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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.

PPIC AND CALIFORNIA INSTITUTE RELEASE NEW “FEDERAL FORMULA GRANTS AND CALIFORNIA” REPORT: STUDENT AID AND HIGHER EDUCATION

More than two-thirds (71%) of the financial aid flowing to California’s college students comes from federal sources. Indeed, college costs across the nation are increasingly being financed by federal loans. Although most of these loans are paid back, federal postsecondary education spending has grown sharply in recent years. According to a new report by the Public Policy Institute of California (PPIC), federally supported grant and loan assistance to U.S. students and colleges in 2005 exceeded \$75 billion, of which California received \$6.5 billion, or about 9 percent. Actual federal dollars outlaid that year totaled \$24 billion – and more than half of that (\$13 billion) was spent as Pell Grants to help low-income students pay for college.

As Congress begins to renew the Higher Education Act, which regulates federal moneys for higher education, a great deal is at stake for California. Pell Grants, like subsidized loans and other federal financial aid, depend on a complex eligibility formula that attempts to balance college costs with a student’s ability to pay. Although the “needs test” helps California by not counting home values as assets, the formula poorly considers income disparities and the state’s high cost of living. In all, fewer students in California (26%) receive needs-based aid than in the nation as a whole (35%). In 2005, the state received 11 percent of funds from Pell Grants and even less from the three “campus-based aid” (CBA) programs that use the same test.

Certain special legislative provisions also work against California. For instance, a tuition sensitivity provision cuts Pell Grants to students in schools with very low tuition – the nations only affected institutions are California Community Colleges.

“Federal Formula Grants and California: Student Aid and Higher Education” is the tenth report in the federal formula series and provides an overview of formula-related federal higher education financing features, California’s performance, and how the state may be affected by current legislative proposals. The series was developed at the request of the bipartisan leadership of California’s congressional delegation and is produced by PPIC in collaboration with the California Institute for Federal Policy Research in Washington, D.C.

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We hope you find this and future reports valuable, and we welcome your feedback as we seek to inform the public debate. The Public Policy Institute of California is a private, nonprofit organization dedicated to improving public policy in California through independent, objective, nonpartisan research on major economic, social, and political issues.

The report is available from PPIC at <http://www.ppic.org/main/publication.asp?i=627> . Other Federal Formula Grants and California reports are available at <http://www.ppic.org/main/series.asp?i=22> or at <http://www.calinst.org/formulas.htm> .

BIPARTISAN SENATE HIGHER EDUCATION BILL AVOIDS CONTROVERSY

The Senate Health, Education, Labor, and Pensions (HELP) policy committee was scheduled to mark up a higher education reauthorization bill on September 8th, 2005. The bipartisan bill (S.1614) introduced earlier in the week is sponsored by HELP Committee Chair Michael Enzi (WY) and Ranking Member Edward Kennedy (MA) and is reported to differ considerably from House-passed legislation.

The Senate bill establishes: a \$5.5 billion student aid program for low income students, caps fixed student loan interest rates at 6.8 percent, retains separate definitions for proprietary schools and non-profit schools, strengthens distance learning provisions, phases in Pell Grant maximums to \$6,300 and authorize year-round Pell Grant usage, eliminates Pell Grant tuition sensitivity, provides support for Hispanic serving graduate institutions, and, to the detriment of California, retains the campus-based aid (CBA) formula. To comply with national debt financing, the bill, in its current draft, strips \$7 billion from student loan programs.

A companion bill in the House (HR 609) approved by the House Committee on Education and the Workforce was reported to the floor on a party-line vote of 27 to 21 before the summer recess. Seeking to secure votes from both parties, Chair Enzi sidestepped several contentious provisions that the House bill tackled to fulfill his promise of producing a bipartisan proposal. Among the most controversial issues not contained in the Senate bill is the House's proposed shift to a single definition for proprietary schools. The single definition gives for-profit schools equal access to college aid. Proponents claim that for-profit professional schools are treated unfairly by the rule which adversely impacts poorer students; opponents argue that such a shift would dilute an already scarce pool of federal aid for college goers and leave the government open to unproven accounting practices.

Another provision in the House bill would allow graduate loan consolidation interest at a fixed or variable rate capped at 8.25 percent. A law passed in 2002 would shrink the cap to 6.8 percent next year starting next year. HR 609 author John Boehner (OH) suggests that setting the cap at a higher rate would save the government billions but Democrats counter that an interest rate cap that high would force the average student borrower to pay \$6,000 more for their loans.

A hold harmless provision in the CBA formula that benefits colleges which have historically participated in the Supplemental Education Opportunity Grants (SEOGs), the federal Work Study, and Perkins Loans programs the longest, currently draws as much as \$13 million in federal funds away from California, according to a 2004 report published by the American Council on Education (ACE). Revising the CBA formula to eliminate the base minimum has been a controversial item which House committee members narrowly voted to retain. The House bill's plan to phase out the base minimum was not included in the Senate bill.

However, the Senate bill's follows the House's lead in eliminating Pell Grant tuition sensitivity provisions -- a change that would benefit California students. Tuition sensitivity limited Pell Grant rewards to schools that offer the most affordable education. At present, the only institution in the nation that is affected by the provision is the California Community Colleges (CCC). This penalty cost California CCC students roughly \$12.5 million in foregone Pell Grant aid in 2001.

The California Institute in partnership with the Public Policy Institute of California (PPIC) recently released a report that examines these and other higher education reauthorization topics. The tenth

publication in the federal formula grants and California series, entitled *Student Aid and Higher Education*, provides an overview of formula-related higher education financing features, observes California's performance under current law and assesses reauthorization proposals.

The report finds that the overall needs-based formula used to calculate individual student aid grants provides federal aid to fewer college students in California (26%) compared to the rest of the nation (35%). Although the state is helped by rules that exclude home values from asset calculations, the authors suggest that California students are disadvantaged by the formula's emphasis on income levels without adequately assessing income disparities and the higher cost of living within the state. For a copy of the report, visit the PPIC website at: <http://www.ppic.org/main/publication.asp?i=627>

BASE CLOSURE COMMISSION FINALIZES LIST, KEEPS OPEN CORONA FACILITY

From August 24 to 27, 2005, the Base Closure and Realignment (BRAC) Commission held extensive sessions to review Pentagon recommendations for bases to be closed and interject their own takes on many facilities. The deliberations were the final make-or-break moment for advocates for those bases listed for closure in the President's plan, released in May.

For California, the primary change was the Commission's decision to overrule the Department of Defense by keeping open the Naval Support Activity, Corona (NORCO). The closure of NORCO would have resulted in 892 personnel positions moving out of the facility. The Commission did not alter the DoD decision to close Onizuka Air Force Station in Sunnyvale, a move that was expected to cost nearly 300 jobs.

The BRAC panel also voted to keep open the Defense Language Institute and the Naval Postgraduate School, both of which are located in Monterey.

Although it had not been on the original Pentagon list, the Commission had considered closing Broadway Complex San Diego, a Marine Corps recruitment depot adjacent to the San Diego airport. In the end, the Commission did not elect to make that addition. The panel went along with DoD recommendations to close the Riverbank Army Ammunition Plant, as well as the Naval Weapons Station Seal Beach's Concord Detachment, which the Concord community had asked to be closed to allow redevelopment.

The nine-member commission made various changes to the Pentagon's proposed closure plan, particularly curtailing efforts realign the Air Guard. The BRAC panel recommended that every state with an existing Air Guard unit retain at least some related aircraft.

The various changes are likely to reduce significantly the Pentagon's estimated \$50 billion long-term savings from closures and realignments. The exact cost issues, as well as personnel in and personnel out tallies will be available once the BRAC commission releases its final report, which had been slated for September 8, but has been slowed by court battles.

A California Institute special report on the May 13 closure recommendations is available on our website at <http://www.calinst.org/defense/bracMay.htm>. A detailed history of California's experiences regarding base closures rounds from 1988 to 1995, including an outline of 2005 closure round procedures, is available at <http://www.calinst.org/defense/base1a.htm>.

FINAL BRAC RECOMMENDATIONS SENT TO WHITE HOUSE, AFTER COURT CHALLENGES SLOW PROCESS

Facing a September 8 deadline for transmitting its official recommendations to the President, the federal Base Closure and Realignment Commission (BRAC Commission) found itself on Thursday stymied by legal battles to block its actions. In the end, the Commission did forward its recommendations, but with one state's plan still in flux.

Several states that were slated to have bases closed have intervened in the court system. Whereas most appeal efforts failed, including those in Illinois, Missouri and New Jersey, judges in both Connecticut and Tennessee agreed to enjoin the panel from recommending changes at local Air National Guard installations. The Tennessee action was overturned by the afternoon, but the Connecticut action was still in effect by the day's end. Acting for the 2nd Circuit Court of Appeals, Supreme Court Justice Ruth Bader Ginsburg denied the Bush administration's request to reject the Connecticut claim (regarding the Bradley Air Guard Base) and allow the list to move forward. The recommendations submitted Thursday omitted the planned realignment of Air Guard operations in Connecticut, but left open the final plan in the (rather likely) event that the Connecticut appeal is ultimately denied by the Supreme Court.

With the transmittal, the President now has 45 days to pass the plan, unchanged, to Congress, which will then have 45 days to either reject it, or let it stand. (No such proposed plan has ever been rejected by Congress or not transmitted by the President.)

When officially published, the BRAC data will is expected to be available at <http://www.brac.gov/> .

The California Institute has prepared information regarding DoD closure recommendations and the state's BRAC history. This includes special report on the May 13 closure recommendations is available on our website at <http://www.calinst.org/defense/bracMay.htm> . A detailed history of California's experiences regarding base closures rounds from 1988 to 1995, including an outline of 2005 closure round procedures, is available at <http://www.calinst.org/defense/base1a.htm> .

HOUSE COMMERCE CONSIDERS MEDICAID COPAYMENT PLAN

The House Energy and Commerce Committee held a hearing on reforming the Medicaid program on September 8th, 2005, receiving testimony from administration officials and stakeholder organizations. Panelists each offered their own suggestions on how to best reform the Medicaid system and make it more sustainable. Some members of the committee and panelists cautioned against any reform proposal that would harm the neediest beneficiaries.

Medicaid is a federal and state supported insurance program that helps the poor, elderly and the terminally ill with medical costs. Rep. Joe Barton (TX), Chair of the Committee, noted that the forty year old federal insurance program that serves one in six Americans is currently under threat of losing viability. According to Mr. Barton, tens of thousands, if not hundreds of thousands, are under threat of losing their Medicaid benefits, starting as early as next year. "Medicaid is an anachronism today" said Chairman Barton.

Panelists attributed Medicaid's vulnerability to the growth in healthcare costs, particularly in providing emergency room care, a jump in program enrollment, rising insurance premiums, prescription drug costs, and immigration pressures.

One of the principal ideas in a forthcoming reform proposal to address the escalation of Medicaid costs is a cost-sharing plan that would allow states to charge beneficiaries a portion of Medicaid healthcare service costs. Using copayments as a method of diffusing the growing cost of Medicaid coverage was not supported by some members of the panel. Byron Thames of the American Association of Retired Persons (AARP) suggested that shifting costs or denying care as ways of ensuring program sustainability would be counterproductive policies. Dr. Alexander representing children's hospital administrators testified that cost sharing would lead to greater Medicaid children costs because parents would be discouraged from seeking preventative care. Speaking in support of copayment options, Meryl Matthews of the Council for Affordable Health endorsed a sliding scale payment plan and copayments for higher income populations. He stressed that setting general copay thresholds would extend flexibility to states to restructure Medicaid as they see fit. In addition to spurring state innovation, Mr. Matthews recommended the establishment of economic incentives to promote and strengthen good practices.

Chair Barton stated that he was eager to crack down on frivolous practices that drive up Medicaid costs when benefits are extended to some seniors that hide or transfer their assets. Senior committee

member Rep. Henry Waxman (Los Angeles) called this behavior troubling although he urged fellow policymakers to not penalize innocent seniors who may have legitimately undergone catastrophic problems. He also opposed any reform provision that would allow states to deny care to eligible people based on geography.

For more information on this hearing visit the House Committee on Energy and Commerce website at: <http://energycommerce.house.gov/>

JUDICIARY SUBCOMMITTEE REPORTS VISA DIVERSITY ELIMINATION BILL

The House Judiciary Subcommittee on Immigration, Border Security, and Claims reported by voice vote H.R. 1219 on Thursday, September 8. The bill would eliminate the immigration diversity program that grants visas to individuals in countries that generally do not send many immigrants to the United States. The program offers 55,000 visas each year to applicants from countries that have sent fewer than 50,000 immigrants to the United States over the preceding five years. The visas are awarded through a lottery system.

During the markup some subcommittee members from the California delegation spoke on the bill, including Rep. Zoe Lofgren (San Jose) who opposed it because of the desirability of having a diverse immigrant population in the United States. Reps. Dan Lungren (Folsom) and Darrell Issa (Vista) spoke in support of the bill, on the other hand.

GOVERNOR ASKS PRESIDENT FOR EMERGENCY DECLARATION RELATED TO HURRICANE KATRINA RELOCATIONS

On September 6, 2005, Governor Arnold Schwarzenegger asked President Bush to declare an emergency for the state of California as a result of the evacuation of Gulf Coast areas affected by Hurricane Katrina and the relocation of victims to California. The request, reflecting needs of the state as well as cities and counties within the state, related to the assistance and sheltering of evacuees.

In his letter, the Governor stated, "I have determined that this incident is of such severity and magnitude that effective response is beyond the capabilities of the state and affected local governments, and that supplementary federal assistance is necessary to save lives, protect property, public health, and safety, or to lessen or avert the threat of a disaster." He requested 100 percent federal assistance for emergency protective measures and sheltering activities and 100 percent direct federal assistance in all counties in the state.

CALIFORNIANS RISKING GREATER FINANCIAL BURDENS TO PURCHASE HOMES, PPIC REPORT SUGGESTS

A new report published by the Public Policy Institute of California (PPIC) explores housing ownership trends in California and examines reasons for the growth in California homeownership rates in spite of escalating property costs within the state. The report suggests that in recent times California homebuyers are taking greater financial risks with more limited resources to finance the purchase of unaffordable homes.

According to the report, the state houses 18 of the 20 most expensive metropolitan areas to live in since 2000. Homeownership in California is healthier than it has been in decades however; with 59 percent of state residents owning their home in 2003 (the highest rate of ownership since 1960). The state's peaking homeownership growth has not made much of a national impact since California still ranks 48th out of 50 in homeownership in the country.

The report's authors point to a number of reasons for California's homeownership boom despite the exorbitant property costs that afflict the state. More Californians are devoting a greater share of their financial income to afford homes, with over half of recent homebuyers spending 30 percent or more of

total income on housing. Banks and financial institutions are facilitating this growth by providing loans to buyers that consume higher shares of incomes. Borrowers are also opting for riskier variable and interest-only loans, according to the report. Recent homebuyers are willing to live in smaller spaces, are more likely to be previous owners and are also likelier to migrate to inland parts of the state that have lower property values at three times the rate than was observed in the 1990s.

For more information on this report visit the PPIC website at: <http://www.ppic.org>

GAO INQUIRY FINDS EMISSION ISSUES LOW AT MEXICALI POWER PLANTS

A Government Accountability Office (GAO) report suggests that the opening of two power plants along the Mexico-California border would generate only minor pollution issues in Imperial County but precise health impacts to Californians would require additional data.

The report requested by Rep. Hilda Solis (El Monte) was conducted to examine the health effects from the operation of the power plants, compare regulatory discrepancies posed by locating the power plants in Mexico, and explore the policy options available to address any health challenges that do exist.

In the past, power plants are known to have contributed to negative health conditions in surrounding communities. Imperial County, which lies within a few miles of the two new plants in question, already suffers from poor air quality and its children are more likely to have asthma than anywhere else in the country, according to the report.

However, the GAO report concludes that the power plants would produce low emissions compared to the primary sources of air pollution in Imperial County, which are vehicles and dust. It notes that the plants would be required to take indirect air pollution control measures if they were located on the US side of the international border, but that the plants themselves will have only minor effects. The report also suggests that the extent of health impacts are unknown due to the absence of important health related data. The report asserts that existing international agreements may not adequately address power plant health concerns and that any legislative steps to address this and other related topics would require efforts on both sides of the US-Mexico border. One long term policy option outlined in the report would be to develop a binational pollution reduction plan or to collect funds for a pollution abatement trust fund.

To view a copy of this report, visit the GAO website at: <http://www.gao.gov/new.items/d05823.pdf>

PPIC RELEASES SEVERAL PRODUCTS

The Public Policy Institute of California has released another report in its Special Survey on Californians and the Initiative Process. This one, entitled “Bad Time for the Ballot Box: Californians Disapprove of Special Election, Schwarzenegger, State Government,” finds that Californians commitment to the initiative process is not enough to overcome their distaste for the upcoming November election, which is focused on initiatives.

The survey showed that only 36 percent of voters believe it’s better to hold the November special election – 60 percent say it’s better to wait until the state’s next scheduled election in 2006. “Even among registered Republicans, holding a special election has a bare majority of support (52%) and substantial opposition (41%),” according to the survey.

The three propositions on the ballot are also facing strong opposition among voters:

Teacher tenure (Proposition 74) - Likely voters are split over whether or not to increase probationary periods for public school teachers, with 49% support, 42% opposition, and 9% undecided.

Spending and Funding Limits (Proposition 76) - 61% of likely voters oppose limiting state spending and changing school funding requirements, while 28% support, and 11% are undecided.

Redistricting (Proposition 77) - 49% of voters oppose the proposal to have a panel of retired judges rather lawmakers draw legislative districts. 34% support the measure, and 17% remain undecided.

PPIC has also released several new reports in its Just The Facts series. One briefing explores *The Age Gap in California Politics*, finding older adults are much more likely to be registered and vote than younger adults, and more politically attentive.

Latino Voters in California finds that although the state's Latino population is growing rapidly, the state's voting population does not reflect the state's diversity with Latino's making up about 28 percent of California's adult population, but only 14 percent of its voters.

California Voter and Party Profiles discovers that California is becoming less of a party state as the share of major party voters declines and that the lack of party loyalty leads to a more closely divided California electorate.

Finally, *California's Likely Voters*, pinpoints that while California is becoming less of a party state, and the major parties still dominate elections, Californians are divided evenly across the political ideological spectrum, with 37% percent describing themselves as politically conservative, 29% as middle-of-the-road, and 34% as liberal.

All of the reports in their entirety can be found on PPIC's website at: www.ppic.org.

FRIDAY (9/9/05) BRIEFING TO EXPLORE LIHEAP IN CALIFORNIA

On Friday, September 9, 2005, the California Institute, in partnership with the American Gas Association, American Public Gas Association, Edison Electric Institute, PG&E Corporation, Southern California Edison, Southern California Gas, and SDG&E, are sponsoring an educational luncheon session regarding the Low Income Home Energy Assistance Program, better known by its acronym, LIHEAP.

A formula grant program providing funds to help states provide heating and cooling assistance to low income residents, LIHEAP provided approximately \$1.9 billion nationwide in fiscal year 2005. California received 4.6 percent of this amount, or approximately \$85 million. The law governing LIHEAP gives states the same share as was received in 1981 in years when total appropriations are below \$2 billion. If total funding rises above the \$2 billion mark, however, the new funds are distributed using a new formula, and California's percentage share of the program would rise slowly.

The California LIHEAP Briefing, featuring remarks by William Parker, Chair of the Association of California Community and Energy Services (ACCES), and comments by various stakeholders, will take place on Friday, September 9, 2005, from 12:00 noon to 2:00 pm in the Rayburn House Office Building, Room B-338. Lunch will be served. To attend the briefing contact keach.mcqueen@pge-corp.com or call (202) 638-3514.