TRANSPORTATION: SENATE EPW ASSESSES INFRASTRUCTURE; GOVERNOR RELEASES 5 YEAR PLAN

On February 12, 2014, the Senate Environment and Public Works Committee, chaired by Senator Barbara Boxer, held a hearing titled "MAP-21 Reauthorization: The Economic Importance of Maintaining Federal Investments in our Transportation Infrastructure." MAP-21 (the Moving Ahead for Progress in the 21st Century Act) is bipartisan legislation enacted in July 2012 and was the first long-term highway authorization enacted since 2005. It funded surface transportation programs at over $105 billion for fiscal years 2013 and 2014, as well as transformed the policy and programmatic framework for investments to guide the system's growth and development by creating a streamlined and performance-based surface transportation program while building on many of the highway, transit, bike, and pedestrian programs and policies established in 1991.

Witnesses Included: Thomas Donohue, CEO, U.S. Chamber of Commerce; Richard Trumka, President, AFL-CIO; Mike Hancock, President, American Association of State Highway and Transportation Officials and Secretary, Kentucky Transportation Cabinet; T. Peter Ruane, CEO, American Road and Transportation Builders Association; Jay Timmons, CEO, National Association of Manufacturers.

Mr. Hancock stated: "For 50 years, the Highway Trust Fund (HTF) provided stable, reliable, and substantial highway and transit funding. However, over the past five years this has not been the case. Since 2008, over $52 billion have been transferred from the General Fund to the HTF to keep it solvent. In January, the U.S. Department of Transportation (USDOT) announced that the Highway Account of the HTF will likely run out of money as early as this summer. If this is allowed to happen, states may not be reimbursed for work they have already paid for. In addition, failure to ensure the solvency of the HTF will prevent states from being able to obligate any new federal highway funds in Fiscal Year 2015. Almost half of capital investments made by states on our nation's roads, bridges, and transit systems are supported by the federal highway and transit programs administered by the USDOT. Without this strong federal-state partnership, state DOTs will not be able to play their part in building and maintaining the national transportation network on which our economy relies to be competitive in the global marketplace."
The following analysis of what the impact on California would be if no additional revenues are found for the Highway Trust Fund by this summer was provided by Mr. Hancock:

"California receives approximately $3.6 billion in federal reimbursements annually for transportation projects across the state. California's statewide transportation system would experience accelerated deterioration should major rehabilitation projects be cancelled or deferred. California's ability to manage one of its greatest assets, the State Highway System, would be severely impacted by the loss of federal resources. Even if reimbursements for existing projects were to continue, California's ability to move forward with billions of dollars of planned projects would be greatly impacted. In total, the lack of new obligations would imperil current year planned construction of $2 billion for 250 state-sponsored rehabilitation projects, about $700 million in capacity improvement projects, and billions more on local streets and roads. Some of the current state projects that could be delayed or halted due to funding shortages include:

- The $950 million Gerald Desmond bridge replacement project in Los Angeles county.
- The $201 million Schuyler Heim bridge replacement project in Los Angeles county.
- The $105 million Sacramento I-80 HOV and pavement rehabilitation project.
- The $62 million Alameda 880 23rd to 29th mobility project.

In addition, the California Department of Transportation oversees monthly capital expenditures of nearly $500 million. Loss of reimbursement from the HTF for projects already underway would quickly deplete available cash. If reimbursements from the HTF were to completely halt, the state's primary highway account (the State Highway Account) would become insolvent in as little as two months. Even projects and maintenance activities that do not rely on federal funding would be impacted as state funds are expended without reimbursement from the HTF. In surprisingly short order, the operations of the Nation's largest transportation agency would grind to a halt," Mr. Hancock concluded.

"Labor and business come before you united on this issue," noted Mr. Trumka, who cited job creation, economic growth, global competitiveness, and quality of life issues among the reasons why a strong transportation program is imperative to national policy. Witnesses focused on the state of the Highway Trust Fund, the need for long term stability, and the impacts of inaction, while also emphasizing the significance of the policy reforms included in the MAP-21 enactment which are resulting in more value for the federal dollars being invested in transportation. They urged the committee to remain open to policy discussions beyond funding enhancements that would further improve program and project delivery. Also, Mr. Donohue outlined at length the ways in which the federal government can better tap into private investment and financing tools to ensure a more robust national transportation program to meet the nation's future needs. "Transportation is a great opportunity to prove that Democrats and Republicans can work together, that states and the federal government can each play an appropriate role, that business can step up to help meet a major national challenge, and that all stakeholders can come together to get something done for the good of the nation," he concluded.
In related news, Governor Jerry Brown released California's Five-Year Infrastructure Plan last month, which proposes a comprehensive plan for spending on infrastructure projects through 2018-19. The Legislative Analyst's Office, the nonpartisan policy and fiscal advisor to the California Legislature, released a briefing on this document outlining its main components, in addition to raising some concerns about potential gaps in key information provided and proffering broad policy questions for further discussion. The LAO recommended that the state Legislature take a more active role in considering infrastructure in a comprehensive way by determining the state's long-term goals, how the state should prioritize competing infrastructure needs, and what policy changes have the potential to reduce demand for new infrastructure. To address what is cited as the historically fragmented approach to the state's infrastructure planning and decision-making processes, the LAO suggests the establishment of a joint committee in the Legislature. A more holistic approach is important because these investments are typically long-term and involve large expenditures – with even small state projects costing millions of dollars and bond proposals often totaling billions of dollars. Currently, most planning occurs in individual state departments where proposals are routinely reviewed, debated, and funded separately and through differing processes, depending on the circumstances of the specific proposals. Although many investment decisions are driven by specific programmatic needs and may therefore be sensible to evaluate within discrete policy areas, the LAO notes, these compartmentalized decision-making processes can also make it difficult for the Legislature to effectively assess the trade-offs of different projects or proposals from a state-wide perspective.

For more information on the hearing, please visit: http://www.epw.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_id=4cd42913-9186-0aa0-046f-7168a1d1f8c6

For the full LAO report on California's Five-Year Infrastructure Plan, please visit: http://lao.ca.gov/Publications/Detail/2916

RESOURCES: STATE AND FEDERAL OFFICIALS RESPONDING TO CALIFORNIA DROUGHT

On February 5, 2014, Federal and State officials met to discuss a collaborative response to the worst drought in California's 160 years of record-keeping to minimize its social, economic and environmental impacts. Led by Bureau of Reclamation Commissioner Michael L. Connor and California Department of Water Resources Director Mark Cowin, administrators from U.S. Fish and Wildlife Service, National Marine Fisheries Service, National Resources Conservation Service (NRCS), National Integrated Drought Information System and the U.S. Army Corps of Engineers joined in a demonstration of support for an "all-in" strategy on ongoing efforts to address the state of emergency in California. The agencies are seeking to accelerate water transfers and exchanges, provide maximum operational flexibility to store and convey water, expedite environmental review and compliance actions, and pursue new or fast-track existing projects that might help stretch California's water supplies.

Furthermore, Reclamation and NRCS announced they are working together to leverage Federal funds for water delivery agencies and agricultural producers, and will provide up to $14 million in funding for water districts and associated growers to conserve water and improve water management. The projects funded through this partnership in Fiscal Year 2014 will help communities build resilience to drought, including by modernizing their water infrastructure and efficiently using scarce water resources, while continuing to support the agricultural economy. This funding opportunity builds upon an announcement from USDA Secretary Tom Vilsack that funding will be made available through the
NRCS for agricultural water conservation efforts throughout California. Affected landowners have until March 3, 2014 to apply for $20 million in available funds.

The USDA has announced additional assistance to the state. Through the 2014 Farm Bill, $100 million in livestock disaster assistance will be going to California producers. USDA plans to make the assistance program available within 60 days, beginning sign-ups in mid-April. Producers will be able to claim losses from 2012, 2013 and 2014. An additional $5 million is heading to California through USDA's Environmental Quality Incentives Program, which helps farmers and ranchers implement conservation practices that conserve scarce water resources, reduce erosion on fields and improve livestock's access to water. Another $5 million in Emergency Watershed Protection (EWP) program assistance has been set aside for California communities to protecting vulnerable soils, stabilizing stream banks and replanting upland sites stripped of vegetation. Approximately $60 million has been made available to food banks in California through The Emergency Food Assistance Program to help families that may be economically impacted by the drought, and 600 summer meal sites will be established in California's drought stricken areas. Finally, USDA is making $3 million in grants available for rural communities with declining drinking water quantity or quality due to the drought. State health officials have identified 17 small community water districts that are at risk of running out of water in two to four months.

The Bureau of Reclamation has also worked with the California Department of Water Resources to file a "temporary change petition" with the State Water Resources Control Board which would give them permission to exchange water within areas served by the State Water Project and the federally managed Central Valley Project for one year. According to DWR, the requested change would provide "operational flexibility" for the federal and state water projects and would not result in a net increase in the amount of water diverted from the Delta or a net loss of Sacramento and San Joaquin river flows. The State Water Board is expected to act on the petition by March 28.

On January 27, California's Natural Resources Agency, EPA and Department of Food and Agriculture released the California Water Action Plan, defining the state's goals and vision through 2019 with a focus on sustaining water supplies for people, the environment, industry and agriculture. The Governor's proposed 2014-2015 budget recommends $618.7 million in funding for water efficiency projects, wetland and watershed restoration, groundwater programs, conservation, flood control and integrated water management. To view the plan, please visit http://resources.ca.gov/california_water_action_plan/

Under President Barack Obama's Climate Action Plan, the National Drought Resilience Partnership will help coordinate the federal response to drought impacts and work closely with state, regional and local governments. The partnership includes the Departments of the Interior, Agriculture, Energy, and Commerce (NOAA), Assistant Secretary of the Army for Civil Works, Federal Emergency Management Agency and Environmental Protection Agency.

On February 5, Reclamation released its 2014 Central Valley Project Water Plan, which was developed through a series of meetings that began in mid-2013 with water and power users, environmental interests, tribes, and state and federal agencies. The plan outlines numerous actions to help water users better manage their water supplies during drought conditions, such as expanding operational flexibility and streamlining the water transfer process. The plan is available at http://www.usbr.gov/mp/PA/water where visitors will also find a wide variety of current and historical information on CVP water operations, transfers, deliveries and contracts.

In federal legislative activity, the House as previously reported at http://www.calinst.org/bul2/b2104.shtml passed H.R. 3964, the Sacramento–San Joaquin Valley Emergency Water Delivery Act. The bill, sponsored by Rep. David Valadao (Hanford) and all of the
Republican members of the California delegation, is aimed at easing water restrictions in light of the unprecedented drought. It would supercede federal environmental regulations and increase the amount of water allocated to farmers and communities in the San Joaquin Valley. For more information on the bill, go to: http://valadao.house.gov/information/waterdeliveryact.htm

In the Senate, Senators Dianne Feinstein and Barbara Boxer, joined by Sens. Ron Wyden and Jeff Merkley, both of Oregon, introduced the California Emergency Drought Relief Act of 2014 on February 11th. Citing the threat to California's $44.7 billion agriculture sector and the danger of running out of safe drinking water in at least 10 California communities, Senator Feinstein said: "This drought has the potential to devastate Western states, especially California, and Congress and the president must take swift action. This bill provides operational flexibility to increase water supplies and primes federal agencies to make the best use of any additional rain. With so little water available, we must focus on streamlining federal programs and provide what assistance we can to those farmers and communities being hit the hardest."

Senator Boxer said: "Our bill will require all agencies to use their existing authority to help provide relief to communities hardest hit by this unprecedented drought and make investments to move and conserve water to help our entire state. The goal of this bill is to bring us together to address this crisis, rather than divide us."

The bill takes an approach significantly different from the House passed bill. It does not waive any federal or state law, but rather includes a range of provisions that require federal agencies to use existing powers to maximize water supplies, reduce project review times and ensure water is directed to users whose need is greatest. The bill also provides $300 million in emergency funds to be used on a range of projects to maximize water supplies for farmers, consumers and municipalities and provide economic assistance.

For a summary of the key provisions in the bill and California precipitation and water management data, please visit:
http://www.feinstein.senate.gov/public/index.cfm/press-releases?ID=e7668832-d0be-4329-a30f-d1e5e47863aa

REPORT: LAO ANALYZES STATE APPROACH TO UC/CSU FUNDING

Last week, the Legislative Analyst's Office (LAO)* released a report which compared the traditional state budgetary practices for University of California (UC) and California State University (CSU) to the relatively new state approach, and provided recommendations for the state Legislature to coalesce the advantageous elements of each. Historically, two basic workload measurements have been used to adjust state funding for UC and CSU. The first was based on enrollment targets set by the state and provided UC and CSU a specified funding rate for each additional, authorized student. The second adjustment accounted for inflation to cover increased costs for existing operations. The state also typically funded a few cost increases separately (such as pension costs) and earmarked some state funding for targeted purposes (such as student outreach programs). For capital outlay, the state reviewed and approved specific projects and used state bond funds to pay for them. Universities' core programs are largely funded through a combination of tuition and state revenues; the state typically did not have a policy on student tuition levels and revenues, and thus, students experienced uncertainty from year to year with tuition hikes as state funding declined.

In the past six years, however, the state has moved away from its traditional budgetary approach for the universities. The state no longer connects funding to enrollment targets, inflation, and targeted purposes, and has instead adopted new elements to the budgetary process for the universities. Certain outcome measures, such as graduation rates, must now be reported. Legislation passed in 2013 specified...
that student access, student success, state civic and workforce needs, and efficiency all should be taken into account when making higher education budget decisions. While there were many shortcomings to the traditional budgetary approach that tied funding to enrollment and inflation, the LAO argued, the new approach does not specify exactly how to use these new factors in the budgetary process. The LAO posits that the more recent state budgetary approach diminishes legislative oversight and decision making regarding capital outlay, but has the advantage of emphasizing a broader set of state priorities, such as student success. Based on mixed reviews of the traditional budgetary approach and the state's new approach, the LAO recommends a return to the use of enrollment and inflation (because it connects funding and costs and ensures a certain level of student access) with some refinements. Specifically, they recommend the Legislature authorize an updated eligibility study (such a study has not been conducted in over six years), set different targets for different groups of students (the universities are to report the cost of educating undergraduate and graduate students separately beginning October 2014), and set enrollment targets for one year out to better influence university enrollment decisions. In addition, they recommend the Legislature adopt a share of cost policy for student tuition to reduce volatility in tuition levels, as well as use the universities' required reports on outcome measures to inform its budget decisions.

*The LAO is the nonpartisan policy and fiscal advisor to the California Legislature. For the full report, please visit: http://lao.ca.gov/Publications/Detail/2913

**IMMIGRATION: TWO NEW REPORTS RELEASED**

In light of the ongoing debate around immigration reform, recent reports released by the American Farm Bureau Federation (AFBF) and the Bipartisan Policy Center (BPC) provide information about labor needs in connection to immigration policy.

The AFBF report, "Gauging the Farm Sector's Sensitivity to Immigration Reform via Changes in Labor Costs and Availability," compares changes in farm output, commodity prices, farm income, farm asset values, and food prices across four generic reform alternatives. It argues that an approach to agricultural labor reform that focuses solely on immigration enforcement would raise food prices over five years by an additional 5 percent to 6 percent and would cut the nation's food and fiber production by as much as $60 billion. The hardest-hit domestic food sectors under an enforcement-only scenario are fruit production, which would plummet by 30-61 percent, and vegetable production, which would decline by 15-31 percent. California could be disproportionately affected in this regard, according to the report, as the state produces nearly half of U.S.-grown fruits, nuts and vegetables and U.S. consumers regularly purchase several crops produced solely in California. While many consider fruit and vegetable production the most labor-reliant sector, livestock production in the U.S. would fall by 13-27 percent, the report pointed out. California accounts for 7.1% of the U.S. revenue for livestock and livestock products. As the California labor market is especially indicative of larger patterns of the agricultural sector's dependence on immigrant labor, the report specifically draws upon California unemployment statistics to inform conclusions about the role of undocumented workers in U.S. agriculture. The report concludes that legislation with provisions for immigration enforcement, a redesigned guest worker program, and the opportunity for skilled laborers currently working in agriculture to earn an adjustment of status would have little to no effect on food prices, and the impact on farm income would be less than 1 percent.

Last month, former Secretary of State Condoleezza Rice, former Secretary of Housing and Urban Development Henry Cisneros and former Secretary of Homeland Security Michael Chertoff – all members of the BPC's immigration task force – led a discussion about immigration's implications for demographics, economics and the future of U.S. national security. The discussion was informed in part
by the BPC's January 2014 report "Immigration: America's Demographic Edge," in which demographic trends in countries with advanced economies were examined; the report found that the populations of many of these countries are stagnating and in coming decades will face challenges maintaining the size of the labor force. This stagnation, they posit, is due primarily to declining fertility rates. Also, seniors account for an increasingly larger share of their overall populations in most developed countries. As these demographic trends accelerate, the already-tested economic and social systems of the developed world will be strained, the report argues. Increasing numbers of elderly people exiting the workforce combined with a slower population growth leaves a gap in filling vacated jobs. The diminished labor force in turn limits the economy's growth potential and strains social insurance programs that count on workers to support retirees. Though the United States faces these same challenges, the report concludes that it has a healthier demographic outlook than most other advanced economies. Immigrants help improve the U.S. demographic outlook by (1) coming in large numbers (about one million legally per year) and (2) having children at nearly a 50 percent higher rate than people who are not immigrants.

"In addition to significant economic and competitive benefits, fixing our broken immigration system will support our national and homeland security," said Secretary Chertoff. "Maintaining our economy and population will support our influence in the world, and fixing our immigration system will help ensure our borders are secure."

For the full AFBF report, please visit: http://www.fb.org/newsroom/nr/nr2014/02-10-14/labor-study14c0207.pdf
For the full BPC report, please visit: http://bipartisanpolicy.org/library/report/immigration-america%E2%80%99s-demographic-edge

REPORT: CA STATE SENATE REPUBLICANS ANALYZE FEDERAL FARM BILL

The Republican Caucus of the California State Senate has released a briefing report following the recent passage of the federal Agricultural Act of 2014 (The Farm Bill), summarizing some of the major reforms, with some emphasis on impacts on the California agriculture community. The report describes the reconfiguration of direct payments to farmers into a crop insurance program, which will save taxpayers over $19 billion over the next 10 years. The bill also repeals the 70 year-old system of setting minimum prices for milk, cheese and butter. Funding for a disaster assistance program is expected to provide some level of relief for dairy farmers forced to reduce their herds in the future because of lack of water. Until federal agriculture officials define the parameters of the new program, it is unknown what level of assistance can be expected.

The report also discusses the elimination of an amendment that would have preempted state law over health, safety, or disease protections for agricultural products within their jurisdiction and would have been potentially harmful to California egg producers.

Changes to the Supplemental Nutrition Assistance Program (SNAP), commonly known as Food Stamps, were noted; about $8 billion will be saved based largely on reforms to the home heating assistance program that automatically make residents eligible for increased SNAP benefits. Provisions for anti-fraud programs were lauded in the report. The Farm Bill more than doubles annual funding for the National Organic Certification Cost-Share Program to offset the costs of annual certification for organic farmers and handlers. It also allows Farmers Markets to participate more fully in the SNAP program.

The report also mentions a provision of the bill that would allow colleges and universities to cultivate industrial hemp (marijuana's non-intoxicating cousin that is used to make everything from clothing and soap to cooking oil) for academic or agricultural research purposes in the 10 states where
industrial hemp farming is already legal under state law. California's hemp statute was signed into law last year.

The bill includes $600 million in mandatory research dollars to support specialty crops, organic agriculture, and beginning farmers. These programs have all been stranded without funding since 2012. The specialty crop research program is especially vital to California's agricultural research programs at state universities, including the leading agricultural research institution at UC Davis. The bill also includes $125 million in mandatory funding for research on Huanglongbing (citrus greening disease) that is the Number 1 threat to California citrus crops. It also contains another $125 million in discretionary funding for the disease.

The bill creates a safety net for California dairy farmers called the Margin Protection Program, which will provide targeted support when feed prices are high or milk prices are low, as well as the ability to petition USDA to create a federal milk marketing order. This petition authority is especially important if dairy farmers cannot receive payments from the state milk pooling program that adequately cover their costs.

And finally, the bill includes approximately $400 million in Payments In Lieu of Taxes (PILT), a program that reimburses rural counties for the loss of property tax-dollars from land owned by the federal government. Without the PILT extension, the report notes, rural counties would have lost funding for schools, roads, search and rescue crews and other important programs.

For the full report by the Republican Caucus of the California State Senate, please visit: http://cssrc.us/content/briefing-report-summary-federal-agricultural-act-2014