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

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DAVIS CHIEF OF STAFF LYNN SCHENK KEYNOTES AT GOLDEN STATE ROUNDTABLE LUNCHEON

On Monday, February 28, the Golden State Roundtable began its 2000 luncheon series with remarks from the Honorable Lynn Schenk, Chief of Staff to Governor Gray Davis and a former Member of Congress from the San Diego area. After being introduced by Rep. Lynn Woolsey (Petaluma), Rep. Schenk familiarized those at the lunch with Governor Davis's personality, governing style, and priority issues. Schenk highlighted prominent areas in the Governor's 2000 agenda at the state level, with education, as a primary focus. At the federal level, she spoke about various priorities for the Governor, including funding for SCAAP, transportation and health. She emphasized the Governor's commitment to bipartisanship and his pledge to continue to work to better California's prospects at the local, state and federal levels.

GAO FAULTS FEMA ON DISASTER INSURANCE PLAN

On Monday, February 28, the General Accounting Office released its report *Disaster Assistance: Issues Related to the Development of FEMA's Insurance Requirements* (GAO/GGD/OGC-00-62). The report faults the Federal Emergency Management Agency for not following proper procedures in developing its proposed rule requiring public buildings to insure against natural disasters. Reps. Jerry Lewis (Redlands) and Sam Farr (Carmel) led the California Congressional delegation in adding language to last year's appropriations bill directing GAO to prepare the report. See, Bulletin, Vol. 6, Nos. 19 (6/10/99) & 25 (7/29/99) & *Vol. 7, No. 5 (2/10/00)*.

The report finds FEMA did not follow federal guidelines required for "economically significant regulatory actions." Specifically, FEMA should have provided the Office of Management and Budget a detailed cost-benefit analysis of the proposed regulation, and an evaluation of alternative proposals and the reason why the chosen proposal is preferable. California interests have argued requiring all public buildings to carry earthquake insurance would be prohibitively expensive, if in fact such insurance coverage is even available.

Since the release of the report, FEMA has decided to hire an outside contractor to do the required economic analysis, and expects that report will be completed later in March.

LETTER CIRCULATING FOR EMERGENCY FUNDS TO FIGHT PIERCE'S DISEASE

A letter to Appropriations Committee Chairman Bill Young is being circulated among California Congressional offices, that requests funds to help fight Pierce's Disease, which is seriously threatening California's wine industry. Specifically the letter requests the Committee to earmark $7.147 million in emergency supplemental funds to contain and control the disease, which has cost an estimated $12 million to date in Southern California and $46 million in Northern California just last year. The letter further urges the committee to provide funding for the University of California to study methods to prevent the epidemic, including a genetically engineered breed that could resist the disease in the future.

Thirty-two California members signed a similar letter to the Office of Management and Budget in January 1999. To sign this letter, contact Tom LaFaille at 6-7370 no later than Monday, March 6.

UC BRIEFING MONDAY ON 2001 HIGHER EDUCATION AND RESEARCH FUNDING

On Monday, March 6, the University of California's Office of Federal Governmental Relations will host a briefing on higher education and research funding in the FY01 federal budget. UC will cover topics related to budget proposals for higher education and research at the Departments of Agriculture, Defense, Education and Energy, the National Institutes of Health, and the National Science Foundation. Various UC representatives will be in attendance to answer questions. The briefing will be held at 2325 Rayburn House Office Building from 3:00 - 4:00 PM on March 6.

UCR TO HOST BRIEFING ON IMPACT OF INVASIVE SPECIES IN CALIFORNIA

On Wednesday, March 8, the University of California, Riverside will host a lunch briefing for California agriculture and resources staff entitled "Invasive Species: Impact on California's Agricultural Urban, and Natural Environments." Speakers will include entomologist Dr. Mark Hoddle and plant pathologist and Director of UCR's Center of Conservation Biology, Dr. Mike Allen. Invasive species damage California's $27 billion agricultural industry at a rate of $3 billion a year. The problem also extends to homeowners who spend $750 million per year on pest control. Current research is being developed to better understand, assess and prevent invasive insects, plant pathogens and plant species.

The March 8 briefing will be held in 1116 Longworth at 12:00 noon. For more information or to sign up for the briefing, contact Elizabeth Baldwin at (703) 532-6788.

PPIC'S MARCH 14 FORUM IN SACRAMENTO TO FOCUS ON SCHOOL FINANCE

On Tuesday, March 14, the Public Policy will hold its fourth annual California Issues Forum in Sacramento. The topic of this year's forum will be "Equal Resources, Equal Outcomes? The Progress of School Finance Reform in California." PPIC experts will outline the findings of its two major studies on the topic. The forum will be held from 9:00 a.m. to 3:30 p.m. at the Sacramento Convention Center and is free of charge, but registration is required

Welcoming remarks and an overview will be provided by PPIC President and CEO David Lyon. PPIC Senior Fellow Julian Betts will outline their latest report on "The Distribution of School Resources and Student Achievement in California." There will be a general discussion followed by summary remarks by *Sacramento Bee* Contributing Editor Peter Schrag. In the afternoon, the forum will feature remarks by State Secretary of Education Gary Hart, and then an education policy panel discussion featuring a teacher, a school administrator, and a school board member.

For further information or for registration information, call the event hotline 415-773-6227 or visit the organization's website at http://www.ppic.org .

HOUSE PANEL CONSIDERS STOCK OPTIONS' OVERTIME TREATMENT

The House Education Subcommittee on Workforce Protections met Thursday, March 2 to examine an issue raised by a recent policy action by the Department of Labor, one which could significantly impact California companies that provide stock options or other forms of equity to their non-executive employees.

At issue is whether employers should have to recalculate overtime pay when an employee exercises his or her stock options. In February 1999, DOL issued a compliance letter stating that such treatment is required because the 1938 Fair Labor Standards Act did not anticipate equity awards to employees. Since then, pressure has been building for legislation to reverse this interpretation.

In a joint statement, California Reps. Randy "Duke" Cunningham (San Diego), Steve Kuykendall (Rancho Palos Verdes), and Cal Dooley (Visalia) lamented that enforcing the DOL interpretation "would result in prohibitively complicated and expensive challenges for employers and employees alike. The result of this situation would most likely be that fewer employers would offer the opportunity afforded by stock and equity options to their employees."

The issue impacts companies that give stock options to a wide array of employees. Corporate executives, typically not subject to overtime rules, are exempt. A 1997 survey reported that 6 million non-executives received stock options, and average option grant values were $37,000 for professional employees, $41,000 for technical employees, and $12,500 for administrative employees.

Witnesses at the hearing included T. Michael Kerr, Administrator of DOL's Wage & Hour Division; J. Randall MacDonald, an Executive Vice President at GTE; Beth Martinko, a Vice President at Merant and a representative of the Information Technology Association of America; Alan Nadel with Arthur Andersen; Patricia Nazemetz, a Vice President of Xerox Corporation and a representative of the U.S. Chamber; and Abigail Rosa, representing San Jose-based Xilinx, Inc.

The California Members, with colleagues from their own and other states, are working with DOL and Senate leaders to develop a legislative solution to the situation.

SENATE FINANCE HOLDS HEARING ON CHINA PNTR AND WTO ACCESSION

On Wednesday, February 23, the Senate Finance Committee held its first hearing on China's accession to the World Trade Organization and Permanent Normal Trade Relations (PNTR) with the United States. U.S. Trade Rep. Charlene Barshefsky testified for the Administration. The committee also heard from a panel of witnesses including Steve Van Andel, Chairman of Amway Corporation, Christopher Galvin, CEO of Motorola, and Richard Trumka, Secretary-Treasurer of the AFL-CIO.

Ambassador Barshefsky reiterated the Administration's position that the U.S.-China bilateral agreement is an economic boon for the U.S., because it will grant substantially greater market access across the spectrum of industrial goods, services, and agriculture. In return, she stated the U.S. agrees only to maintain its current market access policies toward China, and grant it PNTR. *See*, *Bulletin, Vol. 7, No. 6 (2/17/00)*. Messrs. Van Andel and Galvin also testified in strong support for granting PNTR for China because U.S. companies would benefit from greater market access and transparency of China's trade practices.

Mr. Trumka, on the other hand, opposed granting PNTR to China. He argued that it would only reward China's grim human rights record and would reduce the United States' ability to insist that China live up to trade agreements that it has already made.

The testimony of all the witnesses can be obtained through the Committee's website: www.senate.gov/~finance .

SENATE AGRICULTURE EXAMINES CHINA PNTR

On Wednesday, March 1, the Senate Committee on Agriculture, Nutrition and Forestry met to discuss the components of the World Trade Organization (WTO) agreement, the impact of Congress voting Permanent Normal Trade Relations (PNTR) for China, as well as the meaning of the agreement for US agriculture. The hearing focused more on granting China PNTR, and less on WTO accession because of previous hearings specifically dealing with WTO accession. PNTR was also the main focus because, as several witnesses pointed out, Congress has no legal authority to vote on WTO accession, but can vote on PNTR in order for the US to reap the benefits of the China's accession to the WTO.

Chairman Richard Lugar's (IN) remarks stressed the importance of exports to American farmers, stating that one third of all American farm acres are planted for export reasons. He and other Members had various concerns: how trading will be with a partner who has historically been completely dominated by the state, whether China will comply with the agreement, and what mechanisms are in place to monitor the agreement. Members also stated that if Congress fails to approve PNTR, the US would have a harder time pursuing a human rights agenda with China.

Testifying before the committee were Dan Glickman, Secretary of Agriculture; Peter Scher, Special Ambassador for Agriculture, Office of the US Trade Representative; Sam Moore, President, Kentucky Farm Bureau; Jerry Kress, National Association of Wheat Growers; John Hardin, Jr., National Pork Producers Council; Tom Suber, Dairy Export Council; Michael Wootton, Sunkist Growers; Tim Burrack, National Corn Growers Association; and David Frederickson, National Farmers Union.

Secretary Glickman and Ambassador Scher attempted to address the concerns of the Committee Members. Secretary Glickman declared that the agreement is a "one way street" in favor of America, and in no way parallel to any other trade agreements like NAFTA. The vital difference between this agreement and any past ones, Glickman stressed, is that China is opening up their markets to the US where our markets are already open (meat, poultry, corn, citrus, dairy etc.) The Secretary explained that the agreement is estimated to bring $2 billion a year to the US as China reduces its trade barriers by 2005.

In his testimony, Ambassador Scher detailed the agreement with China, and his intentions to hold China to the same standards as any other WTO member. The agreement includes: reduction in tariffs (beef, citrus, processed food, wine) to be completed by January 2004 – a 17% reduction; a Tariff Rate Quota (wheat, barley, rice and corn) based on the market; elimination of export subsidies; and elimination of SBS barriers. Ambassador Scher cited China's recent purchase of 50,000 metric tons of wheat as a sign that China is serious about eliminating barriers. He also stressed the specificity of the agreement and noted that if China were to decide not to comply, there would be consequences at the WTO level.

Another witness, Michael Wootton of the Sunkist Growers testified in support of the agreement and granting China PNTR. Sunkist Growers employs 6,500 farmers in California and other states, and provides 65% of U.S. oranges and lemons. Wootton testified that 33% of its fruit is sold in overseas markets, and that trade relations with China have long been a goal of Sunkist Growers. He stated that last spring, the USDA, USTR and the citrus industry negotiated an agreement between California, Texas, Florida, Arizona and China. Chinese inspectors also spent two weeks touring US inspection stations, and the citrus industry currently awaits an announcement from China to open its markets to the US. Wootton stated that with an agreement, China will become the single largest agricultural export market for citrus.

For complete copies of the testimony, contact the Senate Agriculture, Nutrition and Forestry Committee at (202) 224-2035 or at their web site: http://www.senate.gov/~agriculture .

HOUSE RESOURCES HOLDS HEARING ON ENDANGERED SPECIES ACT

The House Resources Committee, with Rep. Richard Pombo (Tracy) acting as Chair, held a hearing on Wednesday, March 1 on H.R. 3160, to reauthorize the Endangered Species Act of 1973. Witnesses before the Committee were Gov. Marc Racicot of Montana, Jamie Clark, Director of the U.S. Fish and Wildlife Service, and Penelope Dalton, Director of the National Marine Fisheries Service. Gov.

Racicot, testifying on behalf of the Western Governors Association, supported the bill's provisions strengthening the role of states in the listing and recovery planning processes and enhancing the Secretary's authority to consider state conservation agreements and voluntary and future conservation actions when making a determination whether or not to list or delist. However, he also pointed out that the bill does not address a number of other issues recommended in the past by the governors, such as short-form habitat conservation plans for small landowners with small impacts, a less costly delisting process, and multispecies and distinct habitat conservation plans.

Ms. Clark and Ms. Dalton opposed H.R. 3160 and testified that they would recommend that the President veto it, should Congress pass it. One major area of concern is the social and economic analysis required at the time of listing a species. Ms. Dalton argued that this kind of analysis would introduce a time-consuming, costly process that would only slow down the listing process, and impede the agency's ability to identify species in need of protection.

The testimony from the hearing is available on the Committee's website at: http://www.house.gov/resources .

SENATE JUDICIARY REPORTS INTERNET WINE SALES BILL

On Thursday, March 2, the Senate Judiciary Committee favorably reported S. 577, which allows state attorneys general to go into Federal court to enforce state laws prohibiting the purchase and shipment of wine in their states over the Internet. Before reporting the bill, the Committee approved an amendment offered by Sen. Dianne Feinstein. The Feinstein amendment clarifies that the bill only extends the jurisdiction of Federal courts in connection with State law deemed valid under the 21st amendment and the Webb Kenyon Act as interpreted by the Supreme Court, including interpretations in conjunction with other constitutional provisions. It also provides that S. 577 does not grant states additional power.

Proponents of the legislation argue that Internet sales of liquor to minors will rise without the legislation, but it is the wholesalers and distributors industry, which benefits from the current system of distribution, that has been lobbying hardest for passage of the bill. The House passed similar legislation, H.R. 2031, last August.

Small California wineries, who often can not find wholesalers and distributors for their products, rely more and more on direct sales over the Internet. California contains 40% of the nation's 1800 wineries, and the California wine industry contributes over $45 billion to the U.S. economy, along with 556,000 jobs, accounting for $12.8 billion in wages and $3.3 billion in state and local tax revenue. Additionally, wine is the third largest horticulture export in the nation.

NAPA VALLEY FIELD HEARING ON PIERCE'S DISEASE FOCUSES ON GRAPE PEST FIGHT

On Tuesday, February 22, 2000, the House Agriculture Subcommittee on Livestock and Horticulture met for a field hearing in the Napa Valley. The hearing, held at the St. Sulpice Winery in Rutherford, updated attendees regarding the status of Pierce's Disease and the current US Department of Agriculture (USDA) efforts to combat the disease and a new, aggressive pest which is spreading it, the glassy winged sharpshooter (GWSS).

Attending the hearing were Subcommittee Chairman Richard Pombo (Tracy) and members Ken Calvert (Corona), Mike Thompson (St. Helena), and George Radanovich (Mariposa). By unanimous consent, Chairman Pombo included Rep. Lynn Woolsey (Petaluma) as a member of the panel for the purposes of the field hearing. Rep. Thompson, in whose district the event was held, commented that the GWSS represents "the most serious threat ever to California viticulture."

Rep. Calvert noted that at the turn of the century, Pierce's Disease was called Anaheim Disease, because it wiped out what was then a thriving 50,000 - 60,000 acre wine grape industry in Anaheim, California. He highlighted the spreading fear that the same may already be happening in the hard-hit Temecula region, which he represents, and could also devastate the entire state's industry. California members focused on the need for significant research funding, as well as pest control and eradication.

Two panels testified at the hearing. The first panel included: Dr. Enrique E. Figueroa, Deputy Under Secretary for Marketing and Regulatory Programs at USDA; Hon. Rod Pacheco, California State Assemblyman for the 64th District; and Hon. William J. Lyons Jr., Secretary of the California Department of Food and Agriculture. Mr. Figueroa focused on the USDA's efforts to inspect nursery stock for GWSS egg masses, and Secretary Lyons suggested that a current task force may find the need for emergency supplemental funding to address this crisis.

The second panel included: William Pauli, President of the California Farm Bureau; John DeLuca, President of the Wine Institute; Karen Ross, President of the California Association of Winegrape Growers; Peter Opatz, Director of Viticulture at Clos du Bois Vineyard and Winery; Craig Weaver, Vineyard Manager at Callaway Vineyards and Winery; Matthew Blua with the University of California Riverside; Patrick Gleason of the American Vineyard Foundation; and James S. Kamas, Assistant Professor and Extension Specialist at the Texas Agriculture Extension Service.

Mr. DeLuca of the Wine Institute spoke extensively about a recent report containing short and long term goals to combat the disease, established by the University of California's Pierce's Disease Research and Emergency Response Task Force. The task force recommends the implementation of a statewide research, containment, management and educational outreach program. Short term goals include vector control, disease control and improved pest management strategies. In the next ten years, it plans to breed disease resistant grapes using genetic engineering to prevent other outbreaks of the disease.

The California Farm Bureau Federation's Bill Pauli testified on behalf of the more than 40,000 California farm and ranch members. Calling the situation a "crisis," he expressed concern over the disease's threat not just to the wine industry, but also to the citrus, almond, peach, and avocado industries. He stressed that a united, multi-level effort against the disease through both control and eradication, as well as pressure on USDA for funding will help fight Pierce's Disease. He cautioned against abandoning eradication as a goal.

Ms. Ross of the California Assn. of Winegrape Growers noted that the GWSS can travel quickly and deeply into a vineyard, and thus is a significantly greater threat than past Pierce's Disease vectors.

During questioning, Rep. Thompson and Secretary Lyons noted that integrated pest management (IPM) methods might control 80-90% of the GWSS, but the remaining pests would do extensive damage. Rep. Pombo urged identification of a knockdown chemical for eradication, but warned that EPA may limit usage of certain chemicals.

For more information, contact the House Committee on Agriculture's Subcommittee on Livestock and Horticulture at (202)225-1564 or at their web site: http://www.house.gov/agriculture .

MCKEON-SANCHEZ BILL SEEKS TO PROMOTE STATE AS JSF PRODUCTION SITE

Reps. Buck McKeon (Santa Clarita) and Loretta Sanchez (Anaheim) are seeking signatures for legislation which might promote California's Air Force Plant 42 as the site for the construction of at least 3,000 Joint Strike Fighter (JSF) aircraft. H.R. 3396 would require the Secretary of Defense to report to Congress on production site alternatives for the JSF. In addition to requiring examination of various particular sites, and the cost of production at each site, the Pentagon would be required to consider whether to use one, two, or multiple sites for production of the aircraft. The bill would delineate criteria to be considered in such an analysis.

In a letter, the California Reps. said, "We are very confident that with the multiple advantages of California's aerospace workforce and opportunities, the Department of Defense will concur that California is indeed the right place to improve our nation's defense, preserve defense opportunities, and save the taxpayers billions in the process."

The JSF would be the largest DOD project ever, totaling approximately $750 billion. A recent study found that building the JSF in California would save over $2.2 billion due to the state's targeted tax credits; state enterprise zone designation; manufacturers' investment credits; employer recruiting and training incentives; and R&D tax credits. Lockheed Martin and Boeing are competing in the development stage to build the multi-service fighter, which will be used by the Air Force, Navy and Marine Corps.

Members wishing to cosponsor the bill may call Vicky McClendon (Rep. McKeon) at 5-1956 or Tom Upton (Rep. Sanchez) at 5-2965.

CALIFORNIA COMMUNITY COLLEGES OPPOSE INS FEE COLLECTION RULE

The California Community Colleges, a system of 106 public two-year institutions, filed comments with the Immigration and Naturalization Service opposing its proposed rule on the collection of fees from nonimmigrant students. Under the proposed INS rule, universities and colleges would bear the brunt of collecting the fees. CCC argued that it would impose a federal administrative burden on state entities, disregarding the INS's already substantial fee collection system. Moreover, according to the group, "the requirement that institutions inform students of the fee, collect the fee, and verify that the INS has received and issued a receipt for the fee before providing services to the student would fundamentally alter the relationship between the institutions and the affected students." CCC's comments cite several other flaws in the proposal and urge the INS to substantially restructure the rule.

The rule is in response to provisions under the 1996 immigration reform bill implementing the Coordinated Interagency Partnership Regulating International Students (CIPRIS) system and provisions in the law requiring the INS charge a fee for participation in any program that affords a particular benefit to an identifiable recipient.

PG&E FOCUSES ON CALIFORNIA ECONOMIC FORECAST AND KEY ISSUES

In January, 2000, PG&E released its "Economic Outlook for California-Year 2000." Prepared by consulting economist Dr. Tapan Munroe, the report provides a 2000 forecast for California's as well as the nation's economy, and it provides an economic overview for several key California regions.

In continuing its economic expansion, the report finds, the $8.8 trillion U.S. economy will maintain its growth with the coexistence of low inflation and unemployment. Since 1991, the economy has shown exceptional growth, with a GDP expansion rate of 4% or above in the past three year as a result of high productivity. The year 2000 should see a slowing in growth, Dr. Munroe predicts, with a real GDP growth at 3.5% due to less high-tech investment in early 2000 and a leveling in the stock market producing less of a "wealth effect." U.S. non-farm employment, however, is expected to grow at a rate of 1.6%, down from 2.2% in 1999. The new economy - including high-tech, computer hardware, software, Internet, bio-sciences, telecommunications, environmental technology, and multimedia - has added to productivity gains, but has also accounted for the widening income gap between Old and New economy sectors. Housing starts and sales will slow in 2000, while international trade will look stronger.

California's economy will keep expanding in 2000, according to Dr. Munroe, with unemployment down to 4.9% in 1999, and personal income up by more than 52% to nearly a trillion dollars. October 1999 was California's 42nd month of record high payroll employment, gaining 26,000 jobs to a total of 14,065,600. Job growth is expected to slow slightly in 2000 from 2.8% in 1999 to 2.7% partially due to the slowing national growth. PG&E attributes California's remarkable growth and recovery to its smooth transition into the New Economy. In fact, California leads the nation in high technology employment, producing nearly 800,000 high tech jobs in 1999, more than double that of Texas (375,000) or New York (325,000). California's booming e-economy has also widened an already expanding income gap between the San Francisco Bay Area and the rest of California.

The PG&E report notes that high tech exports were up this year, with leading export, electronic and electrical equipment, accounting for 28.8% of California's total exports - a 3.5% change from the third quarter of 1999. The top four export sectors totaled $20.4 billion with more than 72% of California's exports. Exports to ten major Asian nations grew 19.1% during the third quarter of 1999, with the biggest export gains in South Korea, Taiwan, Hong Kong, and China.

The report focuses on four California regions - the San Francisco Bay area, Los Angeles, the Central Valley, and San Diego. The report finds that between 1993-1998 San Diego led California in non-farm job growth, with a 16% job growth, followed by the Bay Area, at 14%. New manufacturing job creation was led by San Diego, followed by Los Angeles, the Bay Area, and the Central Valley. San Diego and the Bay Area additionally led the state for services job growth. Moreover, in actual numbers of jobs created in those five years, Los Angeles led, followed by the Bay Area, Central Valley, and San Diego.

The PG&E report also examines "key issues" for California, including the role of small businesses in the state's economy, the role of ethnic groups, and the contributions of women to the state's economy.

For more information or for a copy of the report, contact the PG&E DC office at (202)638-3500 or Carol Hatten in the San Francisco office at (415) 973-4333.

VENTURE CAPITAL FURTHER STRENGTHENS IN STATE; SILICON VALLEY REMAINS PREEMINENT, BUT GROWTH IS SIZEABLE IN SOUTHERN CALIFORNIA AS WELL

In recent years, billions of small companies have been making their way into California by way of venture capital. Venture capital groups raise money through institutional investors instead of the previous method, whereby large companies work with the federal government to establish high tech companies. These partnerships are investing in start-up companies, only a quarter of which fail.

In the fourth quarter of 1999, Silicon Valley led all U.S. regions and accounted for $5.683 billion in investments, spending an average of $15.8 million on each of 358 deals. Silicon Valley invested $1,022 million on the software industry, or 18.0% of the total spending. Business services accounted for $983 million or 17.3% of the total investments, with telecommunications following at $913 million spent on investment. Overall, Silicon Valley alone represented 38.7% of entire U.S. investments.

Southern California has shown significant growth in venture capital. The fourth quarter of 1999 showed the Los Angeles/Orange County region as having invested over $1.0 billion – the fourth largest investment region in the nation -- and establishing 75 deals. Sixteen of those deals were in business services, totaling $197 million or 19.3% of the total investments. New media accounted for 15 deals, $164 million, and 16.0% of investments in the LA/Orange County Area.

In that same period, San Diego invested $398 million on 47 deals. Telecommunications led those investments at $128 million, or 32% of their total. Healthcare services ($64 million) and medical devices ($52 million) followed as the second and third largest investments respectively. Additionally, the Sacramento region invested $58 million on one deal in the retailing/distribution industry. Other top U.S. investment areas included New England ($1.593 billion) and the Southeast region ($1.066 billion).

For more information, including detailed regional data, visit the PricewaterhouseCoopers website at http://www.pwcmoneytree.com .

SENATE TAKES UP MERGER ACCOUNTING GUIDELINES; FASB PROPOSAL TO ELIMINATE POOLING METHOD

On Thursday, March 2, the Senate Banking, Housing and Urban Affairs Committee met to discuss a proposed rule change by the Financial Accounting Standards Board (FASB) that would eliminate the pooling method of accounting for corporate assets in mergers. FASB is a private-sector, independent body established to set accounting standards for American business. Essentially, two accounting methods for the combinations of companies has existed since 1945: the pooling method and purchase accounting. Under the pooling method for valuing a merger, the boards, management, staff and assets come together, and the book values of both companies are simply added together. Purchase accounting involves one company acquiring the other and the real cost of the transaction is revealed, allowing investors information to make investment and capital allocation decisions. In purchase accounting, the companies must account for the difference between book value and market value, and therefore pay taxes on the difference, or what is referred to in accounting as good will or intangible assets.

The Committee discussion revolved around today's New Economy, in which many mergers contain intangible assets. The New Economy mergers would be nearly impossible if pooling were eliminated and companies were forced to equate intangible assets into real cost. For these reasons, participants at the hearing questioned whether the proposed FASB rule would damage competition and discourage economic growth and intellectual talent.

Witnesses testifying before the committee included Harvey Golub, Chairman and CEO, American Express; John Doerr, Partner, Kleiner Perkins Caufield and Byers; Jim Barksdale, Partner, The Barksdale Group; Dennis Powell, Vice President and Controller, Cisco Systems; Robert Ryan, CFO, Medtronic; Alain Hanover, President and CEO, Incert Software; Kimberly Pinter, Director, Corporate Tax and Finance Policy, National Association of Manufacturers; Martin Regalia, Chief Economist, US Chamber of Commerce; and Edmund Jenkins, Chairman, Financial Accounting Standards Board.

FASB's Jenkins testified that the pooling method confuses investors trying to evaluate combined companies, detracts from the FASB goal of international transparency in accounting methods, and does not provide investors with adequate information to track a company's investment over time – thereby failing to protect the consumers of financial information.

Several business witnesses testified in opposition to the proposed FASB rule change.

Dennis Powell, Vice President and Corporate Controller of San Jose-based Cisco Systems established the historical validity of both accounting systems in his testimony. He cited two studies, one in 1970 and another in 1994, both of which verified the usefulness of financial reporting and merger accounting guidelines. The 1994 report stated that "the existence of the two methods is not a significant impediment to users' analysis of financial statements" and "a project to do away with either method would be very controversial, require a significant amount of FASB time and resources and is not likely to improve significantly the usefulness of financial statements."

For more information, contact the Senate Banking, Housing, and Urban Affairs Committee at (202) 224-7391 or at their web site: http://www.senate.gov/~banking .

HUD To Pay Los Angeles Relocation Costs

On Monday, February 28, 2000, the US Department of Housing and Urban Development reversed its eviction policy that, until now, did not provide relocation aid to mostly low-income renters from foreclosed homes. HUD's new policy will aid those who have been evicted with up to $5000 in relocation costs and allow them more time to move. An article in the *Los Angeles Times* notes that the new policy will also give tenants priority over purchasing properties.

The Los Angeles 1979 rent ordinance typically protects families from eviction and helps with relocation costs. Most families receive $2000, except for those with disabled children or those over the age of 62 who receive $5000. Previously, when HUD acquired properties, it would reimburse banks who handled the evictions and paid actual reimbursement costs. The recent plight of tenants (115 properties in Los Angeles) as a result of an increase in HUD led to the new policy.

Census Begins Estimating E-Commerce Sales

Inaugurating a new data collection point, the Census Bureau announced on Thursday that the estimate of U.S. retail e-commerce sales for the fourth quarter 1999 was $5.3 billion. E-commerce sales accounted for just 0.64 percent of total retail sales estimate which was $821.2 billion for the quarter. The definition of e-commerce includes sales of goods and services over the Internet or other online system, whether or not payment was made online.

Census plans to release retail e-commerce sales estimates on a quarterly basis, and figures for the first quarter of 2000 are expected in May.

STATE'S EXPORTS RISE AGAIN AS MEXICO BECOMES #1 RECIPIENT

Mexico officially surpassed Japan as the top recipient of California exports of manufactured goods in 1999. Overall California exports rose 7.7% in the fourth quarter of 1999 to $29.6 billion, while they rose 2.36% to $107.4 billion for all of last year. To Mexico, California exports rose 11.8% to $14.9 billion for the year, while exports to former #1 Japan fell 5.8% to $13.8 billion. These manufacturing figures include computers, agriculture and aerospace, but do omit service business such as software and motion pictures. The gains represent the second quarterly increase, following six quarters of decline. Electronic equipment, including computer and components, rose 12.7% to $8.5 billion, and industrial equipment, which includes assembled computers, climbed 17.3% to $7.8 billion.

For a statement by Governor Gray Davis on the figures, as well as tables highlighting California's latest export figures, see http://www.governor.ca.gov/s/briefing/pressreleases/pr00035229.html .