



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.

CALIFORNIANS MOURN DEATH OF REP. MATSUI

The bipartisan California Congressional delegation and the California-Washington community were dealt a harsh blow on New Years Day 2005, with the death of the Honorable Robert T. Matsui, a dedicated public servant who represented Sacramento in the House of Representatives since 1978.

Bob Matsui rose from a childhood in WWII internment camps to attend U.C. Berkeley and Hastings Law School, to become a key leader on the Ways & Means Committee and Chair the Democratic Congressional Campaign Committee. Matsui died at 63 of pneumonia brought on by a rare stem cell blood disorder.

Rep. Zoe Lofgren said, "It is with profound sorrow that the California Democratic Congressional Delegation mourns the passing of our colleague, Bob Matsui. Californians, and indeed all Americans, are truly fortunate to have had a man like Bob Matsui in Congress. Bob served his beloved constituents with honor and embodied the best of what we all aspire to as public servants."

On behalf of the California Republican Congressional Delegation, Rep. David Dreier called Matsui "a true leader in Congress, someone who was unafraid to work with others across the aisle, yet firmly committed to his ideals and principles. We always found areas of agreement where we could work together to improve the lives of Californians and Americans," adding, "Bob will always be remembered as a gentleman and a kind spirit in the all too cynical world of politics. He will be greatly missed by all who knew and worked with him."

Speakers at a January 5 memorial service under the U.S. Capitol Rotunda included former President Bill Clinton, House Speaker Dennis Hastert and Minority Leader Nancy Pelosi, Senators Dianne Feinstein and Hillary R. Clinton, Rep. Charles Rangel, and Former Treasury Secretary Robert Rubin. Matsui's body was then flown to Sacramento to lay in state in the State Capitol Building. At 10 a.m. on Saturday, January 8, a public memorial service will take place at Sacramento Memorial Auditorium. A private burial will follow a noon funeral services at Westminster Presbyterian Church near the State Capitol.

Rep. Matsui is survived by his wife, Doris Matsui, his son Brian, and his granddaughter Anna. The Matsui family and friends are

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establishing a charitable fund in memory of the Congressman and ask that all gifts be sent to The Matsui Foundation for Public Service, P.O. Box 1347, Sacramento, CA 95812. Contributions may also be offered through the foundation's website: <http://www.mfps.org>.

REP. JERRY LEWIS TO CHAIR HOUSE APPROPRIATIONS COMMITTEE

On Wednesday, January 5, 2005, House Republican leaders tapped Rep. Jerry Lewis (Redlands) to become Chairman of the Appropriations Committee, one of the most coveted positions in Congress. As an Appropriations member and Chair of the Subcommittees on Defense and (previously) on VA, HUD, and Independent Agencies, Lewis developed a reputation for being fair-minded, hard working, and politically savvy, as well as for brokering deals and finding compromise positions on complex and difficult topics.

In becoming Appropriations chair, Lewis waged an uphill battle against the numbers. Not only did he face stiff competition, but he had to overcome the argument that Californians already held too many House committee slots. In what may be a first for any state, and certainly is a first in recent memory, Californians will now lead six of the House's 21 committees, including the three that historically have been considered the most influential -- Ways & Means, Appropriations, and Rules.

In addition, his win demonstrates the acumen and influence of other GOP Californians -- including Committee Chairmen David Dreier (San Dimas), Bill Thomas (Bakersfield), Duncan Hunter (Alpine), Richard Pombo (Tracy), and Christopher Cox (Newport Beach), as well as Republican Steering Committee members John Doolittle (Roseville) and Ken Calvert (Corona). They had the delicate task of pressing House leaders to support Lewis while simultaneously reassuring their colleagues that a California with six chairmanships would not overuse its newfound power. Asked about the California numbers after the selection, Speaker Dennis Hastert commented, "That argument was made. Obviously, members of the Steering Committee didn't buy it." The Steering Committee's recommendation was verified by the full Republican Conference on Thursday.

With a new role that oversees all federal discretionary spending, about one third of the federal government's budget, Lewis has a good vantage point to monitor whether the federal budget treats California fairly in such areas as science and space research, water projects, agriculture programs, health facilities, procurement contracts, education grant spending, and reimbursement for state immigration costs, to name only a few. Not less important, competing legislators from other states may now be at least somewhat less likely to come after California resources with the state leading so many top House committees.

Rep. Calvert commented, "With his prior experience as head of the Defense Appropriations Subcommittee Jerry Lewis is the right man to help us control spending while at the same time ensuring our troops get everything they need to fight the Global War on Terror." Upon becoming Chairman, Lewis pledged to work hard to get all appropriations bills done on time and avoid rolling multiple bills into an omnibus spending package.

INSTITUTE RECEPTION WELCOMES CALIFORNIA DELEGATION TO 109TH CONGRESS, FEATURES REMARKS BY REPS. LOFGREN, CALVERT AND LEWIS

On Tuesday, January 4, 2005, more than 200 California Institute supporters and colleagues, Members of Congress and staff, and other guests joined together at a reception in the Rayburn House Office Building to mark the swearing-in of the 109th Congress of the United States.

The reception was made possible by generous support from Southern California Edison and Lockheed Martin, the event hosts, and with in kind donations from the Wine Institute. All members.

Speaking at the reception, Rep. Zoe Lofgren (San Jose) thanked the California Institute and staff for its research work to help improve the understanding of California's relationship with the federal government. Rep. Ken Calvert (Corona) welcomed guests and discussed the importance of ensuring California is treated fairly in the federal budget process. He introduced Rep. Jerry Lewis (Redlands), who spoke regarding leveraging California's resources and the importance of bipartisan approaches to successful governance.

In addition, each one of the speakers paid tribute to the life and good work of the late Rep. Bob Matsui, and expressed that his death represents a great loss for the bipartisan California Congressional delegation and the state as a whole.

Representing the Institute's Board Officers were Chairman Robert G. Foster of Southern California Edison and Vice-Chairman Steven E. Chaudet of Lockheed Martin. Other Institute Board members attending included former Members of Congress Bill Lowery and Vic Fazio. Mr. Foster welcomed participants and

At the conclusion of the evening's comments, Vic Fazio -- who had been a classmate of Rep. Matsui -- spoke about his life led the attendees in a moment of silence and reflection.

DREIER TO REMAIN RULES CHAIRMAN, OVERCOMING TERM LIMIT

On Monday, January 3, 2005, House Speaker Dennis Hastert formally announced that Rep. David Dreier (San Dimas) could continue to serve as chairman of the powerful House Rules Committee, despite having already served the six years that the GOP leaders consider a maximum.

A coup for Dreier, the special waiver means that term limits of six years will apply to the chair slot for every House Committee, except for the Rules Committee. The chairmanship of the Rules Committee is at the discretion of the Speaker of the House, and his recommendation was approved by the House Republican Conference.

Dreier stated, "I am pleased and proud to continue serving the Speaker and the Congress as Chairman of the Rules Committee. The 109th Congress will present us with terrific challenges and a great deal of work to accomplish for the American people. From border security to tax and social security reform to continuing the war on terror, we have much to do. I look forward to working with my colleagues on both sides of the aisle and continuing as a part of Speaker Hastert's team."

COX'S HOMELAND SECURITY COMMITTEE GAINS PERMANENT STATUS

The House Select Committee on Homeland Security -- chaired by Rep. Christopher Cox (Newport Beach) -- gained permanent status and widened jurisdiction this week. House Republican leaders agreed on January 3, 2005, and the change was ratified during debate on a rules package on January 4, following the swearing-in of the 109th Congress.

The rule expanded the Committee's jurisdiction, giving it oversight of the Transportation Security Administration (TSA), border security, infrastructure protection and some Customs functions. An amendment in the Republican caucus meeting provided that authority over cybersecurity policy would remain under the Energy and Commerce Committee, on which Rep. Cox also serves.

The victor in a lengthy battle to gain permanence and jurisdictional breadth, Chairman Cox said, "It is an honor to be invested with this trust by my colleagues. The Homeland Security Committee will focus on the greatest challenges facing the Department of Homeland Security: to help 22 legacy agencies tear down their bureaucratic barriers, and to meet the leading national security challenge of the 21st century."

Rules Committee Chairman David Dreier (San Dimas) was a key player in the undesirable task of shifting authority over some programs from several House committees to the expanded Homeland Security panel. He reportedly quipped that he "will be dining alone" in the Members Dining Room.

The panel was created at the outset of the 108th Congress, with Cox selected as chairman. The committee unanimously approved a bill, the Faster and Smarter Funding for First Responders Act, to change the widely-criticized homeland security formula grant program as a select committee. The bill was approved by the House, but differences with a Senate counterpart could not be resolved before Congress adjourned, and a similar measure is likely to move early in the 109th Congress.

SCHWARZENEGGER LAYS OUT BOLD AGENDA IN 2005 STATE OF THE STATE

Gov. Arnold Schwarzenegger outlined his legislative agenda and administration priorities in his second State of the State address on January 5, 2005. In front of a packed California Assembly Chamber, the

Governor pledged to continue to institute the fiscal reforms and structural changes he started in his first year as the state's chief executive. He also called upon the state legislature and the people of California to "ignore lobbyists and politics," and join him in making his proposals a reality.

The Governor touched on some of his first year achievements in office, including stanching the impact of the state budget deficit, helping pass Propositions 57 and 58 by referendum, and the attainment of \$1 billion in federal funding.

The Governor then divided his plans into four major agenda items, the most crucial being reforms to the state budget system. Specifically, he proposed a mechanism that would cut expenditures across the board when state expenses grow above revenues. Schwarzenegger commented that the state suffered from a spending problem rather than a revenue problem, noting that certain formulas in statute improperly increase fiscal commitments without considering available resources.

Reforming the state's costly pensions system was cited as another legislative priority for the Administration. The growing count of retired persons in California has led to added strain on taxpayers and employers with the cost of pensions jumping from \$160 million in 2000 to \$2.6 billion in the current fiscal year, according to Gov. Schwarzenegger.

The Governor stressed that the state's K-12 education system was "an educational disaster" in need of improvement, noting his concern for the 30 percent of students not graduating from high school and the number of schools classified as failing. He proposed measures that would financially reward high performing teachers by tying a teacher's pay to merit and not tenure and basing employment status on performance not attendance.

In other remarks, Gov. Schwarzenegger pledged to advance democratic reforms and make elections fairer and more honest by creating an independent redistricting panel to redraw state and federal district lines.

A number of administrative restructuring proposals were also presented by the Governor in his address. In an effort to meet California's transportation needs without risking environmental degradation, Gov. Schwarzenegger proposed continued development of his Hydrogen Highways alternative energy strategy. Gov. Schwarzenegger also expressed support for the effort to expand the state's energy infrastructure and for expanding affordable healthcare opportunities for low income Californians.

For a copy of the Governor's State of the State address, visit the Sacramento Bee online edition at: <http://www.sacbee.com/content/politics/story/11936351p-12823432c.html> .

ACCOUNTING STANDARDS BOARD REQUIRES EXPENSING STOCK OPTIONS

In mid December 2004, the Financial Accounting Standards Board (FASB) issued a new standard that will require companies to treat stock options as expenses when they are issued. Currently, stock options granted to employees are noted in financial statement documents but are not part of the income statement itself. The 27 page standard will become effective in June 2005, if its opponents are unsuccessful in stopping it.

In July 2004, the House overwhelmingly passed a bill, co-authored by Rep. Anna Eshoo (Atherton) that would have limited the expensing requirement to employee stock options granted to the chief executive and the next four highest paid employees of a company. Small businesses would have been exempt from expensing options, under the bill, and newly public companies would have been able to delay expensing in the first three years. *See, Bulletin, Vol. 11, Nos. 20 (6/18/04) & 25 (7/22/04)*. The Senate, however, failed to act on the bill, H.R. 3574, before adjourning.

In response to FASB's decision, Eshoo criticized the new rule for forcing companies to expense stock options "despite widely recognized problems in valuing the options accurately." California's high technology companies strongly oppose the new rule, arguing that stock options are a necessary tool for start-up companies that need to hire and retain the most qualified employees.

CALIFORNIA FARMERS COMPENSATED FOR WATER WITHHELD BY FEDS

The Administration will pay \$16.7 million to several thousand California farmers in the San Joaquin Valley to settle a water dispute going back over a decade. In the early 1990s, the federal government withheld water supplies to the farmers in order to help preserve two threatened fish species – Chinook salmon and delta smelt. The farmers sued and in 2001 a federal court held that the farmers' property rights were violated by the water withholding. The U.S. Department of Justice recently decided to pay the claim rather than appeal.

California officials, including California Attorney General Bill Lockyer, had urged the Government to appeal, claiming that accepting the verdict will lead to more water challenges and impair the state's ability to manage water in order to protect the environment and meet other public needs. Property rights advocates, however, hailed the decision for curbing the Government's right to deprive citizens of the use of their land and water without compensation. The agreement signed by DOJ and the farmers states that the settlement should not be viewed as a precedent for future water disputes, so its future impact remains uncertain.

CALIFORNIA TRADE FORUM TO BE HELD IN SAN DIEGO

The 7th Annual California Council for International Trade (CCIT) Policy Forum will be held in San Diego on February 23-25. CCIT, a California trade association dedicated to increasing foreign trade, holds the forum to bring together representatives from government, industry, and other public and private organizations to discuss U.S. trade policy and its impact on California.

This year's forum will be held at the University of California, San Diego in conjunction with the Graduate School of International Relations and Pacific Studies, UCSD, the National Foreign Trade Council, the U.S. Commercial Service, and the San Diego World Trade Center. Some of the issues on the agenda include: continued U.S. membership in the World Trade Organization; extension of "fast track" trade negotiating authority; bi-lateral and regional trade agreements negotiated and underway; transportation infrastructure to facilitate trade; the future of the U.S. trade relationship with China; competing needs for homeland security and trade expansion; visa and immigration issues: the cost to international business; rising protectionism on issues like offshore outsourcing; and new issues in post-quota textiles and non-subsidized agriculture.

Several members of the California congressional delegation, U.S. Administration trade officials, and foreign ambassadors and other trade policy representatives are expected to be in attendance. The forum is open to the public. For further information, visit CCIT's website at: <http://www.ccit.net>.

RAND REPORT FINDS CALIFORNIA SCHOOLS FALL BEHIND MOST OF COUNTRY

On January 2, 2004, the RAND Corporation released a comprehensive study finding that "California's public school system lags behind most of the nation on almost every objective measurement of student achievement, funding, teacher qualifications and school facilities." Using data ranging from standardized test scores to teen pregnancy rates and student/teacher ratios to college matriculation, the RAND study found an enormous regression in the school system that only 30 years ago was largely considered the nation's finest. Lead author and RAND senior economist Stephen Carroll stated that "California schools are lagging behind most other states and these findings suggest policymakers need to make major changes in order to repair the problems. Despite some improvements, the state has a long way to go to reclaim its standing as a national leader in K-12 education." California is home to nearly 6 million K-12 students, comprising 12.8% of the nation's school-aged children. Among other findings, the study identified that:

- students' performance on standardized tests in California is the third worst in the nation.
- California has the second highest student/teacher ration in the country, averaging 20.9 students per teacher (national average is 16.1);
- standards for teachers in California are below the national average; and
- California's pregnancy rate for children 15-17 was higher than everywhere else in the United States except the District of Columbia.

The study points to the education finance reform instituted by the state 30 years ago, during which the state assumed funding responsibility from local governments, as a main reason for the precipitous decline in the quality of K-12 education. The reforms had the effect of equalizing per pupil spending across the state, but also decreased the average spending per pupil. Additionally, California's ethnic diversity, particularly its concentration of recent immigrant students and students with difficulty speaking English, has contributed to the state's educational decline, according to the report.

For more information on the study, visit the RAND Corporation's website at <http://www.rand.org/>.

CALIFORNIA COUNCIL ON BASE SUPPORT AND RETENTION HOLDS FIRST FORUM

On January 6, 2004 in Sacramento, the California Council on Base Support and Retention held its first public forum. According to a December 20, 2004 press release, the Council, formed by Governor Schwarzenegger in November and co-chaired by Leon Panetta and Donna Tuttle, will use a series of six public forums held throughout the state to hear directly from communities and gather the detailed information necessary "to strongly advocate for keeping California's bases open."

The 18-member Council will be traveling the state next week for the remaining meetings:

- January 10, 2005, Lancaster, 9:00am – 5:00pm
- January 12, 2005, Los Angeles, 8:00am – 4:00pm
- January 13, 2005, Oceanside, 9:00am – 12:00pm
- January 13, 2005, El Centro, 2:00pm – 5:00pm
- January 14, 2005, San Diego, 9:00am – 5:00pm

The Department of Defense has already initiated the 2005 Base Realignment and Closure (BRAC) process authorized by Congress in 2002. On March 15, 2005, the President will make nominations for the 9-member Defense Base Closure and Realignment Commission, which will assess the list of bases selected by the Secretary of Defense for realignment or closure. That list will be published in the Federal Register on May 16, 2005. The Council on Base Support and Retention was formed by Governor Schwarzenegger in order to unify and strengthen California's ability to keep bases from being closed or moved.

For more information on the public forums or on the BRAC process, please visit the California Office of Military and Aerospace Support's (OMAS) website at <http://www.caquarter.ca.gov/>.

UCLA STUDY IDENTIFIES HEALTH PROBLEMS FOR UNINSURED CALIFORNIANS

A December study published by the UCLA Center for Health Policy Research found that "uninsured Californians report serious health problems that are complicated by their lack of having health insurance." The study examines uninsured Californians, broken down by Assembly and Senate districts, as well as by county, who report being in fair or poor health, who have asthma, or who have hypertension. According to the study, 1.4 million uninsured Californians self-report being in fair or poor health, totaling 22% of the uninsured population, while 7% reported having asthma, and 28% reported being diagnosed with hypertension. The findings varied significantly by municipality and district.

For more information on the study, visit the UCLA Center for Health Policy Research's website at <http://www.healthpolicy.ucla.edu/>.

UC DAVIS EXPERTS TO DISCUSS HYDROGEN FUELS

On Tuesday, January 11, 2005, several professors from the Institute of Transportation Studies at the University of California, Davis will conduct a briefing regarding California's efforts to expand hydrogen fuel cell development and deployment. Entitled "Shaping California's Hydrogen Future - Challenges and Insights," the briefing will take place from 3:00 to 5:00 p.m. in Room 366 of the Dirksen Senate Office Building.

The briefing will be introduced by Anthony Eggert, Associate Research Director of the Hydrogen Pathways Program at ITS-Davis. The Executive Director of the California Fuel Cell Partnership, Catherine Dunwoody, will discuss getting vehicles and infrastructure. Joan Ogden, Associate Professor of

Environmental Science and Policy at Davis and Co-Director of the Hydrogen Pathways Program, will discuss hydrogen production issues. ITS-Davis Director Daniel Sperling will focus on policy issues, and faculty member Kenneth Kurani will discuss markets for advanced technologies.

FANNIE MAE, FREDDIE MAC RAISE CONVENTIONAL LOAN LIMIT

As of January 1, 2005, Fannie Mae and Freddie Mac, two of the nation's largest mortgage providers, will raise by 7.8% the limit on a conforming mortgage for a single-family home. The change will bring the limit to \$359,650, up from \$333,700 in 2004, which will lead to a corresponding increase in the number of homebuyers who qualify for such loans. Conforming loans offer interest rates that can be as much as one-half of a percent lower than "jumbo loans," which apply to loans over the limit.

The limit increase will significantly benefit California homebuyers, who face some of the highest real estate costs in the country. According to the California Association of Realtors, as of November 2004, the median price for a home in California was \$473,260, still well above the new loan limit.

Real estate market analysts expect that the increase will help counterbalance the predicted downturn in homebuying in 2005. David Lereah, chief economist of the National Association of Realtors, as quoted in the Washington Post on December 1, 2004, states that "sales of existing homes are likely to fall 3.7 percent to 6.3 million in 2005 from a record 6.55 million this year."

For additional information, visit Fannie Mae at <http://www.fanniemae.com> or Freddie Mac at <http://www.freddiemac.com>. For economic statistics regarding the California real estate market, visit the California Association of Realtors at <http://www.car.org>.

DESPITE ADVANCES, CHALLENGES AND OPPORTUNITIES REMAIN FOR WOMEN IN THE WORKFORCE, ACCORDING TO PPIC "CALIFORNIA COUNTS" PAPER

A new paper published by the Public Policy Institute of California (PPIC) examines California's female workforce trends and discusses the new challenges presented to families and public policy makers as the number of women in the labor market continues to grow.

Entitled *Women, Work and Family in California*, the latest edition of *California Counts* contains good news for women insofar as advances have been made by female laborers over the last 35 years. Currently, the 8 million women who make up 45 percent of California workers have increased earnings and work participation rates and are likelier to be employed in more prestigious positions than in 1968, according to the report. Women, who comprised less than half the labor market in the late 60s, represented over 70 percent of the workforce in 2002. In that same period, average annual earnings jumped from \$17,600 to \$31,500 (in 2002 dollars). Female advances in the labor force are partially attributed to higher levels of education and a greater share of full time work, the report found. Women are also more likely to hold better quality jobs than they were three decades ago. The report stipulates however that California's female workers are less likely than men to hold high wage occupations and make 80 cents for every male-earned dollar.

With female workforce participation rates growing, new challenges arise for the family as mothers and wives are required to pay for services traditionally provided at home. According to the author, additional costs needed to cover child care and the stress from balancing time and resources between work and family creates an additional "squeeze" for women workers. The author also suggests that a greater awareness of child development needs together with fewer women remaining in traditional roles at home could lead to added state responsibilities to fill those roles.

To view a copy of the paper, visit PPIC at: <http://www.ppic.org/main/publication.asp?i=569>.