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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. The e-mail edition is made possible in part by in kind donations from Sun Microsystems and IBM Corp.

CONTENTS:

WTO TALKS FAIL TO REACH AGREEMENT FOR NEW TRADE ROUND

The World Trade Organization Ministerial Meeting held in Seattle in the first week of December ended without agreeing on a framework for a new multi-year round of trade talks among the 135 member countries. The participating nations were just too far apart on several important trade issues, including treatment of labor and environmental issues, when U.S. Trade Representative Charlene Barshefsky decided to suspend the talks without an agreement. The atmosphere was also marred by large demonstrations outside the talks by environmentalists, labor union supporters, and other groups. A wide array of trade issues were left on the table with the failure of the talks, including the reduction of agricultural export subsidies, the treatment of electronic commerce transactions, greater protection of intellectual property rights, and opening up foreign markets to service industries.

The Administration expects to continue negotiations with the other member nations at a lower-level with the hope of narrowing the significant differences that surfaced in Seattle.

GOVERNOR SUES INTERIOR DEPT. OVER OIL LEASES

Governor Gray Davis joined with the California Coastal Commission last month in suing the U.S. Department of Interior to block the extensions it has granted oil companies for undeveloped oil leases off the California coast.

The Governor charges that Interior suspended 36 leases for oil and gas development off the coast, without first analyzing the environmental impact, or consistency with state requirements. All of the leases were issued from 15 to 31 years ago, and the Governor alleges that, given the marked environmental changes since that time, there is a potential for adverse cumulative impacts along the California coastline.

The suit asks the court to set aside the Department's decision and prohibit the suspension of the leases until a thorough analysis has been done and it is clear that Interior has complied with existing law.

DRAFT ENCRYPTION EXPORT REGULATIONS CIRCULATED

The Commerce Department has circulated to some members of the California delegation and industry representatives a draft of its proposed new regulations governing the export of encryption software. Rep. Zoe Lofgren (San Jose), a leading proponent of easing outdated encryption controls, has written a letter to President Clinton expressing concern with some of the regulations. She notes that the regs make a distinction between “retail” outlets and the Internet. The regs would prohibit the sale of encryption online, except for that “specifically designed for individual consumer use which are sold directly by the manufacturer.” Therefore, retail stores would have no proscription on selling another’s encryption, but only the actual encryption manufacturer could sell the product online. The drafting also raises the issue of whether encryption could be distributed for free by the manufacturer, as the regs state it must be “sold” by the manufacturer directly.

Undersecretary of Commerce William Reinsch indicated in a recent speech that he expects the proposed rule will be published December 15.

STATE AIR RESOURCES CONSIDERS MTBE-FREE GASOLINE; TOSCO ANNOUNCES PLANS TO SELL MTBE-FREE GAS BY END OF 2000

Tosco Corporation, the owner of Union 76 and Circle K branded retail gas outlets in California, announced that it will sell MTBE-free gasoline in the state by December 15, 2000. The gas will be available at its outlets, as well as at its independent gasoline retail customers. The hitch is that Tosco’s plan is contingent on the Environmental Protection Agency giving California a waiver of the oxygenate mandate within the next three months. California’s Senators and Representatives, as well as the Governor, have been pushing for EPA to grant the waiver for over a year. Rep. Brian Bilbray (Imperial Beach) and Sen. Dianne Feinstein have both introduced legislation to allow California to sell gas without the mandated oxygenate as long as it continues to meet federal standards.

In the meantime, California’s Air Resources Board (ARB) is considering a proposal on Thursday, December 9, to require a reformulation of gasoline that eliminates MTBE but require other octane boosters aimed at ensuring California’s air quality does not suffer. Although all gasoline companies operating in California have agreed to remove MTBE from their products within three years, they oppose the ARB decision, arguing that it adds other formula mandates that are too costly and could result in gas shortages in the state. ARB admits the reformulation will be expensive, costing about $1 billion in capital outlays and another $360 million annually. ARB’s action is designed to implement an executive order signed by the Governor that requires MTBE-free gasoline by December 31, 2002.

At press time, Thursday evening California time, the ARB was still meeting in Sacramento. The results of the proceedings may soon be available on the ARB website, at http://www.arb.ca.gov .

SEMICONDUCTOR SALES HIT NEW HIGH

Global sales of semiconductors reached a new high of $13.4 billion in October 1999, according to a recently released report by the Semiconductor Industry Association (SIA). This level exceeded the industry’s past monthly high of $13.19 billion set in November 1995.

The big jump in October sales has outpaced industry forecasts on annual growth. Revised figures now estimate that the industry will grow by 21 percent, with annual sales of $174 billion, in the year 2000, with continued growth of 20 percent in 2001 ($209 billion in sales). Growth is expected to continue into 2002, with sales reaching a record annual high of $234 billion. SIA attributes the large growth to the surge in demand for wired and wireless information appliances, with cellular phones continuing to be one of the major demands for semiconductors.

The SIA's Global Sales Report (GSR), which projects the figures, is a three month moving average of sales activity. It is tabulated by the World Semiconductor Trade statistics (WSTS) organization, representing some 70 companies.

More information on the semiconductor industry and sales can be obtained at: http://www.semichips.org .

SOFTWARE PIRACY GROWTH SLOWS, BUT REMAINS MAJOR PROBLEM

The Software & Information Industry Association recently released a report showing that although the pirating of software worldwide is declining, it remains a serious problem in several countries. The report estimates that in 1998, 38 percent of business software on personal computers was pirated, amounting to an $11 billion loss to the industry. The good news, however, according to the report, is that 1998 was the first year the piracy rate had dropped below 40 percent.

The countries with the highest piracy rates for business software applications include: Vietnam (97%); China (95%); Oman (93%); Lebanon (93%); Commonwealth of Independent States (excluding Russia) (93%); Russia (92%); Indonesia (92%); and Bulgaria (90%). The U.S. has the lowest piracy rate for business software at 25 percent, but SIIA still estimates this cost the industry $2.9 billion in 1998.

$900 MILLION IN FEDERAL FUNDING FOR CALIFORNIA'S FAMILY PACT PROGRAM

On Wednesday, December 1, Governor Davis announced that California will be reimbursed approximately $900 million over the next five years for Family PACT programs. Family PACT programs assist adults at or below 200 percent of the federal poverty level who are at risk of unintended pregnancy. Family PACT allows adults to access all Federal Food and Drug Administration-approved contraception methods, female and male sterilization, breast and cervical cancer screening, screening for sexually transmitted infections (STI) and HIV, STI treatment, limited infertility assessment, and educational and counseling services.

Governor Davis credited Vice President Gore for securing the federal Health Care Financing Administration (HCFA) funding, which is intended to reduce unwanted pregnancies in California, increase family planning services, and provide health care for men and women of childbearing age who do not qualify for Medi-Cal coverage or who do not have access to private health insurance. A press statement from the Governor is available at http://www.ca.gov/s/governor/pr120199.html .

CALIFORNIA'S $45 MILLION IN WELFARE REFORM BONUSES IS 22.5% OF TOTAL

Ranking at the top of the welfare reform bonus competition created as part of the 1996 reform package, California received $45 million of the total $200 million in welfare bonus money on December 4. President Clinton rewarded the top 10 states in four categories, based on welfare data from 1998.

California ranked fourth in "job success" because of its ability to keep people in jobs and increase employee's earnings. Minnesota ranked first in the "job success"category.

California also tied for eighth in the category representing the most improvement in job success from 1997-98, while Florida took first in that category. Indiana came in first for placing the most people in jobs. Washington state had the most improvement in job placement from 1997-98.

The welfare reform bonuses contest creates an incentive for states to move as many welfare recipients into jobs as they can, regardless of whether those people leave the welfare system rolls. States are rewarded bonuses based on sheer employment figures and numbers of those who keep jobs for three months or more and receive higher wages. Clinton will refine next year's bonuses to include states that give medical benefits and food stamps to low-income families. He further anticipates that the refined contest will reward numbers of children living in two-parent families.

Twenty-seven states in all received funds ranging from $500,000 for South Dakota to $45 million for California. Reward shares are based on the size of the state's annual welfare appropriation and are added to other welfare funds. Use of all shares are subject to welfare restrictions.

PPIC Report on Child Support System: Why System Breaks Down

In *Child Support and Low-Income Families: Perceptions, Practices, and Policy*, the Public Policy Institute of California looks at why the California child support system breaks down for many children. One quarter of California families are headed by a single parent, and over three million children in California are eligible for child support from noncustodial parents. Child support policies aim to ensure that noncustodial parents contribute to the financial security of their child, families are kept out of the welfare system, families are assisted in leaving the welfare system, and welfare spending is reduced. While state and federal reforms have emerged in recent years, critics of the child care support system cite spotty enforcement and lack of reduction in welfare spending as evidence that child support is not working.

Authors Maureen Waller and Robert Plotnick point to a mismatch between the child support system assumptions and the experiences of low-income families as an explanation for why the system breaks down for low-income families. The present system assumes that families have divorced fathers who work full time, when in fact, many low-income fathers have never been married and work irregularly.

Furthermore, the current system involves six steps that frustrate and often confuse families. Some of these steps include opening a Temporary Assistance for Needy Families (TANF) support case, assigning a mother's rights to all child, spousal or medical support to the state up to the amount received, and enforcing an order. At the end of the process, families may keep no more than the first $50 of the noncustodial parent's monthly child support payments, with the rest going towards government reimbursement for TANF payments. The report found that parents dislike assigning all rights of child support to the state. Low-income mothers often find it difficult to file a claim. Parents also attest to never receiving the portion of the father's payment that the mother retains after the state has recouped TANF costs. The report suggests that the current system gives no credit to in-kind payments such as clothes, food, school supplies, or toys made directly to custodial parents.

As a result, PPIC reports that most fathers and many mothers support informal arrangements for child support as opposed to the current formal system. Mothers in the report believe that more emotional involvement and guidance exists in informal arrangements, than in the current system. Fathers also support a more informal arrangement due to their belief that the current rigid system does not respond to their unstable economic circumstances. Lastly, fathers disapprove of the current treatment of noncustodial parents as criminals when they fail to make payments.

The authors suggest a range of policy options for legislators to improve the child support system. Waller and Plotnick recommend allowing a custodial parent all or some of the money collected from the non custodial parent as it is passed through. They also suggest that fathers be allowed to file for the Earned Income Tax Credit, even if they are living away from their child, or that the state match payments made by low-income fathers. Another option would establish a lower payment and increase the flexibility of child support payments to encourage compliance and minimize arrearages. The authors also suggest limiting the number of arrearages. PPIC further recommends that courts could weight informal and in-kind contributions more heavily, which, in turn may encourage more guidance and well being for the child. PPIC acknowledges difficulties in all of these solutions, but believes that a combination of some or all of the above may help to create a child support system that honors the public interest in effective enforcement and considers the social realities that low-income families face in the current system.

The report, as well as a press memo and an abstract, are available on the PPIC website, at http://www.ppic.org or by calling 415-291-4400.

California Child Care: Expensive and In Short Supply

A report released by the California Child Care Resource and Referral Network (CCCRRN) reveals that economic prosperity in California and welfare reform have created a shortage in child care. Census data in 1990 reported 3.9 million children in California. Based on those figures the study finds that five children are in need of every one licensed child care spot. In addition to the shortage in child care, parents earning California's minimum wage spend more than half of their income on child care, according to the report. California's median income earners spend close to a fifth of their monthly wage on child care.

CCCRRN reports that the high demand for child care is a result of a booming economy, welfare reform, and a high turnover rate among employees in child care centers. Because of California's flourishing economy, more parents are employed, creating a greater demand for child care. Welfare reform has positively resulted in a half million welfare recipients gaining employment over the next few years. However, 60% of those half million recipients are single with at least one child under 5 years old. Moreover, child care centers experience an average employee turnover rate of 33% statewide, three percent above the national average. The report also concludes that the high turnover rates can be attributed directly to child care employee wages, which average just over $16,000 a year, or $1,345 a month.

The shortage of child care slots is most prominent in counties such as Los Angeles and Ventura. In Los Angeles, six children are in need of every licensed child care slot and in Ventura, five children are in need of each spot. In addition to parents seeking regular work hour care, many are now looking for after school hour care, and nontraditional weekend and evening care. Nearly a quarter of all phone calls to resource and referral agencies are from parents looking for help finding programs for school-aged children.

A high demand for child care across California has occurred hand in hand with high costs in some areas. Full-time licensed child care for infants two years and younger costs on average of $545 a month, or $6,549 a year in California. Some of the costliest per month child care costs are found in San Mateo ($807), Santa Clara ($775), Yolo($746), Placer ($699), and Sacramento counties($670). Other areas with moderately priced infant-care include Los Angeles ($600), El Dorado ($538), and San Francisco counties($533).

Los Angeles County parents may spend up to 60% of their minimum wage income ($11,960) on care, according to CCCRRN. Moreover, a low- income family earning $30,000 annually spends 24% and a median-income family making $35,863 spends 20% on child care in Los Angeles.

Patty Siegel, executive director of CCCRRN suggests that California's child care system may benefit from expanded government subsidized child care for low-income families. She further recommends tax incentives for businesses that provide day care for their employees.

The California Child Care Resource and Referral Network is comprised of 61 local agencies across the state. The Network is funded by the California Department of Education.

For more information, or to order the report, contact CCCRRN at (415) 882-0234, or at its web site: http://www.rrrnetwork.org .

CBP Report: The Cost of Supporting A Family in California

In *Making Ends Meet, How Much Does it Cost To Raise a Family in California?*, the California Budget Project reveals the high cost associated with raising a family in California. Families consisting of two working parents need an annual income of $44,880 to make ends meet (both parents working full-time for an hourly wage of $10.79). Regional estimates for two parent families range from $38,730 to $53,728. Two parent families with one employed parent need $31,356 annually, or an hourly wage of $15.08. Still, single parents need $36,828 annually, or the equivalent to an hourly wage of $17.71. The hourly wages required in order for families to make ends meet are two to three times more than the state's minimum wage of $5.75/hour ($11,960 annually).

In the report, the California Budget Project divides California into nine regions consisting of counties with similar costs of living. It assumes that families rent apartments or live in overcrowded housing. In the report, housing and utilities costs are based on Fair Market Rents (FMRs) developed and published annually by the US Department of Housing and Urban Development. The California Budget Project finds that in 1998 median home prices in California ranged from $330,000 in San Francisco to $176,000 in Tracy. Assuming that a family needs a five percent down payment on a house, the affordability gap for the West Los Angeles area is near $46,000. In Tracy, the afford ability gap is still close to $14,000, according to the report.

The report also assumes that families use home-based child care, health coverage at the cost equivalent to that paid for employment-based coverage, and save little towards retirement or a child's education. The report uses the lowest priced HMO plan through the Health Insurance Plan of California (HIPC) for its figures. Based on these figures, the California Budget Project reveals that health care costs make up 9 percent of a two-working family's budget, 13 percent of a two-parent (one working) family's budget and 7 percent of a single parent's budget.

The report further assumes that each family has two children, one under two years old that requires full-time care, and a child of six that requires after-school care. On average, child care in California consumes 25 percent of a two-working-parent family's basic budget, and 30 percent of a single-parent-families basic budget.

Transportation costs studied in this report account for commuting to and from work, and a nominal amount for errands. With the majority of Californians commuting to work by car, the average cost of driving 600 miles per month at the 1998 IRS reimbursement rate (32.5 cents per mile) is $244 per family. In San Francisco, where 19.5% commute by bus, the cost of one month's commute by Bay Area Rapid Transit is $32.

Food costs in the report are based on the June 1999 US Department of Agriculture Low Cost Food Plan. Food makes up 16 percent of a two-working-parent family's budget, 22 percent of a two-parent (one working) family's budget, and 12 percent of a single-parent family's budget

Other costs reported in the California Budget Project report include miscellaneous costs (clothing, personal care, and basic telephone service) and taxes. Miscellaneous costs averaged out between $300-$400 a month, depending on what type of family was studied. Taxes accounted for $6,194 for two-working-parent families, $3,776 for two-parent (one working) families, and $4,586 for a single parent family.

For more information, including a regional breakdown of expenses per month as a percent of a family income, contact the California Budget Project at (916) 444-0500 or their web site: http://www.cbp.org .

CALIFORNIA'S HOUSING GROWTH FAILS TO KEEP PACE WITH POPULATION RISE

Census data released on Wednesday indicate that the stock of housing in California grew by 855,000 between 1990 and 1998, a 7.6% increase. The nation overall saw a 10% increase in housing units over the same period.

For the same 1990-1998 period, California's population grew by 9.7%, or by nearly 2.9 million people. For detailed housing data, see http://www.census.gov/population/www/estimates/housing.html .

CALIFORNIA EXPORTS RISE SHARPLY IN THIRD QUARTER 1999

Exports in California manufactured goods rose by 10.2% in the period between July and September 1999. Enormous improvements in the shipment of electronics and industrial machinery propelled the first increase in California's manufactured goods in nearly one and a half years. Asia's economic recovery, along with shipments to Mexico and Canada have accounted for what some experts refer to as a turning point in California exports. It is reported that the San Jose region and Southern California will benefit the most from this boom because of their large amount of exports.

Specifically, exports to almost every Asian country made notable gains. While shipments to Japan dropped by 6%, exports to South Korea increased by 74%, Taiwan by 55%, and Hong Kong and mainland China by more than 20%. With the exception of Japan, exports to Pacific Rim countries increased by 29% to $8.8 billion. These Pacific Rim countries account for one third of all California exports. California shipments to the European Union rose by 2% to $5.4 billion, and exports to Mexico increased by 17% to $4.1 billion.

Exports of electronic equipment, computers and industrial machinery, accounting for more than 50% of all California shipments increased by 15%. Farm goods increased by 19% and lumber, scrap and waste also increased, while furniture exports fell by 23% to $77 million.

LAEDC 2000-01 ECONOMIC FORECAST AND INDUSTRY OUTLOOK: CALIFORNIA EXPANSION AT A SLOWER RATE

In *2000-01 Economic Forecast & Industry Outlook for the Los Angeles Five County Area*, the Los Angeles County Economic Development Corporation (LAEDC) predicts the direction of the economy in the next year, focusing on California in general and the greater Los Angeles area.

Authors Jack Kyser, Ken Ackbarali, and George Huang predict a slowing economic growth during the ninth year of US economic expansion, the longest-running expansion in American economic history. GDP growth is expected to lose some momentum, slowing to 2.7% in 2000, down from a 3.5% rise in 1999. Early in 2000, interest rates will be raised once or twice, to keep with the economy's pace and guard against any inflationary spiral. The authors predict that inflation rates will increase from 2.2% in 1999 to 2.8% in 2000, resulting from a weaker dollar, higher oil prices per barrel, rising wages, Iraq's cut-off of oil exports, and higher commodity prices.

As a whole, California's economic expansion is predicted to continue at a solid, but slower rate than the past two years. In addition to a slowing US economy, shortages in affordable housing and industrial space, and job losses in aircraft and apparel manufacturing will retard California's economic growth somewhat. However, the expected revitalization of the Asian economy coupled with growth in the European and Mexican economy as well as work on state private and public projects will help California sustain a solid growth rate. In fact, the stronger Asian economy will benefit California in its production of computer and electronic components, the tourism industry, and agricultural production while helping to balance out the growth between the Bay Area and Southern California. Nonfarm employment is expected to increase 2.9% or by 403,800 jobs and unemployment should decrease from its 1999 level of 5.3% to 5.1%. Total personal income will advance 6.6% to $1.03 billion, with the rate of inflation gaining momentum.

The LAEDC further examines economic indicators among Los Angeles, Ventura, Orange, San Bernardino and Riverside Counties. Ventura County will see the highest percent change in its nonfarm employment, surpassing the state, with a change of 3.9% (273, 200 jobs). Los Angeles County is expected to show the highest unemployment rate in 2000 (5.6%), while Riverside-San Bernardino Area (5.1%), Ventura County (4.6%), and Orange County (2.6%) will show unemployment levels equal to or below the statewide expected unemployment rate.

According to the report, the greater Los Angeles area's major export industries will see a mixed outlook in the coming year. The bio-medical industry will continue to grow in Irvine and other southern California spots, while international trade and tourism will hold strong partially as a result of the Asian economic turnaround. Technology, financial services and business and professional management will experience an upgrade also due to the Asian recovery. Aerospace, health services, and apparel manufacturing industries are expected to downgrade, with the aerospace industry alone accounting for 7,000 job losses in Los Angeles County and 500 jobs losses in Orange County.

For more information on Southern California specific forecasts, contact the Los Angeles County Economic Development Corporation at 1-888-4LAEDC-1, their web site: http://www.laedc.org , or by e-mail: mailto:research@laedc.org .

PPIC Report: Demand-Side Analysis and Management Is Key To California Infrastructure

In *California's Infrastructure Policy for the 21st Century: Issues and Opportunities*, a new report from the Public Policy Institute of California (PPIC), U.C. Berkeley Professor David E. Dowall explores California's infrastructure options for the next decade. Urbanization, local development, business formation and an increase in college enrollment are all expected to fuel the predicted $823 billion needed for maintaining and establishing new structures in California. However, projected state and local revenue sources will meet only half of this demand. Data from the Legislative Analyst's Office indicate that the State lacks a permanent funding source and adequate evaluation of infrastructure requirements and programs.

In light of California's infrastructure problem, Dowall suggests shifting policy assessments from those that focus on supply side infrastructure planning to plans that consider the demand for infrastructure, thereby increasing the efficiency of infrastructure plans. The report reveals that current standards rely on per capita assessments of consumption. Because these assessments tend to ignore demand elasticity, conservation effects, and technology, Dowall advocates demand management, which, he argues, may save taxpayers billions of dollars in excess costs. Dowall argues that successful demand management efforts in the energy, solid waste, transportation and corrections sectors of the state should be followed as an example for infrastructure planning.

The PPIC report further recommends a long term financing investment plan, over the current pay-as-you-go method. The author argues that the current method does not utilize benefits of financial leveraging and requires current taxpayers to finance facilities that will not necessarily benefit themselves. Instead, Dowall advocates using bond financing which allows revenue from infrastructure procurement to be used to make future bond payments.

Overall, the report envisions an infrastructure management plan that balances control between local and state entities. Dowall's ideal infrastructure plan would allow the state to set the policy framework and regulate providers and tariffs, but would assign local governments, private entities and non-profits the task of actual production.

For more information, contact the PPIC at (415) 291-4400 or at their web site: http://www.ppic.org .