Congress remains in recess for the Christmas/New Year’s break. The House will return on Tuesday, January 17, 2012, but will then recess again Wednesday night for the Republicans two day retreat. House Democrats will take their retreat the following week on January 26-27. The Senate does not return until January 23rd.

Prior to the Christmas break, the two houses were finally able to come together on enacting a “Megabus” appropriations bill to fund the government through the remainder of Fiscal Year 2012 (see http://www.calinst.org/bul2/b1839.shtml ). The bill, H.R. 2055/P.L. 112-74, was approved by unanimous consent in the House and Senate on December 16 and December 17, 2011, and signed by the President on December 23rd. The bill had become bogged down in the fight over how to handle the payroll tax cut extension.

The House and Senate were finally able to resolve their standoff over the payroll tax cut and other extensions by agreeing to pass a two month extension through February 2012 (H.R. 3765/P.L. 112-78). The extension, passed by both houses on December 23rd, covers the payroll tax deduction, the so-called Medicare “doc fix,” and unemployment benefits. The long term extension, H.R. 3630, awaits action by a conference committee after Congress returns. (See http://www.calinst.org/bul2/b1839.shtml .)

To obtain the House’s proposed 2012 Calendar, go to: http://majorityleader.gov/Calendar/112th2ndSessionCalendar.pdf . The Senate’s can be found at: http://www.senate.gov/pagelayout/legislative/one_item_and_teasers/2012_schedule.htm .

Information Technology/Intellectual Property: House Judiciary Wrangles Over IP Protection And Internet Freedom

Prior to adjourning for the Christmas break, the House Judiciary Committee began marking up legislation to heighten enforcement of intellectual property rights. The Committee held two days of markup on H.R. 3261, the “Stop Online Piracy Act,” on December 15 and 16, 2011, but did not finish the process. It is expected to continue the mark up when Congress returns later in January 2012.
The bill pits against each other two of California’s premier industries – entertainment and information technology. On the one hand, the entertainment industry says the legislation is necessary to prevent the piracy of intellectual property content by foreign-based “rogue” websites, such as PirateBay, a foreign site that provides free copies of pirated copyright protected content, such as movies and TV shows. Internet service providers and others in the technology sector, however, argue that the bill is overly broad and will stymie internet freedom and may result in the shutdown of legitimate websites. During the markup, Committee Chair Lamar Smith (TX), sponsor of the bill, introduced a Manager’s Amendment aimed at narrowing the scope of the bill to resolve some of the issues raised against it. Among other changes, the amendment makes clear that Internet service providers would not be forced to redirect users away from offending websites. The amendment was not sufficient, however, to allay the concerns of opponents.

The bill would authorize stronger enforcement tools to stop foreign-based websites from providing pirated content, including the ability to seek a court order blocking domestic Internet users from accessing the domain names of the rogue sites. Opponents have argued that the Committee should hear from technical experts on how these measures would actually work and whether inadvertent damage could be done to legitimate websites and providers.

Although the bill has bipartisan support, its consideration has been highly contentious, as signaled by the 60 potential amendments offered at the markup. Although most of those considered during the two days of markup were easily defeated, it suggests that the bill faces an uphill battle when it comes to the floor.

The Senate Judiciary Committee reported its version of legislation to combat foreign rogue sites in May 2011. That bill, S. 968, Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property (PROTECT IP) Act of 2011, has a narrower focus, for instance limiting enforcement to websites that have “no significant use” other than violating copyrights. S. 968 has seen no action in the Senate since it was reported, however, so prospects for the bill remain uncertain.


EDUCATION: HOUSE COMMITTEE RELEASES DRAFT TO REPLACE NCLB

On January 6, 2012, the House Committee on Education and the Workforce released two pieces of draft legislation to reform the current elementary and secondary education law known as No Child Left Behind (NCLB). The two drafts, called the Student Success Act and the Encouraging Innovation and Effective Teachers Act, build on the Committee’s previous legislative efforts to rewrite the Elementary and Secondary Education Act, which has been due for reauthorization since 2007.

In releasing the drafts, Committee Chairman John Kline (MN) stated they will improve accountability, increase flexibility, and support more effective teachers in the classroom. Chairman Kline emphasized that the drafts would reduce the federal role in education, returning more control to parents, teachers, and school leaders at the state and local level. But Ranking Member George Miller (Martinez) stated that the legislation “abandons students, parents and taxpayers alike by failing to hold school systems accountable for improving student achievement.” He also stated that the draft language “undermines
programs for our most vulnerable students, shirking the civil rights responsibilities of the federal government. It eliminates critical programs and funding that promote a balanced education, such as those that create a well-rounded curriculum or wrap-around services for students.”

Kline stressed that “[r]egardless of the differences between elected leaders in Washington, education reform is an issue that will shape future generations, and we cannot afford to let the conversation stall. I look forward to gaining input from my Congressional colleagues, state and local leaders, and the American public on our ideas for recruiting more talented teachers, boosting accountability for school and student performance, and encouraging innovation and creativity in the classroom.”

**Student Success Act**

The most significant change included in this first of the two proposals is the elimination of Adequate Yearly Progress, which serves as the current law’s accountability system. AYP currently requires all students, including English language learners and those with disabilities, to be completely proficient in math and reading by the year 2014.

In place of AYP, the draft would require states to develop their own achievement and accountability systems. States would be required to measure every student’s achievement against the state’s own standards, as well as note individual students’ overall progress toward meeting those standards. Each state would also be required to review public schools on a yearly basis, examining student achievement as a whole and among student subgroups.

The draft also eliminates the federal government’s direct role in school intervention. Instead, the federal government would only be involved in that it would require states to identify and implement their own interventions for schools that underperform. Similarly, the federal competitive grant program known as School Improvement Grants, which currently provides money to low-performing schools in order to help them improve, would be eliminated.

States would also be required to create their own academic standards in mathematics and reading which must be applicable to the whole of the state’s students and schools. Creating standards in other subjects, such as science, would be optional. These academic standards would be the basis states would use to create required achievement standards to judge school and student performance.

With regard to testing, the draft eliminates the requirement that states test students annually in science. It only requires yearly testing in reading and mathematics. Assessment results reports would still be required to include information on subgroups like disability, race, and sex.

H.R. 2445, which was reported by the Committee in 2011, is incorporated into this draft. The bill greatly increases the flexibility of states, allowing them to spend federal education money however they wish. H.R. 2445 also stipulates that funding authorizations can not exceed fiscal year 2012 appropriation levels.

**Encouraging Innovation and Effective Teachers Act**

One of the most significant new additions not required by NCLB is included in this draft: school districts would be required to create and implement systems to evaluate teachers. Specifically, the draft language would require teacher evaluation systems to consider student achievement as well as reviews and input from other teachers, school leaders, parents, and others involved in the education process. Teacher evaluation systems would be required to be multifaceted, using more than one measure and more than two rating categories. The draft language also indicates that personnel decisions would be affected by the results of evaluations in the new systems.

According to Committee documents, the requirement for teacher evaluation systems is meant to reduce reliance on teacher credential and tenure measures “which provide little information about teachers’ ability to excel in the classroom.” Instead, “states and school districts should have the tools to measure an educator’s influence on student achievement.”

The draft also restructures several funding mechanisms, including provisions for a consolidated funding source for teacher-quality programs. Also, it would fund a new teacher evaluation grant. This grant
would reward school districts and states for successfully using innovative teacher initiatives like
performance-based pay, leadership, and alternative certification programs.
In contrast to NCLB, the draft would limit states’ and districts’ ability to use federal funds for class
size reduction. Only 10 percent of funds would be allowed for this use.
H.R. 1891, which was also reported by the Committee last year, is also included in the draft. It
would eliminate more than 40 of the programs under the Department of Education.
For more information, go to: [http://edlabor.house.gov](http://edlabor.house.gov).

**BUDGET: CBP RELEASES REPORT DETAILING HOW FEDERAL DOLLARS ARE SPENT IN CALIFORNIA**

In November of 2011, the California Budget Project (CBP) released a report titled *How are Federal Dollars Spent in California?* The Report examines federal spending in California, including dollars that go
directly to individuals, businesses, and organizations as well as federal dollars that are spent through the state budget.

Major findings of the Report include:
- California’s federal spending in fiscal year 2010 totaled just over $333 billion.
- Approximately 75 percent of the total - about $240 billion - went directly to individuals, businesses, organizations, and others without passing through the state budget. Examples of this type of spending include Earned Income Tax Credit payments, Social Security and SSI benefits, food assistance programs, payments to defense contractors, and the salaries or wages of federal employees.
- As a share of the total California budget, federal spending increased significantly during the “Great Recession,” as is “typical during economic downturns,” according to the report. Federal spending in the state reached $91.5 billion in 2010-2011, or about 40 percent of the total state budget and equal to the state’s General Fund spending in that year.
- Over half of each federal dollar spent through the state budget goes to health and human services for seniors, children, and other Californians. This primarily includes spending on the Medi-Cal program, the single biggest federal expenditure in the state budget.
- Approximately 19 cents of every federal dollar are spent on unemployment insurance benefits. Another 15 cents per dollar go through the state budget to the state’s public schools and universities. An additional 5 cents per dollar goes to state transportation programs.
For more information, visit: [http://www.cbp.org/](http://www.cbp.org/).

**STATE AND LOCAL ACTIVITY: LAO RELEASES REPORT ON GOVERNOR’S PROPOSED 2012-2013 BUDGET**

On January 11, 2012, the Legislative Analysts Office (LAO) released a report titled *The 2012-13 Budget: Overview of the Governor's Budget.* This Report is part of a yearly LAO series released to review and comment on the Governor’s budget.

**Governor's Proposal**

On January 5, 2012, the Governor proposed a 2012–13 state budget. The proposed spending plan includes approximately $92 billion in General Fund expenditures, $40 billion of spending from state special funds, and $5 billion of bond fund expenditures. In addition, the Governor’s proposed budget assumes that the state will receive $73 billion of federal funds through its accounts in fiscal year 2012–13.

According to the Report, the Governor’s proposed budget relies heavily on his proposed tax initiative, which would temporarily increase income and sales taxes for a period of four years if passed by voters in November 2012. The Administration estimates that this temporary tax increase would generate approximately $6.9 billion by the end of 2012-2013, in order to help solve the $9.2 billion gap that must be solved before the beginning of that fiscal year. Continued funds through 2016 would supplement the General
Fund to pay for increases in Proposition 98 school funding as well as other budget balancing actions, in addition to proposed cuts to child care, social services, and more borrowing.

If the Governor’s proposed ballot initiative to raise taxes does not pass, the Report shows that the Governor would request that the Legislature approve “trigger cuts” in the amount of $5.4 billion starting as early as January 2013. It is evident, according to the Report, that Proposition 98 funding would receive most of the trigger cuts under the Governor’s proposal.

Most significantly, the Report states that the Administration believes that the Governor’s plan would bring the state out of the red by the end of FY 2012-2013, leaving it with a reserve of over $1 billion. It would also set the stage for balanced budgets for the coming years. It is stated that the Governor also proposed that the state “take steps to reduce outstanding state budgetary obligations (which he calls a ‘wall of debt’) during the next several years.”

LAO’s Comments on the Governor’s Proposal

The LAO commended the Governor and Legislature for the steps taken in 2011 to resolve the budget issue. However, it cautioned that the “the Legislature still faces a very difficult task for 2012, as the Governor's proposal shows.” In short, the Governor’s plan relies on an uncertain tax increase and large cuts to popular social services programs, cuts that will increase significantly and be borne by schools if the tax initiative fails. The LAO did agree, however, that following the Governor’s proposal or making trigger cuts would move the state “much closer to balance over the next several years.”

The LAO’s comments also state that revenue estimates are more uncertain this year than in years past. According to the Report, the LAO estimates that the state’s revenues in the upcoming year (even accounting for revenue from the proposed tax increase) fall short of the revenue predicted by the Administration. This issue is compounded with already “volatile income tax payments by the state’s wealthiest individuals,” who the Governor proposes should pay more in the upcoming years. The LAO stated that if their estimates are “closer to the target than the administration's, the Legislature will have to pursue billions of dollars more in budget-balancing solutions.”

The LAO praised the Governor’s plan to restructure the school finance system, community college categorical funding, and education mandates, saying “we think the Governor's restructuring proposals in all these areas would overcome most widely recognized shortcomings of these current systems and institute lasting improvements.”

Regarding social services and child care proposals, the LAO said that the Governor’s plan has merit, but involves drawbacks. The Report states that the “Governor proposes to reduce General Fund support for California Work Opportunity and Responsibility to Kids (CalWORKs) and subsidized child care – the state's primary sources of cash assistance and work support for low-income families – by a total of about $1.4 billion. His proposal would focus reforms in the CalWORKs program on achieving the goal of emphasizing work.” In response, the LAO said that the “Legislature may wish to consider whether the proposed reductions to families most in need of support to achieve self-sufficiency are too severe, as well as the Governor's proposal to restrict eligibility criteria and time lines for subsidized child care. Focusing these programs on a different set of objectives and priorities than the Governor would not necessarily eliminate opportunities for budgetary savings, but the savings potential under such alternatives could be less.”

Finally, the LAO reviewed the Governor’s trigger cut contingency plan if the proposed tax initiative fails in November 2012. The LAO stated that if the tax were to pass, funding for public education and its “financial outlook” would improve. Without the initiative, the LAO stated that trigger cuts would “create significant uncertainty for schools, community colleges, and universities” in the next year. Also, the LAO stated that the uncertainty will affect schools even before November, as many “will feel compelled to build their 2012–13 budgets assuming the trigger cuts will be implemented. This means schools in 2012–13 likely will implement most, if not all, of the reductions that many hope to avoid.” Therefore, the LAO strongly warned that the
“legislature needs to be very deliberate in structuring a workable trigger package. In particular, the Legislature will need to be careful in setting the size of the trigger reduction; determining the specific education reductions to impose; and designing tools to help schools, community colleges, and universities respond to the trigger cuts.”

For more information, please see: http://lao.ca.gov/reports/2012/bud/budget_overview/budget-overview-011112.aspx#overview.

**HEALTH: CALIFORNIA EMPLOYER HEALTH BENEFITS SURVEY RELEASED**

The California Healthcare Foundation released a report in January 2012 citing the highlights from the 2011 California Employer Health Benefits Survey. The survey examined employer health care benefits for Californians in the last year. This year’s survey is the 2011 segment of an ongoing annual research project that tracks changes in employer-based health benefits in the state over time.

In California, employer-based health coverage is the leading source of insurance. Millions of Californians are affected when changes in coverage offerings, cost sharing, and benefits occur. According to the survey, in 2011 employees at over 25 percent of the state’s businesses “saw their health insurance benefits diminish while their copayments, deductibles, and premium shares increased.” Additionally, more than one third of employers are debating whether to shift more health care costs to their employees in 2012 (increasing employees’ premium costs and reducing the employer’s cost).

Other important findings include:
- Family premiums have risen 153% since 2002. This increase reflects more than five times the 29% increase in California's inflation rate since that year.
- Since 2009, the percentage of California businesses offering coverage to employees declined 10% to 63%. Only 63 out of 100 businesses now offer coverage to their workers.
- Compared to the rest of the nation, California’s annual premiums were higher, with individual coverage at $5,970 versus $5,429 nationally, and family coverage at $15,724 versus $15,073 nationally.
- California employers contribute to employees’ coverage at a higher rate compared to the rest of the country.
- Workers at small businesses paid at least half of the premium for family coverage much more often than workers at large firms.
- The number of employees at small firms with a deductible of $1,000 or more per year increased 20% since 2006, rising from just 7% in that year to 27% in 2011.

To read more, visit: http://www.chcf.org/.

**RESOURCES: REPORT ON WATER USE EFFICIENCY AND JOBS IN CALIFORNIA RELEASED**

A report titled *Water Use Efficiency and Jobs* was released by the Economic Roundtable in December 2011. The Report was underwritten by the Community Development Department and Workforce Investment Board, City of Los Angeles Piping Industry Progress and Education Fund, International Association of Plumbing, and Mechanical Officials, National Inspection, Testing, Certification Corporation.

The Report quantifies the economic and job benefits that result from investments in water use efficiency in Los Angeles. The Report first analyzes the city’s water sector, or “the establishments that provide goods and services that directly build and maintain municipal water infrastructure, manufacture specialized water systems equipment, provide engineering consulting services, and provide support services for these direct providers.” The study then looked at approximately $1.2 billion in investments in over 50 recent water-use-efficiency projects, including projects dealing with local stormwater, water conservation, graywater, recycled water, groundwater management and remediation.

The Report found that for every $72,400 of public funds invested in water conservation and water efficiency, one person-year of employment is created. For every $1 million invested, it found that 12.6 to
16.6 annualized jobs are created. According to the Report, that ratio “is comparable to energy efficiency retrofitting, and higher than many traditional Los Angeles industries such as motion picture production and new home construction.” Overall, investment in these projects was found to stimulate economic activity at twice the rate of the initial investment.

The Report emphasizes the need for these projects, saying “public investments in water use efficiency provide economic and job benefits alongside the environmental benefits from using less water.” It goes on to state that this is especially important in Los Angeles, as that city is a “major net importer of water and relies on sources several hundred miles away in Northern California and Colorado for two-thirds of its supply. The ecosystems of these source regions are significantly impacted by decades of diverting water for agricultural, industrial and municipal use. Combined with the periodic droughts afflicting the Southwest U.S., these circumstances put Los Angeles under increasing pressure to reduce reliance on imported water.”

For more information, please visit:
http://www.economicrt.org/summaries/Water_Use_Efficiency_and_Jobs_Study.html.