



# THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH

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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.*

### GOVERNOR AND CALIFORNIA CONGRESSIONAL DELEGATION CIRCULATING BRAC LETTER

Governor Arnold Schwarzenegger and the California Congressional delegation are preparing a letter addressed to Secretary of Defense Donald Rumsfeld expressing California's views and concerns about the upcoming release of the Base Closure and Realignment (BRAC) list. The letter, which the authors hope will be signed by the Governor, both U.S. Senators, and all House members, will stress California's importance to the nation's "joint operations success and defense transformation," two areas emphasized by DoD in this round of closures and realignments. The letter is currently in final circulation and should be delivered to Secretary Rumsfeld within the next few days, prior to the release of the Administration's BRAC recommendations for which of the nation's military facilities should be closed. Offices of Members who have not yet signed the California letter and wish to do so should contact Melissa Decker in the Washington Office of Governor Schwarzenegger.

### SENATE TRANSPORTATION BILL HITS HURDLES ON SENATE FLOOR

The Senate commenced floor debate on a \$284 billion surface transportation bill on Tuesday, April 26, 2005, but funding level disagreements and other procedural considerations have delayed the bill's progress. Senate finance leaders considering a bipartisan amendment to add extra funding for the measure have been rebuffed by a Bush administration veto threat, warning that any funding level higher than the White House authorized \$284 billion would be unacceptable. Disagreement over setting a fair minimum guaranteed return to donor states could further complicate matters, whether or not the Senate opts to support higher funding levels for highways and transit.

The transportation debate hit its first snag almost immediately when Senators from three donor states (Arizona, New Hampshire, and Florida) that send more highway user taxes to Washington than they receive back in federal highway spending, attempted to hold the bill up, arguing that the measure did not provide those states an adequate

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rate of return. However, the Senate voted overwhelmingly (94-6) to invoke cloture and proceed with consideration of the bill. Sen. Majority Leader Bill Frist (TN) earlier discussed his intention to submit an amendment that would boost the minimum guarantee (MG) rate of return (the formula governing equitable highway apportionments to states) from 90.5 percent in current law to 92 percent, by cutting into highway discretionary funds. Details of the plan are not clear, however the shift would be phased in over the 6-year life of the bill. Any increase in formula-related distributions at the expense of discretionary authorizations would disadvantage states that have historically received high shares of earmarks and other non-formula programs. On one hand, California is a highway donor receiving a little over 9 percent of national formula apportionments, while sending a little over 10 percent to the Highway Trust Fund (HTF). On the other hand, California is a transit donee state, receiving close to 15 percent of transit grants.

Other members are exploring ways of increasing the overall total for transportation funding, rather than relying on accounting shifts that could hurt certain states. Sens. Charles Grassley (IA) and Max Baucus (MT), Chair and Ranking Member of the Senate Finance Committee, are preparing an amendment that would raise the total cost of the bill by \$10 billion by cracking down on tax fraud and closing loopholes. A letter from the White House Office of Management and Budget (OMB) flatly opposed any increase above the Senate bill's \$284 billion total, warning that any such move would cause the agency to recommend a presidential veto. The letter also rejected any bonding proposals that would be used to finance highway and transit projects.

Temporary extensions have kept transportation funds flowing to states since the last comprehensive transportation bill expired in 2003. The sixth extension in effect will run out at the end of May, just before the summer construction season begins. The House voted overwhelmingly in favor of their \$284 billion transportation reauthorization measure-- the Transportation Equity Act: A Legacy for Users (TEALU)-- in March by 417-9. Last year, the Senate approved a transportation bill (S. 1072) with a much higher authorization level of \$318 billion, with the support of 76 Senators. Deliberations on the bill last year collapsed in the conference committee after conferees could not settle on an overall funding figure.

Floor manager and Senate Environment and Public Works Chair James Inhofe (OK) is optimistic that the Senate can approve a transportation bill, however, floor action may not be complete this week as was initially expected.

## **ENERGY AND COMMERCE ADDRESSES CAFTA AGREEMENT**

The House Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection held a hearing on the Dominican Republic - Central America Free Trade Agreement (DR-CAFTA) on Thursday, April 28.

The Subcommittee heard from the following witnesses: Regina K. Vargo, Assistant U.S. Trade Representative for the Americas; Frank Vargo, Vice Pres., International Economic Affairs, National Association of Manufacturers; Kevin Kearns, President, U.S. Business and Industry Council; Thea Lee, Chief International Economist, AFL-CIO; Calman Cohen, President, Emergency Committee for American Trade; Jack Roney, Dir. of Economics and Policy Analysis, American Sugar Alliance; John Murphy, Vice President, Western Hemisphere Affairs and Exec. Dir. American Chambers of Commerce; Russell Roberts, Prof. of Economics, George Mason University; and David Waskow, Director of International Programs, Friends of the Earth.

In opening remarks, Congresswoman Mary Bono (Palm Springs) stated that she would keep an open mind on the Agreement as the Committee considered it. She raised two issues of concern to her: the adequacy of the agriculture provisions, especially as they relate to fruits and vegetables, and the sufficiency of the intellectual property protections in the bill. Rep. Hilda Solis (El Monte) opposed the Agreement, stating that the track record on NAFTA shows that workers in the Central American countries will not be benefitted by the DR-CAFTA Agreement.

Ms. Vargo, of course, reiterated the Administration's strong support for CAFTA, arguing that in addition to the economic benefits it would bring U.S. companies and workers, it would act as a strong economic, political, social reform force in the Central American countries.

Other witnesses reiterated the views their organizations have espoused in front of various congressional committees over the last few weeks (see, *Bulletin*, Vol. 12, Nos. 9 (4/15/05) & 10 (4/21/05)). The National Association of Manufacturers, the Emergency Committee for American Trade, and the American Chambers of Commerce support the Agreement, whereas the U. S. Business and Industry Council, the AFL-CIO, and Friends of the Earth oppose the Agreement.

For the testimony of the witnesses, go to the Committee's website at:

<http://www.energycommerce.house.gov>

### **CALIFORNIA INSTITUTE BREAKFAST FEATURES REPRESENTATIVE JIM COSTA**

On April 27, 2005, the California Institute for Federal Policy Research held a breakfast featuring Representative Jim Costa, who represents Fresno and other parts of the Central Valley. Elected in November, Rep. Costa is a member of three committees -- Agriculture, Resources, and Science. On the Science Committee, he serves on the Space & Aeronautics Subcommittee. On the Resources Committee, he serves on the Energy & Mineral Resources Subcommittee, as well as on the Water & Power Subcommittee. And on the Agriculture Committee, Rep. Costa is a member of the Subcommittees on Department Operations, Oversight, Nutrition & Forestry; General Farm Commodities & Risk Management; and Livestock & Horticulture.

Following an introduction by Institute Executive Director Tim Ransdell, Rep. Costa spoke about his approach to legislating as a new representative and his goals for his time in Washington. He noted the challenges facing the nation, California, and his congressional district. During questions, Rep. Costa addressed the Dominican Republic - Central American Free Trade Agreement as well as the proposed high speed train between Sacramento and San Diego.

The Institute holds these bipartisan delegation breakfasts as a way for its supporters to hear the views of members of the California delegation. Next week the Institute will hold another breakfast featuring remarks from Representative Dan Lungren from Folsom.

### **CHINA PIRACY LETTER SENT TO PRESIDENT**

Rep. Mary Bono (Palm Springs) joined by Rep. Chip Pickering and 46 other members of the House have sent a letter to President Bush urging him and U.S. Trade Representative Peter Allgeier "to seek greater U.S. intervention with China on copyright and patent protection issues." Eleven bipartisan members of the California Congressional Delegation were among the signers.

Bono and Pickering initiated the letter in response to China's failure to work with the United State and the World Trade Organization (WTO) to stop piracy within the country. The letter specifically asks the USTR to initiate consultations with China in the WTO to encourage it "to follow international law by providing deterrents and criminal penalties on willful copyright and patent piracy violations." The letter concludes by saying that: "If such consultations fail, we believe the USTR should request the establishment of a WTO dispute settlement panel in order to persuade China to provide the meaningful deterrents required by the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

### **SENATE SUBCOMMITTEE HOLDS HEARING ON FUNDING FOR ANGEL ISLAND IMMIGRATION STATION**

On Thursday, April 28, 2005, the Senate Energy and Natural Resources Subcommittee on National Parks held a hearing to discuss S. 262, "The Angel Island Immigration Station Restoration and Preservation Act of 2005." The bill, sponsored by Senator Dianne Feinstein (CA) and cosponsored by Sen. Barbara Boxer (CA)

and two other senators, would provide \$15 million in federal funds to restore and preserve the "Ellis Island of the West" and get the National Historic Landmark off of "America's 11 Most Endangered Historic Places" list. The legislation requires that federal funds not exceed 50 percent of the total sum spent on restoration and preservation projects.

Testimony from Felicia Lowe, the vice president of the Angel Island Immigration Station board, underscored the various reasons why Angel Island is deserving of federal restoration funds. Between 1910 and 1940, more than 1 million immigrants passed through Angel Island before they could officially enter San Francisco and the United States. Angel Island has particular historical importance for Chinese-Americans. During its years of operation, 175,000 Chinese immigrants entered through the Station and were detained for as long as two months before they were granted entry into the country or deported to China. Angel Island is especially famous for the 140 poems carved into the walls by Chinese detainees. More than 50,000 people, including 3,000 students, visit Angel Island each year.

For more information, visit the Angel Island Immigration Station website at <http://www.angelisland.org/immigr02.html> or their Foundation at <http://www.aiisf.org/>.

## **HOUSE PASSES SUPERCOMPUTING PLANNING LEGISLATION**

On Tuesday, April 26, 2005, the House passed by voice vote legislation that would coordinate national supercomputing research. The bill, HR 28, would require development of a long range plan for ensuring access to high-performance computing. The required plan, which would anticipate cooperation from a number of federal agencies -- including the National Science Foundation, Department of Energy, NOAA, and NASA -- would also promote college-level training in software engineering, computer science, computer and network security, applied mathematics, library and information sciences and computational science. The White House Office of Science and Technology Policy would be responsible for coordinating the research efforts. The bill, which has White House support, has been sent to the Senate, where it was referred to the Committee on Commerce, Science, and Transportation.

## **CDBG FORMULA REVISIONS WOULD TARGET DOLLARS BETTER, GAO TESTIFIES**

A House Government Reform panel heard testimony from the Government Accountability Office (GAO) on whether the formula used to apportion Community Development Block Grant (CDBG) funds to states is effective at targeting federal dollars where they are needed. A spokesperson confirmed that CDBG's formula could be improved by addressing four performance related features, identified as weaknesses in a recent Department of Housing and Urban Development (HUD) report. The report also suggests that some HUD revisions to the formula may not target funds appropriately or do not address certain eligibility concerns.

CDBG provides federal grants to low and moderate income individuals with local community development needs. The CDBG formula uses individual poverty, older housing, population size, and other factors as statistical inputs to target federal assistance to appropriate areas, however, a recent HUD report questioned the formulas capacity to focus dollars to meet the needs of communities with the greatest development challenges. The President's budget also criticized the program, suggesting that the program sends 38 percent of funds to states with higher than average poverty counts. The budget plan proposed to consolidate CDBG with a number of other economic development programs into a single block grant funding stream. The Administration also proposed slashing overall grants by 30 percent.

An examination of CDBG in the context of the HUD report was prescribed by the Subcommittee on Federalism and the Census to assess the program's formula design and to offer suggestions as to how it can be bettered. GAO's spokesperson, Paul Posner, conceded that HUD's conclusions and proposed revisions are valid and that current CDBG formula features do limit the appropriate apportionment of funds. However, the report notes that consideration of variations in cost of living among eligible communities may be problematic using the HUD's proposed metropolitan per capita income (PCI) factor in a revised formula. Accordingly, GAO suggests using alternative indicators that can assess the capacity of an area's local economy.

Furthermore, GAO suggests using a needs-based standard or threshold for determining eligibility of areas rather than strictly population counts in a future formula, and elimination of a grandfathering provision that has allowed areas that are no longer eligible by today's standards to continue receiving grants.

CDBG currently uses two formulas to apportion funds mostly to eligible metropolitan areas of at least 50,000 persons or urban counties containing at least 200,000 residents. "Formula A" takes into account population, persons in poverty, and overcrowded housing units in the eligible area, while "formula B" added in FY 1978, uses poverty, number of older housing units, and population shifts. Eligible recipients receive the greater amount of either three-pronged formula design (A or B). The value of the block grant has declined to half its peak \$10.2 billion level in 2003, according to the GAO report, leaving fewer funds for an increasing number of eligible areas.

HUD's study concluded that: the use of two formulas rather than one contributes to wide inconsistencies in the apportionment of grants – population size as a needs indicator does not target funds to high-need communities, the use of an individual's poverty status rather than a household's contributes to the awarding of grants to areas with large student populations whose parents may not be poor, and the large frequency of eligible areas has reduced funding to communities with the greatest need.

California's share of CDBG formula grants in FY 05 reached \$537 million out of \$4.1 billion appropriated, comprising 12.8 percent of the national total.

To view a copy of the GAO testimony, visit <http://www.gao.gov/new.items/d05622t.pdf>

## **BRAC LIST MAY BE RELEASED EARLY; CLOSED BASES MAY BE USED AS SITES FOR OIL REFINERIES**

Rumors circulating around Washington indicate that Secretary of Defense Donald Rumsfeld may release the list of bases recommended for closure and realignment as much as six days before the BRAC statutory deadline of May 16, 2005. Initial leaks of the new date suggested that the list might be released on Friday, May 13, 2005. However, the Pentagon, leery of the bad headlines that might arise from releasing the list on Friday the 13<sup>th</sup>, may now release the list as early as May 10<sup>th</sup>. The earlier release date will not affect any of the later deadlines involved in the BRAC process.

In other BRAC news, President Bush, as part of an energy policy speech on April 26, 2005, suggested that military bases closed in the upcoming BRAC round might be used as sites for oil refineries. The White House stated that placing oil refineries on closed bases could simultaneously address the nation's skyrocketing fuel prices and needs while providing much needed jobs to areas negatively affected by the BRAC process. White House spokesman Scott McClellan said that "we want to work closely with those communities and we think that by doing so, we will help encourage people to look at the long-term benefit in investing in these sites and building refineries."

Secretary Rumsfeld will release the list of bases recommended for closure or realignment sometime on or before May 16, 2005. Once the list has been released, the nine-member BRAC Commission will have approximately four months to review, revise, and alter those suggestions. By September 8, the Commission must submit its modified list of closures and realignments to the President for his approval. If the President approves, he passes the closure and realignment recommendations on to Congress for final approval. In the past, the BRAC Commission's recommendations have been accepted by both the President and Congress.

In previous BRAC rounds in 1988, 1991, 1993 and 1995, California suffered remarkably disproportionate cuts in personnel, absorbing more than half of the nation's approximately 176,000 job losses. Despite those cuts, California is still home to more Department of Defense personnel and bases than any other state in the nation.

The California Institute recently published a report entitled *California Past Base Closure Experiences and the 2005 BRAC Round* that can be viewed at <http://www.calinst.org/defense/base1a.htm> . Additionally the California Council on Base Support and Retention released its report on California's military strength that can be viewed at <http://www.omas.ca.gov/Retention/pdf/report.pdf> .

## **PPIC REPORT FINDS BIOTECH FLIGHT FROM CALIFORNIA UNLIKELY**

In a report released on April 27, 2005, researchers at the Public Policy Institute of California conclude that “the state is not likely to lose its dominance in one of today’s most potentially lucrative industries - biotechnology.” The report, *The Dynamics of California’s Biotechnology Industry*, was prepared by Junfu Zhang and Nikesh Patel

The authors base their conclusion on three major factors. First, California’s crucial advantage in being the home to a high proportion of world-renowned research universities. The study found that Ph.D. scientists working at academic and research institutes have founded 47 percent of venture-backed biotech start-ups. The vast majority of those entrepreneurs chose to begin their firms in the states where they were conducting research, with 82 percent of California’s “professorial entrepreneurs” choosing to stay in California to found their companies.

Second, the study found that it is start-up firms that create the largest share of biotech jobs. Thus, even though more companies left the state than moved in between 1990 and 2001, the overall employment effects were not negative. California lost 815 biotech jobs, but added 1,739 from companies moving into the state; moreover, the number of jobs added by start-up companies during the same period was 23,047, according to the study.

Finally, the authors cite California’s “strong tradition of venture capital investment.” They argue that the recent passage of Proposition 71 approving a \$3 billion bond to fund stem cell research is an important example of this tradition. The “amount dwarfs what any other state could hope to pledge and has set the stage for California as an industry leader for a long time to come.”

The full report can be obtained through PPIC’s website at: <http://www.ppic.org> .

## **AEA REPORT FINDS HIGH-TECH JOB LOSSES LEVELING OUT**

The American Electronics Association (AEA) recently released its annual *Cyberstates 2005* report, in which it found that the United States lost 25,300 technology jobs in 2004, compared with job losses of 333,000 in 2003 and 612,000 in 2002. According to the study, total U.S. high-tech employment totaled 5.6 million in 2004.

However, the report found that California was the biggest loser in jobs – dropping 67,800 jobs. Nevertheless, that is down by almost fifty percent from the 134,000 jobs the state lost in 2002.

Despite the losses, California continues to be lead the U.S. in number of high-tech jobs. It had 915,000 high-tech jobs in 2003, according to the report, followed by Texas with 446,000, New York with 305,300, Florida with 258,800, and Virginia with 244,200.

The report also found that California continues to lead the nation in several other categories, including technology exports, venture capital funding, the number of high-tech companies, and the size of its high-tech payroll. California’s technology exports in 2004 reached \$48.3 billion, a growth of \$6.7 billion. The state was number two in average annual high-tech wages at \$84,400, with Virginia taking the number one slot with \$94,600 in average wage.

More information on the report can be found on AEA’s website at: <http://www.aeanet.org> .

## **RAND AND CALIFORNIA INSTITUTE HOLD BRIEFING ON PUBLIC HEALTH PREPAREDNESS IN CALIFORNIA**

In a presentation cosponsored by the RAND Corporation and the California Institute for Federal Policy Research, Dr. Nicole Lurie addressed some of the pressing issues concerning California’s public health preparedness in the post-9/11 era. Questions addressed by the presentation and accompanying report include: In what should we invest to strengthen the public health infrastructure? Should we rebuild or redesign the public health system? How should we structure investment and monitor preparedness? Can we use these investments in more than one way? How do we gauge success in levels of preparedness and in sound public health system infrastructure?

For the full report, visit RAND's website at <http://www.rand.org/publications/TR/TR181/>.

### **REPORT RANKS CALIFORNIA 31<sup>ST</sup> IN HEALTHCARE COVERAGE**

A new report from the Robert Wood Johnson Foundation in association with the State Health Access Data Assistance Center, found that California ranked 31<sup>st</sup> in the country in terms of healthcare coverage. The study found that 18.9 percent of Californians did not have health insurance. Texas ranked lowest with an uninsured rate of 30.7 percent, while Minnesota had the lowest rate of uninsured at 8.3 percent. In addition, California ranked 32<sup>nd</sup> in terms of the percentage of the workforce without health insurance, with 15.9 percent uninsured. Texas ranked last with 26.6 percent of employed residents without health insurance, while Minnesota fared best with an uninsurance rate of 6.9 percent.

The study was organized to draw attention to "Cover the Uninsured Week", the "largest mobilization in history to promote health coverage for all Americans." To view the entire study, visit <http://covertheuninsuredweek.org/>.

### **PPIC SPECIAL SURVEY ON EDUCATION IN CALIFORNIA FINDS DISILLUSIONED PUBLIC**

A new special survey on the state of K through 12 education in California conducted by the Public Policy Institute of California (PPIC) finds a largely pessimistic public. The vast majority of Californians (82 percent) believe that "the quality of education in California's K through 12 public schools is at least somewhat a problem." The director of the survey, Mark Baldassare, said that "concern about public education runs deep in California, and the perceived lack of progress, despite all the reform and rhetoric, only serves to heighten residents' distrust of their government and disappointment in their elected officials."

Other key findings of the survey include:

- 60 percent of Californians believe that private schools provide the best education
- 72 percent of Californians rank K-12 education as a top state priority, even with the current budget crunch
- 70 percent of those surveyed are against raising taxes to solve the budget crunch
- A large majority of respondents were in favor of educational reforms that include student testing before graduation from high school, merit pay for teachers, school choice for all students, and better resource equity between rich and poor school districts.

To view the full study, along with its methodology, visit PPIC's website at <http://ppic.org/main/home.asp>.

### **BIPARTISAN GROUP OF SOUTHERN CALIFORNIA MEMBERS CIRCULATING LETTER ON REGION'S CULTURAL TOURISM**

A bipartisan cross-section of Members of Congress from the Los Angeles area are circulating for signature a letter in support of a regional tourism effort entitled The Cultural Tourism for the 21st Century Initiative. The initial delegation proponents -- including Reps. Buck McKeon (Santa Clarita), Diane Watson (Los Angeles), David Dreier (San Dimas), and Jane Harman (Venice), in collaboration with private sector supporters such as the Los Angeles County Convention & Visitors Bureau and developer Eli Broad, and groups such as L.A. Inc. and Arts & Culture LA.-- are seeking an array of public and private support, including \$2.5 million in federal funding.

The letter points out that "Los Angeles County currently attracts fewer cultural tourists than other major urban centers. In 2003, 2.58 million cultural tourists visited Los Angeles County. Total spending by this group beyond their cultural activities was \$535 million, with an associated economic output of \$1.1 billion, including sustaining the full-time equivalent of 10,500 jobs in L.A. County and generating tax revenues of \$54 million for the state, county and city governments." Citing a December 2004 report by the Los Angeles County Economic Development Corporation (LAEDC), the letter notes that the economic benefits would quadruple if Los Angeles could be as successful in attracting the same number of cultural tourists as did London, and

would grow six-fold if the number of tourists were similar to the numbers who visit New York City or Paris each year.

The initiative seeks to produce a comprehensive study of how visitors learn about cultural offerings in business and vacation destinations, what factors prompt visitors to include cultural activities in their itineraries, dissemination of the findings to other communities nationally, in-market training and capacity building in the arts and hospitality industries, and national outreach through technology enhancements and interactive marketing. Funding would flow through the Fiscal Year 2006 Science, State, Justice, and Commerce, and Related Agencies Appropriations Act, Small Business Administration Account.

Offices of Members wishing more information should contact Kurt Courtney in Rep. McKeon's office.