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To expand communications between Washington and California, the California Institute provides periodic faxed bulletins regarding current activity on Capitol Hill which directly impacts our state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods. The e-mail edition is made possible in part by in-kind contributions from Sun Microsystems and IBM Corp.

INSTITUTE AND PPIC RELEASE NEW REPORT ON FEDERAL FORMULA GRANTS AND CALIFORNIA: FEDERAL HIGHWAY PROGRAMS

The California Institute and the Public Policy Institute of California (PPIC) are pleased to announce publication of a new report detailing California's fiscal relationship with the federal highway programs that help state and local governments build and maintain the nation's roads and highways.

The report was released on February 26 at a luncheon briefing attended by nearly 100 Congressional staff members, reporters, public officials, and representatives of the business, labor and academic communities.

Congress will soon revise TEA-21, the \$29.5 billion comprehensive surface transportation law that governs policy and funding for federal highway programs. In fiscal year 2002, California received nearly 9 percent - \$2.7 billion - of total federal highway dollars distributed through TEA-21.

For decades, many California lawmakers have questioned the equity of the formulas used to determine the state's share of federal highway funds. *Federal Formula Grants and California: Federal Highway Programs* examines the mechanics of the federal highway formulas that determine funding levels for California and other states. It also analyzes possible formula-change scenarios and the state-by-state effects of those changes.

This report is the fourth in an ongoing series reviewing California's share of federal formula grant programs. The series was developed at the request of the bipartisan leadership of California's congressional delegation and is produced by PPIC in collaboration with the California Institute for Federal Policy Research.

At the luncheon on February 26, PPIC Senior Fellow and Director of Research Mark Baldassare introduced the project and outlined its goals, objectives and products. California Institute Executive Director Tim Randsell then discussed formula programs generally, how they fit into the context of the federal budget, and then outlined California's share of the ten largest formula grants (Medicaid, highways, TANF, Title I, school lunch, head start, special education, foster care, SCHIP and WIC). He also detailed California's share of the ten grants to states that make up the Federal-Aid Highway Program, and discussed the state-by-state impact of possible formula changes. Formula grants project associate Shervin Bolorian provided an overview of transportation laws and described California's perspective on TANF and federal welfare programs.

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For the full text of the report, go to <http://www.ppic.org> and click on the link for "Federal Formula Grants and California." A subscription to the full series of reports may be ordered from PPIC on this project's page, <http://www.ppic.org/main/publication.asp?i=172>. The highways report alone is available at <http://www.ppic.org/content/other/203Highway.pdf>.

A two-page overview of highways-related information entitled "Just The Facts" will be available in the near future and is attached to this bulletin.

OMNIBUS APPROPRIATIONS ANALYSIS UPDATED

The Institute has updated its initial analysis (See, [Bulletin, Vol. 10, No. 3 \(2/14/03\)](#)) of the FY03 Omnibus Appropriations bill passed by Congress two weeks ago. It is important for readers to note that the appropriation figures cited in the updated analysis are not reduced by the 0.65 percent across-the-board cut enacted in the bill. It will be up to the individual agencies to determine how and where to impose those cuts.

Please note that this appropriations analysis special report is a large document -- approximately 30 pages. The new version, with its greater detail on programs and projects of importance to California, can be found on the Institute's website in text form at: <http://www.calinst.org/pubs/omn03c.htm> and in Adobe Acrobat (pdf) format at <http://www.calinst.org/pubs/omn03c.pdf>.

JUDICIARY SUBCOMMITTEE EXAMINES P2P PIRACY ON COLLEGE CAMPUSES

The House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property held a hearing on Wednesday, February 26 to examine the issue of Peer-to-Peer (P2P) piracy on college campuses. P2P piracy occurs when an individual uses an Internet file-sharing network (such as Morpheus or Gnutella) to download music, movies, and other copyrighted works.

Among the witnesses were Hilary Rosen, Chairman and CEO, Recording Industry Association of America, and Graham Spannier, President, Pennsylvania State University and Co-Chair

Ms. Rosen detailed the scope and damage of P2P piracy, stating that 2.6 billion music files are downloaded monthly, with many of those files being downloaded by students on college campuses. She outlined the actions her industry and other entertainment industries have taken to solve the problem. Last fall, RIAA, the Motion Picture Association of America, and others wrote to over 2,000 colleges and universities asking for their active participation in addressing the problem. As a result, the Joint Committee of the Higher Education and Entertainment Communities was established. Dr. Graham Spannier co-chairs the group with Cary Sherman, the President of RIAA. Ms. Rosen was hopeful that the industry and the academics would be able to establish common standards to devise strategies to educate students on the harm of P2P piracy and on their legal obligations.

Dr. Spannier stated that "the misuse of P2P technology on college and university campuses-the subject of this hearing-is a serious problem that is now acutely confronting higher education administrators. Fully understanding the nature and scope of the problem and how to deal with it raises a series of challenges that we are working hard to meet." He detailed the efforts Penn State has taken to educate its students on the problem. He also outlined the steps the University will take when a student is downloading large files thought to be copyrighted works. As a last resort, after several warnings and intermediate efforts, the University will bar a student from access to the University network. He also discussed the efforts of the Joint Committee and believes it will be able to identify a number of new practices that will then be shared widely with the nation's colleges and universities.

Rep. Howard Berman (Valley Village) has been actively involved in resolving the piracy problem and introduced legislation to deal with the P2P piracy issue.

For all testimony, access the Committee's website at: <http://www.house.gov/judiciary>.

REDUCTION IN FY 2004 HIGHWAY FUNDS DEFENDED BY FHWA OFFICIAL

On February 27, 2003, top Federal Highways Administration (FHWA) official Mary E. Peters addressed the Senate Environment and Public Works, Transportation and Infrastructure subcommittee to discuss the president's highways budget priorities for FY 2004.

Of major concern to subcommittee Chair Christopher Bond (MO) and most other members of the panel was the \$29.3 billion total federal-aid highways appropriation proposal, this would reduce '04 spending for highways programs by \$2.5 billion from FY03 levels recently approved in the Omnibus Budget Appropriations Act. In his opening statement, Chair Bond voiced displeasure at the proposed reduction on behalf of his colleagues and presented Administrator Peters with a letter endorsed by 63 members of the Senate criticizing the \$29.3 billion allocation as inadequate to meet the nation's highway needs.

In her testimony, Administrator Peters acknowledged the decision to reduce FY2004 funding as a "difficult choice"; but a seemingly necessary one in light of current fiscal challenges faced by the federal government. "The President's budget seeks a balance in addressing domestic needs, meeting our international responsibilities, and protecting against terrorist attacks at home." She said, referring to the highway budget as both "responsible and substantial."

Another member of the panel calling for additional highway funds, California Senator Barbara Boxer, was also concerned about the impact of traffic congestion. Citing a Texas-Transportation Institute report that finds four California cities to be among the top five worst congested metropolitan areas in the country, Senator Boxer called the hours of delays resulting from traffic congestion unreasonably time consuming and expensive. The President's budget includes a new Infrastructure Performance and Maintenance Program that adds \$6 billion over six years to respond to congestion problems and to improve pavement conditions, according to Administrator Peters.

Administrator Peters went on to discuss the FHWA's goal of improving traffic safety on highways as a priority in 2004. Better planning, increased local flexibility, improved infrastructure and increased investments in research and technology projects were discussed as ways to reduce the forty thousand road-related fatalities every year, according to Administrator Peters.

The President's FY'04 budget maintains funding provisions such as firewalls, contract authority and the Revenue Aligned Budget Authority (RABA) while proposing to divert \$600 million of annual gasoline tax dollars from the general fund to the highway trust fund.

According to the California Department of Transportation (CalTrans), the proposed \$29.3 billion obligation limitation would reduce California's share of highway funds by \$192 million, effecting the loss of 4,992 jobs to the state. Furthermore, transportation advocates are concerned that a reduced highways allocation figure will provide a low baseline funding level for members of Congress who will this year consider reauthorization of the national surface transportation act (TEA-21) scheduled to expire on October 1, 2003..

For more information on this and other related hearings, please visit the Committee on Environment and Public Works website at <http://www.senate.gov/~epw>

PPIC'S NEW STATEWIDE POLL SHOWS A GLOOMY CALIFORNIA POPULACE

Saying that "It's beginning to look a lot like 1994," the Public Policy Institute of California (PPIC) released a new statewide survey on February 25, 2003, indicating that Californians are in a dark mood and very pessimistic regarding the state's economy. In addition, the survey indicates that residents' concerns about the state budget crisis do not translate to willingness to help the state balance its books through personal sacrifices.

According to PPIC, Californians by a wide margin say the economy and jobs (28%) are the biggest problems facing the state, followed by the state budget and taxes (15%), education and schools (11%), and war and terrorism (10%). An overwhelming majority (71%) of state residents say they expect bad times financially in the coming year, compared to 47 percent February 2002. More Californians today (60%) than in November 2002 (47%) believe their region of the state is in an economic recession. Economic angst is also taking its toll on residents' overall perceptions of the state: 60 percent say California is headed in the wrong direction, while only 28 percent believe it is headed in the right direction. One year ago, 56 percent said the state was headed in the right direction.

"There is a great deal of concern and frustration out there," said survey director Mark Baldassare. "And Californians have never been shy about pointing fingers." Californians also apparently blame elected officials for the state's problems.

Nearly all Californians (95%) say that the state's budget deficit is a big problem (74%) or somewhat of a problem (21%). Most residents (91%) are also very concerned (63%) or somewhat concerned (28%) that the fiscal crisis will cause severe cuts in areas like education, health care, and the environment. Consistent with these priorities, half of Californians (52%) say K-12 education should be the top priority for state spending, followed by health and social services (25%), higher education (7%), roads and infrastructure (6%), and corrections, including prisons (2%).

Although more residents (43%) say they would prefer to deal with the state budget deficit through a mix of spending cuts and tax increases - rather than cuts alone (32%) or taxes alone (7%) - it is not clear what spending reductions would receive public support. Indeed, despite the budget crisis, majorities still believe the state government should spend more money on K-12 education (65%) and health and human services (52%). And few residents want to see less money spent on any state program, including K-12 education (5%), public health (12%), higher education (15%), roads and infrastructure (21%), and environmental protection (23%). In fact, corrections and prisons is also the only area where a significant number of state residents (42%) support a reduction in spending. In concept, however, residents like the idea of limiting spending: 52 percent say they would favor an amendment to the state constitution that limits spending increases.

However, Californians generally reject measures that would increase taxes, although they are more receptive to taxes that impact the few:

74 percent favor, 25 percent oppose: raising cigarette taxes

52 percent support, 42 percent oppose: reinstating the top rates on the state income tax

44 percent favor, 52 percent oppose: raising the state sales tax from 6 to 7 percent

Likewise, the same appears to hold true for alternative revenue options being considered by the state legislature:

56 percent favor, 39 percent oppose: taxing all internet commerce

39 percent support, 58 percent oppose: reinstating the full vehicle license fee (VLF)

37 percent favor, 60 percent oppose: extending the sales tax to include services

22 percent favor, 76 percent oppose: raising fees at public colleges and universities

Overall, Californians are divided about whose approach they prefer in balancing the state budget: 33 percent say they support the approach of the Democrats in the state legislature, 30 percent support the Republican approach, and 13 percent favor the governor's plan. But the split is even more fundamental: While 49 percent of residents would pay higher taxes to support a government that provides more services, 45 percent would rather pay lower taxes for a smaller government providing fewer services.

Baldassare indicated that state voters are unlikely to make hard choices, stating "There is little consensus and even less will." And 25 years after Proposition 13, residents remain more positive (57%) than negative (21%) about it. While there is slim support for changing some elements of Proposition 13 -

- 52 percent favor eliminating limits on property tax assessments for commercial property - Californians remain opposed (60%) to allowing local special taxes to pass with a simple majority.

Regarding federal taxes, half of state residents (50%) say they would prefer to have the federal government balance the budget instead of using the money to fund a tax cut, while 34 percent say they would take the tax reduction. State residents are divided about the fairness of the Administration's current tax reduction proposal: 47 percent say it is unfair to people like them, while 43 percent think it is fair. Nationally, 42 percent of Americans think the tax plan is unfair to people like them.

More information is available at <http://www.ppic.org> .