



THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH

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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.

HIGHER EDUCATION: CONGRESS EXTENDS STUDENT LOAN PURCHASING AUTHORITY FOR AN ADDITIONAL YEAR

By a vote of 368-4 on Monday, September 15, 2008, the House approved H.R. 6889, and the Senate approved the bill on Wednesday by voice vote. The brief bill authorizes the federal government to continue a program ensuring college students who have privately-backed student loans continue to enjoy the existing benefits and loan provisions regardless of shifts in the market.

The bill extends from July 2009 until July 2010 the Secretary of Education’s lending authority, which allows it to purchase buy loans from private lenders who are part of the the federal guaranteed loan programs. That authority was created by Congress in May 2008 in response to growing concern that private lenders might be unable to meet their note obligations.

That prior legislation was the Ensuring Continued Access to Student Loans Act of 2008, H.R. 5715. Provisions relevant to the new action include language: clarifying that existing law gives the U.S. Education Secretary the authority to advance federal funds to certain lenders and guaranty agencies acting as lenders of last resort in the event that they do not have sufficient capital to originate new loans; ensuring that loans made through the lender-of-last-resort program are made with similar terms and conditions as are loans made through the federally guaranteed student loan program; and ensuring that guaranty agencies and lenders operating as lenders of last resort are subject to the same rules regarding inducements as are lenders in the federally guaranteed student loan programs

Rep. George Miller (Vallejo), Chairman of the House Education & Labor Committee, said, “Our rough economy is already dealing a huge blow to American families and we can’t allow trouble in the credit markets to further price students out of a college degree.” Miller added, “With market turbulence

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showing no signs of letting up, it's only prudent to make sure that students have every assurance that the federal student loans they need will be there next year."

Rep. Howard P. "Buck" McKeon (Santa Clarita), the Education and Labor Committee's senior Republican, said "Congress is continuing to monitor the credit markets closely, and remains committed to do what is necessary to ensure students and families have access to the funds they need to pay for college. This measure offers a degree of certainty for the coming school year, and will help stabilize the student loan marketplace as we continue to explore what other steps are needed to ensure long-term financial aid access."

TAXATION: SENATE TO CONSIDER TAX PACKAGE NEXT WEEK

The Senate the week of September 22, 2008 is expected to consider a tax package that will extend numerous expiring tax breaks, as well as include a short-term fix of the alternative minimum tax (AMT). The package, authored by Sen. Max Baucus (MT) and Charles Grassley (IA), will be offered as a substitute to a House-passed bill (H.R. 6049).

Among its numerous provisions, the Senate amendment also includes a one-year fix for the AMT through tax year 2008. It also increases the exemption amounts from \$44,350 (individuals) and \$66,250 (married filing jointly) to \$46,200 and \$69,950, respectively, for 2008. The proposal also allows personal credits against the AMT, as was included in the patch that expired on December 31, 2007. The estimated cost of this proposal is \$61.817 billion over ten years.

The bill would also extend the research and development tax credit equal to 20 percent of the amount by which a taxpayer's qualified research expenses for a taxable year exceed its base amount for that year. This provision expired December 31, 2007. The proposal would extend current law two years to the end of 2009. In addition, the proposal would increase the alternative simplified credit from 12% to 14% for the 2009 tax year, and repeal the alternative incremental research credit for the 2009 tax year. The proposal is effective for amounts paid or incurred after December 31, 2007. The estimated cost of this proposal is \$19.084 billion over ten years.

The bill also extends a provision allowing for the expensing of costs associated with cleaning up contaminated brownfields sites. The provision expired on December 31, 2007. The proposal extends present law to the end of 2009. The proposal is effective for property placed in service after December 31, 2007. The estimated cost of this proposal is \$357 million over ten years.

The package also includes special expensing rules for some film and television productions. Under current law, a producer can elect to take a single-year deduction of up to \$15 million in production costs incurred in the U.S. If the production costs are over \$15 million, this deduction does not apply. The maximum deduction is increased to \$20 million if the costs

are significantly incurred in economically depressed areas. No other depreciation or amortization is allowed for a production for which this deduction is taken. The provision expires December 31, 2008. The proposal would extend the provision to the end of 2009. The proposal would also allow expensing of the first \$15 million (\$20 million if the costs are significantly incurred in economically depressed areas), regardless of the ultimate cost of the film. The proposal is effective for taxable years beginning after December 31, 2007. The estimated cost of this proposal is \$81 million over ten years. In addition, under current law, many film and television show production companies are unable to take advantage of the domestic production deduction. The Senate proposal would allow more film and television show production companies to use the domestic production deduction to encourage more production of films and television productions. This estimated cost of the proposal is \$397 million over ten years.

The amendment also reauthorizes the Secure Rural Schools and Community Self-Determination Act of 2000 through 2011 and provides for full funding for the Payment in Lieu of Taxes program for 2009. The estimated cost of these provisions is \$3.3 billion over ten years.

In addition, the package includes the following extensions: the above-the-line tax deduction for qualified higher education expenses; the above-the-line deduction for up to \$250 for educational expenses of teachers; and a real property tax calculation to the standard deduction for taxpayers who do not itemize.

Because only some portions of the bill include revenue offsets, a point of order is expected to be raised, requiring 60 votes to continue consideration of the bill.

For further information on the Senate package, go to:

<http://finance.senate.gov/sitepages/legislation.htm>.

IMMIGRATION: HOUSE HOMELAND SECURITY ASSESSES “VIRTUAL FENCE” PROBLEMS

On September 18, 2008, the House Homeland Security Committee held a hearing entitled “Mismanagement, Missteps, and Missed Benchmarks: Why the Virtual Fence Has Not Become a Reality.” The hearing was a continuation of one held on September 10. Witnesses included: W. Ralph Basham, Commissioner, U.S. Customs and Border Protection (CBP); Jayson Ahern, Deputy Commissioner, CBP; Richard Stana, Director, Homeland Security and Justice, Government Accountability Office; and Randolph C. Hite, Director, IT Architecture & Systems Issues, Government Accountability Office.

The Security Border Initiative (SBI) net was established to develop a comprehensive border protection program (SBINet) using a mix of surveillance and communications technologies, such as radars, cameras, sensors, and the like. DHS initially planned to deploy SBINet across the Southwest Border by 2008. However, implementation has now slipped into 2011. In addition, DHS is in the process of constructing 670 miles of fencing along the Southwest Border.

Director Stana testified that uncertainties in the SBINet program contributing to delays include “not fully defined program expectations,” changes in the timeline, and confusion over whether environmental permits are needed. Further delays, he said, may hinder the Border Patrol’s efforts to secure the border. In addition, he said, costs to erect the border fencing are increasing, so it will be “challenging” to complete the fencing by December 31, 2008. As of August 341 miles of fence had been constructed at \$7.5 million per mile for pedestrian fencing and \$2.8 million per mile for vehicle fencing, up from estimates of \$4 million and \$2 million, respectively.

Commissioner Basham testified that CBP is working to alleviate GAO and Congressional concerns. CBP is developing “a detailed SBINet program re-plan to mitigate these risks” and he outlined the details

of that re-planning for the Committee. He reiterated that “CBP remains committed to constructing the 670 miles of fence required by the Border Patrol and is working aggressively to meet this goal.”

For the testimony of all the witnesses, go to: <http://homeland.house.gov> .

IMMIGRATION: CA COURT RULES AGAINST IN-STATE TUITION PLAN FOR UNDOCUMENTED STUDENTS

On September 15, 2008, the California 3rd District Court of Appeal held unanimously that a 2001 California state law allowing some undocumented students to pay in-state tuition rates at California colleges and universities conflicts with federal immigration policy.

The suit was brought by out-of-state students challenging the state’s law allowing illegal immigrants who have attended a California high school for at least three years and graduated from one to pay far less tuition than they pay. The out-of-state students sued the University of California, California State University, and the California Community Colleges.

The Court held that AB540 conflicts with federal law which states that an undocumented immigrant cannot receive a state benefit unless the same benefit is extended to all U.S. citizens without regard to California residency. The case had been previously dismissed in 2006 by the State Superior Court in Yolo County. It will now go back to that court for trial.

IMMIGRATION: JUDICIARY REPORTS VETERANS VISA BILL; POSTPONES WORK ON VISA RECAPTURE BILL

On September 17, 2008, the House Judiciary Committee favorably reported H.R. 6020. The bill will make it easier for immigrant veterans to gain citizenship, if they have served at least a year in the armed forces and been honorably discharged. Some family members of the veterans will also be able to adjust status to permanent legal resident more easily under the bill. H.R. 6020, sponsored by Rep. Zoe Lofgren (San Jose), Chair of the immigration subcommittee, passed by a vote of 16-12.

A provision in the bill that would prevent deporting honorably discharged veterans and their family members had slowed down consideration of the bill. Several amendments were offered to the provision. One, authored by Rep. Dan Lungren (Folsom), was adopted. It would prevent immigrants from gaining citizenship if they have intentionally committed voter fraud.

The Committee put off consideration of two other immigration bills. HR 5882, also introduced by Rep. Lofgren is aimed at eliminating the backlog of green card applications by recapturing unused visas going back to 1992. Several hundred thousand extra green cards would become available under this bill, in addition to the currently available 140,000 annually. The other bill, HR 5924, would allow for an additional 20,000 three-year visas for nurses to help relieve the national nursing shortage.

ENERGY: SENATE ENERGY AND NATURAL RESOURCES HOLDS HEARING ON THE TRANSMISSION GRID

On July 31, 2008, the Senate Energy and Natural Resources Committee held an oversight hearing on the state of the nation's electricity transmission grid, as well as the implementation of the transmission provisions of the Energy Policy Act of 2005, including reliability, siting and infrastructure investment.

Joseph Kelliher, Chairman of the Federal Energy Regulatory Commission (FERC); and Kevin Kolevar, Assistant Secretary of Energy for Electricity Delivery and Energy Reliability for the U.S. Department of Energy (DOE), delivered primary witnesses testimony.

Kelliher said FERC “has three overarching transmission policy goals: protecting the reliability of the bulk power system; assuring open and nondiscriminatory access to the transmission grid, the interstate highway system for wholesale power sales; and encouraging development of a robust transmission

grid.” In 2007, The DOE issued an order designating two national interest electric transmission corridors...The Southwest Area National Corridor includes portions of southern California and western Arizona.

One of the first projects designated by the Act was initiated by Southern California Edison (SCE) in the Southwest Corridor, reported Kelliher. He described the project and the approval process. He commented: “Commission staff currently is working on its first transmission siting project. Southern California Edison Company (SCE) has proposed to construct its Devers-Palo Verde No. 2 Project/(DPV2) from Arizona to California within the Southwest Area National Corridor. In January 2007, the California Public Utilities Commission approved SCE’s request to construct the California portion of DPV2. In May 2008, SCE asked the Commission to commence pre-filing for the Arizona portion of DPV2, and the Commission granted the request.”

Another of SCE’s projects was described by Kelliher as a “backbone project,” widely recognized as providing significant benefits: SCE’s “Tehachapi Project” would provide transmission for up to 4,500 megawatts of primarily wind generation into the Los Angeles area.

Kelliher said that there is a significant initial investment to expand transmission infrastructure that “often equals the transmission owner’s existing investment in transmission facilities.” However, he said, “investments in new transmission facilities can significantly reduce the much-larger generation component of the total cost, by allowing buyers to reach cheaper but more distant supplies. As a result, transmission expansions can reduce overall costs to consumers.”

Kolevar spoke about the need to continue expansion of generation and transmission facilities. He noted that our energy production has kept pace with the demand brought on by population growth, but energy transmission has not kept up. He commented: “As a nation, our population has grown nearly 25 percent in the last 2 decades. During this time period, electricity demand has grown over 53 percent. In order to keep up with this growth in demand, we have developed new generation. Since 1996, total electricity demand has grown by 18 percent, and the industry has kept pace with this, illustrated by a 27 percent growth in total generating capacity. However, transmission infrastructure growth in the same period did not keep pace. We have seen only a 6.8 percent growth in total transmission line miles in that same period, and only 12 percent over the last two decades. While there has been an up-tick in the development of new transmission infrastructure since 2005, these have typically been small upgrades needed for reliability, not components of the large, high-voltage, multi-state, and inter-regional transmission network needed to deliver reliable and clean energy from remote locations to population centers.”

For more information visit <http://energy.senate.gov>

IMMIGRATION: RAND RELEASES STUDY ON DEPORTED IMMIGRANTS AND REARRESTS

A study released by RAND Corporation finds that deportable immigrants who previously have been expelled from the United States are more likely to be rearrested on suspicion of committing a crime after they are released from jail than other deportable immigrants without the prior history of expulsion.

The report studied deportable immigrants released from the Los Angeles County Jail. Its author, Laura Hickman, an assistant professor at Portland State University and a researcher at RAND, found that men who previously had been deported from the country were about twice as likely to be rearrested within a year than other deportable immigrants. Previously deported immigrants also were rearrested sooner and arrested more frequently than other deportable immigrants, the study found.

Hickman and co-author Marika Suttorp of RAND found that 73 percent of the previously deported immigrants were rearrested within a year of jail release, compared to 32 percent of the other deportable

immigrants. Previously deported immigrants also were arrested more frequently, with 28 percent rearrested three or more times within a year of release, compared to 7 percent among deportable immigrants who had not previously been expelled from the United States.

For more information, go to: <http://www.rand.org>.

TECHNOLOGY: HOUSE SCIENCE AND TECHNOLOGY COMMITTEE LOOKS TO IMPROVE MAJOR FEDERAL INFORMATION TECHNOLOGY R&D PROGRAM

On July 31, 2008, the House Science and Technology Committee held an oversight hearing to review the federal, interagency research initiative in networking and information technology, the Networking and Information Technology Research and Development (NITRD) Program. The NITRD Program was established by the High-Performance Computing Act of 1991. The hearing, entitled “Networking and IT R&D Program Oversight,” was presided over by Committee Chairman Bart Gordon (D-Tenn).

Witnesses included Dr. Chris L. Greer, Director of NITRD at the National Coordination Office, Dr. Daniel A. Reed, Director of Scalable and Multicore Computing at Microsoft, Dr. Craig Stewart, Associate Dean of Research Technologies at Indiana University, and Mr. Don C. Winter, Vice President of Engineering and Information Technology at Phantom Works, the Boeing Company.

The Committee held the hearing to receive the views of witnesses on the findings and recommendations of the President’s Council of Advisors on Science and Technology (PCAST) assessment of the NITRD program, as the first step in developing legislation to amend the 1991 Act in ways to make the program more effective. The witnesses also stressed the importance of fully funding the America COMPETES Act.

The Science and Technology Committee was instrumental in enacting the original legislation, which authorized a multi-agency research program to accelerate progress in the advancement of computing and networking technologies and to support leading edge computational research in a range of science and engineering fields. The statute established a set of mechanisms and procedures to provide for the interagency planning, coordination, and budgeting of the research and development activities carried out.

Dr. Greer argued that enabling NITRD legislation and its vigorous implementation by the NITRD agency has created a robust, responsive, and resilient framework for effective cooperation and coordination in Federal networking and IT R&D planning and execution. The NITRD Program has matured and now encompasses a spectrum of NIT areas that allow it to take on the complex, multidisciplinary, multisector challenges characteristic of today’s networking and IT landscape. He expressed that leadership in networking and information technology is essential to U.S. economic prosperity, security, and quality of life. The Federal investments we make in research and development in this area are the keys to a future of promise for our nation and its citizens, he said.

For more information, please visit <http://www.science.house.gov/>

ECONOMY: CCSCE RELEASES REPORT ON CALIFORNIA ECONOMIC GROWTH

The Center for Continuing Study of the California Economy (CCSCE) recently released “California Economic Growth – 2008 Edition.” This report provides an analysis of the California Economy to 2017.

The 2008 edition includes:

- An overview of job, population, household, income and spending growth trends in the next ten years for California and the state's five major economic regions with detailed projections.

- An analysis of California's changing demographics and of the challenges facing residential construction markets in the state.
- An analysis of current economic trends in the state and nation and the outlook for 2008 and 2009.
- A discussion of the key challenges facing California in creating a competitive economy, a great place to live and broadly shared prosperity.

The report finds that California's job growth is only "average," marking a significant slow down. However, the projected growth in jobs, population, households, and income is slightly above the national growth rate. It also finds that the rate of population growth by age will be skewed towards younger residents: "California will add 1.7 million residents between the ages of 20 and 34 after a decade when this age group showed virtually no growth." For more information visit www.ccsce.com.

CLIMATE: BCSE BRIEFING DISCUSSES POLICY SHIFTS IN CALIFORNIA SEEKING TO ADDRESS GLOBAL CLIMATE CHANGE

On July 29, 2008, the Business Council for Sustainable Energy, the World Resources Institute, and the California Institute co-sponsored a briefing on global climate change and the steps California is taking to address this issue. The briefing, titled, "The California Global Warming Solutions Act: What Can Congress Learn from the California Experience," was moderated by Ms. Debbie Boger, Director of U.S. Climate Policy at World Resources Institute. The briefing included a wide array of panelists including Mary Nichols, Chair, California Air Resources Board, Christopher Busch, Senior Economist of the California Climate Program at the Union of Concerned Scientists, and Michael Murray, Director of Corporate Environmental Policy at Sempra Energy.

The State of California has taken a number of important policy steps to address the challenge of climate change. In 2006, the California legislature passed, and Governor Schwarzenegger signed, the Global Warming Solutions Act of 2006, also known as "AB32." The California Air Resources Board (CARB) is charged with implementing the Act, which requires a reduction of greenhouse gas emissions to 1990 levels by 2020, and recently released its draft Scoping Plan for implementing a cap-and-trade emission reduction program bolstered by multiple complementary policies.

This Plan calls for an ambitious but achievable reduction in California's carbon footprint toward a clean energy future. Reducing greenhouse gas emissions to 1990 levels means cutting approximately 30 percent from business-as-usual emissions levels projected for 2020, or about 10 percent from today's level. On a per-capita basis, that means reducing our annual emissions of 14 tons of carbon dioxide for every man, woman, and child in California down to about 10 tons per person by 2020. This challenge also represents an opportunity to transform California's economy into one that runs on clean and sustainable technologies, so that all Californians are able to enjoy their rights to clean air, clean water, and a healthy environment.

California will pursue its multi-sector cap-and-trade system in a regional partnership with the Western Climate Initiative, a group of seven Western states and four Canadian provinces. The business and environmental communities of California have been very engaged as CARB has plotted its course.

Chair Nichols outlined California's comprehensive approach to reducing greenhouse gas emissions and also indicated various areas that Congress may find helpful to its federal deliberations. Mr. Busch described the economic implications of California's approach. Finally, Mr. Murray, outlined the key features of the California approach that he considers most relevant to the federal discussions.

For more information, please visit www.arb.ca.gov.

CRB PROVIDES PRIMER ON HEALTH INFORMATION TECHNOLOGY-ELECTRONIC HEALTH RECORDS

On Thursday, September 19, 2008, the California Research Bureau (CRB), a component of the California State Library, published a report entitled "Health Information Technology-Electronic Health Records: A Primer." The report by Lucien Wulsin and Adam Dougherty (CRB-08-013) surmises that achieving universal health care coverage will require significant changes in the health care system.

The authors state that there is an expectation that widespread adoption of Health Information Technology-Electronic Medical Records will play an important role in transforming the delivery of health care by improving the quality of care and reducing costs. However, they point out, physicians lack an incentive to invest since the benefits accrue largely to insurance companies and health care plans.

Federal and state governments may have a significant role in establishing standards and providing financial resources for expansion of health information technology.

The CRB paper reviews and summarizes many of the issues that providers, payers and government will have to address in incorporating health information technology into the health care delivery system.

The CRB report is available on the web at <http://www.library.ca.gov/crb/08/08-013.pdf>.

BRIEFING: WEDNESDAY 9/24 BREAKFAST RE CALIFORNIA TRAVEL AND TOURISM

On Wednesday September 24, 2008, the California Institute will host a breakfast briefing regarding California Travel and Tourism: "Maintaining National Dominance and Economic Growth." The briefing will take place from 8:30 am - 9:30 am on the 24th in Room 2203 of the Rayburn House Office Building.

California is the largest travel destination in the country with travel and tourism serving as the fourth largest employer in the state. Travelers to California in 2007 contributed \$96.7 billion to the state's economy, representing the fifth straight year of positive growth. This growth directly supports 925,000 jobs and generates \$5.8 billion in local and state tax revenue. Tourism jobs cannot be exported overseas, and travel and tourism remains essential to both the California and national economies.

Members of the California Travel & Tourism Commission are focused on legislative issues of importance to the industry, to include the Travel Promotion Act, visa reform, and transportation reauthorization. The following presenters will highlight California's priorities in growing and maintaining this important sector of our state and national economy:

Caroline Beteta - President & CEO of the California Travel & Tourism Commission, National Chair of the Travel Industry Association, and Deputy Secretary for Tourism with the state's Business, Transportation and Housing Agency (re Travel Promotion Act, S. 1661 and H.R. 3232);

Linda Ulrich - Director of the Washington Office of Governor Arnold Schwarzenegger (providing a Washington perspective);

Andrew Firestone - Television Personality and Curtis Winery Executive (with a small business perspective on travel promotion);

Bob Roberts - Chief Executive Officer, California Ski Industry Association (regarding visa reform).

To attend (acceptances only), contact the California Institute 202-974-6384 or rsvp@calinst.org.