



# THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH

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## California Capitol Hill Bulletin

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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.*

### PPIC AND CALIFORNIA INSTITUTE RELEASE HOMELAND SECURITY FORMULA FUNDS REPORT, HIGHLIGHTING STATE'S LOW GRANTS SHARE

This week, the Public Policy Institute of California (PPIC) and the California Institute for Federal Policy Research released the seventh report in a series examining the design and operation of federal grant programs. The report, entitled "*Federal Formula Grants and California: Homeland Security*," outlines the federal programs that distribute grants to the nation's first responders, examines the mechanics of formulas that determine funding levels for California and other states, and discusses legislative proposals to change these formulas. It is available on the PPIC website at <http://www.ppic.org>.

In two years, federal funding for homeland security has increased tenfold. For fiscal years 2003 and 2004, Congress appropriated more than \$5 billion per year to help state and local first responders prepare for and respond to acts of terrorism. However, politically-crafted formulas distribute most of those dollars, sending disproportionately large amounts to states and localities that are less populated and are home to fewer potential terror targets (ports, economic focal points, and national icons) than states like California. For example, in 2004, California will receive \$5 per capita (the least of any state) from the largest grant, whereas Wyoming will receive \$38 per capita.

The report finds that California wins a larger share of grants to enhance security in urban areas, but those grants do not compensate for the state's formula funding shortfall. Responding to criticism, Congress is considering legislation to base grants on estimates of assets, population, and threat. Considering the state's current share, most proposed changes would increase funding for California.

We welcome feedback as we seek to inform the public debate regarding these important subjects. To contact the author, Tim Randsell, Executive Director of the California Institute, call 202/546-3700 or write to [randsell@calinst.org](mailto:randsell@calinst.org).

Upcoming reports will examine funding for transit programs and child care. 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.

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The Public Policy Institute of California is a private, nonprofit organization dedicated to improving public policy in California through independent, objective, nonpartisan research on major economic, social, and political issues. The institute was established in 1994 with an endowment from William R. Hewlett. PPIC does not take or support positions on any ballot measure or on any local, state, or federal legislation, nor does it endorse, support, or oppose any political parties or candidates for public office.

The report is available at <http://www.ppic.org/main/publication.asp?i=481> . Links to all of the reports in the "Federal Formula Grants and California" series are available via the PPIC website at <http://www.ppic.org/main/publication.asp?i=470> or via the California Institute website at <http://www.calinst.org/formulas.htm> .

### **GOVERNOR SCHWARZENEGGER NAMES D.C. OFFICE DIRECTOR**

On Wednesday, January 21, 2004, Governor Arnold Schwarzenegger announced the appointment of Stacy Carlson as director of the Washington, D.C. office. Most recently, Carlson has served as a senior advisor for public law and policy at the Washington, DC law firm of Akin, Gump, Strauss, Hauer & Feld. Previously, she was a senior member of President George W. Bush's presidential campaign and transition team.

From 1997 to 1999, Carlson was the managing director for the Emerging Growth Division at Imperial Bank (now Comerica), where she worked with venture capitalists and high-tech start-up companies. From 1993 to 1997, she served on Capitol Hill as staff director for the Committee on House Administration, led by Rep. Bill Thomas (Bakersfield). From 1988 to 1993 she was a senior manager at Silicon Valley Bank in Palo Alto, California, providing financial, strategic and marketing services. A Bakersfield native, Carlson holds a Masters of Business Administration from Stanford University, and a bachelor's degree in economics from California State University, Bakersfield.

In announcing Carlson's appointment, Governor Schwarzenegger commented, "I look forward to working with her, our Congressional delegation and the Bush Administration to promote sound federal policy and increased funding for California."

### **SENATE PASSES FY04 OMNIBUS; SENDING IT TO PRESIDENT FOR SIGNATURE**

Almost four months after the beginning of Fiscal Year 2004, the Senate gave final approval on Thursday, January 22, 2004, to the \$820 billion Omnibus Appropriations bill. The bill combines seven appropriations bills that were not dealt with before the end of last year. These are: Agriculture; Commerce, Justice, State and the Judiciary; the District of Columbia; Foreign Operations; Labor, Health and Human Services, and Education; Transportation and Treasury; and Veterans Affairs. The bill, H.R. 2673 (H-Rept. 108-401), also contains a 0.59 percent across-the-board cut (not accounted for in the funding amounts included in the Omnibus) that most agencies will have to take in FY04 funding. (Further, all programs funded in the Commerce-Justice-State sections of the bill are reduced by an additional 0.46 percent cut that is added to the 0.59 percent cut.)

Action in the Senate came after a last ditch effort on the part of opponents to filibuster the bill. On January 20, Senate Democrats, joined by four Republicans, defeated a Republican motion to invoke cloture by a vote of 48-45 (60 votes are needed for cloture). Provisions in the bill holding up final action included language to delay country-of-origin labeling rules, ownership rules for television stations, and the elimination in conference of a Senate provision on overtime pay rules for some managerial federal employees. On Thursday, Senate opponents acknowledged that they had made their statement and it was time to let the conference report pass. The final vote was 65-28 to send the bill to the President for signature.

The California Institute prepared an analysis of the Omnibus conference report in early December outlining its implications for California. That report can be found on the Institute's website at: <http://www.calinst.org/pubs/omn04c.htm> and in printable pdf format at <http://www.calinst.org/pubs/omn04c.pdf> .

### **BUSH STATE OF THE UNION MESSAGE FORESHADOWS FEDERAL BUDGET RELEASE**

In a January 20, 2004 State of the Union message with heavy focus on international topics, President George W. Bush also addressed some domestic spending topics, foreshadowing some items that may be included in the President's Budget Proposal. The budget, scheduled for release on February 2, is expected to seek a limit of 4

percent growth in federal spending and will ask that recent tax cuts, scheduled to expire in 2010, be made permanent. It will also show deficit assumptions; last year, the Congressional Budget Office predicted nearly \$500 billion deficit for FY 2004, though the office will release new data next week.

In his message, President Bush again promoted his proposals to alter the nation's immigration laws, allowing undocumented immigrant workers to fill U.S. jobs on a temporary basis (for additional information, see [Bulletin, Vol. 11, No. 1 \(1/9/2004\)](#)). More details are expected in the budget documents.

The President also touched on his recent proposals to expand space exploration activities. On Wednesday, January 21, NASA Administrator Sean O'Keefe predicted that the Administration will seek a 5.6 percent increase (to \$16.2 billion from \$15.4 billion) in the NASA budget for FY 2004, with continued increases of nearly that magnitude for several succeeding fiscal years. O'Keefe was quoted as expecting to save \$6 billion by rearranging NASA programs and terminating the orbital space plane, which had been intended to replace the space shuttle, thereby freeing resources to pursue missions to the moon and Mars.

Bush also urged renewal of the USA Patriot Act, enacted shortly after the September 11, 2001 terrorist attacks. Much of the debate over the Act has focused on privacy issues. However, it was also the original source of legislative language that codified a state and local homeland security grant funding formula that has been criticized for fiscally favoring small states over large states. (For example, in FY 2004, California will receive \$5 per capita from the largest of these formulas, whereas Wyoming will receive \$38 per capita.) For additional information, see the above article or view the full report at <http://www.ppic.org/main/publication.asp?i=481>.

## **CCST REPORT EXAMINES CALIFORNIA FOCUS AREAS FOR NANOTECHNOLOGY DEVELOPMENT, INCLUDING FEDERAL RECOMMENDATIONS**

A new report by the California Council on Science and Technology (CCST) report discusses the opportunities and challenges presented by nanotechnology and makes various policy recommendations. The report, entitled *Nanoscience and Nanotechnology: Opportunities and Challenges in California*, was released in Sacramento at a hearing of the California State Legislature's Joint Committee on Preparing California for the 21st Century, led by State Senator John Vasconcellos.

Among the recommendations for federal policy action are to bring federal money to California via the Boehlert-Honda Nanotechnology Act and the 21st Century Nanotechnology Research and Development Act, legislation to authorize \$3.68 billion over the next four years for nanotechnology research and development programs at the National Science Foundation (NSF), the Department of Energy, the Department of Commerce, NASA, and the Environmental Protection Agency (EPA). The report urges specific funding levels for nanotechnology-related areas at each agency, including NSF (\$385 million in FY 2005 and \$424 million in FY 2006), Department of Energy (\$317 million for FY 2005 and \$347 million for FY 2006), NASA (\$34.1 million for FY 2005 and \$37.5 million for FY 2006), the National Institute of Standards and Technology at Commerce (\$68.2 million for FY 2005 and \$75 million for FY 2006), and EPA (\$5.5 million for FY 2005 and \$6 million for FY 2006).

The report urges particular federal focus on three specific programs that it says has important benefits to California.

The first such program is the Government Industry Cosponsorship of University Research. GICUR funds the government's share of the Focus Center Research Program (FCRP), a partnership between the semiconductor industry and the Department of Defense to support university research in semiconductors. There are currently five focus centers including the Gigascale Silicon Research Center (GSRC) led by the University of California at Berkeley and the Functional Engineered Nano Architectonics (FENA) Focus Center led by the University of California at Los Angeles. Seven other California universities participate in the program. California's congressional delegation should support an appropriation of \$20 million in FY 2005 to fund the government's share of the \$40 million anticipated in that year.

A second focus area recommended by the report is the Molecular Foundry at U.C. Berkeley. The Molecular Foundry is a user facility for the design, synthesis and characterization of nanoscale materials. Groundbreaking for the facility is scheduled for January 2004. It is one of five nanoscale science research centers established by the

U.S. Department of Energy. California's congressional delegation is urged to fully fund the Energy Department's request for its nanoscale science research centers.

Finally, the report also recommends that the California delegation focus on NASA Ames. One of the largest single nanotechnology research centers in the world, NASA Ames is a significant part of NASA's nanotechnology budget. S189, the 21st Century Nanotechnology Research and Development Act requires the creation of research centers, education and training initiatives, research into societal and ethical implications of nanotechnology, and efforts to transfer technology for commercial uses.

Founded by the State Legislature and the Governor in 1988, CCST identifies ways that science and technology can be used to improve California's economy and quality of life. The report, a 148-page PDF file, is available on the CCST website, at <http://www.ccst.us>.

## **WHITE HOUSE PROPOSES EXPANDED SPACE EXPLORATION PLAN**

On January 14, 2004, President Bush outlined a plan to develop a long-term human and robotic program to explore the solar system, "starting with a return to the Moon that will ultimately enable future exploration of Mars and other destinations." The plan focuses on three goals: completing work on the International Space Station by 2010, developing a new manned exploration vehicle, and returning to the Moon between 2015 and 2020. The plan would include funding increases for the National Aeronautics and Space Administration (NASA), the first in some time. In general, California represents more than one fourth of the nation's space research, industry and scientific base.

Regarding the space station, Bush proposes that NASA return the Space Shuttle to flight "consistent with safety concerns and the recommendations of the Columbia Accident Investigation Board" in order to help finish assembly of the Station. The Shuttle would be retired after completing that mission, by the end of this decade.

The new manned exploration vehicle would involve creation of a new spacecraft, dubbed the Crew Exploration Vehicle, which would be developed and tested by 2008 and would conduct its first manned mission no later than 2014. It would also be capable of transporting astronauts and scientists to the International Space Station after the Shuttle is retired.

Finally, Bush proposes a return to the Moon beginning with a series of robotic missions to the Moon, similar to the Spirit Rover now on Mars. This would be followed by use of the Crew Exploration Vehicle to allow humans to conduct extended lunar missions as early as 2015, "with the goal of living and working there for increasingly extended periods."

Funding amounts proposed include a total of \$12 billion over the next five years, though most added funding for new exploration would come from reallocation of \$11 billion that is currently within the five-year NASA budget of \$86 billion. A White House release stated, "In the Fiscal Year (FY) 2005 budget, the President will request an additional \$1 billion to NASA's existing five-year plan, or an average of \$200 million per year. From 1992 to 2000, NASA's budget decreased by a total of 5 percent. Since the year 2000, NASA's budget has increased by approximately 3 percent per year. From the current 2004 level of \$15.4 billion, the President's proposal will increase NASA's budget by an average of 5 percent per year over the next three years, and at approximately 1 percent or less per year for the two years after those."

For details, visit <http://www.nasa.gov>. For California-specific information, visit the website of the California Space Authority, at <http://www.californiaspaceauthority.org>.

## **REPORT FINDS CALIFORNIA COMMUNITY COLLEGES FINANCING ON THE DECLINE**

California's two-year colleges are among the most poorly funded in the country, despite the fact that the state's community college system (CCC) enrolls far more students than the University of California (UC) and California State University (CSU) systems, found a new study by the Public Policy Institute of California (PPIC). Released on January 14, 2004 and titled "*Financing California's Community Colleges*," the study described funding trends for the California Community College (CCC) system and assessed its ability to meet its future challenges.

According to the report, authored by Patrick J. Murphy, community colleges provide about 1.6 million residents access to higher education, many of them low-income and minority students. CCC's tuition fees were the lowest in the nation in 2000-2001, and remain the lowest despite a recent 63 percent fee hike. Under the Master

Plan for Education, two-year colleges are expected to play a major role in developing the state's future human capital.

The study found that CCC revenue growth has fallen behind that of other systems in both California and the rest of the nation. In 1999-2000, the state ranked 45<sup>th</sup> out of 49 states in revenue spent per community college student, which translates to California spending 23 percent less per community college student than the rest of the nation. The study also identified a growing funding discrepancy between two-year colleges and the UC and CSU systems. Between 1971 and 2000, per student revenue increased 23 percent for UC and 24 percent for CSU, while community college revenue rose by only 4 percent. The study also looks at CCC's funding allocation process, which is governed by Program-Based Funding (PBF). The study suggests that PBF is a complex and unrealistic process, which does not guarantee extra funds to colleges whose enrollments exceed their estimates, and whose formula assumes a standard of service delivery that bears little relationship to the actual funding CCC receives from the state.

The PPIC study concludes that tuition and fees remain the funding source with the greatest potential to augment needed revenue, and makes several policy recommendations. In addition to proposing a raise in resident student tuition, the study also recommends replacing PBF with a simplified allocation formula based on total enrollment and adjusted for annual growth. The study urges the state legislature to follow its own statutory requirement that 10.9 percent of Proposition 98 funds go to the community colleges, and it notes that a failure to provide CCC adequate resources "could weaken California's higher education system and render the state less responsive to the changing demands of the global economy."

To view the report, visit the PPIC website at: <http://www.ppic.org> .

## **PPIC SURVEY REVEALS VOTER ATTITUDES ABOUT ECONOMY, GOVERNMENT**

California residents' attitudes about the state's economic recovery and the government in general are recovering, reports a new survey by the Public Policy Institute of California (PPIC) and The James Irvine Foundation. Released on January 15, 2004, the California State Budget and Fiscal System Survey, which is a special edition of the PPIC Statewide Survey, is the second in a series intended to raise public awareness, inform decision-makers, and stimulate public discussions about the current budget and the underlying state and local finance systems. The survey's authors reported the following findings:

- A little over one-third (35 percent) of likely voters said they would vote yes on Proposition 57 (the \$15 billion bond proposal on the March 2nd primary ballot), while 44 percent would vote no, and 21 percent are undecided; the majority (52 percent) said the governor's endorsement makes no difference in how they feel about the recovery bond.
- 64 percent of likely voters approve of the way Governor Schwarzenegger is doing his job overall, and 58 percent approve of his handling of the budget and taxes.
- 57 percent of likely voters said they would vote yes and 22 percent would vote no on Proposition 58, which would require the state to pass a balanced budget, address fiscal emergencies, and establish a budget reserve.
- Over half (53 percent) of likely voters say they were favorably impressed by the plans and policies set forth in the Governor's first State of the State address, while 18 percent had an unfavorable impression; voters were more satisfied (63 percent) than dissatisfied (28 percent) by the budget plan laid out on January 9, 2004.
- 44 percent of those surveyed believe tax increases should have been included in the budget plan, although a majority (51 percent) do not, and 67 percent are at least somewhat concerned about the effects of proposed spending cuts.
- Prior to the recall election, far more residents said the state was headed in the wrong direction than in the right direction (67 percent to 24 percent, respectively), while more Californians now believe the state is on the right track (43 percent) rather than not (41 percent).
- Respondents' fiscal expectations are on the rise: 51 percent of likely voters anticipate good financial times in the coming year.
- Proposition 56, which would lower the majority required for the state legislature to pass a budget and budget-related bills from two-thirds to 55 percent, does not have majority support among likely voters (41 percent yes,

35 percent no, 24 percent undecided); three-fourths (73 percent) believe a two-thirds constitutional requirement for the legislature to pass a state budget is a good idea.

– A majority of voters (53 percent) prefer to deal with the state’s multi-billion dollar gap between spending and revenue by using a mix of tax increases and spending cuts, while 30 percent prefer mostly spending cuts, and 5 percent prefer to borrow money.

– Nearly two-thirds (64 percent) of California’s potential voters would be willing to pay higher taxes just to maintain current K-12 funding levels; majorities of voters are also willing to pay higher taxes to maintain funding for local government (57 percent) and health and human services (50 percent).

To obtain a full copy of this survey, please visit the Public Policy Institute of California website at:

<http://www.ppic.org> .

### **OLEANDERS’ SURVIVAL THREATENED BY SHARPSHOOTER**

The Glassy-Winged Sharpshooter (GWSS) is making headlines in California again, but this time it is threatening to wipe out showy oleander. The large insect with transparent wings, which spreads the xylella fastidiosa bacteria that causes leaf scorch, first appeared in California in the late 1980s and began transmitting Pierce’s disease across numerous vineyards. Pierce’s Disease is a pathogen that spreads via leaves of trees and bushes and clogs the plant’s water-carrying tissues, which make it slowly die of thirst. According to press reports, the pest has destroyed millions of dollars worth of grapevines in Southern California vineyards since 2000, and it continues to pose a very significant threat to the state’s \$33 billion wine industry. Congress appropriated \$17.5 million in FY 2003 to try to control the GWSS in California, in addition to money allocated for research and emergencies, and it appropriated over \$22 million in FY 2004 for this purpose, in addition to other monies available from U.S. Department of Agriculture programs.

Though the insect has posed a threat to the oleander since its arrival, its devastation of them has drawn relatively little attention until now. Caltrans estimates that at least half the oleanders lining the freeways in Los Angeles and Ventura counties are dying from the disease, and some worry that this infestation problem could also spread to other plants popular with landscapers. Caltrans has no way to estimate the costs associated with the GWSS destruction of the oleanders, though the department is focusing its efforts on replacing oleanders with new plants.

According to the San Francisco-based Wine Institute, the policy-focused association of California wineries, more than \$60 million has been committed since 1998 to fighting the GWSS, but the fast-moving nature of the pest and the disease it carries are prompting efforts to strongly step up control measures. Recent detections have found the pest in the Counties of Butte, Fresno, Imperial, Kern, Los Angeles, Orange, Riverside, Sacramento, San Bernardino, San Diego, Santa Clara, Tulare, and Ventura, and most of the state’s other counties are considered at risk. For information regarding GWSS control efforts, visit the California Department of Food and Agriculture’s Pierce’s Disease program website at <http://www.cdffa.ca.gov/gwss/> .

### **FEINSTEIN PROPOSES ENERGY FRAMEWORK IN LETTER TO GOVERNOR**

Senator Dianne Feinstein sent a letter to Governor Schwarzenegger urging him to develop measures to control energy prices and accelerate construction of new plants in an attempt to avoid another electricity shortage in the near future. The letter recommends a new framework to “promote timely and adequate investments in efficient, cost-effective, environmentally-sustainable resources and ensure customers reliable electric service at reasonable cost.”

Sen. Feinstein proposes the development of a cost-of-service system, regulated by the California Utilities Commission, under which 70 percent of Californians who get their power from the state’s investor-owned utilities would be charged energy prices based on their costs rather than the three-year schedule process now used. Feinstein notes that California utilities were hamstrung financially because they were prohibited from raising retail prices as wholesale rates increased dramatically. Large business consumers would be offered a choice between the open market and a regulated system.

The Senator’s letter argues against the continuation of deregulation, and warns that under some circumstances the state will be faced with another electricity shortage as early as the summer of 2004.

The letter is available on Senator Feinstein's website at: <http://feinstein.senate.gov> .

### **CHAPMAN REPORT SHOWS MANUFACTURING IN CALIFORNIA GROWING**

Chapman University, located in Orange County, has released its latest quarterly index of manufacturing activity in the state. The report found that manufacturing in the last three months of 2003 increased to 63.9, above the 63.2 level found in the third quarter of 2003. The report, based on a survey of purchasing managers, measures factory growth as a value over 50, whereas a value under 50 shows decline in activity. The last two quarters have shown back-to-back increases in manufacturing and bodes well for more growth in 2004, according to the report.

Nevertheless, the employment category in the index has not grown as significantly. Therefore, new hiring may not materialize as a result of the increased manufacturing, according to Chapman economist Raymond Sfeir. The value for employment for the fourth-quarter was 55.3, better than the 52.5 in the third-quarter but significantly lower than the factory activity growth.

The index found the strongest improvement came from manufacturers of electronics and other high-tech products, which went up to 67.7 in the fourth-quarter. That sector of the state's economy had continued to contract as recently as the second-quarter of last year. As a whole, the state's food, chemical, and machinery sectors all reported increases in manufacturing activity in the fourth-quarter.

A press release is available at

[http://www1.chapman.edu/argyros/acer/CA\\_and\\_OC\\_Results,\\_2003\\_Q4.pdf&e=7417](http://www1.chapman.edu/argyros/acer/CA_and_OC_Results,_2003_Q4.pdf&e=7417)

### **CRB REPORT FINDS WEALTH DISTRIBUTION DISPARITIES ACROSS CALIFORNIA ETHNIC GROUPS**

A new report released by the California Research Bureau (CRB) gives an ethnic breakdown of the distribution of wealth across California households. The report finds that White families control a disproportionate share of the state's wealth compared to other population groups. It also stipulates that poor children are almost two-thirds more likely to be Latino than White, while the poorest tier of children are African American.

Basing its study on the US Census Bureau's 1996-2000 Survey of Income and Program Participation (SIPP), CRB identifies home equity as the most prevalent form of household wealth in California. Calculating household assets minus debts on those assets, the distribution of wealth is relatively richer among households headed by White adults, the report finds. Whites constitute 58 percent of California household heads while holding 80 percent of the state's wealth, while Latino's head 26 percent of the population and control only 9 percent of the wealth, according to the report. African Americans hold 2 percent of household wealth while heading 6 percent of households, while Asians hold a comparable amount of wealth relative to their share of the population.

The second section of the report focuses on wealth distribution by age and ethnicity, finding 58 percent of children who live in poor households are Latino, 22 percent White, 11 percent African American and 8 percent Asian. Those children in the poorest wealth category are 60 percent likely to be African American, however, and 19 percent White.

The report recommends developing policies that seek to increase homeownership to improve the standard of living of disadvantaged groups in California, as well as fostering targeted business ownership, entrepreneurial training, and education programs to close the wealth disparity gap.

For a copy of the report, visit the CRB website at: <http://www.library.ca.gov/html/statseg2a.cfm> .

### **CENSUS REPORT FINDS NATIONAL HOUSING GROWTH RATE HIGHEST IN 20 YEARS**

A recent US Census Bureau report shows growth in housing starts, building permit issuances and housing completions throughout the country, an indicator that the economy is improving. Of particular significance, December 2003's annual housing starts growth rate of 1,924,000 units, represented the highest recorded level of monthly growth since 1984, according to the Department of Commerce.

Using seasonally adjusted data, the report shows a growth of one percent in building permits issued nationally from 2002 to 2003, while housing completions increased 2.2 percent during the same period. Housing starts grew

by 1.7 percent in one month while the annual growth rate topped 15 percent. A lot of the strong growth rate in housing starts between 2002 and 2003 is attributed to robust apartment construction.

The report stops short of presenting state-by-state statistics, however it complements the findings of another Census Bureau report released in mid-2003 showing strong housing gains in California. That report ranked California as the third highest housing gains state over one year, with a recorded growth of 130,779 units. Texas and Florida were ranked first and second. Los Angeles County had the largest numerical growth in housing units, according to that report.

To read the recent report on residential construction together with tables and additional statistics, visit the Census Bureau at: <http://www.census.gov/indicator/www/newresconst.pdf> .