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## California Capitol Hill Bulletin

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*To expand communications between Washington and California, the California Institute provides periodic news bulletins regarding current activity on Capitol Hill that directly impacts the state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods.*

#### **INCOMING LEADERS TO LEAPFROG '07 FUNDING, FREEZE EARMARKS, & GO STRAIGHT TO '08**

On December 11, 2006, incoming Democratic Appropriations Chairmen -- Rep. David Obey (WI) and Sen. Robert Byrd (WV) -- announced that they would extend current funding levels "with adjustments" through the 2007 fiscal year ending October 1, 2007, and put at least a temporary moratorium on all earmarks. Incoming Democratic leaders, House Speaker Nancy Pelosi (San Francisco) and Sen. Harry Reid (NV) supported the decision. Calling the announcement "far from ideal", Byrd and Obey nevertheless said it was the best way to dispose of the unfinished appropriations bills left by the 109<sup>th</sup> Congress and move forward. This past year, Congress approved and the President signed two appropriations bills providing funding for fiscal year 2007, which is now two months old, but federal spending for most agencies could not be resolved before the 109<sup>th</sup> Congress adjourned early on December 9.

Obey and Byrd did not specify what adjustments they would like to make in the spending levels, but it is expected that modifications will be made to the current method used in Continuing Resolutions -- taking the lower funding amount of the House-passed, Senate-passed, or 2006 funding.

The Chairmen-designate announced that they intend to stay within the \$873 billion FY07 discretionary budget cap. However, that level puts into play about \$7 billion more than the lowest-level method. As for the earmarks, \$500 million worth in the Labor-HHS-Education appropriations alone, the Chairmen said the moratorium will extend at least until new lobbying and disclosure rules are enacted.

#### **CONGRESS CLEARS TAX, TRADE, HEALTH, & ENERGY PROVISIONS BEFORE ADJOURNING THE 109TH**

The final act of business for the 109<sup>th</sup> Congress was passing legislation containing numerous tax, trade, health, and energy provisions. To accommodate the Senate's rules, the House passed two separate bills. H.R. 6111, containing the tax and health provisions, passed the House on December 8, 2006 by a vote of 367-45; later that night, the trade measure (H.R. 6406) passed by a tighter vote of 212-184. The Senate then combined both bills and voted 79-9 to send the package onto the President for signature.

Outlined below are some of the provisions of particular importance to California:

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- extends the R&D tax credit for two years through 2007 (retroactive to January 1, 2006). In addition to the extension, effective January 1, 2007 the provision increases the value of the alternative incremental credit and adds a new alternative simplified credit.

- allows taxpayers to deduct up to \$4,000 (depending on their income) of higher education expenses in lieu of claiming the Hope or Lifetime Learning tax credits. The deduction may be claimed by all individual taxpayers regardless of whether they itemize their deductions. The provision is extended for two years through 2007.

- allows teachers to deduct up to \$250 of out-of-pocket costs incurred to purchase books, supplies and other classroom equipment. The deduction is available to all individual taxpayers regardless of whether they itemize their deductions. The provision is extended for two years through 2007.

- allows employers to claim the Work Opportunity Tax Credit (WOTC) if they hire individuals from groups that are considered to face barriers to employment. The maximum credit is \$2,400 and may be claimed during the individual's first year of employment. The provision extends the current WOTC without modification through 2006. Beginning in 2007, the provision combines the WOTC with the Welfare-to-Work (WTW) credit and extends the combined provision through 2007. Key modifications of the combined credit include expanded eligibility for WOTC (raised age ceiling for food stamp recipients from 25 to 40), revised eligibility requirements for ex-felons (without regard to family income) and a modification of the filing deadline for WOTC claimants from 21 to 28 days.

- allows employers to claim the Welfare-To-Work (WTW) tax credit if they hire individuals who have received public assistance for an extended period of time. The maximum credit is \$3,500 during the employee's first year of employment and \$5,000 during the second year. The provision extends the WTW credit through 2007 and combines it with the WOTC credit after 2006.

- allows taxpayers to expense costs incurred in cleaning up certain contaminated brownfields sites. The deduction may be claimed against regular tax and the alternative minimum tax (AMT). The provision is extended for two years through 2007. The provision also expands the definition of an eligible contaminated site to include sites contaminated by petroleum products.

- makes permanent the tax provision that provides capital gains treatment for self-created musical works when these works are sold by the artist.

- implements a trade agreement with the European Union regarding the labeling of wine.

- prevents a 5.0 percent reduction in Medicare payment rates for physicians and other practitioners which is scheduled to occur on January 1, 2007.

- grants permanent normal trade relations (PNTR) to Vietnam, and establishes a subsidies enforcement mechanism to ensure that the Administration acts quickly and decisively if Vietnam grants any prohibited subsidies to its textile and apparel industry in violation of the terms of its accession to the World Trade Organization (WTO).

- includes provisions that open up some of the Gulf Coast to further oil exploration, and gives the Gulf states a greater share of the royalties collected. It does not include more controversial language that an earlier House-passed bill contained which would have allowed California, and other west coast states to "opt-in" or "opt-out" of expanded offshore drilling.

For further information on the package, visit the Committee's website at: <http://www.waysandmeans.house.gov> .

## **CALIFORNIA DEMOCRATS ON HOUSE APPROPRIATIONS RISE FROM TWO TO FIVE**

On Tuesday, December 13, 2006, the House Democratic Steering Committee recommended 10 new members for the Appropriations Committee. Among the 10 were three Californians -- Reps. Barbara Lee (Oakland), Adam Schiff (Burbank), and Mike Honda (San Jose). They will join Reps. Sam Farr (Carmel) and Lucille Roybal-Allard (Los Angeles), thereby raising California's membership of the key money-spending panel Democrats from two to five.

Despite the seemingly sharp boost for the state, California's count really does not constitute a disproportionate share. In fact, California's 34 House Democrats will comprise 15 percent of all Democratic caucus members in the 110<sup>th</sup> Congress, so 15 percent of all Appropriations Committee Democrats would actually be more than five. The Democrats had not replaced as appropriators either Julian Dixon, who died in office, or Nancy Pelosi, who gave up committee memberships when she rose in party leadership.

On the Republican side, Rep. Jerry Lewis (Redlands) will remain the Ranking Republican in the 110th Congress, and Rep. John Doolittle (Roseville) is expected to remain on the Committee. A third California Republican slot, vacated by Rep. Randy Duke Cunningham's resignation, was not replaced.

In the Senate, Dianne Feinstein remains on the Senate Appropriations Committee and is expected become chair of the Interior Subcommittee in the 110<sup>th</sup> Congress, assuming Democrats are the Senate's majority party.

## **REP. FILNER'S WIN IN RACE TO LEAD VETERANS AFFAIRS PANEL BRINGS STATE'S CHAIR TOTAL TO FIVE; HOUSE DEMOCRATS CONTINUE COMMITTEE ASSIGNMENTS**

On Friday, December 8, 2006, Rep. Bob Filner won the chairmanship of the House Veterans Affairs Committee by prevailing in a Democratic Caucus vote against Rep. Michael Michaud (ME) the third-ranking Democrat on the committee. The vote followed the Democratic Steering and Policy Committee's recommendation of Filner for the post. The appointment brings to five the number of House full committees chairs California will have in the 110<sup>th</sup> Congress. Rep. George Miller (Martinez) will chair the Education and Workforce Committee, Rep. Henry Waxman (Los Angeles) will chair the Government Reform Committee, Rep. Tom Lantos (San Mateo) will chair the International Relations Committee, and Rep. Juanita Millender-McDonald (Carson) will chair the House Administration Committee.

Among recent committee membership announcements by House Democrats were the appointments of Rep. Jane Harman (Venice) to the House Energy & Commerce Committee, Rep. Linda Sanchez (Lakewood) to the House Education & the Workforce Committee, and Rep. Grace Napolitano (Norwalk) to the Transportation & Infrastructure Committee. Also to be appointed to the Transportation & Infrastructure Committee was Rep.-Elect Jerry McNerney (Pleasanton).

## **SEN. JOHNSON'S ILLNESS PUTS SENATE CONTROL BACK INTO LIMBO**

On December 13, 2006, Sen. Tim Johnson, a Democrat of South Dakota, underwent emergency brain surgery to repair a congenital arterial malformation. The surgery was called a success, but at press time it was too early to tell whether Johnson will be able to take his Senate seat when the 110<sup>th</sup> Congress convenes in January. With Democrats holding a narrow 51-49 majority, Johnson's inability to serve would

likely shift the Senate back to Republican control, with the Republican Governor of South Dakota expected to appoint a Republican replacement, thereby creating a 50-50 tie with Vice President Dick Cheney acting as the tie-breaker.

Some Senate historians have stated that if the vacancy were not to occur until after the 110<sup>th</sup> Congress convenes on January 4, 2007, there are precedents and rules that would allow the Democrats to retain control despite the lack of a majority.

Nevertheless, with control of the Senate riding on a fragile twist of fate, negotiations to hash out the new rules governing its organization and committee structures are sure to be a high priority when the Senate convenes in January.

## **WINE INSTITUTE REPORTS ON CALIFORNIA WINE AND STATE'S ECONOMY**

On December 7 2006, the Wine Institute and the California Association of Winegrape Growers (CAWG) released a report. The report calculated that the California wine industry has an annual impact of \$51.8 billion on the state's economy, and an economic impact of \$103 billion on the U.S. economy. California wines dominated the "premium" category (costing \$15 and up) wine sales in 2005, according to the study. California has about 85% of the U.S. market for "premium" wines, thanks in large part to the climatic and agricultural advantages that California grape crops enjoy. Other key points presented in the report include:

- Full-time winery jobs increased from 18,446 in 1998 to 24,851 in 2005, while wages increased from \$641 million to \$1.1 billion in the same period
- The retail value of California wines increased from \$12.3 billion in 1998 to \$16.5 billion in 2005
- 74% of California's wines are sold in the other states inside of the U.S.
- The national economic impact of California wine is an estimated \$103 billion, of which \$51.5 billion is generated beyond California's borders

For more information, visit: [www.wineinstitute.org](http://www.wineinstitute.org) .

## **UCLA ECONOMIC FORECASTERS CAST DOUBT ON RECESSION PREDICTIONS**

On December 7 2006, the UCLA Anderson Forecast released its third quarter report, asserting that California will have a slowing of growth without recession. The report predicts that the slowing in the housing market and construction sectors will not have a large enough impact to cause a recession throughout the entire California economy. A recession will be more likely if another sector of California's economy also slows, the Forecast suggests.

Nevertheless, the report's authors point to two key factors of concern that may cause additional challenges -- consumer spending and the state budget. The state can avoid making recession-inducing job an spending cuts by putting off some of the early debt payments, according to the report's authors. Also, the consumer spending has not been affected significantly as of yet, which is a good indicator. Many of the models that predict recession rely on the manufacturing sector along with construction. However, the analysts believe that despite the decrease in construction manufacturing will continue to flourish. They suggest that without a substantial decline in manufacturing, there cannot be enough job loss to qualify a recession.

For more information visit: <http://www.uclaforecast.com> .