



THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH

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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.

GOVERNOR AND SENATOR FEINSTEIN URGE EPA TO WAIVE OXYGENATE REQUIREMENT

In separate letters to Environmental Protection Agency Administrator Michael Levitt, both Governor Arnold Schwarzenegger and Senator Dianne Feinstein urged that EPA grant California a waiver from the oxygenate requirement for gasoline under the Clean Air Act (CAA). The letters were initiated as a result of a proposal by EPA to lift the requirement for New Hampshire. California has sought a waiver for several years. MTBE, the oxygenate most widely used in reformulated gasoline to meet the federal requirement, has contaminated numerous drinking water sources in California.

In his letter, dated January 28, 2004, Governor points out that “the U.S. EPA's Blue Ribbon Panel has concluded that a minimum oxygen content is not needed in California, and the California Air Resources Board has demonstrated that the oxygen requirement is detrimental to our efforts to achieve healthy air quality.” He goes on to state that “I recognize the benefit of one aspect of the CAA oxygen requirement -- the dramatically increased use of ethanol. However, due to the ban on MTBE use, there will be a very large ethanol market in California even without the CAA oxygen mandate. This will occur under the California's fuels regulations that allow, but do not require, oxygen in gasoline. California is also considering various mechanisms to spur-in-state ethanol production so that our citizens and our economy benefit directly from the State's increased use of ethanol as a gasoline blending component.”

Senator Feinstein stated “switching from MTBE to ethanol, as I referenced in my previous letter, has only worsened air quality in southern California. Just as EPA wants to ‘allow New Hampshire residents to continue to enjoy the air quality benefits of cleaner gasoline, while ending the oxygenate requirements which have increased the risk of MTBE contamination of ground and surface waters in New Hampshire,’ it should give Californians the same chance at ensuring they too will enjoy the benefits of clean air and water in the future.”

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CALIFORNIA INSTITUTE BRIEFS CONGRESSIONAL STAFF ON FY05 BUDGET

On Thursday, February 5, 2004, California Institute Executive Director Tim Ransdell briefed California congressional staff on the President's FY05 Budget Request. The briefing was based on the analysis that the Institute did of the California implications of the Budget on Monday, February 2. The analysis can be accessed through the Institute's website at: <http://www.calinst.org>.

Mr. Ransdell began with a brief overview of the budget process and the impact of federal formula grants on California. The Public Policy Institute of California, in collaboration with the California Institute, has published analyses of several major formula grant programs, including Homeland Security Grants, Head Start, Special Education, and Highway Programs, and Temporary Assistance for Needy Families (TANF). These analyses can be found on the PPIC website at: <http://www.ppic.org> or via the California Institute website. Mr. Ransdell cited Institute research showing that California receives about 77 cents back on each revenue dollar it sends the federal government. However, whereas in the 1980s California's share of federal formula grant dollars was substantially below the state's share of the U.S. population, now it receives an amount much closer to its 12 percent share of the total population.

Moving on to the impact of the FY05 Budget, Mr. Ransdell noted that California representatives are examining the Medicaid budget to determine whether it will have a negative impact on the Disproportionate Share (DSH) payments to medical facilities that serve an unusually large percentage of poor patients and/or the Upper Payment Limit (UPL) that provides extra Medicaid funding to certain facilities. Preliminarily, it is thought that the Budget will reduce the UPL (from 150 percent of average Medicare rates to 100% of Medicare rates), reducing funding to California hospitals that serve poor patients. Recent policies would phase out California's use of UPL over several years, but the language in the Budget hints at an immediate UPL elimination, though some experts feel that DSH payments may be targeted instead or in addition. He also noted that 2005 funding may be less than 2004 due to the expected end of the May 2003 state fiscal relief package that had raised Medicaid matching funds.

For Homeland Security funding, Mr. Ransdell pointed out that, although first responder funding would be cut from \$2.2 billion to \$1.25 billion, the Budget proposes that the formula should be changed to take into account threat assessment, critical infrastructure, and other like factors. The Department of Homeland Security has been using a formula based solely on population, which has resulted in California receiving substantially less per capita (\$5) than less populated states (e.g., Wyoming at \$38 per capita). He added that the doubling of homeland security "urban area grants" would likely benefit California, which received 20 percent of grants last year.

Eliminating SCAAP (State Criminal Alien Assistance Program) funding, as the President's Budget requests, would be a major financial loss for California, Mr. Ransdell noted. California historically receives about 40 percent of the SCAAP money, and its elimination would result in a loss of about \$120 million to the state. The program partially reimburses state and local governments for the cost of incarcerating undocumented criminal aliens.

In other areas, Mr. Ransdell noted that, under Health and Human Services, there is a mandatory appropriation of \$250 million per year for the next four fiscal years to partially reimburse the costs of providing emergency medical services to undocumented immigrants. The FY05 request for the CALFED Bay-Delta water restoration program is \$15 million. And, \$743 million has been proposed to implement the Healthy Forests Initiative passed last year to reduce wildland fires through fire suppression and preparedness operations. He noted that the 7 percent increase in Defense Department spending may yield returns to California, which competes well for defense contracts, and that the \$1 billion increase in NASA funding could yield similar results.

Shervin Bolorian, Legislative Analyst for the Institute, outlined the new \$1 billion core formula grant proposal in the President's budget for "ready to go" projects. The purpose of the program is to stimulate economic activity while addressing congestion concerns. Funds from the program would be distributed to states based on the formula structure currently employed in the Surface Transportation Program (STP).

California's share of STP funds (9.6 percent) is considerably smaller than the 21.3 percent share going to the state from the existing FAHP congestion relief program known as CMAQ. He noted that some in California are concerned that inclusion of a new congestion-focused program in a tight budget environment might at some stage prompt a reprogramming of funds from existing sources such as CMAQ, to a new program that yields far less return for the state. CMAQ is the only major FAHP core program that yields California more than 10 percent of total U.S. funds.

Mr. Bolorian also discussed the Bush Administration's other transportation priorities such as safety, transit formula restructuring and Intelligent Transportation Systems.

LETTERS TO TRANSPORTATION SECRETARY MINETA SEEK NONSTOP FLIGHTS FROM REAGAN NATIONAL AIRPORT TO CALIFORNIA AIRPORTS

California's congressional delegation is weighing in on getting two non-stop flights to California from Reagan Washington National Airport (DCA). Senators Barbara Boxer and Dianne Feinstein sent a letter to U.S. Department of Transportation Secretary Norman Mineta asking him to grant the two takeoff and landing slot exemptions for direct flights between DCA and California. In their letter, the Senators wrote: "California - the largest state in the country - does not have nonstop air service to DCA. Los Angeles is the largest city in the country without nonstop service to and from DCA. And, San Francisco International Airport (SFO) is the largest airport outside the 1,250-mile perimeter that has never been assigned a nonstop flight to and from DCA. In addition, the loss of the [previous] nonstop service between DCA and California left many small and mid-sized communities throughout the state - including Bakersfield, Fresno, Monterey, and San Luis Obispo - without seamless travel from California to DCA."

Two letters being led by House Members from California seek flights to specific airports within the state. In one such letter, Rep. Jane Harman (Venice) is urging Secretary Mineta to consider Los Angeles International Airport (LAX) for the award. In another letter, Rep. Ellen Tauscher (Alamo) is seeking to have San Francisco (SFO) awarded the nonstop service to DCA. Both letters have been sent to other members of the California Delegation seeking support.

The state was awarded two DCA takeoff and landing slot exemptions for nonstop service in July of 2000, which were going to be provided by Trans World Airlines (TWA). However, after TWA declared bankruptcy in 2001, the two slot exemptions were rescinded and other carriers used the DCA slots for flights to destinations in other states.

UPDATE ON TRANSPORTATION REAUTHORIZATION ISSUES

The Senate floor took up its version of a 6-year Highway re-authorization bill the week of February 2nd for the first time, though much disagreement still exists within Congress as to overall funding levels for highway programs, appropriate financing techniques, and a timeline for the bill's completion.

House and Senate authorizers have grappled with the enactment of a long-term highway bill for a year, and due to Congress' busy schedule had to postpone consideration of the bill until after the current transportation law's expiration on October, 2003. Since then, Highway and Transit programs remain in operation at level funding because of a short-term extension that lasts until February 29th.

The Bush Administration released its \$247 reauthorization proposal entitled the Safe, Accountable, Flexible and Efficient Transportation Equity Act or SAFETEA, in May, 2003. During hearings, both House and Senate Transportation leaders complained that SAFETEA's funding level was inadequate to meet the nation's surface transportation needs. In response, the Senate's reauthorization plan, released in November of last year called for a \$317.5 billion overall funding level, while the House Transportation and Infrastructure Committee's \$375 billion plan, known as the Transportation Equity Act: Legacy for Users (TEALU), is, not surprisingly, most preferred by advocates and stakeholders from the transportation sector.

The Highway bill is broken up into four segments in the Senate, three of which have completed committee consideration as of Monday this week. The Environment and Public Works Committee completed work on the

Highways portion of the bill on November 12th, 2003, while the Committee on Commerce, Science and Transportation marked up the highway safety and Amtrak reauthorization components on June 26, 2003. Consequently, Senate Majority Leader Bill Frist (TN) invoked and won a cloture vote on the Senate floor to introduce and limit debate on S.1072, the Senate highway bill, on February 2, 2004.

The Senate Finance Committee had that afternoon approved the revenue and financing title of the bill by a vote of 17 to 4. Committee members had to tackle how to pay for a package 24 percent larger than the President's proposal during a fiscal deficit year, without raising taxes. The Senate Finance proposal includes a provision that would shift the federal gas tax's 5.5 cents tax credit for ethanol blended fuel producers from the Highway Trust Fund (HTF) to the general fund. Sens. Don Nickles (OK) and Jon Kyle (AZ) denounced the plan as an illegitimate move that would unfairly shift the burden of the ethanol credit onto tax payers, thus augmenting the government's already ballooning deficit. Another financing plan that would push up the collection of \$11 billion in corporate taxes from 2010 to 2009 drew criticism from Sen. Kent Conrad (ND) who submitted an amendment that would provide the money through the extension of customs fees. Sen. Conrad withdrew the amendment after he secured a commitment from the Chair and Ranking Member of the Committee, Sens. Charles Grassley (IA) and Max Baucus (MT) to establish a more concrete method of providing the money before the bill's floor consideration.

Seemingly in response to the Senate Finance package, on Tuesday, February 3, two top Administration officials, Treasury Secretary John Snow and Transportation Secretary Norm Mineta, issued a letter to Congressional leaders reiterating the President's advancement of SAFETEA and his steadfast commitment to not raising gas taxes, floating federal bonds, or shifting added burdens to the general treasury to pay for transportation programs. The letter warns that President Bush would be advised to veto any bill that ignores these principles. The President's 2005 Budget includes a proposed increase in the overall funding level of the surface transportation bill from \$247 billion to \$256 billion, however this amount is considerably modest compared to both Senate and House proposals.

House Transportation and Infrastructure Committee Chair, Don Young (AK) responded to the veto threat with a letter to the President expressing disappointment at the failure of "his advisors" to provide Congress with any alternative financing choices. "Solutions to these problems cannot be found by issuing edicts or veto threats," wrote Rep. Young, who has called for highway user fee increases to pay for his proposal.

The House is expected to debate another temporary highway extension bill next week. Meanwhile, the Senate is not expected to complete debate on its pending bill for another three weeks. Finally, the Senate Banking, Housing and Urban Affairs which controls jurisdiction over the \$56.5 billion transit portion of the bill, marked up related legislation in an Executive Session on Wednesday, February 4th. HTF's transit account currently receives 11 percent of the 18.4 cent federal highway tax revenue.

FEINSTEIN SUGGESTS ADDITIONS TO BASE SELECTION CRITERIA FOR 2005 MILITARY BASE CLOSURES AND REALIGNMENTS

In late January, 2004, Senator Dianne Feinstein and Governor Arnold Schwarzenegger each wrote to Pentagon officials in charge of the upcoming 2005 base closure round to suggest changes in proposed criteria for selecting bases to be closed.

In December, the Department of Defense announced draft criteria for recommending military installations for closure or realignment. Criteria were separated into two groups of four criteria. Priority would first be given to military value, including:

- 1. *Current and future mission capabilities and the impact on operational readiness of DOD force, including the impact on joint warfighting, training, and readiness.*
- 2. *Availability and condition of land, facilities and associated airspace (including training areas suitable for maneuver by ground, naval, or air forces throughout a diversity of climate and terrain areas and staging areas for the use of the Armed Forces in homeland defense missions) at both existing and potential receiving locations.*

- 3. Ability to accommodate contingency, mobilization, and future total force requirements at both existing and potential receiving locations to support operations and training.
- 4. Cost of operations and the manpower implications.

The four secondary, non-military criteria proposed included:

- 5. Extent and timing of potential costs and savings, including the number of years after closure that savings would exceed the costs.
- 6. Economic impact on existing communities in the vicinity of military installations.
- 7. Ability of the existing and potential receiving communities' infrastructure to support forces, missions, and personnel.
- 8. The environmental impact, including the impact of costs related to potential environmental restoration, waste management, and environmental compliance activities.

The letter from Sen Feinstein urged the Department to consider four other factors:

- Value of intellectual capital and the synergy created between the military, academia, and the private sector;
- Need to maintain long term testing facilities and operational ranges, which accommodate both individual and joint forces;
- California's substantial contribution to the streamlining of our military's base structure in past rounds; and
- Impact of closure of installations and locations in foreign nations.

The proposed criteria are scheduled to be altered and finalized by February 16, 2004. Congress would then have until March 15, 2004 to disapprove the criteria.

SCHWARZENEGGER RECOMMENDS CHANGES TO BASE CLOSINGS CRITERIA

A January 2004 letter from Governor Arnold Schwarzenegger to DOD Base Realignment and Closure Director Peter Potochney urged specific changes in the criteria drafted and released by DOD for selecting bases for realignment and closure in 2005. (See above article for details of the DOD-proposed criteria.)

To the first of DOD's criteria, which focuses on ensuring mission capability, the Governor suggested the addition of "the capacity to accommodate new missions." With an eye toward RDT&E capacity, the letter suggested that "material readiness, including the development, testing or acquisition of new weapon systems and associated resident intellectual capital" be added to DOD's "operational readiness" criterion.

To criterion two -- dealing with the availability and condition of land, facilities and associated airspace -- the Governor suggested several changes. Whereas DOD's proposal focused only on space for maneuvers, Governor Schwarzenegger also suggested that the criteria include "Test facilities and test areas able to accommodate individual and joint systems including weapons and platforms with long operational ranges," as well as "Proximity of other facilities with associated air, land and sea space, storage, maintenance and repair capability, offering access to major surface transportation infrastructure and routes to support testing long-range systems; and conducting major joint force exercises and experiments."

Regarding criteria three -- which addressed ability to accommodate contingency, mobilization, and future force requirements -- the Governor's letter suggested that homeland security needs be considered, as well as the ability to "accommodate the development, testing, or acquisition of new weapon systems using associated resident intellectual capital."

Finally, regarding the "cost of operations and manpower implications" criterion suggested by DOD, the Governor suggested that those costs be determined by standard cost and accounting methods, to include the cost to "replace lost resident intellectual capital resulting from a base realignment impacting the Defense Department workforce and the local contracting infrastructure," as well as the cost of "environmental restoration, waste management, and cleanup, including the costs associated with an accelerated schedule of cleanup for reuse when contrasted with longer term, scheduled costs of environmental cleanup on a military site which remains open and operating."

As noted above, the proposed criteria are to be altered and republished by February 16, and Congress will then have until March 15, 2004 to disapprove the criteria or they will become the final criteria.

BRIEFING FOCUSES ON FEDERAL EDUCATION ISSUES

On Friday, January 30, 2004, the California Institute and the California School Boards Association (CSBA), held a briefing that addressed several federal education issues, including implementation of the No Child Left Behind Act (NCLB), and reauthorizations of the Individuals with Disabilities Education Act (IDEA), Head Start, Perkins Act, and the National School Lunch Program (NSLP).

Briefing attendees heard from the following CSBA representatives: Mr. Rick Pratt, Assistant Executive Director, Governmental Relations, Mr. Phillip Escamilla, Legislative Advocate, and Ms. Nichole Munoz-Murillo, Legislative Analyst.

Mr. Pratt spoke about the California state budget and its implications for the school system in California. He said that the schools' funding in the state is directly tied to the General Fund money available to lawmakers for expenditure, which leaves education to compete with other areas in need of funding, including prisons, healthcare, and social service. Mr. Pratt also spoke about the recent negotiations with Governor Arnold Schwarzenegger, which resulted in a one-time suspension of Proposition 98 and subsequent restoration of \$350 million in education funding in the budget.

Mr. Escamilla addressed NCLB and issues surrounding California's compliance with the law that was signed into effect in 2002, and IDEA, which is expected to be reauthorized this year. After providing a brief background of the two programs, Mr. Escamilla went on to say that while CSBA is not looking to change the law, it recommends fully funding all NCLB mandates, including raising the pre-existing Title I program appropriations to the level that was initially on the table when the legislation was first signed into law. In addition, he argued for greater flexibility within the implementation process, particularly with respect to testing of subgroups and the number of alternative assessments that can be administered. Mr. Escamilla also addressed IDEA. He noted that both the House version (H.R. 1350) and the Senate version (S. 1248) of the bills reauthorizing the program reflect many of the reforms sought by CSBA, and argued for eliminating the manifestation determination hearings.

Ms. Munoz-Murillo, on the other hand, spoke about the issues that are expected to surface during the reauthorization of the National School Lunch Program, and also addressed the Perkins Act and Head Start. The reauthorization of the Child Nutrition Act (which includes NSLP) is expected in 2004, and she suggested that program integrity, elimination of the reduced-price meal category, and childhood obesity and competitive foods will be the key issues considered. She noted that CSBA believes that direct certification is the best tool for strengthening NSLP program integrity. Ms. Munoz-Murillo also discussed anticipated issues for the upcoming Head Start reauthorization, and in conclusion offered an analysis of the Carl D. Perkins Vocation and Technical Education Act, which currently supports career and technical education.

For more information about CSBA, visit their website at: <http://www.csba.org>.

FARMERS OLDER, MORE DIVERSE REPORTS A NEW SURVEY

African-American, American Indian, Hispanic and women farmers are on the rise, but so are large farms and those run by older operators, reports a new Census survey, preliminary results of which were released on February 3, 2004. At the same time, the census figures indicate that the sheer number of farms in California and throughout the nation are declining. The 2002 Census of Agriculture, includes a state-by-state breakdown of the data for several measures.

In California, those farms worth \$500,000 a year or more showed an increase, while the number of the smallest farms - those with less than \$2,500 a year in sales - declined. The preliminary results also offer the following indications:

- The number of farms declined to 2.129 million nationally in 2002, down from 2.215 million in 1997; California's number of farms also declined to 79,700 from 88,000 during the same period.
- Average U.S. farm size increased to 441 acres (up from 431 acres in 1997), and California followed the national pattern with an average acreage of 347 versus an average of 327 acres in 1997.

- The average age of a U.S. farmer was 55.3 years in 2002, up from 54 years in 1997; a California farmer's average age was 56.8, up from 55.7 years.
- The number of farmers describing themselves as white declined to 2.07 million in 2002 (down from 2.15 million in 1997), as well as did Asian (9,620 in 1997, and down to 8,390 in 2002); California also saw the decline of white (80,418 in 1997 down to 74,080 in 2002) and Asian (3,746 in 1997 down to 3,618 in 2002) farmers.
- The number of African-American farmers rose nationally to 29,154 from 26,785 in 1997. Also more farmers described themselves as American Indian or Alaskan native - 15,415 in 2002 compared with 12,911 previously; California saw its black farm population fall, however, to 276 in 2002 from 396 in the previous census, while the state's American Indian and Alaskan native farmer population grew to 982 from 676 in 1997.

For more information about this survey, please visit U.S. Department of Agriculture, National Agricultural Statistics Service website at: <http://www.usda.gov/nass> .

REPORT EXAMINES GEOGRAPHIC DISTRIBUTION OF FAMILIES CLAIMING EARNED INCOME TAX CREDIT

The Brookings Institution recently released a report, *The State of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States*, which finds that low-income families live in large cities and rural areas in nearly equal numbers. The paper uses the structure of the Earned Income Tax Credit (EITC) to determine where the working poor live.

Nationally, families in large cities are most likely to qualify for the EITC, but families in rural areas follow closely behind, the report finds. Overall, though, while the proportion of EITC families are higher in large cities and rural areas, the plurality of EITC earners live in large suburbs (6.7 million EITC earners), according to the study. Although families in the rural South are more likely to qualify for the EITC, in the West they are spread roughly evenly among urban, suburban, and rural areas.

The report states: "The places with the highest rates of EITC receipt in the West—where at least 40 percent of families are working poor— are rural areas in and around American Indian reservations, places along the Mexican border in Arizona and California, and California's Central Valley, home to a large Hispanic immigrant population." As a percentage of total tax filers, California fell into the category where EITC earners were dispersed roughly evenly among large cities (17.2%), large suburbs (13.7%), small metro (15.9%), and rural (18.1%).

In California, 2, 169,299 tax filers earned the EITC, or roughly 15 percent of all tax filers.

The full report can be obtained from the Brookings website at: <http://www.brookings.edu> .

UPDATED ANALYSIS OF PRESIDENT'S FY 2005 BUDGET ON INSTITUTE WEBSITE

On Thursday, February 5, the California Institute updated and posted (<http://www.calinst.org>) an updated analysis of the Bush Administration's Budget Proposal for Fiscal Year 2005. The Budget proposes outlays of \$2.4 trillion for fiscal year 2005, and assumes a deficit of \$364 billion. The discretionary portion of outlays would be \$914 billion, whereas mandatory outlays would total \$1.3 billion. The Budget proposes discretionary spending of \$818.4 billion in new budget authority, a 3.9 percent increase from 2004. President Bush has urged keeping spending growth increases at 3 percent per year through 2009.

In more than 2500 pages, the budget documents outline the Administration's recommendations for discretionary and mandatory spending, as well as its revenue proposals. Developing a reliable analysis of any budget is difficult. A California-oriented analysis of the proposal prepared by the staff of the California Institute, updated on February 5, 2004, is available on the Institute's website in text form at <http://www.calinst.org/pubs/prbdg05.htm> or in Adobe Acrobat (pdf) format at <http://www.calinst.org/pubs/prbdg05.pdf> .