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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 contributions from Sun Microsystems and IBM Corp.

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CONGRESS & ADMINISTRATION REACH AGREEMENT ON MEXICAN TRUCKING

The Administration and conferees on the FY02 Transportation appropriations have reached an agreement on allowing Mexican trucks to operate in the United States. Under NAFTA provisions supported by the Administration, Mexican trucks would have been allowed to operate freely in the U.S. beginning in January 2002. Opposition to that plan developed in the House and Senate based on public safety concerns, that were heightened by national security issues after the September 11 terrorist attacks.

The House-passed FY02 Transportation Appropriations called for restricting Mexican registered trucks to a 20-mile commercial zone inside U.S. borders. *See, Bulletin, Vol. 8, No. 21 (6/29/01)*. The Senate's version of the bill provided that Mexican-registered trucks would be allowed to operate beyond the 20-mile limit, if they received a safety certification from the Department of Transportation. *See, Bulletin, Vol. 8, No. 22 (7/12/01)*.

Under the compromise, Mexican trucks will be allowed to operate beyond the 20-mile House limit. However, safety inspections will be required of 50 percent of all trucking companies and 50 percent of all truck traffic, as opposed to the Senate's proposed 100 percent. Also, although electronic driver's license verification will be required of all drivers carrying high risk cargo, only 50 percent of all other drivers' licenses will be verified at the border. Truck weigh-in motion equipment will be used at the ten busiest U.S. border crossings. Additionally, it will be up to the Department of Transportation to determine whether a Mexican trucking firm meets the safety requirements for operation in the U.S.

The agreement on the Mexican truck issue is expected to open the way for completion and approval of the Conference Report on the Transportation Appropriations, perhaps as early as Friday.

HOUSE VOTE STILL SET ON FAST-TRACK BILL

The House Republican leadership indicated on Thursday, November 29, that they still intend to bring fast-track trade legislation (H.R. 3005) to the floor on December 6. At this point, however, they acknowledge that there are insufficient votes to pass it. Ways and Means Chairman Bill Thomas (Bakersfield) stated that he intends to continue working with members from textile and agricultural districts to garner sufficient votes for passage.

Fast-track (also known as trade promotion authority) gives the President the power to negotiate trade agreements with U.S. trading partners under provisions that restrict Congressional consideration of the agreement to an up or down vote without amendments. Previous fast-track authority expired in the early 1990s, and since then there have been several unsuccessful attempts to reauthorize it.

FERC Initiates Proceeding on Price Regulation

On Tuesday, November 20, the Federal Energy Regulatory Commission (FERC) initiated a proceeding to consider sweeping changes to its wholesale price regulation scheme and may impose rigorous controls on the prices charged by large marketers of electricity. The action is largely an outgrowth of the bruising and prolonged battle over California's power market.

The FERC order, in docket EL01-118-000, states that the Commission "proposes to revise all existing market-based rate tariffs and authorizations to condition all public utility sellers' market-based rate authority to ensure that such rates remain just and reasonable and do not become unjust or unreasonable as a result of anticompetitive behavior or abuse of market power. The Commission intends to condition all new market-based rate tariffs and authorizations in a similar manner." The Commission announced that it also plans to "review its approach to evaluating market-based rate applications," which could significantly impact many power companies.

The process, if ultimately adopted, would establish a refund effective date should FERC investigations find that rates charged for electric power are unjust and unreasonable. The order would apply to companies which are determined to be in a position to exercise market power. While only three companies (AEP, Southern Company, and Entergy Corp.) are immediately affected, the practices and market position of many other power wholesalers are presently under FERC scrutiny. Announced by new Chairman Pat Wood III, the proposal was supported in full by three of the four FERC commissioners, with Commissioner Linda Key Breathitt dissenting in part. One vacancy remains on the five-member commission since the resignation of former FERC Chairman Curt Hebert.

It has been 13 months since FERC found that serious market structure flaws in California were causing unjust and unreasonable rates for short term energy, and five months since it stated that wholesale energy marketers would lose their ability to charge market-based rates if these imbalances and anticompetitive behaviors were not corrected. The order issued last week establishes a effective date for refunds in late January 2002. FERC expects to complete a final order in March.

The order redefines what constitutes an exercise of market power which could trigger FERC intervention. It states, "Physical withholding occurs when a supplier fails to offer its output to the market during periods when the market price exceeds the supplier's full incremental costs For example, physical withholding would occur when a generator declares a forced outage when its unit is not, in fact, experiencing mechanical problems, and when the market price is above the unit's full incremental costs. Economic withholding occurs when a supplier offers output to the market at a price that is above both its full incremental costs and the market price (and thus, the output is not sold). For example, we would expect that, during periods of high demand and high market prices, all generation capacity whose full incremental costs do not exceed the market price would be either producing energy or supplying operating reserves. Failing to do so would be an example of economic withholding. Withholding supplies can also occur when a seller is able to erect barriers to entry that limit or prevent others from offering supplies to the market or that raise the costs of other suppliers. Examples would include denying, delaying or requiring unreasonable terms, conditions, or rates for natural gas service to a potential electric competitor in bulk power markets." The examples chosen appear intended to address problems experienced in California.

The FERC Discussion Paper is available at http://www.ferc.gov/calendar/commissionmeetings/Discussion_papers/11-20-01/EL01-118-000.PDF.

PROPOSED SENATE FARM BILL PROGRAM COULD HAVE ADVERSE IMPACT ON CALIFORNIA DAIRY INDUSTRY

The Senate Agriculture Committee approved the Agriculture, Conservation and Rural Enhancement Act of 2001 (the "Farm Bill") by voice vote earlier in the month after a lengthy markup session so comprehensive that it necessitated the introduction of a new bill (S. 1731) by Committee Chair Tom Harkin (IA). Since then, staff for Senator Harkin and Majority Leader Tom Daschle (SD) have been finalizing the details of the revised version in order for the measure to be taken up by the full Senate some time next week. Adjustments to a dairy provision in the bill have California dairy economists concerned.

The dairy plan submitted by Committee member Patrick Leahy (VT) would create a new dairy program that would guarantee minimum milk prices for smaller dairy farmers. The program will cost $3 billion over 10 years and is expected to be funded by new fees against major milk processing states within the federal Milk Marketing Order system. California is one of the nation's top dairy producing states and, although it belongs to a separate pooling plan, the new dairy provision still stands to adversely impact the state's dairy industry, according to an analysis by Washington-based firm Schramm-Williams and Associates.

Under California law, the state's pooling plan is required to keep fluid milk prices maintained at a "reasonable relationship with surrounding markets." Hence, California consumers would still be expected to pay more as fluid milk prices increase nationally to accommodate the dairy plan's price guarantee for smaller producers. Further, as the national plan stimulates and raises the value of fluid milk, other non-fluid (Class III) dairy products, which California produces in greater abundance, will suffer significant declines in value.

Senator Michael D. Crapo (ID), who represents another top US dairy producing state, says he plans on amending the Farm Bill to eliminate the proposed dairy program when it is presented to the Senate floor, and his staff reports that California Senator Dianne Feinstein has agreed to co-sponsor the Crapo amendment.

PPIC ON POVERTY IN CALIFORNIA: STATE COULD HAVE NATION'S HIGHEST RATE IF REGIONAL COSTS OF LIVING WERE MEASURED ADEQUATELY

In a recently released study, the Public Policy Institute of California found that overall poverty declined in California during the boom years of the 1990s, but not enough to offset the decades-long trend of growing poverty in the state, leaving California with still the highest poverty rate in the nation. The report is entitled, *" Poverty in California: Levels, trends, and Demographic Dimensions,"* and was authored by Deborah Reed and Richard Van Swearingen.

Using current U.S. Census data from the Current Population Survey, the report finds that the number of Californians living at or below the federal poverty level fell from 18 percent in 1993 to 12.9 percent in 2000. However, when California's high cost of living and income needs are taken into account, the picture looks significantly gloomier. Using the official federal threshold, California's poverty rate was just under 13 percent in 2000, the twelfth highest in the country, according to the report. However, when the numbers are measured relative to the state's median income, the number in poverty rises to 24.3 percent. Only the District of Columbia, with a poverty rate of 26.6 percent, surpasses California.

The report also finds that California children have higher poverty levels (19%) than those in the rest of the U.S. (16%). In terms of regions, the San Joaquin Valley has the highest poverty rate with 22%, while the San Francisco Bay Area has the lowest at 7%.

A wide array of federal funding programs distribute money to states and local governments based in part on Census poverty data.

A complete copy of te report is available on the PPIC website at: http://www.ppic.org .

CALIFORNIAN MEMBERS PUSHING FOR FUSION FUNDING IN OMB BUDGET

As the White House's Office of Management and Budget and the various executive branch departments develop the FY 2003 funding levels that the President will propose early next year, California members of Congress are writing to Administration officials to encourage sufficient funding therein for fusion energy sciences.

In a letter to Vice President Richard Cheney on November 15, Reps. Duke Cunningham (San Diego) and Zoe Lofgren (San Jose) were joined by the other original cosponsors of the Fusion Energy Sciences Act, Reps. George Nethercutt (WA) and Rush Holt (NJ), in seeking that the Administration's budget include $335 million in FY 2003. The amount is that contained in the House-passed version of energy policy legislation.

The letter comments that, as the nation works toward energy independence, "the promise of fusion energy stands out as one of the very few options that could possibly meet a substantial portion of the nation's energy needs in the long term," adding: "We recognize that the path toward practical fusion is neither short nor easy, however it is a path that must be taken aggressively."

Funding for fusion research, the lion's share of which takes place in California, has been hurt by significant funding declines in recent years. The letter notes that the $335 million level of effort "has been endorsed by the House with its passage of H.R. 4 and is based on spending levels recommended by several independent scientific reviews of the program. It will allow for a stronger base fusion research effort and will also allow the U.S. to begin planning for leadership of, or participation in, the next major step towards fusion energy: a burning plasma experiment."

This past Spring, a fusion funding support letter to Congressional appropriations leaders spearheaded by Reps. Cunningham and Holt garnered 83 bipartisan signatures, including those of half of the California Congressional delegation.

GOVERNOR PROPOSES STATE SPENDING CUTS

Faced with the most dramatic state revenue decline in more than fifty years, Governor Gray Davis has released an overview of proposed current-year General Fund budget allocation suspensions totaling $2.248 billion. In a letter to top state executive branch officials, Davis attributes the necessity for reductions in current programs to an extraordinarily rapid decline in State revenues in the aftermath of September 11th. The Governor has also announced the convening of an Extraordinary Session of the Legislature in January, 2002 when lawmakers will be expected to act on the proposed reductions.

The budget revision is the latest in a series of actions undertaken by the Davis Administration to address an anticipated shortfall of as much as $14 billion in the current-year and 2002-03 budget year. Governor Davis has already ordered Governor's Executive Orders D-48-01 and D-49-01 enforcing a state agency and department hiring freeze, a $150 million reduction in operating expenses and the preparation of a 15% decrease in the budget for the next fiscal year.

For details of the plan, see http://www.dof.ca.gov/HTML/Budgt01-02/SpndReduc.pdf .

CCSCE Report on Long-Term Workforce Investment Strategies

Guided by the federal Workforce Investment Act (WIA) of 1998, a report entitled, *Shared Prosperity and the California Economy: Implications for California's Workforce Investment System*, produced by the Center for Continuing Study of the California Economy (CCSCE), examines how California can develop a new workforce investment strategy to meet the changing needs of workers and employers. The report provides a number of recommendations including a shift from traditional workforce investment policies focusing on assistance to poor and disadvantaged workers to a comprehensive strategy designed to meet the changing needs of all workers. A focus on four main ideas is outlined: productivity growth; better opportunities for professional advancement; a transition from single-agency programs to the development of broad public-private workforce partnerships; and cross-regional networking through a common statewide workforce system.

The California Workforce Investment Board (SWIB) and 50 Local Workforce Investment Boards are mandated by the WIA to provide the framework for new workforce preparation and employment systems in the state. SWIB is tasked with the responsibility of assisting the Governor in the development of such a plan. Long term economic development is an agenda item for SWIB's upcoming board meeting on December 6th, 2001 in Oakland.

Copies of the report may be downloaded from the CCSCE website at: http://www.ccsce.com .

Reports on Silicon Valley Economic Opportunities and Challenges

Bay Area Economic Forum's (BAEF) latest edition of *Forum Reports* discusses the foundation of the Bay Area's technology economy and the challenges standing in the way of sustaining a strong technological base in the region. The report documents a panel discussion held earlier in the year in San Jose focused on maintaining the Bay Area's leadership in the technology economy. Comments and presentations from a number of local academicians, business leaders, experts and elected officials, including San Jose Mayor Ron Gonzalez, focused on the role of industry; infrastructure; higher education; venture capital; government, and the implications of housing shortages, labor demands, and traffic congestion.

The San Francisco Bay Area is the second highest ranked exporting region in the nation and 25% of the region's jobs are related to trade, according to *International Trade and the Bay Area: Air Cargo, Technology and the Economy of the Silicon Valley*, a second BAEF publication. Higher exports present a vital Bay Area economic link to global markets and thus an increasing dependence on air transport infrastructure and smooth air cargo operations, the report states. The boost in the Bay Area's export figures is led by technology exports with total air cargo through the three local international airports expected to double by 2005. The report concludes that the Bay Area can best sustain air cargo capacity increases by continuing to plan for its long term air infrastructure needs.

Both reports are available on the BAEF website: http://www.bayeconfor.org .

California Home Price and Sales Data Mixed in October

In the first full month since the September 11 attacks, California home prices declined slightly (1%) from the previous month, while sales volume increased considerably (by 4.1%). According to data from the California Association of Realtors (CAR), when compared to the same month one year before, single family home sales prices were up by 8.5%, while total sales volume was down sharply (by 9.7%). The median California single family home sales price in October was $272,570, up from the October 2000 level of $251,220.

Within the state, price performance was mixed, with four areas experiencing year-over-year declines and the steepest declines taking place in the highest-priced areas. The coastal Northern California, which has seen sharp rises in prices over the past decade, saw price declines in both the short and the long runs. Santa Clara County prices fell 8.8% from a year ago and 3.8% from a month before, reaching a median of $481,000. For the San Francisco Bay area, the price declined 1.6% to $455,930. In Monterey, prices were off 2.3% from October 2000 and 3.2% from September 2001, reaching $426,920 for October 2001. The only other area showing year-over-year decline was the high-priced South Coast of Santa Barbara County, where a $563,290 median price was down 3.3% from September and 10.6% from the previous October.

While the every other region except two (Sacramento and Riverside/San Bernardino) saw decreases from September to October, they saw price increases when compared to October 2000. CAR found double-digit rises in the Central Valley (up 15.4% to $161,650), Los Angeles (up 13.3% to $249,070), Orange County (up 12.1%$360,080), Palm Springs/Lower Desert (up 15% to $177,780), and Northern Santa Barbara County (up 29.2% to $218,750). CAR found home prices in Sacramento had risen 17.9% to $176,740, and that prices in the Riverside/San Bernardino area were up by 15.0% to $165,890.

CAR Vice President and Chief Economist Leslie Appleton-Young commented that October data was consistent with revised forecasts. These data, along with detailed price figures for roughly 300 cities and counties across the state, are available at http://www.car.org .