BUDGET/APPROPRIATIONS: SHUTDOWN CONTINUES THROUGH SECOND WEEK

As the federal government remains shutdown for the tenth day, Republicans and Democrats remain apart on a way to end the impasse. The President has said that he will negotiate on spending and tax issues, but only after the government reopens and the debt ceiling is raised. House Republicans, on Friday, October 10, 2013, proposed a plan that would raise the debt ceiling for a short time – six weeks – allowing the parties time to negotiate on federal funding issues, but their proposal didn’t include the commitment to immediately reopen the government. Senate Democrats, as well as some Senate Republicans, quickly rejected that idea. Majority Leader Harry Reid (NV) stated unequivocally that he will not negotiate until the government is reopened. House Republicans met with the President later in the day on October 10, but no immediate breakthrough resulted.

In testimony before the Senate Finance Committee earlier on October 10, Secretary of the Treasury Jack Lew forcefully warned the Committee that unless the debt ceiling is raised, he could not guarantee that the Treasury would be able to make necessary payments to any group, including Social Security recipients and U.S. bondholders.

During the shutdown the House has passed, mostly on party line votes, several “mini-CRs,” funding some parts of government, but not others. Most are expected to die in the Senate. Included were bills to restore some veterans benefits and the Women, Infants and Children (WIC) program, reopen the Smithsonian and national parks, and fund programs at the National Institutes of Health, FEMA, and the FDA. If all the bills were enacted, about one-third of the government would be back in business. But the bills do not include funding other agencies, such as the Health and Human Services Department (responsible for implementing the health care law) and the Environmental Protection Agency (responsible for environmental regulations).

Two bills were approved by both chambers, however. One continues funding to pay active duty military personnel and the other ensures that death benefits are paid immediately to family members of servicemen and servicewomen killed on duty.
ECONOMY: SENATE BANKING ASSESSES IMPACT DEFAULT ON DEBT WOULD HAVE

According to the U.S. Treasury, the “extraordinary measures” used since May of this year will be exhausted and the nation will face an unprecedented default on its debt obligations as soon as October 17 if Congress fails to reach an agreement on raising the debt ceiling. In light of that the Senate Banking Committee held a hearing on October 10, 2013 on “Impact of a Default on Financial Stability and Economic Growth” to hear testimony from four industry experts who unilaterally implored Congress not to allow the “full faith and credit” of the United States to come into question should the U.S. Treasury run out of money to pay the nation’s bills on time.

The witnesses were: The Honorable Frank Keating, President and Chief Executive Officer, American Bankers Association; The Honorable Kenneth E. Bentsen, Jr., President, Securities Industry and Financial Markets Association; Mr. Gary Thomas, President, National Association of Realtors; and Mr. Paul Schott Stevens, President and CEO, Investment Company Institute.

Each witness testified that raising the debt ceiling was absolutely necessary to protect the status of Treasury securities as the world’s risk-free assets and lifeblood of global financial markets. This status is crucial to keeping interest rates low and the country’s ability to finance our debt at the least expense to the taxpayer. According to Mr. Keating, the uncertainty brought on by the debt ceiling debates of 2011 cost taxpayers nearly $20 billion in increased interest rates alone – an actual default would inevitably cost much more, he argued. Each witness acknowledged the imperative for a long term solution to the nation’s debt crisis, a crisis that threatens the sustainability of the U.S. economy in the long term, but noted that this issue cannot be conflated with the imminent threat of a default. “To use a credit card analogy,” Mr. Keating explains, “the decision about what to buy on credit tomorrow must take into account the debt we already owe, but that is never an excuse for not paying the current bill on time and in full.”

Effects of such an unprecedented default are impossible to fully predict, the witnesses testified, but some clear themes emerged from their testimony: Treasury securities would no longer be treated as risk-free investments and investors will demand higher interest to compensate; the subsequent cost of borrowing for businesses will increase which could result in job losses and price increases; retirees will have fewer resources as their retirement funds decrease in value; and banks holding Treasury securities with declined value will provide fewer loans for mortgages, cars, and students, among myriad other consequences that will ripple throughout markets domestically and globally.

For the full testimony of the witnesses, please visit http://www.banking.senate.gov/public/index.cfm?FuseAction= Hearings.Hearing&Hearing_ID=0c33e3f3-65cd-44f1-95b9-8a433ad1554c

HOUSING: SENATE BANKING EXAMINES MULTIFAMILY HOUSING FINANCING

The Senate Committee on Banking, Housing and Urban Affairs convened on October 9, 2013 to hear testimony on the essential elements of the multifamily housing finance system as they relate more
broadly to housing finance reform. With the federal conservatorship of Fannie Mae and Freddie Mac going on five years, Congress is examining ways to reform these GSEs (government sponsored enterprises) to ensure a housing finance system based on the principles of relying on private capital, providing affordable housing options for diverse consumers, stabilizing market cycles, and protecting taxpayer interests.

Witnesses at the hearing included: Mr. Thomas S. Bozzuto, Chairman and CEO, The Bozzuto Group, on behalf of the National Multi Housing Council and National Apartment Association; Mr. E. J. Burke, Executive Vice President and Group Head, KeyBank Real Estate Capital, Key Corporate Bank, on behalf of the Mortgage Bankers Association; Mr. Shekar Narasimhan, Managing Partner, Beekman Advisors; and Ms. Terri Ludwig, President and CEO, Enterprise Community Partners, Inc.

Despite the obvious need for reform of single-family mortgage lending practices, the witnesses testified to the strength of the GSEs' multifamily programs in providing liquidity and stability to underserved markets, even during the recession, at no cost to taxpayers. In fact, GSE operations of multifamily programs have been consistently profitable and have steadily returned money to the U.S. Treasury in recent quarters, they said. Multifamily programs are designated for properties that include five or more units and provide stable, affordable housing options for the more than one third of Americans who are renters rather than homeowners. As underscored by all of the witnesses, policies designed to curtail the damage of the sub-prime mortgage crisis should not overlook key differences in the way that multifamily finance operates from single-family finance; rather, the speakers urged Congress to preserve and advance the successful components of GSE operated multifamily lending practices.

Mr. Bozzuto provided statistics to show how demand for apartments is outpacing supply in both urban and rural communities. While the recession did contribute to some of the growth in demand, he pointed to changing housing preferences among an increasingly diverse demographic as a driver of the upward trend in renter households. He highlighted the critical public policy role that GSE multifamily programs serve in their ability to address market failure in the housing finance system that results in an overabundance of capital for high-end properties in top-tier markets, but leaves secondary and tertiary markets underserved. It is important, he argued, that Congress consider the unique needs of the apartment industry as it pursues mortgage finance reforms, so that the needs of all households can be met in a socially responsible way. Supporting the apartment industry is key to supporting affordable housing for low to middle income households as well as promoting environmentally sustainable communities and a mobile workforce, he stressed.

Mr. Narasimhan provided testimony based on the white paper “Multifamily Finance Reform: Moving to a Solution in 2013” co-authored by himself, Mark Willis of the Furman Center for Real Estate & Urban Policy at New York University, and Dr. Raphael Bostic of the Sol Price School of Public Policy at the University of Southern California. The white paper provides supporting information and details on a proposal for the “immediate spinout of the multifamily operations of Fannie Mae and Freddie Mac. It can fit into the architecture of any bipartisan proposal that embodies the principles of private risk capital in front of a limited government guarantee and continued availability of multifamily financing at all times in all markets,” the authors argue.

To read the complete testimonies, please visit http://www.banking.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=ad4a4b10-8875-4ff7-a831-802a2d6dfee9
REPORT: FOUNDATION REPORTS ON RACIAL DISPARITIES IN CA HEALTH CARE

The California Healthcare Foundation released a report on October 10, 2013 entitled Quality of Care: Steps in the Right Direction that finds "significant racial and ethnic disparities persist" in the quality of health care in California despite improvements in recent years.

The good news is that rates of low birth weight were lower in California than in other states, at 6.8% compared with the national rate of 8.1% in 2011, and pre-term birth rates were also lower in California that year, at 9.8% compared with 11.7% nationally. As well, 77.4% of California children were vaccinated in 2011, compared with 73.3% nationwide.

However, the report also found that the maternal mortality rate among African-Americans in the state increased from 27.7 deaths per 100,000 live births in 1999 to 33.8 deaths per 100,000 live births in 2010. That number had peaked at more than 50 per 100,000 in 2005, before falling to the 2010 level.

The state's infant mortality rate for African-Americans is also significantly higher at 9.5 deaths per 1,000 live births in 2010, compared with 4.7 deaths per 1,000 live births overall. For mixed-race infants, the mortality rate was 10.3 per 1,000 live births in 2010.

The study also found that in 2011:
- 19.8% of African-Americans in California had asthma before or during pregnancy, compared with 11.8% of whites and 6% of Latinos and Asian-Americans;
- 28.8% of African-Americans in the state were obese before or during pregnancy, compared with 26.5% of Latinos, 16.8% of whites and 6.8% of Asian-Americans; and
- 14.5% of African-Americans in California had hypertension before or during pregnancy, compared with a statewide average of 9.2%.

To obtain the full report, go to: http://www.californiahealthline.org/articles/2013/10/10/racial-ethnic-health-disparities-remain-in-calif-report-finds

REPORT: PPIC/STANFORD REPORT CALLS FOR NEW METHOD TO MEASURE POVERTY

In a recent study conducted by the Public Policy Institute of California in collaboration with the Stanford Center on Poverty and Inequality, researchers introduced a new way of measuring poverty that is more comprehensive and informative of the impact that local, state and federal programs have on mitigating poverty. The report, released in October 2013, is titled The California Poverty Measure: A New Look at the Social Safety Net, and authored by Sarah Bohn, Caroline Danielson, Matt Levin, Marybeth Mattingly, and Christopher Wimer. The framework they developed is known as the California Poverty Measure (CPM), a measure that not only accounts for baseline family income in the way that federal poverty statistics are calculated, but also adds supplemental resources available to families through state and federal aid (e.g. cash assistance and tax credits), and subtracts major expenses such as health care costs and regional differences in costs of living.

Using the CPM, researchers aim to provide policymakers with a more accurate picture of how the social safety net is working to reduce the number of families living in poverty. Based on the CPM, their findings show that approximately 22% of Californians lived in poverty in 2011 – a significantly higher figure than the federal estimate that placed only 16% of Californians under the official poverty line. This means that 2 million more Californians, for a total of 8.1 million, are living in poverty than the number reported by the U.S. Census Bureau. By including tax credits and in-kind assistance in the form of programs like CalWORKs and CalFresh (assistance that is not accounted for in the federal poverty calculation), researchers found that the totality of California's safety net has indeed cut the state's poverty rate substantially. However, this assistance is largely outpaced by the higher cost of
living in many areas and necessary expenses such as high medical bills. Using the CPM, researchers found that children had the highest poverty rates (25%) and adults over 65 had the lowest (19%). Furthermore, they found that refundable tax credits played the largest role in cutting the child poverty rate (reducing it by 6%), followed by CalFresh and CalWORKS (reducing it by 2-4%). Together, these programs were especially effective in keeping about 2.8 million Californians out of deep poverty. In the absence of this assistance, as many as 39% of children would be in poverty, compared to the actual 25% in 2011; for working adults, the gap is narrower but still significant.

Accounting for the wide variations in renting or owning a home across the state is a critical component for understanding whether families have enough resources to make ends meet, the report stresses. In California's three most populous counties – Los Angeles, San Diego, and Orange – poverty rates are above 22% and are as high as 26.9%. An interactive graphic in the report illustrates the disparity between the official Census poverty rates compared to the CPM estimated poverty rates county by county. Another graphic shows the impact that six different state and federal programs have in reducing poverty rates. While the report shows that many more Californians do not have sufficient resources to meet basic needs than previously thought, it highlights the importance of existing programs in mitigating what would be substantially higher rates of poverty and deep poverty across the state.

For more information about the methodology and findings of this report, please visit [http://www.ppic.org/main/page.asp?i=1398](http://www.ppic.org/main/page.asp?i=1398)

PPIC has also published a fact sheet that details child poverty trends in California. Key findings of the report include upward trends of child poverty despite signs of general economic recovery after the recession and much higher rates of poverty in children than among working-age adults and seniors. California mirrors much of the rest of the nation in the increase of child poverty rates during the recession and is similar to the nation's rates of child poverty overall. Poverty rates for children of different ethnicities are also outlined; poverty among Latino and African American children is disproportionately higher. Child poverty varies considerably across California, and is lower in the Bay Area. San Francisco Bay Area counties typically have lower child poverty rates than the rest of the state, with eight Bay Area counties in the bottom quarter of child poverty rates statewide. By contrast, several Central Valley counties have the highest rates in California (at 28.7% or higher). Nearly 30% of poor children in California live in Los Angeles County, according to the fact sheet.

For the complete fact sheet on child poverty in California, please see [http://www.ppic.org/main/publication_show.asp?i=721](http://www.ppic.org/main/publication_show.asp?i=721)

**REPORT: CIS REPORT FINDS BIOMETRIC EXIT SYSTEM FEASIBLE**

The Center for Immigration Studies (CIS) released a report on September 17, 2013 declaring that a biometric exit-tracking system for foreign visitors departing by air or sea is feasible immediately at a reasonable cost. The findings of the report counter the claims of the Department of Homeland Security that the costs to develop the infrastructure to support statutorily mandated biometric exit systems are too high for immediate implementation. These DHS claims were the subject of the House Homeland Security Subcommittee Hearing on "Fulfilling A Key 9/11 Commission Recommendation: Implementing Biometric Exit," held on September 26, 2013. The use of biometric indicators, such as photos or fingerprints, in exit tracking systems provides more assurance that the person departing is the one whose original arrival was recorded than reliance on only biographic information, such as names or passport numbers.

Tracking the arrival and departure of foreign visitors to the United States is an important part of immigration control. According to the CIS report, the lack of effective exit-tracking has enabled 4-5 million foreign visitors to overstay their visas without further enforcement actions, accounting for
perhaps 40 percent of the total unauthorized immigrant population. Report findings include estimates of first-year implementation costs, which would range from $400 million to $600 million, based on the current costs of existing devices and on a DHS assessment. Such a system, CIS argues, could be implemented with minimal impact on the 40 million foreign visitors who travel by air – a finding with which DHS does not concur. In the hearing before the House Border Security Subcommittee, John Wagner on behalf of Customs and Border Protection testified that "through these pilots, we found that the limitations of existing technology plus the lack of infrastructure for departing passengers would require more than $3 billion in investments as well as significant disruptions to passengers and airlines for a biometric exit program in the air environment alone."

However, CIS quotes a 2009 DHS report that studied data from two airport biometric pilot programs and concluded that "Overall, the Air Exit Pilots confirmed the ability to biometrically record the exit of aliens subject to US-VisIt departing the United States by air." Today, technologies are faster, more diverse, and cost-effective. They point to 14 nations that already have, or are in the process of implementing, biometric processing of foreign air travelers. The report acknowledges that tracking the departure of visitors by land is a very different challenge because of completely different conditions at ports of entry.

To obtain the publication, go to: http://cis.org/biometric-exit-tracking-feasible-and-cost-effective
To view a new CIS series analyzing the House of Representatives bill, H.R. 2278, go to: http://cis.org/SAFE-Act
To obtain the Senate immigration bill, CIS Senate testimony and commentary go to: http://cis.org/Border-Security-Economic-Opportunity-Immigration-Modernization-Act

REPORT: PPIC REPORTS ON CA HEALTH CARE SAFETY NET

The Public Policy Institute of California published a fact sheet in October 2013 entitled "California's Health Care Safety Net," which provides a brief snapshot of the patchwork of programs and providers that serve millions of Californians with low incomes, no private insurance, or other special needs regardless of their ability to pay. Today, more than seven million Californians are uninsured and another eight million are covered by Medi-Cal. The fact sheet includes a statement on how federal health reform will reshape California's health care safety net. The Affordable Care Act (ACA) will reduce the number of uninsured Californians by expanding public insurance coverage through Medi-Cal and subsidizing private coverage through Covered California, the new state insurance marketplace. But three to four million Californians – the majority of whom will be low income – are expected to remain uninsured even years after ACA implementation; they will remain reliant on the safety net. Also, many low-income Californians who gain insurance coverage will continue to use safety net providers for various reasons, including convenience and the availability of additional support services. It could prove challenging to serve both groups while adjusting to financial and organizational changes brought about by the ACA, the report states.

County hospital systems and California's primary care clinics are core safety net providers. Medi-Cal and uninsured patients account for more than 80% of inpatient stays in California's county hospital systems. County hospitals (and other hospitals that serve large shares of uninsured and publicly insured patients) receive additional federal funds – called Disproportionate Share Hospital (DSH) payments – to help cover costs. As the ACA takes full effect over the next several years, these payments are slated to be significantly reduced, resulting in revenue losses for California's public hospitals in particular.
More than a thousand state-licensed health clinics delivered outpatient primary care services to about 5.2 million patients in 2011. At least 80% of these patients had incomes below 200% of the federal poverty level (FPL) and more than three-quarters are people of color. In 2011, these clinics received almost half of their total revenue and about two-thirds of their patient revenue from Medi-Cal. More than half of California's licensed clinic sites are Federally Qualified Health Centers (FQHC), which makes them eligible for additional funding, enhanced reimbursement rates, and other supports. The FQHC program is being expanded under the ACA, which is investing billions of dollars in health centers nationwide. As of December 2012, California's health centers had received nearly $300 million of this funding.

Emergency departments are the "safety net of the safety net," the report states. Hospital emergency departments (EDs) are federally mandated to provide necessary treatment to all patients who seek care. In 2011, there were more than 12 million visits to California's hospital emergency departments – a 22% increase since 2005. Medi-Cal beneficiaries visit EDs at higher rates than other groups – including the uninsured, who are often billed for the full cost of their ED visits. Once Medi-Cal begins to cover more uninsured Californians, there is concern EDs could see even more visits.

For additional graphics and related information, please visit http://www.ppic.org/main/publication_show.asp?i=1074