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

APPROPRIATIONS: HOUSE PASSES FY13 CONTINUING RESOLUTION; RETAINS SEQUESTRATION CUTS

The House of Representatives voted on Wednesday, March 6, 2013 to pass H.R. 933, which keeps the federal government funded through the end of FY 2013 and averts a potential government shutdown when the current continuing resolution bill expires on March 27. The Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Appropriations Act, 2013 (hereinafter "CR") passed the House by 267 to 151 votes, with 53 Democrats voting for the bill and 14 Republicans voting against it.

The CR freezes existing appropriation levels for most accounts and sets total discretionary spending at $984 billion after the across-the-board (sequester) cuts that began March 1. In addition to the stopgap continuing resolution that covers most non-defense federal agencies through FY 2013, the CR also includes Defense, military construction, and Department of Veterans Affairs appropriations bills. The CR gives military and veterans programs greater funding flexibility, but does not protect them against the sequester cuts.

The Senate plans to take up the CR on Monday, March 11. Some Democrats and Republicans have said they will seek to add more appropriations bills to help agencies cope with the impact of budget cuts under sequester.

Specifically, the CR contains the following funding provisions:

- Agriculture: Increased funding for the Commodity Supplemental Food Program (CSFP), higher limits for certain farm operation and ownership loans, authority to adjust rural development funding internally to maintain 2012 levels, and $48 million for the Emergency Watershed Protection program for areas affected by major Stafford Act declarations.

- Commerce, Justice, & Science: Increased funding for NOAA weather satellites and for the NASA Exploration account, for future human spaceflight and launch systems, and commercial spaceflight development.

- Defense: The CR provides base funding of $518.1 billion and Overseas Contingency Operations (OCO) funding of $87.2 billion. The bill would provide $2 billion more than the president requested for defense in non-war funding, but the $518.1 billion in annualized spending would be about equal to the fiscal
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2012 enacted level. Additionally, the CR includes an additional $10 billion in Operations & Maintenance to maintain equipment, train soldiers, sailors, Marines, and airmen; and fund critical operations:

- $127.5 billion to provide for 1,402,108 active-duty troops and 843,286 reserves. This funding level is $3.6 billion below last year, due to the reduction in troop totals. This also includes a 1.7% pay raise for the military, which is in line with authorized totals.

- $100.4 billion – $4.2 billion below last year – for equipment and upgrades and $70 billion – $2.5 billion below last year's level – for research, development, testing, and evaluation of new defense technologies.


- Financial Services: Extends the federal employee pay freeze for the remainder of calendar year 2013 and compels the U.S. Postal Service to continue the 6-day per week delivery. It also includes six anomalies from the existing CR: Washington, DC authority to spend local funds; DC emergency planning funds; FCC spectrum auction funds; RESTORE Act funds; Office of Government Ethics (OGE) funds to implement the STOCK Act; and SBA small business loans.

- Homeland Security: Increased funding available for the Coast Guard to acquire Fast Response Cutters, National Security Cutter 6, and a new heavy icebreaker. It also includes a requested increase for cybersecurity, although overall funding for National Protection and Programs Directorate decreases from the amount provided in the existing CR.

- The CR also continues staffing minimums for Customs and Border Protection Officers, Border Patrol Agents, and Air and Marine officers at the same level as the end of Fiscal Year 2012.

- Military Construction: $146.8 billion to build military structures, family housing, and medical and education facilities; provide veterans' health, disability, educational, and vocational benefits; and for related purposes.

- State, Foreign Operations: The CR fully funds the Memorandum of Understanding (MOU) regarding aid to Israel. Further, it re-appropriates $2 billion in embassy security funding.

- Veterans Affairs: $133.9 billion in discretionary and mandatory funding for the Department of Veterans Affairs. Of that total, $61 billion is discretionary funding, an increase of $2.5 billion above last year's level.

For more information, go to:
- H.R. 933 - The Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Appropriations Act, 2013 (CR), [http://hdl.loc.gov/loc.uscongress/legislation.113hr933](http://hdl.loc.gov/loc.uscongress/legislation.113hr933)
- House Report 113-012, [http://thomas.loc.gov:80/cgi-bin/cpquery?q=%26r_n=hr012.113%26sel=TOCLIST](http://thomas.loc.gov:80/cgi-bin/cpquery?q=%26r_n=hr012.113%26sel=TOCLIST)
ENERGY: HOUSE ENERGY SUBCOMMITTEE ADDRESSES ROLE OF DIVERSE ELECTRICITY GENERATION

The House Committee on the Energy and Commerce's Subcommittee on Energy and Power met on Tuesday, March 5, 2013 to hear testimony on fuel diversity's role in the nation's electricity generation mix in ensuring affordable and reliable electricity for American consumers. The Subcommittee also examined challenges to maintaining fuel diversity, advanced technology, and the potential impacts of reduced fuel diversity on consumers.

Witnesses included: Mr. Mark C. McCullough, Executive Vice President-Generation, American Electric Power; Mr. William M. Mohl, President, Entergy Wholesale Commodities; Mr. Benjamin G.S. Fowke III, President and CEO, Xcel Energy; Mr. Marc S. Gerken, PE, President and CEO, American Municipal Power, Inc.; Mr. Robert Gramlich, Interim Chief Executive Officer, American Wind Energy Association; and Mr. John C. McClure, Vice President Government Affairs and General Counsel, Nebraska Public Power District.

Issues discussed at the hearing included:
- Panelists generally discussed the importance of generating electricity from a diverse range of fuel resources to protect against imbalances in electricity supply and demand, which can impair the reliability of the electric grid and increase prices for consumers.
- The witnesses also testified on numerous factors that affect electricity generation diversity, including reliability, production costs, load-following capability, price stability, supply diversity, environmental factors, and regional or local conditions.
- Mr. McCullough expressed concern that federal environmental and energy regulation, particularly certain Environmental Protection Agency rules, and policy is constraining fuel diversity. He further emphasized the development of federal policies that promote the continued use of coal to generate low-cost, reliable electricity.
- While he generally advocated electricity generation diversification, Mr. Mohl also stressed the importance of nuclear power, which provides critical reliability, economic stability, and clean emissions.
- Mr. Gerken emphasized the use of hydropower in a diverse portfolio.
- Mr. Gramlich testified that wind power tends to be the next least cost source of new electric generation capacity behind natural gas. He further stated that hydropower serves as a natural hedge, or insurance policy, since its fuel price risk is zero.

For more information, go to:

IMMIGRATION: HOUSE JUDICIARY EXAMINES SKILLED IMMIGRATION ISSUES

The House Judiciary Subcommittee on Immigration and Border Security held a hearing on Tuesday, March 5, 2013 entitled "Enhancing American Competitiveness through Skilled Immigration." The hearing focused on the United States' high-skilled immigration policy, particularly the effectiveness and fairness of the H-1B Visa program.

Witnesses included: Mr. Bruce A. Morrison, Chairman, Morrison Public Affairs Group testifying on behalf of the Institute of Electrical and Electronics Engineers, Inc.; Mr. Dean Garfield, President and CEO, Information Technology Industry Council; Mr. Deepak Kamra, General Partner, Canaan Partner; and Mr. Benjamin Johnson, Executive Director, American Immigration Council.

Issues discussed at the hearing included:
- Theoretically, H-1B visa holders are able to acquire green cards through their employers, allowing them to live in the United States permanently, change jobs, and eventually apply for citizenship. However, backlogs of a decade or more for certain categories of green card applicants have made this procedure exceedingly difficult. Additionally, lawmakers expressed concern that some employers are abusing the
H1-B program by hiring immigrants at entry-level wages, making it difficult for more experienced American workers to compete.

- Rep. Zoe Lofgren (San Jose), Ranking Member of the Subcommittee, shared the concerns of Chairman Trey Gowdy (SC) regarding reports that employers could be relying on foreign H1-B visa holders to the detriment of high-skilled American labor.
- They also were in general agreement that the United States should offer more green cards for promising high-skilled immigrants; however, they did not appear to agree on whether those permanent residency visas should be taken from other categories. Additionally, the parties differ on whether highly skilled immigrants should be permitted to bring their spouse and/or children with them to the United States and under what conditions.
- Mr. Morrison emphasized granting green cards over guest worker permits.
- Mr. Kamra recommended granting more visas for immigrant entrepreneurs with credible financial backing to encourage business creation in the United States.
- Panelists also discussed investing in effective education and training programs to better prepare innovators and entrepreneurs.

For more information, go to: http://judiciary.house.gov/hearings/113th/hear_03052013.html

BUDGET: SENATE BUDGET COMMITTEE EXAMINES WASTEFUL SPENDING IN TAX CODE

The Senate Budget Committee held a hearing on Tuesday, March 5, 2013 entitled "Reducing the Deficit by Eliminating Wasteful Spending in the Tax Code." Witnesses included: Edward D. Kleinbard, Professor of Law, University of Southern California Gould School of Law; Jared Bernstein Ph.D., Senior Fellow, Center on Budget and Policy Priorities; and Russell Roberts Ph.D., Research Fellow, Hoover Institution.

Issues discussed included:
- Lawmakers from both parties agreed that the basic function of the tax code should be to raise revenue rather than reward interest groups and subsidize certain types of businesses and activities. However, Democrats and Republicans remained divided on the basic question of whether the government needs to collect more revenue or just raise the same amount of money more efficiently.
- Professor Kleinbard advocated a balanced approach to deficit reduction that includes increased tax revenues, reduced entitlement spending, and elimination of personal itemized deductions. He blamed foregone tax revenues and entitlement spending as the primary drivers of the adverse budget deficit over the next decade. Indeed, the United States today spends much more on healthcare (public and private) per capita than does any other developed economy in the world, he said. Kleinbard also criticized the United States' emphasis on defense discretionary spending; the United States spends as much on its military as do the next 14 countries combined.
- With respect to tax expenditures, Professor Kleinbard recommended replacing personal itemized deductions (and the standard deduction) with 15 percent tax credits. Notably, Professor Kleinbard advocated eliminating certain popular deductions, such as the home mortgage interest deduction.
- Dr. Bernstein testified that tax expenditures' usefulness, or lack thereof, should be assessed using a three-part test: revenue forgone, efficiency, and fairness. He emphasized the fairness criterion most heavily because of the high levels of income and wealth inequality in America, which has been exacerbated by unfair tax expenditures.
- Dr. Roberts testified that special exemptions for the rich, people with children, farmers, home owners, and other special interests should be eliminated. He also criticized strategies to improve the economy through increasing taxes and stimulus spending.

For more information, go to: http://budget.senate.gov/democratic/index.cfm/committeehearings?ContentRecord_id=a5e2d4ab-7ced-43b0-
HEALTH: HOUSE WAYS AND MEANS SUBCOMMITTEE REVIEWS TAX PROVISIONS IN AFFORDABLE CARE ACT

The House Committee on Ways and Means' Subcommittee on Oversight met on Tuesday, March 5, 2013 to examine many tax and tax-related provisions contained within the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 ("ACA"). Specifically, the Subcommittee considered the following: (1) status and implementation of key tax provisions; (2) compliance issues associated with the tax provisions and accompanying regulations; and (3) economic effects of the provisions.

Witnesses included: Douglas Holtz-Eakin Ph.D., President, American Action Forum; Dan Moore, President & CEO, Cyberonics, Chairman, Medical Device Manufacturers Association; Walt Humann, President & CEO, OsteoMed; David Kautter, Managing Director of the Kogod Tax Center, American University, and Executive-in-residence, Department of Accounting and Taxation; Shelly Sun, CEO and Co-Founder of BrightStar Care; Hugh Joyce, James River Heating and Air Conditioning Company; and Paul N. Van de Water Ph.D., Senior Fellow, Center on Budget and Policy Priorities.

Issues discussed at the hearing included:
- Other than the Center on Budget and Policy Priorities’ representative, panelists generally criticized the taxes contained within the ACA and opined on the negative impact they believed the provisions would have on the economy, the middle-class, and medical innovation.
- Dr. Holtz-Eakin criticized the scope of taxation within the ACA and the economic burden it would place on the middle-class. He also discussed what he believed to be the most prominent taxes and penalties contained within the ACA, including the Health Insurance Premium Tax, Medical Device Tax, "Medicare" Taxes, Employer and Individual Insurance Penalty, and the Cadillac Health Insurance Plan Tax.
- Mr. Moore and Mr. Humann criticized the tax on medical devices.
- Mr. Kautter took issue with the recordkeeping and annual reporting burden associated with the 0.9% Medicare tax on wages as well as the 3.8% tax on net investment income.
- Ms. Sun predicted that the ACA would increase unemployment and exacerbate underemployment in the United States through its employer mandate. She also claimed that other tax provisions, particularly the health insurance tax, would drive up premiums for small business owners.
- Dr. Van de Water testified that the ACA tax provisions would reduce the deficit – modestly in the first ten years, but substantially in the following decade. He stated that certain provisions, such as the inclusion of the cost of employer-sponsored health coverage on W-2 forms, the excise tax on high-cost employer-sponsored coverage, and limitations on the use of tax-advantaged accounts to pay for health-related expenses, will encourage consumers to be more cost-sensitive in purchasing health insurance and services. He also stated that certain Medicare taxes and payment reductions to businesses will be offset by the benefit they will receive from health reform.

For more information, go to:
REPORT: LEGISLATIVE ANALYST'S OFFICE RELEASES "THE 2013-14 BUDGET: PROPOSITION 98 EDUCATION ANALYSIS"

The Legislative Analyst's Office (LAO) released a report on February 21, 2013 assessing the Governor's 2013-14 budget proposal with respect to its treatment of Proposition 98 funding. Prop 98, which was passed by California voters in 1988, requires a minimum level of the state budget to be spent on K-12 education. It also provides funding for the California Community Colleges (CCC), preschool, and various other state education programs. The Governor's 2013-14 budget provides $56.2 billion in total Prop 98 funding. This is a $2.7 billion (5 percent) increase from the revised current-year level. Under the Governor's budget, Prop 98 programmatic per-student funding is $7,929 for schools – an increase of $360 (5 percent) from the revised current-year level – and $5,969 for community colleges – an increase of $522 (10 percent). About half of the community college increase is related to the Governor's proposal to restructure adult education.

Findings included:
- The LAO stated that the Governor's plan to pay down outstanding obligations and build up base support was "reasonable."
- The LAO expressed "serious concern with virtually every aspect" of the Governor's proposal to include all Prop 39 energy efficiency project revenues in the Prop 98 calculation and dedicate all energy-related funding over the next five years to schools and community colleges. Indeed, the LAO felt that including all Prop 39 revenues in the Prop 98 calculation was a significant departure from how revenues are traditionally treated for Prop 98 purposes. The LAO recommended excluding Prop 39 energy-related funds from the Prop 98 calculation and charging the California Energy Commission (CEC) with administering a competitive grant process in which all public agencies, including schools and colleges, could seek Prop 39 funds based on identified facility needs.
- The LAO recommended rejecting the proposal to add two mandates – one related to high school graduation requirements and one to behavioral intervention plans (BIP) – to the mandates block grants for schools because the costs are uncertain due to ongoing litigation. However, they recommended adopting the proposal to modify BIP requirements to align more closely with federal requirements since this increases local flexibility while still providing certain student protections.
- The LAO recommended adoption of the Governor's proposal to remove federal funds from the state's formula for allocating state special education funds. They also recommended adopting a plan for equalizing special education rates in tandem with general education rates under the new K-12 funding formula and merging twelve funding grants, as opposed to the proposed eight, into five larger grants with broader spending requirements.
- Finally, the LAO criticized the Governor's plans to make numerous changes to the state's adult education system, including eliminating school districts' adult education categorical program and creating a new $300 million CC categorical program for adult education. Alternatively, the LAO recommended "a more rational, coordinated, and responsive system" with both adult schools and CCC as providers by doing the following: (1) restoring adult education as a categorical program for school districts; (2) providing up to $300 million for the reconstituted program; (3) more clearly delineating between CCC collegiate and adult education instruction; (4) applying consistent faculty, assessment, fee, and funding policies across all adult education providers; and (5) making new funding available on a regional basis tied to relative program need.

For more information, go to: [http://lao.ca.gov/laoapp/PubDetails.aspx?id=2692](http://lao.ca.gov/laoapp/PubDetails.aspx?id=2692).

REPORT: LEGISLATIVE ANALYST'S OFFICE RELEASES "THE 2013-14 BUDGET: TRANSPORTATION PROPOSALS"

The California Legislative Analyst's Office (LAO) released a report on February 21, 2013 reviewing the Governor's 2013-14 Transportation budget proposals. The Governor's budget provides a total of $21.1
billion from various fund sources – the General Fund, state special funds, bond funds, federal funds, and reimbursements – for various transportation departments and programs under the new Transportation Agency. This is an increase of $558 million above estimated expenditures for the current year. The proposed budget includes $12.8 billion for the California Department of Transportation (Caltrans), $3.2 billion for the California High-Speed Rail Authority (HSRA), $2 billion for the California Highway Patrol (CHP), $998 million for the Department of Motor Vehicles (DMV), and $872 million for transit assistance.

Findings include:

- With respect to Caltrans, the LAO found that the budget understates the likely efficiencies from implementing a more streamlined process for project initiation documents (PID) and recommended adjusting the program's budget accordingly. The LAO also raised concerns about delayed PID work in the current year and, thus, Caltrans' ability to manage its existing resources and complete workload within established schedules and budgets. Finally, the LAO praised the Governor's plan to consolidate four existing programs into a new program focused on active transportation.

- The LAO concurred with the governor regarding his request to increase staff by 20 positions at the HSRA, but rejected language permitting administrative establishment of an unspecified number of additional permanent positions. Additionally, the LAO recommended using existing staff for certain financial consulting services.

- The LAO sought additional information regarding the Governor's allegedly vague request to replace five CHP area offices.

For more information, go to: http://lao.ca.gov/laoapp/PubDetails.aspx?id=2690.

**BRIEFING: LA CHAMBER TO HOST BRIEFING WITH SOUTHERN CALIFORNIA ENERGY LEADERS**

The Los Angeles Chamber of Commerce is hosting a Southern California Congressional Energy briefing on March 13, 2013 entitled “Leading the Nation in Energy: Southern California 2020 and Beyond.”

The lunch briefing will be held in B-338 Rayburn House Office Building, Washington, DC from Noon to 1:30 PM.

Speakers at the briefing will be: Caroline Choi, Vice President of Regulatory and Environmental Policy, Southern California Edison; Randy Howard, Director of Power System Planning and Development, Los Angeles Department of Water & Power; Scott B. Crider, Vice President - Federal Government Affairs, Southern California Gas Company, a Sempra Energy utility; and Jon Lambeck, Manager - Power Operations and Planning, Metropolitan Water District of Southern California.

The briefing will address:

- Meeting the region’s evolving energy needs by balancing alternative and conventional energy resources;
- Proactive steps utilities are taking to update legacy systems with cutting-edge technology;
- How energy providers are leading changing business models in the energy industry; and
- The federal policies and investments needed to maintain long term energy reliability and affordability in Southern California.

To attend the briefing, contact Frank Lopez at flopez@lachamber.com.