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.

**Briefing: CA School Boards To Host Lunch Briefing On K-12 Issues January 31st**

The California Institute is holding a congressional staff lunch briefing presented by the California School Boards Association on January 31, 2014. The briefing will be presented by Dennis Meyers, Assistant Executive Director for Governmental Relations, and Erika Hoffman, Legislative Advocate, of the California School Boards Association. It will cover Governor Jerry Brown's state budget proposal and its implications for K-12 education, the state's new Local Control Funding Formula (LCFF) and issues regarding the federal Elementary and Secondary Education Act (ESEA) reauthorization.

The California School Boards Association is a collaborative group of virtually all of the state's more than 1,000 school districts and county offices of education. It brings together school governing boards and their districts and county offices on behalf of California's school children.

CSBA is a member-driven association that supports the governance team — school board members, superintendents and senior administrative staff — in its leadership role. CSBA develops, communicates and advocates the perspective of California school districts and county offices of education.

Please join us for this briefing on Friday, January 31st. To attend, please RSVP to sullivan@calinst.org or 202-785-5456.


On January 15, 2014, the House passed H.R. 3547 the $1.012 trillion omnibus appropriations bill to fund all agencies of the government through the remainder of fiscal year 2014. The vote was 359-67. The Senate sent the bill to the President by a vote of 72-26 on January 16th.

The bill represents about a 2.6 percent boost over the FY13 sequester-level ceiling of $986.3 billion. In keeping with the budget bill (P.L. 113-67) enacted last month, it sets non-defense spending at $491.8 billion, a $22 billion increase over current spending, and defense spending at $520.5 billion. An additional $98 billion (not subject to the budget caps) is included primarily for war funding and natural disaster relief.
The Institute has prepared an analysis of the conference report from a California perspective. It is available at: http://www.calinst.org/pubs/FY2014Omnibus.pdf

TRANSPORTATION: HOUSE SUBCOMMITTEE REVIEWS PROGRESS AND CHALLENGES OF CALIFORNIA HIGH SPEED RAIL

On January 15, 2014, the Railroads, Pipelines and Hazardous Materials Subcommittee of the House Transportation and Infrastructure Committee held a hearing on the challenges facing the California High Speed Rail project. The Subcommittee is chaired by Rep. Jeff Denham (Hawthorne).

The California High-Speed Rail Authority (Authority) is the state agency responsible for planning, designing, building and operating what would be the first high-speed rail system in the nation. According to the Authority, the proposed high speed rail would transport riders from San Francisco to the Los Angeles basin in under three hours, and would eventually extend to Sacramento and San Diego, totaling 800 miles with up to 24 stations. In 2008, California voters approved a $9.95 billion ballot measure, Proposition 1A, to fund what the Authority initially estimated would be a $33 billion project that would share costs between the state, the Federal Government, and private investors. Since then, the Authority has reported that the project will cost $68 billion, with other sources reporting that costs could be even higher. In addition to higher costs, a number of lawsuits have created setbacks for the project. The subcommittee focused on two key lawsuits as well as the legal provisions of a cooperative agreement between the Authority and the Federal Railroad Administration (FRA).

First panel witnesses included: Hon. Kevin McCarthy (Bakersfield); Hon. Zoe Lofgren (San Jose); Hon. Loretta Sanchez (Anaheim); Hon. Jim Costa (Fresno); Hon. Doug LaMalfa (Richvale); and Hon. David Valadao (Hanford). Second panel witnesses included: Ms. Karen Hedlund, Deputy Administrator, Federal Railroad Administration; Mr. Dan Richard, Chairman of the Board, California High Speed Rail Authority; and Ms. Alissa Dolan, Legislative Attorney, Congressional Research Service.

The six California Representatives conveyed a wide variety of perspectives on the high speed rail project based on the concerns and needs of their constituents. Representatives McCarthy, LaMalfa, and Valadao each expressed doubts about the viability of the project, while Representatives Lofgren, Sanchez, and Costa testified in support of the project.

As representatives for the California High Speed Rail Authority and for the Federal Railroad Administration, Mr. Richard and Ms. Hedlund both began their testimony by outlining the arguments in favor of building a high speed rail in California, including meeting the needs of a substantially growing population over the next several decades, relieving already congested transit networks, reducing harm to the environment, and stimulating the economy through job creation. In justifying federal support for the project, Ms. Hedlund noted that as the world's 9th largest economy, and with 12% of the nation's population and 13% of the nation's GDP, California is critical the nation's economic vitality. She also reported that the FRA has been and will continue to work closely with the Authority throughout the
business planning, environmental analysis, and project development period, asserting that the phased approach to implementation of the California High-Speed Train (HST) System outlined in the Authority's Revised 2012 Business Plan is "consistent with how other major infrastructure projects have been implemented, both in the U.S. and across the globe." Both Ms. Hedlund and Mr. Richard provided progress to date and next steps in the project, including justification for the decision to build the first phases of the project in the Central Valley.

Mr. Richard specifically addressed the two lawsuits, including a ruling against the Authority that prohibited the agency from expending Proposition 1A bonds based on the finding that the Authority's funding plan was not in compliance with the requirements of the ballot measure; he believes that the revised business plan will overcome these legal challenges. In the meantime, it is uncertain where the funds will come from to pay the first payment of $180 million due to the FRA on April 1, 2014, as well ongoing future payments for the required matching funds under the cooperative agreement between the Authority and FRA.

Ms. Dolan provided an overview of the legal requirements under the cooperative agreement, and noted that at this time, the Authority is not in violation of the agreement. While she did not speculate as to what would happen if the state could not come up with the matching funds required under the federal grant, she noted only that the FRA would have discretion to exercise multiple options to address a violation of the agreement.

Chairman Denham raised the concern that if the state failed to pay the matching funds, the FRA could withhold other federal dollars that are due to the state for non-rail related priorities. Neither Ms. Dolan nor Ms. Hedlund could provide specifics about the likelihood of this course of action, with Ms. Hedlund noting that any action taken by the FRA "would depend on a variety of factors at that time."

For more information, please visit:

TRANSPORTATION: HOUSE CONSIDERS THE UPCOMING REAUTHORIZATION OF MAP-21

The House Transportation and Infrastructure Committee convened on January 14, 2014 for a hearing entitled "Building the Foundation for Surface Transportation Reauthorization" to receive testimony regarding policy priorities for the reauthorization of the Moving Ahead for Progress in the 21st Century Act (MAP-21), which is set to expire on September 30, 2014 after a 27-month authorization period.

With its passage in July 2012, MAP-21 authorized federal-aid highways, highway safety, and highway research and development programs at $40.96 billion for fiscal year 2013 and $41.03 billion for fiscal year 2014. For public transportation programs, the law authorized $10.58 billion for fiscal year 2013 and $10.7 billion for fiscal year 2014. The Transportation Infrastructure Financing and Innovation Act (TIFIA), which provides credit assistance for surface transportation projects, received an additional $1 billion a year.

With regard to California, the state's highway contract authority apportionment was estimated at $3.54 billion in fiscal year 2013, and was estimated to increase to approximately $3.57 billion in fiscal year 2014. Additionally, MAP-21 made significant programmatic and policy reforms to federal surface transportation programs, including the consolidation or elimination of nearly 70 U.S. Department of Transportation programs, the streamlining of the project approval and delivery process for highway and public transportation projects, and an emphasis on performance management in an effort to focus
federal funding on national transportation goals, increase accountability and transparency, and improve transportation planning and project selection. *

Witnesses at the hearing were: Governor Mary Fallin, Oklahoma, representing the National Governors Association; Stuart Levenick, Group President, Caterpillar Inc.; Kasim Reed, Mayor, City of Atlanta, representing the U.S. Conference of Mayors; and Lawrence Hanley, International President, Amalgamated Transit Union.

The witnesses provided testimony on the necessary provisions of a successful surface transportation program from diverse perspectives, including from the state and local official level, as well as from private industry and labor. All witnesses emphasized that a long-term bill is critical because it will provide states, contractors and others the certainty they need to promote large capital projects, and the necessary capital investments to support them; additionally, they all highlighted the fact that future U.S. growth will inevitably overwhelm the nation's aging infrastructure if significant improvements are not made to a system that is already failing in many ways to satisfy current demands.

On behalf of the National Governors Association (NGA), Gov. Fallin imparted several guiding principles for the reauthorization of MAP-21 in the areas of funding and finance, certainty and stability, program reforms, project delivery, mobility needs, system performance, and safety and security. She noted that funding infrastructure through taxes, tolls and other alternative mechanisms is different from financing infrastructure projects through debt and equity investments. Citing a study by Moody Analytics that was commissioned by NGA and the Council of State Governments, she argued that ending or capping the federal exclusion from income for municipal bond interest would increase the cost of financing infrastructure projects, and that Congress should avoid federal laws and regulations that would increase the costs states incur to issue municipal bonds, or decrease investor appetite to purchase them. In terms of program reforms, she noted that NGA supports state flexibility to make investments in infrastructure projects through existing and new self-sustaining financing mechanisms to help mitigate public funding shortfalls. Her concluding remarks acknowledged that while varied interests are at stake with the bill, "state and local governments are the owners and operators of 97 percent of the nation's interconnected surface transportation systems. We contribute nearly 75 percent of the annual cost to operate and maintain those systems. With our elected partners at the federal level, moreover, state and local elected officials serve the same constituencies. Infrastructure requires an intergovernmental partnership - and all levels of government have a crucial role to play to achieve overall success."

For the full testimony of witnesses, please visit: http://transportation.house.gov/calendar/eventsingle.aspx?EventID=364867


**REPORT: LAO EXAMINES GOVERNOR’S BUDGET PACKAGE**

On January 9, 2014, Governor Jerry Brown presented a budget package for the State that includes $151 billion in spending from the General Fund and special funds, an $11 billion increase over the last year’s revised budget. After several years of deep budget cuts, the proposed budget represents a second year in a row in which there is some restored funding to various state funded programs. The State’s budget condition, LAO agrees, has improved significantly due in large part to soaring stock prices which have driven sharp increases in recent personal income tax collections. The following overview of the Governor’s proposal is based on a report released by California’s Legislative Analyst's
Office (LAO). The LAO serves as nonpartisan resource for the State Legislature in providing fiscal and policy advice, as well as programmatic expertise and nonpartisan analyses of the state budget.

The LAO report outlines eight major proposals made by the governor: rainy-day fund, CalSTRS (teachers’ pension system), Proposition 98 (which funds K-12 education, the California Community Colleges, preschool, and various other state education programs), Higher Education, Health and Human Services, Infrastructure, Resources and Environmental Protection, and Judicial and Criminal Justice.

The proposal would include a $2.3 billion reserve at the end of FY2014-15—$1.6 billion of which will come from the rainy-day reserve created by Proposition 58 (2004) and $693 million of which will come from the General Fund’s traditional reserve. In addition, the Governor proposes a rainy-day fund measure for the November 2014 ballot that would base deposits on capital gains related revenues—the state’s principal source of revenue volatility, according to the LAO.

According to the LAO, the teachers’ pension system (CalSTRS) is not funded enough to ensure its solvency over the long term. It is unclear under state law who is responsible for providing more funding to the system: teachers, districts, or the state. The Governor’s budget summary comments that the state’s long-term role as a direct contributor to CalSTRS should be evaluated, and that state officials and the education community should attempt to come to agreement on how the state, districts, and teachers respectively will fund CalSTRS over the long term. The LAO suggests setting aside some money now for a future deposit to CalSTRS, once an agreement is made.

The large projected growth in the Proposition 98 budget would fund up to $11.8 billion in increased spending on K-12 education, the California Community Colleges, preschool, and various other state education programs. The fund would be used in large part to pay down $6.2 billion in school and community colleges deferrals. About $4.5 billion would go to school districts based on the new allocation formula called Local Control Funding Formula (LCFF).

The Governor proposes unallocated base budget increases of $142 million each for University of California (UC) and California State University (CSU) in 2014-15. These increases represent the second annual installment in a four-year funding plan proposed by the Governor last year. The Governor conditions his proposed annual funding increases for the universities on their maintaining tuition at current levels. Similar to last year, the Governor does not propose enrollment targets or enrollment growth funding for the universities.

In terms of health and human services, the budget assumes a couple of major fiscal effects associated with various ACA-related provisions that were enacted as part of the 2013-14 budget. For example, the budget assumes about $400 million in net General Fund costs in 2014-15 largely associated with Medi-Cal expansion. In addition, the budget assumes General Fund savings of $300 million in 2013-14 and $900 million in 2014-15 from changes to 1991 health realignment that result in lower state General Fund costs in the California Work Opportunity and Responsibility to Kids (CalWORKs) budget.

The Governor’s Budget Summary says the administration intends to deliver to the Legislature the first five-year infrastructure plan since 2008. The budget plan includes major proposals related to infrastructure, including $815 million (mostly from special funds) for deferred maintenance projects.

As for resources and environmental protection, the Governor’s budget includes a plan for allocating $850 million in cap-and-trade auction revenues and proposes $618 million to address the state’s water challenges, such as limited and uncertain water supplies, poor quality of surface water and groundwater, impaired ecosystems, and high flood risk.

Finally, the judicial branch would receive $105 million in ongoing restoration of funding. This will likely not be enough to restore the level of court services offered before years of major budget cuts to the state’s court system, according to the LAO. Additionally, the Governor’s proposal includes a
plan for increasing funding to address the state’s prison overcrowding crisis. Under federal court order, California must reduce prison overcrowding to levels deemed acceptable by the three-judge panel.

For the full LAO overview of the Governor’s proposal, please visit: http://lao.ca.gov/reports/2014/budget/overview/budget-overview-2014.pdf

REPORT: NACO FINDS POSITIVE YET UNEVEN SIGNS OF RECOVERY ACROSS COUNTIES

A study tracking 2013 economic performance in several thousand counties conducted by the National Association for Counties (NACo) found that while Los Angeles County (and other large counties more generally) was hit particularly hard by the recession, the county’s economy is showing some of the fastest rates of recovery in terms of economic output (GDP) and jobs, and has been a major contributor to recovery in both the rest of the state and the nation as a whole. Researchers analyzed annual changes of four economic performance indicators—economic output (GDP), employment, unemployment rates and home prices—between 2012 and 2013 across 3,069 county economies, and grouped their findings according to county size.

The authors, Emilia Istrate, PhD, Director of Research, and Nicholas Lyell, Research Associate, found that while large counties (those with more than 500,000 residents) represented only 4% of the 3,069 county economies total, they delivered around 58% of the county economies’ output (GDP) growth and a similar share of the added jobs over the recovery. Thirty-four states have large county economies, with California holding the top spot (16 large county economies), followed by Texas and Florida with 10 large county economies each. They are the centers of some of the largest 100 metro areas in the country. Housing prices in large county economies rose strongly in 2013, especially in some of the areas most affected by the housing downturn such as in California and Nevada.

Unemployment rates also dropped the most in large county economies rebounding from the housing market recession in California and Florida. The report offers a more in-depth profile of Los Angeles County, as a county that is “leading the recovery” in the nation. As the most populous county in the U.S. (boasting more than 10 million residents), the county economy contributes more than a quarter of the total economic output (GDP) for California; the report claims that there are positive signs that the county is on its way to full recovery.

Employment in medium-sized county economies was found to be more stable during the recession, but had a mixed record in 2013. About half of medium-sized county economies (populations between 50,000 and 500,000 residents) had shorter and/or shallower job recessions than the national average, more than any other group of county economies. A three-fourths majority of medium-sized county economies registered job growth in 2013, but employment remained the same or declined in 23 percent of the mid-sized group. Almost all mid-sized county economies saw an expansion of the housing market, with more than half registering home price growth rates in double digits.

Unemployment rates dropped in most medium-sized county economies, particularly in some of the California medium-sized county economies.

Of the small counties (populations less than 50,000 residents), it was found that the housing market downturn was more mild, with more than half not going through home price declines or already returned to pre-recession home price levels by 2013. Twenty eight percent of small county economies were still in recession or on the path to recovery in terms of the four study indicators. The report noted “a worrying trend” which was “the lack of housing market recovery in many small economies in counties with large shares of federal land within their jurisdiction. County governments cannot tax federal land; therefore, the property base for taxation diminishes dramatically if the federal land covers
a sizable portion of the county. The housing market did not recover in many small Western county economies with above average federal land shares, such as in California, Nevada, Utah, Idaho, Oregon and Washington.” The report noted that 2013 was the last year of mandatory federal Payment in Lieu of Taxes (PILT) funding for county economies. Without the federal PILT dollars, some of these small counties will have a hard time meeting their obligations to residents, the report states.

The report also noted another particular worry for California county governments: the housing market recovery will not have the same impact on the county coffers as for other counties across the country due to California’s Proposition 13. This law allows property values to be reassessed for taxation purposes only when they are sold or they are newly built. As a result, property bought while home prices were at their lowest will generate less county revenue for as long as it does not change ownership, even long after the property increases in value.

Despite many positive findings, the report emphasizes that recovery is uneven across counties, and still fragile in many places. Many counties were and still are struggling with their budgets to provide essential services and meet financial obligations. Further, the federal policy agenda, from entitlement reform, to tax reform and appropriation cuts may continue to affect their ability to provide services and meet obligations, the report concludes.

For the full report, please visit:
http://www.naco.org/newsroom/pubs/Documents/NACo_County_Tracker%202013.pdf

EVENT: ENRICO FERMI AWARD TO BE PRESENTED TO CALIFORNIAN BY DEPT. OF ENERGY

Dr. Andrew Sessler, Distinguished Scientist Emeritus and Director Emeritus, Lawrence Berkeley National Laboratory and Former President of the American Physical Society, will be presented with the prestigious Enrico Fermi Award on February 3, 2014 by the Department of Energy. Dr. Allen J. Bard, Director, Center for Electrochemistry and Hackerman-Welch Regents Chair in Chemistry at The University of Texas at Austin, will also receive the award.

The Fermi Award honors the memory of Nobel Laureate Enrico Fermi, the first scientist to achieve a nuclear chain reaction and a pioneer in the field of nuclear and particle physics. The award has been presented to outstanding scientists since 1956. It is given for distinguished achievement, leadership, and service related to all basic and applied research, science, and technology supported by the U.S. Department of Energy and its programs. DOE Secretary Ernest Moniz will present the Fermi Award at a ceremony in Washington, D.C., on Monday, February 3, 2014, at 3pm EST.

The public is invited to attend. The deadline to RSVP is January 27th. Follow this link:
http://science.energy.gov/fermi/ceremony/rsvp/

Additional information about the Fermi Award is available at: http://science.energy.gov/fermi.