of information on copyright infringement acts among law enforcement agencies, Internet service providers, and copyright owners. Internet service providers (ISPs) are not obligated to act on any information obtained regarding copyright violators using their systems, and are protected from liability for storing or transmitting files containing copyright infringing material. During the markup, in response to comments by Rep. Zoe Lofgren (San Jose), Rep. Lamar Smith (TX), author of the bill and Chair of the Courts, the Internet, and Intellectual Property Subcommittee, assured her that if ISPs had concerns about the exemption language, he would be happy to work with Rep. Lofgren to resolve any problems.

The bill also lessens the standard for proving copyright violations from "willfully" distributing copyrighted works with a retail value of at least \$1,000, to "reckless disregard" in uploading onto the Internet 1,000 or more works with a total value of at least \$10,000. The bill also bans the use of a camcorder in a movie theater to make an unauthorized copy of a pre-released film.

While supporting the underlying bill, Rep. Howard Berman (Valley Village) opposed the inclusion of H.R. 4586. Among other problems, he stated that the bill may in fact accomplish the opposite of its intent. He argued that H.R. 4586 is aimed at allowing ClearPlay Inc. to market its product, which would allow home viewers of DVDs to filter out sexually explicit or graphic material from feature films. However, he explained, ClearPlay is being sued for patent infringement by Nissan, and if Nissan ultimately prevails, its product, which could become the only marketable product under H.R. 4586, can be used to enhance, not

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eliminate, sexual and graphic material. Also, Mr. Berman argued that the language is so broadly drafted that it potentially covers the filtering of television programs, including commercial skipping, which could eventually jeopardize the continued availability of free television programming.

The movie and entertainment industry strongly supports the copyright protections of H.R. 4077, but oppose H.R. 4586, and several have filed suit against ClearPlay for copyright violation.

The Manager's amendment, including H.R. 4586, was adopted by voice vote and the bill reported out of the Committee favorably by voice vote.

CALIFORNIA MPOS SUPPORT PRESERVATION OF KEY HIGHWAY FORMULA SCHEME, WITH \$160 MILLION OF STATE'S CMAQ FUNDS AT ISSUE

A consortium of six Southern California metropolitan planning and transportation organizations have pulled together to draw attention to a little-known provision in the Senate highway bill that could shift tens of millions of dollars annually away from California if it becomes law. In a letter to key members of the California Congressional Delegation and the Governor, the group urges the help of federal lawmakers to address the matter.

The authors point out that the transportation reauthorization bill known as SAFETEA (S. 1072) includes language altering the formula structure of one of the principal highway programs, known as the Congestion Mitigation and Air Quality Improvement (CMAQ) program, to California's detriment. CMAQ, the core federal aid highways program (FAHP) that yields the greatest percentage return to California, currently apportions funds based on an area's degree of air pollution -- with higher shares of funds going to states that have to manage higher volumes of smog and carbon monoxide. Under the Senate proposal, the current, graduated weighting scheme based on pollution severity would be abandoned, replaced instead by a single weighting factor for all air quality districts irrespective of pollution severity.

The letter's authors argue that, if included in a final conference bill, a formula adjustment treating all air quality nonattainment areas equally would threaten to cut California's share of CMAQ program funds by \$160 million over the next four years. The letter notes that California is the only state with "severe" or "serious" ozone non-attainment classifications -- the maximum level of air pollution problems and thus the most highly-weighted under the current CMAQ formula scheme.

The authors ask California lawmakers to address the issue of the CMAQ weighting formula, recommending that the formula's integrity be maintained and specifically urging Californians serving on the transportation bill conference committee to retain the original weighting standards in current law.

CMAQ provides funds to help states institute traffic congestion and air pollution reduction projects. The \$1.4 billion CMAQ appropriation in 2002 provided California with \$293 million, or 21.3 percent of the national total. The average California share of FAHPs was 9 percent in the same year.

The House approved a \$283 billion House surface transportation bill known as the Transportation Equity Act: Legacy for Users (TEA LU) on April 2, 2004, by a vote of 357 to 65. The Senate passed a \$319 billion bill by a vote of 76-21 on February 12. Conferees have met to begin resolving differences, but have yet to reach agreement on a package to reauthorize the Transportation Equity Act for the 21st Century (TEA-21), which expired in 2003 but has continued to operate under numerous temporary extensions since then. California members of the transportation bill conference committee include: Sen. Barbara Boxer, Rep. Bill Thomas (Bakersfield), Rep. George Miller (Martinez), Rep. Henry Waxman (Los Angeles), Rep. Gary Miller (Diamond Bar), Rep. Bob Filner (San Diego), Rep. Richard Pombo (Tracy), and Rep. David Dreier (San Dimas).

For more information on the CMAQ program, see "Federal Formula Grants and California: Federal Highways Programs" -- one of a series of joint publications by the Public Policy Institute of California (PPIC) and the California Institute for Federal Policy Research, available on the PPIC website at:

<http://www.ppic.org/main/publication.asp?i=467> .

SENATE CONSIDERS HOMELAND SECURITY APPROPRIATIONS BILL

On September 8 and 9, 2004, the Senate considered but did not complete action on H.R. 4567, the \$33 billion Homeland Security Appropriations Act for FY 2005. The Senate will continue deliberations (with no votes) on Friday and is expected to complete action early next week on the bill, which funds programs operated by the Department of Homeland Security (DHS) and other agencies. The House completed action on its version of the bill on June 18.

As did the House appropriations bill and the President's budget, the Senate bill proposes to significantly alter the mixture of funding between formula grants and discretionary grants. And the changes proposed may increase California's share of the nation's homeland security grant spending.

Within funding for the DHS Office of Domestic Preparedness (DHS), the bill provides \$1.37 billion for the State and local basic formula grants (of which \$400 million would be earmarked for law enforcement grants and \$30 million for citizen corps grants). All of these funds are distributed under a much-embattled USA Patriot Act formula that vastly favors less populous states over more populous states (providing California \$5 per capita in 2004, compared to \$38 per capita for Wyoming). Combining the Senate's \$1.37 billion for first responder grants with a \$180 million appropriation for the emergency management performance grant (EMPG) program yields a total of \$1.55 billion that would be allocated according to the formula. This proposed 2005 formula grant amount would be roughly \$700 million less than the corresponding figure from 2004. The House-passed version of the bill would provide a total of \$1.92 billion in formula funds, including \$1.25 billion for basic formula grants, \$500 million for law enforcement grants, and \$170 million for Emergency Management Performance Grants. In 2004, these programs received \$2.2 billion in total funding.

In addition, the Senate bill proposes to sharply increase funding -- from \$725 million in 2004 to \$1.2 billion in 2005 -- for the urban area security initiative that is distributed at the discretion of the Administration. Of the \$1.2 billion, the Senate bill directs that \$150 million be used for port security grants, \$150 million for rail and transit security grants, \$10 million for intercity bus grants, and \$15 million for trucking industry grants. With the House's version providing \$1 billion for urban area grants (including \$100 million for rail security and \$125 million for port security grants), it appears that the mixture of formula grants and urban grants in the 2005 bill that emerges from conference is likely to tilt considerably toward urban grants.

More urban grants versus formula grants is likely to mean a larger percentage of total dollars to California. The state received 20 percent of urban area grant funds last year, compared to just 8 percent of formula grants.

The Senate bill also provides \$700 million for firefighter assistance grants, a program geared toward rural and volunteer fire departments -- California received 4 percent of fire grants in 2003. The House bill proposed \$600 million, and 2004 spending was \$750 million.

The Senate's proposal would shift responsibility for port security to ODP. In 2004, TSA provided \$125 million for port security grants, funding that would not be separately appropriated for 2005.

The Senate legislation provides \$6.1 billion for customs and border security. The Senate also proposes \$340 million for the United States Visitor and Immigrant Status Indicator Technology (US VISIT) program. It includes \$38 million for expansion of the Customs-Trade Partnership Against Terrorism (CTPAT), \$126 million for the Container Security Initiative (CSI), and \$17 million for International Trade Data Systems. For the Bureau of Immigration and Customs Enforcement (ICE), the Senate bill proposes \$3.4 billion in appropriations.

The Senate proposes \$5.2 billion for the Transportation Security Administration (TSA), including \$2.1 billion for airport passenger screening, \$1.4 billion for baggage screening, and \$872 million for airport security direction and enforcement. Included is \$35 million for the second-generation Computer Assisted Passenger Pre-screening System (CAPPS II).

For the Emergency Preparedness and Response Directorate, which incorporates FEMA (the Federal Emergency Management Agency), the Senate bill proposes total spending of \$5.6 billion, including \$2.5 billion for biodefense countermeasures under the as Project Bioshield program previously approved under an

earlier year's appropriations bill, as well as \$2.1 billion for disaster relief. The bill shifts authority for the EMPG program to ODP.

In addition, the bill provides \$140 million to the Bureau of Citizenship and Immigration Services (formerly INS) in an effort to reduce the immigration processing backlog to 6 months.

In floor action on Thursday, September 9, the Senate considered and rejected several amendments offered by Democrats. By a vote of 43-51, the Senate turned down an amendment by Sen. Robert Byrd (WV) to add \$2 billion in additional funding to the bill for emergency workers. Subsequently, the Senate also rejected, 41-53, an amendment by Sen. Christopher Dodd (CT) to sharply raise funding levels for first responders. The chamber then turned down, by a vote of 45-49, an amendment sponsored by Sen. Patty Murray (WA) to triple port security funding to \$450 million. Finally, the Senate voted 46-45 to table an amendment by Senator Barbara Boxer to provide \$70 million in additional funds for interoperable communications systems. By a vote of 50-46 on Wednesday night, the Senate had rejected an attempt by Charles Schumer (NY), to add \$150 million in port security funding. (The amendments did not achieve the required 60 votes that would have been required to waive the Budget Act and increase spending.)

For more information on homeland security grant programs, see "Federal Formula Grants and California: Homeland Security" -- one of a series of joint publications by the Public Policy Institute of California (PPIC) and the California Institute for Federal Policy Research reviewing formula programs and the state's share of federal funds, available at: <http://www.ppic.org/main/publication.asp?i=481> .

HOUSE SUBCOMMITTEE ON WATER AND POWER EXAMINES DESALINATION ISSUES IN SOUTHERN CALIFORNIA

During a September 9 hearing that addressed a variety of national water issues, the House Subcommittee on Water and Power, chaired by Rep. Ken Calvert (Corona), heard testimony from two Southern California water administrators in support of H.R. 3834. Both Mr. Brett R. Barbe, President of the Municipal Water District of Orange County, and Mr. Richard Atwater, CEO/General Manager of the Inland Empire Utilities Agency, testified that H.R. 3834, which would provide government incentives subsidizing the power costs required for operating desalination facilities, would greatly aid in the operation of existing facilities and encourage future development of desalination technology.

Currently, in most areas, the cost of desalination, of which power related expenses account for about 40% of operating costs, makes the purification of salt water or brackish ground water prohibitively expensive. However, for many regions of the U.S., including coastal and naturally dry areas, desalination offers the ability to dramatically increase the availability of potable water. Both Atwater and Barbe described how Southern California, because of its coastal location, scarcity of water, and projected increases in population and water use, is an ideal location for increased utilization of desalination. According to Atwater, the bill's \$0.62 power incentive per 1000 gallons of potable water produced through desalination would help spur the desalination industry and move the technology to a more viable economic stage. Atwater insisted that water issues, while disproportionately important to Southern California, truly are national in scope; Barbe added that if maintaining safe drinking water for the nation is a priority, waiting for the cost of desalination to fall naturally is "not a risk we can take."

Rep. Calvert, along with Rep. Grace Napolitano (Norwalk), Ranking Member of the Subcommittee, questioned the panel about the cost of desalination and its potential benefits for Southern California and the rest of the nation.

For more information on this hearing, visit the House Subcommittee on Water and Power's website at <http://resourcescommittee.house.gov/archives/108/wp/index.htm> .

HOUSE JUDICIARY MARKS UP SPYWARE BILL

On Thursday, September 9, 2004, the House Judiciary Committee marked up several bills, including H.R. 4661, the Internet Spyware (I-SPY) Prevention Act of 2004. The bill establishes criminal liability for the use of

spyware, software that can be used to gather information about a person or organization without their knowledge and transmit it to another entity without consent. The use of spyware to collect personal information on consumers for fraudulent use, such as identity theft, has been denounced by the Federal Trade Commission as “a new and rapidly growing practice that poses a risk of serious harm to consumers.” H.R. 4661 was authored by Rep. Bob Goodlatte (VA) and co-sponsored by Rep. Zoe Lofgren (San Jose).

The legislation defines as a criminal offense intentionally accessing a computer without authorization, or in excess of authorization, if that access is to: further another federal criminal offense; intentionally obtain personal information with the purpose of defrauding or injuring the consumer; or intentionally impeding a computer’s security protections. An offense is punishable by a fine or imprisonment for two to five years, depending on the offense.

The legislation also includes language to preempt States from creating civil remedies based on violations of the act, and authorizes \$10 million to the Department of Justice to combat spyware and phishing scams. “Phishing” is the use of fake e-mail messages and websites to lure consumers into providing bank account information, credit card numbers and other personal information.

“Spyware is a very real problem that is afflicting owners of personal computers and creating millions of dollars of additional business costs to address the problem,” Rep. Lofgren said upon approval of the bill. “It is important that we support H.R. 4661, which will clearly discourage spyware and related practices. Consumers and businesses should not have to wait any longer for help in preventing the wrongful use of spyware.”

After accepting an amendment to the bill in the nature of a substitute, the Judiciary Committee reported the bill by voice vote.

MORPHEUS/GROKSTER WIN IN NINTH CIRCUIT

In a blow to the movie and recording industries, the U.S. Court of Appeals for the Ninth Circuit affirmed that peer-to-peer (P2P) filesharing has substantial non-infringing uses and that the filesharing networks Morpheus and Grokster are not contributorily or vicariously liable for copyright infringement conducted by their software users. P2P networks, such as Morpheus and Grokster, allow millions of computer users to upload copyrighted works and share those works with millions of others for free. The entertainment industry has argued that filesharing costs the industry billions of dollars a year in lost revenues, and imperils the future of the industry.

In *Metro-Goldwyn-Mayer v. Grokster* (9th Cir., August 19, 2004), the Court stated:

“...[W]e live in a quicksilver technological environment with courts ill-suited to fix the flow of internet innovation. . . . The introduction of new technology is always disruptive to old markets, and particularly to those copyright owners whose works are sold through well established distribution mechanisms. Yet, history has shown that time and market forces often provide equilibrium in balancing interests. . . . Thus, it is prudent for courts to exercise caution before restructuring liability theories for the purpose of addressing specific market abuses, despite their apparent present magnitude.” Instead, the Court asserts it is the role of Congress to determine how to apply copyright law to new technologies.

Legislation has been considered on both the House and Senate side to increase copyright protections from P2P filesharing. The House Judiciary Committee reported this week H.R. 4077, which increases criminal penalties for mass distribution of copyrighted works (see related article in this *Bulletin*), and the Senate passed similar legislation in June (S. 1932).

SOUTHERN CALIFORNIA STILL MOST CONGESTED IN NATION; INLAND EMPIRE RECORDS SHARPEST GROWTH IN TRAFFIC CONGESTION

An annual report published by the Texas Transportation Institute that assesses the nation’s traffic problems identifies the Los Angeles urban region’s roads as the most congested in the country for the fourth consecutive year. Of the urban areas with the most drastic long term growth in traffic gridlock, San Bernardino-Riverside recorded the biggest increases.

The Urban Mobility report takes account of travel time variations during peak and normal commute hours, travel time delays, population, and costs of congestion to measure the degree of congestion in 85 cities. Top ranked Southern California (encompassing the Los Angeles, Long Beach and Santa Ana urban area) recorded 93 hours of delay per passenger in 2002, with San Francisco-Oakland ranking second with 73 hours of delay. Washington D.C. (67 hours), Dallas-Fort Worth (61 hours) and Houston (58 hours) rounded out the remaining top five slots, each of which were among the largest urbanized areas of 3 million people or more. The average recorded delay was 46 hours per traveler, with 62 hours per traveler in the largest urban areas.

The 93 hours of delay cost each Los Angeles motorist \$1,668 and wasted 138 gallons of fuel in 2002. But the news is not all bad-- the 2002 figures are an improvement from a decade ago when southland traffic delays were as high as 114 hours per commuter.

Though the Riverside-San Bernardino region ranked seventh in overall traffic congestion, it was the principle urban area to record the fastest growth in congestion over twenty years. The Inland Empire, tied with Dallas-Fort Worth-Arlington, saw its annual delays jump by 48 hours between 1982 and 2002. Los Angeles (tied with Washington D.C.) placed a close third, going from 47 hours in 1982 to 93 hours in 2002--a net gain of 46 hours over the twenty year span, according to the report.

The authors predict more of the same rapid growth to come in the following years unless greater mobility improvement measures are instituted. Construction of roads and public transit projects, greater road use efficiency, enhanced demand management, and greater land use option flexibility are some recommendations included in the report to ameliorate the escalation of traffic delays.

For more information on this report or to view a copy visit the Texas Transportation Institute website at: <http://mobility.tamu.edu/ums/> .

GAO REPORT CALLS FOR HIGHWAY PROGRAM DESIGN CHANGES

A new report published by the Government Accounting Office (GAO) finds that the current financing system governing the flow of federal funds for federal-aid highway programs (FAHPs) does not do enough to induce state and local constituencies to invest more in highways.

The report conducted at the behest of Sen. Harry Reid (NV), examines trends in highways financing going back 20 years to assess the influence of federal-aid highway grants on local spending. It also explores the implications of such trends and provides policy options for Congress to consider. According to the report, overall investment in highways has doubled over the last twenty years; however, since the 1990s growth in state and local highway contributions has trailed growth in federal support for highway projects. Between 1998 and 2002, federal highway investments grew by 40 percent (in real dollars) while state and local constituencies decreased their commitment to highways by 4 percent in the same time period. In 2002, state and local investments accounted for 54 percent of capital investments on highways, while federal sources comprised the remaining 46 percent. Highway law, on the other hand, historically requires a much lower 20 percent state or local match for most highways projects, suggesting that current program design encourages states to substitute federal funds for state and local funds that would otherwise have been devoted to highways projects, according to the report. The authors estimate the rate of grant substitution to lie at 60 cents per dollar in the 1990s compared to 18 cents per dollar in the early 1980s.

These shifting substitution trends may be limiting the effectiveness of meeting program goals, according to the report, since most federal grant programs seek to encourage states to maintain or increase commitments to programs leading to a disproportionate share of the financial burden for overall highway system investments.

The report lists a number of options for federal lawmakers to consider when addressing the issue of highway investment imbalances. Some recommendations include: increasing state matching grant requirements beyond the current 20 percent minimum, awarding bonuses to states that direct higher investments to highway programs, setting a minimum maintenance of effort (MOE) commitment level states would be required to fulfill to qualify for federal grants, a less punitive approach that promotes greater

flexibility for states, and an approach that promotes greater accountability by aligning program goals with measurable results and performance indicators. Congress' proposal to establish a National Commission to assess future revenue for the Highway Trust Fund (HTF) and to meet the needs of public and private financing of FAHPs, is singled out by the report as an appropriate forum to further examine the issue of substitution and to explore options for its abatement. Such action would require Congress to include reauthorization language that would expand the mandate of the National Commission.

The new report includes no state by state data, however a previously released GAO report (03-915) identifies California as the state with the highest amount of highway expenditures (\$3.16 billion in 2000), though it places California's percentage of state and local expenditures for highway programs at lower than average rates between 1982 and 2000.

GAO is the independent and non-partisan investigative arm of Congress. It evaluates federal programs, conducts agency audits, issues legal opinions and recommends action to Congress. To view a copy of this report, visit the GAO website at: www.gao.gov/new.items/d04802.pdf.

CALIFORNIA SAT SCORES SHOW SLIGHT GAINS FOR NATIVE AMERICANS, HISPANICS AND AFRICAN AMERICANS

A report released by the College Board shows improvement in verbal scores among California high school students taking the SAT college entrance exam, and growth in the number of students participating in the exam. The results from the report also show SAT gains among African American, American Indian and Hispanic students in California; a substantial achievement gap, however, between these groups and their white and Asian peers persists.

The SAT, a standardized aptitude test widely used by many colleges in evaluating prospective students, consists of a math and a verbal section worth a maximum of 800 points each. The average college bound California student taking the test in 2004 scored 519 in math and 501 in verbal points, compared to 2003 results of 519 in math and 499 in the verbal section. Though this is only a slight gain, California's verbal and math scores are a 12 and 13 point improvement respectively from scores recorded ten years ago. California's 2004 verbal scores trail the national average by 7 points while the average math score is slightly higher than the 508 point national average.

California made some promising gains in 2004 for certain minority groups taking the SAT. Hispanics saw increases in math (+2) and verbal scores (+4), so too did Native Americans (+4 math, +2 verbal), while African American test takers saw a 3 point improvement from 2003 math scores. Though the state's Asian and white students saw slight dips in their 2004 SAT scores compared to 2003, verbal and math scores for these students far outpaced those of other groups tested. Nationally, female scores lag behind males by some 36 points in math and 8 points in verbal, according to the report, suggesting that an achievement gap persists across both minorities and sexes taking the test.

The College Board is a non-profit private organization composed of 4500 schools, colleges, universities and other education entities, with a mission to connect students to college success and opportunity. For more information or to view a copy of this report, visit the College Board' website at: <http://www.collegeboard.com/press/article/0,,37478,00.html>.

USC STUDY IDENTIFIES DANGEROUS EFFECTS OF AIR POLLUTION ON THE LUNG DEVELOPMENT OF CHILDREN IN SOUTHERN CALIFORNIA

On September 9th, researchers at the University of Southern California released the results of an eight-year study on the effect of air pollution on the lung development of children in Southern California, finding that lung development "is reduced in children exposed to higher levels of ambient air pollution." Their findings, published in the New England Journal of Medicine, were remarkably consistent in boys and girls and among

children with complicating factors, suggesting that “most children are susceptible to the chronic respiratory effects of breathing polluted air.”

The study, begun in 1993, recruited 1759 fourth graders in 12 distinct communities throughout Southern California and closely measured their lung development and their exposure to pollution until 2001. Using a variety of metrics for lung strength, capacity, and output, and advanced means for determining the extent and content of pollution in the different areas, researchers discovered an alarmingly close relationship between high levels of air pollution and decreased development of lungs.

The effects of decreased lung development are chronic, dangerous, and can lead to a lifetime of breathing problems and even premature death, according to the report. While the effects on lung development were not quite as negative as personal smoking, researchers equated the seriousness of damage caused by pollution exposure with problems associated with “exposure to maternal smoking.” Deficits in lung function during young adulthood can “increase the risk of respiratory conditions,” and later in life can cause even more dangerous problems, “since reduced lung function is a strong risk factor for complications and death during adulthood.”

Of the communities in the study, Riverside, Mira Loma, and Upland had the highest rates of underpowered lungs, with 9.6% of children in Upland experiencing low lung function. The pollutants at the center of the study – nitrogen dioxide, acid vapors, fine-particulate matter – are primarily produced by both diesel and gasoline powered motor vehicles. In Southern California, tons of these pollutants are emitted into the air every day. As of May 2003, California is home to the four most polluted and six of the seven most polluted cities in the United States.

For more information on this study, consult the September 9, 2004 issue of the New England Journal of Medicine.

RAND EXPERT TO GIVE BRIEFING ON MILITARY IT MANNING REQUIREMENTS

On Monday, September 13, 2004, Dr. James Hosek, RAND Senior Economist and expert on military personnel issues, will present findings from a recent RAND report on recruitment and retention of information technology (IT) personnel in the U.S. military. The luncheon briefing will take place from 12:00 noon to 1:30 p.m. in Room 385 of the Russell Senate Office Building.

Dr. Hosek’s briefing will present findings from a recent report entitled “*Attracting the Best: How the Military Competes for Information Technology Personnel.*” The report finds that the military has been able to recruit high-quality personnel into IT occupations and induce them to stay for longer terms than non-IT occupations. Contrary to popular opinion about advantages of private-sector employers, the report found the services had competitive IT management systems and offered valued IT education and training, which in part compensate for higher salaries in the private sector.

The report also found that, if manpower requirements continue to evolve gradually, the military should be able to meet its IT manning requirements. However, it found that a sharp increase in the need for IT manpower could present difficulties for the military and other government agencies.

To reserve a seat at this lunch briefing, contact Wendy Moltrup Pape, RAND Legislative Affairs Analyst, at: moltrup@rand.org or (703) 413-1100 ext. 5938.

STUDY REACHES OPTIMISTIC CONCLUSION FOR BAY AREA’S RECOVERY FROM ECONOMIC RECESSION

A recent case study published by the SPHERE Institute and the Stanford Institute for Economic Policy Research concludes that San Francisco/Bay Area recovery from the current technology bubble recession may not be as prolonged as Los Angeles’ recovery from the collapse of the aerospace industry in the late 1980s/early 1990s.

By comparing economic indicators for both cities through two parallel boom-and-bust cycles between 1980 and 2003, authors Michael Dardia and Elisa Barbour identify the factors that distinguish San Francisco’s

economy and future recovery from Los Angeles' struggle to regain economic stability in the 1990s. During boom cycles, both Los Angeles (1983-1990) and San Francisco (1993-2000) relied heavily on single sectors of the economy, aerospace and information technology respectively, for disproportionate levels of the regions' employment, growth and income. Los Angeles benefitted from the increase in military spending, while San Francisco's tech boom stood as the "epicenter of the 'new economy.'" Unfortunately, both aerospace and IT suffered catastrophic collapses, in which as much as half of the peak employment in those sectors was lost, leading to serious regional recessions. By some measures, according to the authors, Los Angeles' economy required nearly 8 years to achieve a full recovery; the San Francisco recovery is not yet complete, but it "suffered one of the largest declines in metropolitan area employment in the last fifty years."

While both Los Angeles and San Francisco experienced profound recessions, the authors' optimism for a quicker recovery for the Bay Area emanates from its comparatively positive migration and housing price indicators, lower interest rates, and the better educated work force. During Los Angeles' recession, the city experienced: eight consecutive years in which the region suffered a net outflow of people; the outflow of population led to a weakening of home prices, which "further depressed local demand"; and the less-educated workforce was overwhelmingly concentrated in manufacturing, not the service industries. In comparison, during its recession, San Francisco's economy has demonstrated greater stability in migration and housing prices. Moreover, lower interest rates have helped to mute the damage suffered by home owners and those looking to purchase homes. Finally, the concentration of the Bay Area workforce in the growing service industries (as opposed to the shrinking manufacturing industries,) and its relatively high level of education point to long run regional growth. While San Francisco's recovery could be worsened if interest rates rise faster than job growth, the authors believe that the Bay Area may avoid the long term stagnation that plagued Los Angeles throughout the 1990s.

For more information, visit the SPHERE Institute's website at: <http://www.sphereinstitute.org/> .

REPORT EXAMINES OFFSHORING AND FUTURE OF BAY AREA JOBS

The Bay Area Economic Forum, in conjunction with Joint Venture: Silicon Valley Network and te Stanford Project on Regions of Innovation and Entrepreneurship (SPRIE), recently released a report entitled "*The Future of Bay Area Jobs: The Impact of Offshoring and Other Key Trends.*"

The report finds that the Bay Area is highly competitive in several areas, such as advanced research, market and concept development, global management, it is less competitive in such areas as mass production, back office operations, and research related to product enhancement. As a result, the report concludes that jobs associated with the region's competitive strengths are likely to grow, while jobs in areas of relative weakness will be under increasing downward pressure.

The report also finds that offshoring trends will likely continue to grow, and that efforts to restrict it may prove both difficult and costly. The report suggests a focus on increasing investment in areas where the state and region enjoy competitive strengths. In addition, the report finds that the region risks losing jobs to other parts of the United States, and, consequently, it urges the region and the state to address issues that inhibit new company formation, company expansion, job creation, and competitiveness in the region and the State.

The full report can be accessed on BAEF's website at: <http://www.bayeconfor.org> .

SENATE APPROPRIATIONS COMMITTEE SETS 302(B) ALLOCATIONS

On Wednesday, September 8, 2004, the Senate Appropriations Committee approved its FY 2005 subcommittee allocations, otherwise known as 302(b) allocations for discretionary spending. The allocations set spending guidelines for subcommittees to follow as they prepare their individual appropriations bills for the fiscal year.

With some exceptions, most Senate totals track fairly closely with the House Committee's allocations, which were approved June 2. *See also [Bulletin, Vol. 11, No. 18 \(6/4/2004\)](#).* Overall, the House discretionary spending total of \$821.9 billion exceeds the Senate total by \$500 million.

The largest discrepancy between the House and Senate allocations was in the Interior bill, where the House's amount exceeded the Senate's by \$313 million. The Senate allocation for the Labor-HHS-Education bill was also below the House amount, by \$209 million, and the Senate's Agriculture allocation came in \$69 million below the House total. On the other hand, the Senate allocated \$219 million more for the Transportation-Treasury bill than did the House Committee. Other discrepancies were small -- the Senate's Commerce-Justice-State figure was \$23 million below the House level and its Energy and Water amount was \$5 million less.

House and Senate allocations were identical for the other subcommittees, including Defense -- the only 2005 appropriations bill to be enacted into law so far -- as well as VA-HUD, Military Construction, Foreign Operations, D.C., and Legislative Branch.

The 302(b) allocations for each body are as follows:

Subcommittee	Senate	House
Agriculture	\$16.772 bil.	\$16.841 bil.
Commerce-Justice-State	\$39.792 bil.	\$39.815 bil.
Defense	\$390.931 bil.	\$390.931 bil.
District of Columbia	\$560 bil.	\$560 bil.
Energy and Water	\$27.988 bil.	\$27.993 bil.
Foreign Operations	\$19.386 bil.	\$19.386 bil.
Homeland Security	\$32.000 bil.	\$32.000 bil.
Interior	\$19.726 bil.	\$20.039 bil.
Labor-HHS-Education	\$142.317 bil.	\$142.526 bil.
Legislative Branch	\$3.575 bil.	\$3.575 bil.
Military Construction	\$10.003 bil.	\$10.003 bil.
Transportation-Treasury	\$25.439 bil.	\$25.320 bil.
VA-HUD	\$92.930 bil.	\$92.930 bil.
TOTAL	\$821.419 bil.	\$821.919 bil.

For additional information, visit the website of the House Appropriations Committee at <http://www.house.gov/appropriations/> or the Senate Committee at <http://appropriations.senate.gov/>.