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.

**BANKING: Bipartisan Policy Center Assesses Dodd-Frank**

Last week, the Bipartisan Policy Center released a report entitled “Dodd-Frank’s Missed Opportunity: A Road Map for a More Effective Regulatory Architecture,” which proposes a streamlined regulatory structure that is both more effective and efficient in helping the United States avoid another financial crisis. Though the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act made significant changes and some needed refinements to the U.S. regulatory architecture following the financial crisis, the authors argue that the law focuses more on expanding regulatory authority than making the overall structure more efficient or eliminating overlapping jurisdictions in a fractured financial regulatory framework. Rather than reforming the U.S. financial regulatory structure into one coherent system, authors say that Dodd-Frank continued a pattern of producing ad hoc responses to financial crises that has driven the evolution of patchwork regulatory framework.

Authors acknowledged that some risk factors for preventing crisis have been addressed by Dodd-Frank with the following refinements: the creation of the Financial Stability Oversight Council (FSOC) to facilitate information-sharing and coordination among the various financial regulators; the consolidation of the Office of Thrift Supervision (OTS) with the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve; and the establishment of a new agency dedicated solely to consumer protection, the Consumer Financial Protection Bureau (CFPB).

However, certain weaknesses of the U.S. financial regulatory architecture that were highlighted by the crisis either were not addressed or were inadequately addressed by Dodd-Frank. Today, the report emphasizes, the U.S. financial system remains too fragmented, with gaps in regulation that contribute to systemic risk and inefficiencies in both government and private markets. For example, the separation of securities and commodities regulation creates conflict between agencies and inefficiency for institutions that must comply with two sets of similar rules for similar activities. Likewise, the separate regulation of banks and their parent holding companies can produce regulatory overlap, especially in those cases in which a holding company is in essence a corporate shell for the bank.
Furthermore, the report notes, the U.S. is one of the few remaining major industrialized countries that does not regulate the business of insurance on a national basis. This complicates coordination with international insurance authorities and impedes national platforms for serving consumers more effectively and efficiently. Finally, the new FSOC is a positive first step toward better regulatory coordination, but it is too large, cumbersome, and weak to effectively coordinate and rationalize the regulatory actions of independent agencies, authors assert.

The report outlines three key reasons that past proposals for greater rationalization of the U.S. financial regulatory architecture have foundered: the natural resistance to changing existing regulatory agencies, both federal and state, because existing stakeholders are familiar and comfortable with the system at the time; stakeholders unwilling to concede advantages they gain from the status quo, even if such advantages may be inefficient or lead to inequitable treatment; and jurisdiction divided among multiple congressional committees, each of which historically has been interested in preserving its existing jurisdictional authority. Authors address these concerns as well as present a road map for how to achieve a more rational and effective financial regulatory architecture over time in line with the following guiding principles: clarify the U.S. regulatory architecture to close gaps that could contribute to a future crisis or financial stress event; improve the quality of regulation and regulatory outcomes; better allocating, coordinating, and efficiently using scarce regulatory resources; ensure the independence and authority of financial regulators to allow them to anticipate and appropriately act on threats to financial stability; and increase the transparency and accountability of the regulatory structure.

For the full report, please visit:

HOUSING: PRICES IN CALIFORNIA AMONG HIGHEST IN NATION

In recent figures reported by Jed Kolko, the chief economist at the real-estate tracking site Trulia, 43.5 percent of the homes for sale in metropolitan San Francisco as of March 3, 2014, were listing for $1 million or more. Out of his list of the 100 largest metro areas in the U.S., six of the ten metro areas with the highest share of for-sale list prices at or above $1 million are in California: San Francisco, San Jose, Orange County, Ventura County, Los Angeles, and San Diego. His data uses asking prices rather than actual sale prices for metropolitan statistical areas as delineated by the Office of Management and Budget (OMB) for use by Federal statistical agencies in collecting, tabulating, and publishing Federal statistics.

These figures illuminate an emerging trend in a divided housing market in California: sales of high-end homes costing more than $800,000 have increased by 12% from this time last year, whereas sales of mid-priced homes (between $200-500K) have decreased by 17% and low-priced homes (below $200K) decreased by 44%, according to figures from San Diego-based DataQuick. While housing prices are rising overall, many potential buyers are getting priced out, contributing to a drop in sales on the lower-priced end of the market.

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MaryBeth Sullivan
Executive Director
"Housing affordability is really taking a bite out of the market," said Leslie Appleton-Young, chief economist for the California Association of Realtors (C.A.R.). "We haven't seen this issue since 2007."

According to a recent C.A.R. report, California home sales fell in February, but housing inventory increased as sellers gear up for the spring home-buying season. February marked the fourth straight month that sales were below the 400,000 level and the seventh straight decline on a year-over-year basis. "The slower sales in February reflects diminished housing affordability after three years of solid price increases and interest rates that are nearly a full percentage point higher than a year ago," said C.A.R. President Kevin Brown. "With the interest rate difference alone, home buyers this year would have to pay $150 more per month on their mortgage payment than last year, a substantial amount for many would-be home buyers trying to get into the market."

According to their report, the statewide median price of an existing, single-family detached home declined 1.6 percent from January’s median price of $410,990 to $404,250 in February. February's price was 21.3 percent higher than the revised $333,180 recorded in February 2013, marking two full years of consecutive year-over-year price increases and the 20th straight month of double-digit annual gains, as sales of higher priced homes made up a larger share of the market compared to a year ago. The median sales price is the point at which half of homes sold for more and half sold for less; it is influenced by the types of homes selling as well as a general change in values.

For more information about current statewide housing market trends, please visit: http://www.car.org/newsstand/newsreleases/2014releases/feb2014sales?view=Standard

ENVIRONMENT: LA/LONG BEACH PORTS AT ODDS WITH SOUTH COAST AQMD

The South Coast Air Quality Management District (AQMD) has called for a rule that would hold the ports of Los Angeles and Long Beach responsible for their voluntary pledges to cut pollution from thousands of trucks, ships and trains carrying goods to and from the nation's largest port complex. The publicly owned ports of Los Angeles and Long Beach comprise the largest marine port complex in North America that act as landlords to international shipping lines, which move millions of cargo containers full of products, including about 40% of U.S. imports, in and out each year. The ports are also the source of the highest share of smog-producing pollution emission in Southern California. Existing voluntary emission reduction commitments for nitrogen oxides, sulfur oxides and PM2.5 in the ports’ Clean Air Action Plan are key to the region meeting its clean air goals, including one to meet emission reduction targets needed to achieve federal health standards for fine particulates (PM2.5) by 2015. The tiny, chemical-laced particles in diesel exhaust are linked to cancer, heart disease and thousands of premature deaths a year in California.

"The ports have made substantial progress in reducing emissions from their operations," said William A. Burke, Ed.D., AQMD’s Governing Board Chairman. “This action simply ensures that if the ports’ voluntary pollution reductions don’t occur on time, AQMD’s regulation will require them to develop additional measures to address the shortfall” only within what is technologically feasible, cost effective and within [the ports’] legal authority. Those could include lease provisions or incentives to get tenants to use cleaner engines.

The Los Angeles Times explains that in California, the state and federal government regulate emissions from cars, trucks, ships, construction equipment and other "mobile sources" that emit most of the smog-generating pollutants. Local air districts have control over only "stationary sources," including power plants, refineries and factories, though they account for less than one-third of the state’s smog-forming pollution. One exception is their power to regulate "indirect sources" — facilities that attract a lot of vehicles or other mobile polluters; however, local regulators are reluctant to use this
authority, and have invoked indirect source authority on only a few occasions in California. The Bay
Area Air Quality Management District is in the early stages of considering similar indirect source rules
that could potentially affect the nation's fifth-busiest port in Oakland, among other facilities.

Port officials and industry groups oppose this proposed rule, saying that the ports have
exhausted their means of extracting emissions reductions from the industry and cannot do more to
unilaterally reduce pollution as they do not own or operate the trucks, ships, locomotives and
cargo-handling equipment that serve the port.

The South Coast air district board, which could vote as early as this summer, is made up of 10
elected officials and three appointees from Los Angeles, Orange, Riverside and San Bernardino
counties.

SURVEY: FIELD POLL RELEASED ON CALIFORNIANS’ VIEWS

Recently published findings by The Field Poll, an independent and non-partisan survey of public
opinion, measure current views of California voters in regards to taxes, government spending and the
state’s landmark property tax reduction amendment, Proposition 13.

The survey’s main findings include the following:

- By a 54% to 35% margin, most California voters say they prefer lower taxes and fewer
government services to higher taxes and more government services. Opinions are highly
partisan. Democrats prefer higher taxes with more government services, 51% to 36%, but
Republicans overwhelmingly favor lower taxes with fewer government services, 81% to 13%.

- Voters are divided when asked about the overall level of government spending in California.
About four in ten voters support holding overall government spending at about current levels. Another
one in three favor reducing overall spending levels, while one in four prefer increasing them. However,
when voters are asked whether state and local government spending in each of six specific program
areas should be increased, reduced or left the same, there is much less support for spending reductions.
Only small proportions of voters (between 8% and 15%) support less state and local government
spending on the K-12 schools, mental health, road and highway building and repair, and law
enforcement and police. In the case of K-12 schools and mental health, majorities favor increased
government spending. In the case of road and highway building and repair, and law enforcement and
police, pluralities support keeping spending at current levels. Voters are divided when asked about
government spending on environmental protection and public assistance programs.

Varying proportions of voters can correctly answer three questions about the tax provisions
contained in California’s landmark Proposition 13 property tax reduction amendment. A 42% plurality
of voters is aware that the Prop. 13 tax reductions apply to both residential and commercial property;
53% understand that Prop. 13 requires a two-thirds majority of the votes in an election to increase local
taxes; and 68% know that more recent homeowners living in similar homes in the same neighborhood
generally pay higher property taxes than homeowners who have lived in their homes for longer periods.
In each case, between 15% and 24% of voters volunteer that they don’t know the correct answer, while
between 17% and 34% give an incorrect reply.

About half of voters say they generally support the idea of changing parts of Prop. 13, while
34% are opposed and 17% are undecided. There is strong bipartisan support for changing one aspect of
Prop. 13. This relates to the fact that, because of the complexities in the way businesses and commercial
properties are sold, their properties are not always reassessed when ownership is transferred. By a 69%
to 17% margin, voters endorse changing this so that the property taxes of businesses and commercial
properties are always reset and based on their current assessed value whenever they are sold or
transferred. About four in ten voters support the idea of reducing Prop. 13’s two-thirds majority vote requirement to increase local taxes to a 55% majority.

The full survey can be obtained at: http://field.com/fieldpollonline/subscribers/Rls2469.pdf

**REPORT: PEW RESEARCH PUBLICATION LOOKS AT AMERICAN DEMOGRAPHICS**

A new book by Paul Taylor, published in conjunction with the Pew Research Center, entitled *The Next America* posits that two major demographic transformations are underway in the United States; an interactive essay based on the findings presented in the book has also been released recently.

The Pew Research Center tracks these transformations with public opinion surveys and demographic and economic analyses, and the book draws on this wealth of data to present a portrait of the many ways the U.S. is changing and the challenges that lie in the decades ahead. At the same time that the U.S. is becoming majority non-white for the first time, a record share of the population will reach the age of 85 or older. The author asserts that either one of these transformations alone would be significant enough to define an era, and the fact that both are unfolding simultaneously will generate big generation gaps that will put stress on our politics, families, pocketbooks, entitlement programs and social cohesion.

The author explains how for the first time in human history, our society will shift from being represented by an “age pyramid” to an “age rectangle.” An “age pyramid” is what demographers refer to in showing that for every society in history, if you break down the population by age group, the youngest will always form the largest share of the population, or the foundation of the pyramid, and groups will get progressively smaller until the top of the pyramid, representing the elderly as the smallest share of the population. But as a result of longer life spans and lower birthrates, there will be almost as many Americans over age 85 as under age 5 by 2060. This kind of dramatic demographic shift will create political and economic stress in the shorter term, as smaller cohorts of working age adults will be hard-pressed to finance the retirements of larger cohorts of older ones.

In terms of the racial and ethnic shift underway, the author points out that while in 1960, the population of the United States was 85% white, it will be only 43% white by 2060. Since more than 40 million immigrants have arrived since 1965, there is a much wider range of diversity than ever seen in the U.S. before. As opposed to the waves of immigrants who came in the late 19th and early 20th centuries who were about 90% European, about half of immigrants since 1965 are Hispanics and nearly three-in-ten are Asians, while only 12% are from Europe. The research also points to rapidly changing perceptions of racial/ethnic categories, as today nearly one in six newlyweds marry somebody of a different race or ethnicity.

The author develops a framework around four generations: Silent (ages 69-86), Boomers (ages 50-68), Gen X (ages 34-49), and Millennials (ages 18-33). From this framework, he uses Pew data to compare the defining elements of each generation, with the caveat, of course, that individuals in each group are not necessarily defined by the generalized characteristics ascribed to their generation. He notes that in the past few elections, the young/old partisan voting gap has been the biggest since the voting age was lowered to 18 in 1972. “As recently as the year 2000, there had been no difference in the way young and old in America voted. However, six-in-ten young voters supported Barack Obama in his re-election bid in 2012, compared with just 47% of those in the age ranges of their parents (45 to 64) and 44% of their grandparents (65 and older). By race, six-in-ten white voters supported Republican candidate Mitt Romney, whereas more than nine-in-ten black voters supported Obama. Obama also captured more than 70% of the Asian-American and Hispanic vote. He also notes significant shifts in views on religion and technology.
In terms of the challenges presented by these demographic and subsequent cultural shifts, the author points to a figure that says nearly nine-in-ten Americans say that Social Security and Medicare are good for the country. He goes on to outline how the status quo with these programs is unsustainable in that approximately 10,000 Baby Boomers will be going on Social Security and Medicare every single day between now and 2030, and by that time there will be just two workers per beneficiary compared to three-to-one now, five-to-one in 1960 and more than forty-to-one in 1945, shortly after Social Security first started supporting beneficiaries. Meantime, the cost of programs for seniors will soon exceed half of the federal budget, the author says.

“At its core, this is a problem of generational equity. But it need not lead to a generation war. A war needs combatants. We find very little evidence from our Pew Research surveys that old and young are spoiling for a fight over these issues. To the contrary, they like each other too much. And nowadays more than 50 million, a record, are living in multi-generational family households, their fortunes braided together, because that turns out to be a good way to make ends meet in hard times. If Americans can bring to the public square the same genius for generational interdependence they bring to their family lives, the politics of these issues will become less toxic and the policy choices less forbidding,” the essay concludes.

For the complete interactive essay on “The Next America,” please visit: http://www.pewresearch.org/next-america/#Two-Dramas-in-Slow-Motion

REPORT: PPIC RELEASES NEW STATEWIDE SURVEY

According to the March 2014 Statewide Survey: Californians and Their Government conducted by the Public Policy Institute of California (PPIC), a record-high share of Californians say the supply of water is a big problem in their part of the state, and nearly all residents say they have reduced their water use in response to the drought.

The statewide survey asks residents for opinions on a wide range of policy questions and their perception of government performance. Residents' increasing concern about water is evident in their responses to a number of questions. Fifty-five percent of residents say that the supply of water in their area is a big problem, compared to 44 percent of Californians who said so in December 2009 during a drought. Almost all Californians (92%) say they and their families have done a lot (57%) or a little (35%) to reduce water use in response to the drought. When asked to name the most important issue facing Californians, jobs and the economy (32%) is still the most frequently mentioned; however, the share of residents who choose it has dropped 13 points in the last year, while the share naming water and drought as most important has grown 13 points. Californians today are also more likely than they were a year ago to favor an $11.1 billion bond for state water projects. As the legislature continues to discuss the measure – now on the November ballot – 60 percent of adults (up 16% from last year) and 50 percent of likely voters (up 8% from last year) say they would vote yes. Today, when those who oppose the bond are asked how they would vote if the amount were lower, support rises (69% adults, 59% likely voters). A slim majority of adults (52%) and 44 percent of likely voters say it is very important that voters pass the bond.

Californians were asked about another big project: a high-speed rail system. In 2008, voters passed a $10 billion state bond for its planning and construction. Today, when read a description of the system and its $68 billion price tag, 53 percent favor it and 42 percent oppose it. Likely voters are less supportive (45% favor, 50% oppose). When opponents of high-speed rail are asked how they would feel if the cost were lower, support rises (69% adults, 60% likely voters). Asked about high-speed rail's importance, 35 percent of adults and 29 percent of likely voters say it is very important to the future quality of life and state's economic vitality.
A record-high 65 percent of Californians say that immigrants are a benefit to the state because of their hard work and job skills rather than a burden because they use public services (27%). State residents are far less divided on this question than when PPIC first asked it in April 1998 (46% benefit, 42% burden). On immigration reform, an overwhelming majority of adults (86%) and likely voters (83%) favor providing a path to citizenship for immigrants in the U.S. illegally who meet certain requirements – including waiting a certain period of time, paying fines and back taxes, passing criminal background checks, and learning English. Even among Californians who say immigrants are a burden there is majority support (72%) for a path to citizenship.

Three-quarters of residents (73%) say the gap between the rich and the poor in the nation is getting larger (21% stayed the same, 3% getting smaller). The share of likely voters who say it is growing is even larger (81%). Majorities across parties, regions, and demographic groups say the gap is getting larger. Notably, the share saying the gap is widening increases as income levels rise. Asked about the government's role in reducing the gap between rich and poor, 61 percent of adults say the government should do more. A third (33%) say this is not something the government should be doing.

A majority of residents (55%) say that stricter environmental laws and regulations are worth the cost, while 38 percent say that this type of regulation costs too many jobs and hurts the economy. While 50 percent of adults say the state and local tax system is at least moderately fair – a perception that is similar across income groups – a record-high 60 percent say they pay at least somewhat more than they should. Asked about raising specific types of state taxes, 63 percent of adults favor raising the top income tax rate paid by the wealthiest Californians. About half (51%) favor raising taxes for California corporations.

For the full results of the survey, please visit: http://www.ppic.org/main/publication.asp?i=1091

REPORT: PPIC EXAMINES FUNDING GAPS IN WATER MANAGEMENT

Last month, the Public Policy Institute of California (PPIC) released a report stating that the state faces critical funding gaps in five key areas of water management. These areas include safe drinking water in small, disadvantaged communities; flood protection; management of stormwater and other polluted runoff; aquatic ecosystem management; and integrated water management.

The report identifies the overall funding gap in these five areas at $2 billion to $3 billion annually. Filling this gap would require a spending increase of 7-10 percent – or $150 to $230 per household – for a water system with annual spending of more than $30 billion.

"Our water challenges seem daunting, but this is a fixable problem," said Ellen Hanak, PPIC senior fellow and one of the authors of the report. "With a bold, concerted effort by state and local leaders, Californians can sustainably manage this critical resource – despite increasing water scarcity, population growth, and climate change."

According to the report, the funding gaps in each area are:

- Safe drinking water for small, disadvantaged communities. Overall, 80,000 to 160,000 Californians live in rural communities that have difficulty providing safe drinking water, as they often rely on highly contaminated groundwater. An additional $30 million to $160 million per year is needed to adequately address this problem.

- Flood protection. Roughly 25 percent of the population lives in a floodplain in a state where climate change may bring warmer winters and more severe inland flooding, along with rising sea levels and storm surges on the coast. Much of the state's flood-control infrastructure is aging, and rebuilding typically requires costly upgrades to meet higher safety standards. New capital investments of $800 million to $1 billion annually are needed to shore up the system. Statewide, this means doubling the amount of money currently spent by local residents on flood management.
- Management of stormwater and other polluted runoff. Regulations to limit polluted runoff have become more stringent. As a result, costs have risen for capturing and treating stormwater before it is discharged into rivers, bays, and the ocean. Stormwater agencies need an additional $500 million to $800 million per year to meet urban permit requirements.

- Aquatic ecosystem management. Recovery plans for endangered species, habitat conservation, and other restoration projects need $400 million to $700 million more each year to mitigate the damage of past actions and promote the health of native species. About half of the cost is for work in the Delta and greater Sacramento-San Joaquin watershed, and about half is for coastal and estuarine ecosystems.

- Integrated water management. Better integration will improve the cost-effectiveness of California's large and decentralized water management system. An additional $200 million to $300 million annually would jump-start more collaborations across agency boundaries and provide the scientific support to effectively manage these systems.

The report also offers some unexpected good news about the financial health of the water system. The two biggest ticket items – water supply and wastewater management – are still reasonably successful. Most water and wastewater utilities, which together account for over 85 percent of total spending, are successfully providing safe drinking water and collecting and treating wastewater. Local utilities, relying primarily on fees from ratepayers, have generally been able to raise rates to cover costs and invest at a healthy pace. However, these utilities face looming legal challenges related to Proposition 218, which may jeopardize utilities' ability to provide "lifeline" discounts to low-income households, for example.

The report identifies current funding sources and proposes a range of funding alternatives that may help to cover the funding gaps. Additionally, voter-approved state laws are discussed in terms of how they have encouraged heavy reliance on state bonds, made raising money locally challenging, and limited local government's ability to manage water responsibly.

For the full report, please visit: http://www.ppic.org/main/pressrelease.asp?i=1464