



## THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH

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# California Capitol Hill Bulletin

**Volume 10, Bulletin 23 – August 15, 2003**

*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.*

### **SENATE REAPPROVES PRIOR ENERGY LEGISLATION BEFORE DEPARTING FOR AUGUST RECESS**

After unexpectedly striking an eleventh hour deal, Senate Majority Leader Bill Frist (TN) fulfilled his vow to complete work on a Senate energy bill before the start of the August recess when the Senate voted to approve the omnibus energy legislation by an 84 to 14 vote on July 31, 2003. With time running out, an energy bill passed by the Democratically controlled Senate in 2002 was reintroduced and reapproved by the Senate.

After considerable debate, difficult discussions regarding various proposed amendments, and no end in sight, Sen. Frist replaced language in the omnibus energy bill (S.14) with language that was included in last year's Senate energy legislation. The action was taken to salvage a final product and to move forward on a complex national energy policy that failed to achieve realization during the 107th Congress after talks broke down in conference.

The current Senate bill provides a starting point for the next stage of discussions to be conducted in the conference committee upon Congress' return in September.

The House passed a comprehensive energy package, HR 6, on April 11, 2003.

Sen. Frist scrapped the initial bill sponsored by Senate Energy and Natural Resources chairman Pete Domenici (NM) after it became apparent that the bill's progress and final approval were threatened by time constraints and partisan disagreements on a number of contentious issues, including vehicle fuel economy standards and air pollution emissions.

The current bill provides \$21 billion in tax incentives for renewable fuel production and requires utility companies to generate 10 percent of their output from renewable sources by 2020. It also mandates the use of 5 million gallons of the ethanol oxygenate as an additive in fuels by the year 2012, a provision that greatly concerns California state officials and Congressional delegation members. Sen. Dianne Feinstein commented that the mandating of ethanol blended fuels would drive up the price of gasoline; ethanol is not proven to reduce smog; the lack of supply in ethanol could create an environment for price spikes and out of state supply manipulation; high ethanol market concentration benefits Agribusiness giants; and ethanol subsidies divert billions of dollars away from highway programs.

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The Senate energy bill includes no language facilitating oil drilling practices in the Alaska Arctic National Wildlife Refuge and promotes electricity deregulation by repealing the 1935 Public Utilities Holding Company Act (PUHCA).

The Senate bill also includes a provision to strengthen the domestic fusion energy sciences program. California wins the lion's share of federal fusion energy expenditures.

The major power outage in the northeastern United States on August 14, 2003, may accelerate the momentum for Congressional action on energy legislation.

### **32 HOUSE CALIFORNIANS CALL FOR CONTINUING LOW EMISSIONS PROGRAM**

Led by Reps. Ellen Tauscher (D-Walnut Creek), Bob Matsui (D-Sacramento), and George Radanovich (R-Fresno), 32 members of the California Congressional Delegation sent a letter urging the California Public Utilities Commission to reject a proposal to cancel a program that encourages the use of low emission vehicles.

The August 6 letter to Michael R. Peevey, President of the Commission expresses disappointment with an Administrative Law Judge's Proposed Decision (PD) on utility applications for funding of low emission vehicle (LEV) programs and urges Peevey to reject the PD and "instead develop and adopt an alternate decision that properly recognizes the role of California's investor owned utilities in helping the state achieve its air quality and fuel diversification goals."

The letter states that investor-owned utilities are an important part of the developing LEV market, and it argues that the cost of continuing the LEV programs is small compared to potential benefits.

### **MEDICAID FORMULA STUDY HIGHLIGHTS INEQUITIES IN STATE FUNDING RATES, WITH CALIFORNIA AT DISADVANTAGE**

On August 11, 2003, the U.S. General Accounting Office released a report entitled "Medicaid Formula Differences in Funding Ability Among States Often Are Widened" (GAO-03-620). The report highlights the inequities in the formula used to calculate at what rate the federal government will reimburse each state for its costs of providing health services for the poor. The reimbursement rate, known as the Federal Medical Assistance Percentage or FMAP reportedly often widens the gap between individual states and the national average, and California is one of the most disadvantaged by the formula.

Senator Dianne Feinstein, who requested the GAO study, commented, "These findings confirm what many of us had long-suspected - that the FMAP formula is in immediate need of substantial reform. It is clear that as a result of this funding gap, California, which has 6.5 million people who depend on Medicaid, is short-changed by hundreds of millions of dollars."

Despite the fact that Medicaid is intended to help states serve patients in poverty, there are wide variations in the correlation between FMAP rates and poverty levels in states. Since Medicaid's predecessors were crafted before a federal definition of poverty was created in the 1960s, the formula used a state's per capita income (PCI) in part as a rough estimate of poverty. Even though a federal poverty line was subsequently defined, Medicaid's formula still calculates the federal matching rate for each state based on its per capita income (PCI) relative to the national average PCI (states with a low PCI receive a higher federal matching rate, while states with a high PCI receive a lower rate).

For many states, the system works fine -- income and poverty are closely related. California, unfortunately, is not one of those states. In California, PCI is above the national average (by nearly 7 percent in 2002), yet poverty is also above the national average (by 8 percent in 2001). Thus, California is penalized by the use of PCI as the sole demographic factor in the Medicaid formula.

The GAO report notes that in FY 2000, "California and Wisconsin each devoted about \$8 for every \$1,000 of their own state resources toward Medicaid. Yet Wisconsin receives a relatively high federal matching rate despite its relatively high ability to fund program services, whereas California receives a low federal matching rate despite its relatively low ability to fund program services. With the addition of federal matching aid, Wisconsin is able to spend more than twice what California is able to spend per person - \$7,532 versus \$3,731."

Because of its above-average PCI, California's FMAP is 50 percent, meaning the state receives back 50 cents -- the national minimum -- for every dollar it has spent on health care for the poor. Despite its above-average ability to pay, Wisconsin (using GAO's example) is reimbursed 58 cents -- higher than the national average -- for every dollar it spends.

It is valuable to note that PCI is also used to estimate a state's ability to pay for indigent health care from state coffers; states with high incomes are assumed to be able to spend more than states with low incomes. In fact, the Medicaid formula uses PCI "squared." In other words, PCI is used once to approximate ability to pay, and again to approximate -- albeit poorly -- poverty. GAO found that per capita income (PCI) is "not a comprehensive indicator of state's total available resources and a poor measure of the size of and the cost to serve a state's people in poverty."

Instead of PCI, GAO recommends using two factors that more directly address the stated goals of Medicaid: (1) Census poverty data, to measure persons in need; and (2) "Total Taxable Resources" or TTR, which is similar to PCI, but measures all income potentially subject to taxation by a state (including income some that PCI does not adequately address).

The largest federal formula grant program by several fold, Medicaid is expected to provide approximately \$160 billion federal dollars to states in 2003. In addition, states are expected to spend approximately \$120 billion of their own money to provide these services in 2003.

Senator Feinstein commented, "For the sake of the 6.5 million Californians who depend on Medicaid - not to mention the millions of other beneficiaries in New York, Florida and other states where the present FMAP formula has meant state funding substantially below the national average - it is critical that we develop a new formula that is both equitable and fair for all Medicaid beneficiaries."

The GAO report is available online at <http://www.gao.gov/cgi-bin/getrpt?GAO-03-620> , and a one-page fact sheet is available at <http://www.gao.gov/highlights/d03620high.pdf> .

A statement regarding the report and the issue by Senator Feinstein is available at <http://feinstein.senate.gov/03Releases/FMAP%20press%20release.htm> .

## **INSTITUTE PREPARES FY 2004 APPROPRIATIONS ANALYSES**

The California Institute has prepared and posted on its website ( <http://www.calinst.org> ) California-oriented analyses of a number of fiscal year 2004 appropriations bills.

LABOR-HHS-EDUCATION: An analysis of H.R. 2660, the House's FY 2004 Appropriations bill for the Departments of Labor, Health & Human Services, and Education, is available at <http://www.calinst.org/pubs/lhe04h.htm> , and a printable Adobe Acrobat ("pdf") version is available at <http://www.calinst.org/pubs/lhe04h.pdf> . An analysis of the Senate version (S. 1356) is available at <http://www.calinst.org/pubs/lhe04s.htm> , and a pdf format version is available at <http://www.calinst.org/pubs/lhe04s.pdf> .

HOMELAND SECURITY: An analysis of H.R. 2555, the House version of the Homeland Security appropriations bill, is available at <http://www.calinst.org/pubs/hs04h.htm> , and a printable version in pdf format is available at <http://www.calinst.org/pubs/hs04h.pdf> . An analysis of the Senate version of the FY 2004 homeland security funding bill is available at <http://www.calinst.org/pubs/hs04s.htm> , and a pdf format version is available at <http://www.calinst.org/pubs/hs04s.pdf> .

TRANSPORTATION/TREASURY: An analysis of H.R. 2989, the \$89.3 billion FY 2004 Appropriations bill for the Departments of Transportation and Treasury and Related Agencies, is available at <http://www.calinst.org/pubs/trap04h.htm> , and a printable version in pdf format is available at <http://www.calinst.org/pubs/trap04h.pdf> .

DEFENSE: An analysis of H.R. 2658, a \$369 billion FY 2004 Appropriations bill for the Department of Defense, is available at <http://www.calinst.org/pubs/def04h.htm> , and a printable version in pdf format is available at <http://www.calinst.org/pubs/def04h.pdf> . An analysis of the Senate version of the FY 2004 defense appropriations bill will be available at <http://www.calinst.org/pubs/def04s.htm> , and a pdf format version will be available at <http://www.calinst.org/pubs/def04s.pdf> .

INTERIOR: An analysis of H.R. 2691, the \$19.6 billion Interior appropriations bill, is available at <http://www.calinst.org/pubs/int04h.htm> and a printable version in pdf format is available at <http://www.calinst.org/pubs/int04h.pdf> . An analysis of the Senate version of the FY 2004 Interior Appropriations bill is available at <http://www.calinst.org/pubs/int04s.htm> , and a pdf format version is available at <http://www.calinst.org/pubs/int04s.pdf> .

AGRICULTURE: An analysis of H.R. 2673, the House Agriculture Appropriations bill for FY 2004, is available at <http://www.calinst.org/pubs/ag04h.htm> and a printable version in pdf format is available at <http://www.calinst.org/pubs/ag04h.pdf> . An analysis of the Senate version of the FY 2004 funding bill is available at <http://www.calinst.org/pubs/ag04s.htm> , and a pdf format version is available at <http://www.calinst.org/pubs/ag04s.pdf> .

Other appropriations bills will be assessed and analyses posted in the near future.

## **CALIFORNIA INSTITUTE RELEASES UPDATED “BALANCE OF PAYMENTS” REPORT**

The California Institute has prepared and released a fiscal year 2002 version of its annual “Balance of Payments” report, showing that the state’s net fiscal outflow to the federal government increased for the eighth consecutive year. Fueled largely by a sharp increase in its federal tax burden compared to other states, Californians in 2002 sent \$58 billion more to Washington in federal taxes than the state received back in federal spending. The imbalance means that the average Californian paid \$1,660 more in federal taxes in 2002 than was received in federal funds and services. Put differently, California received 77 cents in federal payments and services for every dollar sent to Washington. In 2002, California housed 12.2 percent of the nation’s residents, paid 14.1 percent of federal taxes and received back 11.0 percent of federal payments and expenditures.

The fact that state residents pay more in federal taxes than is received in federal spending is in large part predictable. State residents’ income levels are above the national average, yielding above-average income tax receipts -- an effect amplified by the progressive nature of the federal income tax scheme. In addition, California's population is significantly younger than average, so the state has fewer recipients of Social Security and Medicare payments -- the fastest growing budget sector that now accounts for nearly half of all federal spending.

California’s share of the nation's \$1.8 trillion tax burden climbed sharply to 14.1 percent in fiscal year 2002 from 13.5 percent in 2001 and 12.8 percent in 2000. The state's increasing share of the nation's federal tax burden may in part be due to a strong economy in California relative to other states. Whereas most states and the nation as a whole experienced a substantial reduction in federal taxes between 2000 and 2002, from nearly \$2.0 trillion to \$1.8 trillion, California's tax burden actually increased slightly, from \$253 billion to \$256 billion.

The large increase in California’s share of the nation’s tax burden more than made up for a small increase in federal spending - the second half of the balance equation. Total federal expenditures in California rose to \$206 billion in 2002, a 9 percent increase from 2001. Calculated as a percentage of the

\$1.9 trillion total that the U.S. government spent in all states, California's share of federal expenditures rose to 11.0 percent in 2002 from 10.8 percent in 2001, a rise largely due to a faster-than-average increase in procurement expenditures and to a relatively small increase in the state's share of the huge direct payments category.

Four parts comprise federal spending - procurement, direct payments, salaries and wages, and formula and other grants to states and local governments. California's share of federal procurement spending rebounded sharply, from 12.8 percent in 2001 to 13.7 percent in 2002, reversing a multi-year decline. Direct payments in California edged upward slightly to 10.2 percent of the nation's total, remaining near the proportion that the state has maintained for several years, though the long-term trend has been downward for a decade. The state's share of federal salaries and wages remained flat at 9.8 percent, holding below the 10 percent threshold for the third year in a row. And California's share of federal formula program expenditures and other grants dropped sharply, from 12.2 percent in 2001 to 11.8 percent in 2002, falling below the state's share of total U.S. population for the first time in a decade.

For the full report, see <http://www.calinst.org/pubs/balrpt02.htm> . A separate set of tables and charts is available at <http://www.calinst.org/pubs/baltable02.htm> , and the printable Adobe Acrobat (pdf) file is available at <http://www.calinst.org/pubs/balrpt.pdf> .

## **GAO EVALUATES CENSUS BUREAU'S PROCEDURES FOR COUNTING MIGRANT FARM WORKERS**

A July 2003 report by the General Accounting Office (GAO) assesses the adequacy of the Census Bureau's operations for locating and counting migrant and seasonal farm workers. The GAO study finds that the Bureau's procedures to provide complete and accurate address lists and maps appear adequate for pinpointing the hidden dwellings in which some migrant farm workers reside. Nevertheless, the GAO also finds that the Bureau's operations do not work as well in prevailing over other barriers to counting migrant farm workers such as the mobility of the workers themselves, language and literacy obstacles, and a distrust of outsiders.

To improve the Bureau's ability to locate migrant farm workers for the 2010 Census, the GAO recommends that the Bureau partner with state and local governments earlier in the decade as well as making more use of address information from local organizations. For example, the report notes "the Bureau's Los Angeles regional office partnered with the California Rural Legal Assistance Corporation, a nongovernmental migrant farm worker advocacy group, to improve coverage of housing units in areas populated by many migrant farm workers."

To view the entire report, visit <http://www.gao.gov/cgi-bin/getrpt?GAO-03-605>.

## **WATER MARKET ISSUES EXAMINED IN NEW PPIC REPORT**

According to the new study released by the Public Policy Institute of California (PPIC), the state faces the prospect of chronic water shortages by 2020 if current patterns of water transfers continue. Penned by Ellen Hanak and titled "Who Should Be Allowed to Sell Water in California: Third-Party Issues and the Water Market", the study examines water transfers in the state, local resistance to such transfers and various approaches to resolving water disputes.

The water market in California was established when the state began purchasing water and launching water banks in the later 1980s and early 1990s. Counting the state as one of its customers, California's water market permits the temporary, long-term, or permanent transfer of water from the existing rights-holders (mainly farmers in the agricultural heartland of the state) to other water users (including farmers with higher-value crops, environmental programs that support fish and wildlife habitats, and urban and industrial users) in exchange for payment.

The study reports that the negative effects of water marketing, such as a reduction in the quantity or quality of water available to other users, and land fallowing that occurs when farmers idle cropland to sell water, have led 22 of the state's 58 counties to adopt ordinances restricting such transfers. The ordinances, as indicated in the study, require an environmental review before sellers receive a permit to export groundwater. The author argues that though high up-front costs and the likelihood of negative public opinion discourage parties from filing for such permits, a lack of groundwater permits will not necessarily block transfers but will reduce total sales and shift some water to in-county users.

The author also contends that local restrictions on the water market do little to stabilize aquifers or encourage the efficient use or storage of groundwater. Ms. Hanak suggests that in order to achieve the latter goals a comprehensive strategy for groundwater management that balances the interests of local users, the potential gains from transfers, and environmental protection is necessary.

For more information about this and other PPIC reports, please go to: [www.ppic.org](http://www.ppic.org).

### **STATE AUDITOR EXAMINES CALIFORNIA'S SHARE OF FEDERAL GRANTS**

A recent report by the California State Auditor finds that California's share of federal grant funding during the fiscal year 2001-02 was 11.8 percent of the total amount awarded, which is slightly less than the state's 12 percent share of the country's population.

However, the report also finds that budget constraints and other factors hinder the state's ability to maximize its share of certain grants. Federal funding formulas based on a particular demographic group and out-of-date statistics explain California's relatively low share of 10 grants, according to the study. The state's relatively low rural and elderly populations limit its share of grants targeted to those groups. In regard to the use of out-dated statistics, the report found that California's share of the Child Care and Development Fund grant would have been \$66 million greater in FY2001-02, if the entire award had been based on 2000 census data.

Among other factors cited which limit California's share of federal grants are the state's inability to provide matching funds and the state's failure to obligate the funds in a timely fashion. In a few instances, California's share of federal funding is limited by the state's policies. For instance, its share of the In-Home Supportive Services program is low because of a state program that pays legally responsible relatives to be caregivers, a type of activity ineligible for federal reimbursement.

The report is available at <http://www.bsa.ca.gov/bsa/>.

### **STATE UNEMPLOYMENT RATE DOWN IN JULY**

California's unemployment rate was down to 6.6%, or 1,167,000 people, in July from a recorded 6.8% rate in May, according to the state Employment Development Department (EDD). Reporting on August 8, 2003, EDD stated that the unemployment rate was not only lower in comparison to the previous month, but also lower than it was in July 2002, when California's jobless rate was at 6.7%. According to the Los Angeles County Economic Development Corporation, California has fared somewhat better than the United States as a whole, as the nation's unemployment rate increased from 5.8% to 6.2% in July 2003.

Regionally, Southern California's 5-county (Los Angeles, Riverside, Ventura, Orange, San Bernadino) unemployment rate was 6.5% in July, below last year's reading of 6.8%. In the Bay Area, the combined 9-county (San Francisco, Alameda, Santa Clara which includes San Jose, Marin, San Mateo, Contra Costa, Napa, Sonoma, Soleno) jobless rate was 6.9%, the same as its July 2002 high water mark.

For additional information on California's employment market, please visit California's Employment Development Department website: <http://www.edd.ca.gov>.

## **AUGUST 21 BRIEFING/DISCUSSION OF “THE FUTURE OF AMERICAN DEMOCRACY”**

On Thursday, August 21, 2003, from 10:00 a.m. to 11:00 a.m. in Room 1300 of the Longworth House Office Building, the California Institute will host a briefing entitled, “American Democracy's Uncertain Future -- And Is California An Unsettling Vision Of Our Democratic Destiny?”

The discussion of the future trajectory of the nation and its democratic institutions -- with a special focus on California -- will feature remarks by former Congressman Glen Browder, a professor at the Naval Postgraduate School (California) and Jacksonville State University (Alabama), and author of “The Future of American Democracy: A Former Congressman’s Unconventional Analysis.”

Leon Panetta, former White House chief of staff and now director of the Leon & Sylvia Panetta Institute for Public Policy at the California State University at Monterey, says Browder’s book “challenges all of us to awake...and restore the fundamental strength of our democracy.”

Browder comments, “Current public discussion about American democracy is a stale orthodoxy of simplistically-progressive ideas buttressed by theoretically-limited and politically-cautious analysis; furthermore, those who muster sufficient civic courage to sound the alarm too often are afflicted with excessive ideological arrogance.” He notes that, “Growing philosophical tensions over historic ideals, cultural values and principles of governance are transforming our national democratic experiment. Our civic mix of people, politics and government no longer works the way it has in the past. Therefore, it is time for serious national dialogue about America.”

The state of California, Browder says, raises “particularly tricky questions and provides some useful points of guidance about important developments -- the delicate, difficult, dangerous interplay among diversity, divergence, dissentience, and democracy -- in future America.” Details about his book and the ideas it presents are available at <http://www.futureofamericandemocracy.org> . The session is open to the public (no RSVP necessary) and a question and answer session will follow. A notice is posted at <http://www.calinst.org/events.htm> .