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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 a computer server donation from Sun Microsystems.*

## **SENATE FINANCE CONSIDERS MFN EXTENSION FOR CHINA**

On Thursday, the full Senate Finance Committee held a hearing on the President's decision to extend Most-Favored Nation trading status to China. MFN status provides China with the same trading rights that are enjoyed by all major U.S. trading partners.

Secretary of State Madeleine Albright and U. S. Trade Representative Charlene Barshefsky presented the Administration's position supporting the annual extension. Secretary Albright stated that although it continues to be a long process to get China to improve its treatment of citizens and open up its trade markets, China is slowly making improvements. Denying it normal trade relations at this point would set back its market reforms.

Ambassador Barshefsky warned that revocation of MFN would provoke China to retaliate against U.S. exports, putting at risk \$13 billion in high value commodities such as airplanes, machinery, and electrical equipment, and jeopardizing the estimated 400,000 U.S. jobs created by trade with China. She also stated that revocation of normal trading status would adversely impact Hong Kong's economy, as most Chinese exports to the U.S. pass through there en route to the United States.

Many Senators, as well as the Administration witnesses, commended Congress for a provision contained in the IRS overhaul bill, which is expected to be enacted shortly, that will replace the phrase "most-favored nation" with "normal trade relations," pointing out that MFN is a misnomer, because it merely confers the same trade status on China as that enjoyed by other major trading partners.

On a different subject, during questioning, Ambassador Barshefsky stated that although renewing authority for fast-track trade agreements remains a priority for the Administration, its ability to complete

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trade deals with other countries (except Chile) has not suffered and the U.S. continues to move ahead to open markets globally.

Before adjourning for the 4th of July congressional recess, the House Ways and Means Committee endorsed the Administration's extension of Most-Favored Nation status for China. [See, Bulletin, Vol. 5, No. 22 \(6/25/98\).](#)

## **BURGEONING FY99 TRANSPORTATION SPENDING PLANS**

Although details of the Senate's as-yet unnumbered transportation spending plan remain unavailable to the public until after consideration by the full Appropriations Committee on Friday, July 10<sup>th</sup>, the *Los Angeles Times* has reported that California would receive about \$92 million, second only to Texas, in funding for mass transit rail projects under the plan approved by the Senate Transportation Subcommittee on Wednesday. Overall, the \$47.5 billion measure would increase highway spending by 15% to \$27 billion and increase spending on mass transit by 11% to \$5.4 billion, and provide \$361 million for highway safety.

According to the *Times* and Capitol Hill press reports, the Subcommittee approved the distribution of about \$903 million for 80 designated mass transit projects across the nation. The Los Angeles Metropolitan Transit Authority (MTA) would receive \$30 million in FY99, \$70 million short of its original funding request. Last year, Congress provided \$61.5 million for the subway project, a compromise almost half-way between the Senate's proposed funding of \$51 million and the House's \$76 million. The reasons speculated for the low-level of FY99 funding for the MTA subway by the Senate include the recent bad publicity the agency has received from its current \$7 billion debt and the stiff competition for a limited amount of federal funds for transit projects.

The reports also said \$434 million is provided for buses and bus related projects, but the draft contains no earmarks. Other California transit projects likely to receive federal funding are the extension of BART to the San Francisco Airport and light-rail projects in Sacramento and San Diego. The House Appropriations Transportation Subcommittee is expected to begin consideration of its own spending plan next week. Visit the Senate Appropriation Committee's web site after Friday morning's hearing for a summary and press release at <http://www.senate.gov/~appropriations/enter.htm>

In related news, the Senate also passed legislation (H.R. 2676) to reform the IRS, which included provisions of a bill (H.R. 3978) to make corrections to the recently enacted transportation reauthorization measure, TEA21. The President is expected to sign the comprehensive measure soon.

## **COMMERCE DEPT TO ALLOW ENCRYPTION EXPORTS TO FINANCIAL INSTITUTIONS**

Secretary of Commerce William Daley announced this week that the Administration will allow U.S. companies to export high-level encryption software to financial institutions in 45 selected countries. The rule will exempt from current export controls encryption software of any strength going to banks, credit card companies, securities firms, and other financial institutions. The approved list includes all industrialized countries, and excludes China, Russia, and Mexico.

Currently, the United States restricts the export of encryption products and software to only that with a 56-bit strength, considerably less than the encryption strength now being manufactured and available in foreign markets. Congress has been considering legislation to ease the export controls on encryption products to prevent U. S. manufacturers from losing the encryption market to foreign competitors.

Secretary Daley expects the new rule to be issued in the next few months..

## **RADANOVICH CIRCULATING LETTER ON AGRICULTURAL INSPECTION FEES**

Rep. George Radanovich (Mariposa) is circulating a letter among all California members of Congress to be sent to House Appropriations Agriculture Subcommittee Chairman Joe Skeen and Ranking Member Marcy Kaptur seeking to match the Senate's \$95 million level for the Agriculture Quarantine Inspection (AQI) program. The level in the House bill (H.R. 4101) is \$88 million, and the letter seeks an increase during conference. The Senate bill is S. 2159.

The letter states, "AQI provides a means to prevent the invasion of exotic pests, plant diseases and animals from entering the United States and causing devastation to agricultural crops." Inspections are conducted by the USDA's Animal and Plant Health Inspection Service. The letter adds that the \$95 million level "would benefit this vital program and preclude the AQI program from having to raise user fees."

Offices of members wishing to sign the letter should contact Tricia Geringer with Rep. Radanovich's office at 5-4540 by Wednesday, July 15.

## **PRELIMINARY CA STUDENT TEST SCORES RELEASED**

Last week, the California Department of Education released the preliminary results of the 1998 Standardized Testing and Reporting (STAR) program. As required by state law, this spring students in grades 2-8 were tested in reading, mathematics, language, and spelling. Students in grades 9-11 were tested in reading, writing, mathematics, science, and history/social science. Analysis of the preliminary results was mixed. Compared to the national average, California students fell below in 28 of the 43 subject by grade categories, at the median for three, and above average in 12.

According to the California Department of Education, over 4 million students completed the tests. However, the release by the California Department of Education of statewide scores that include limited-English-proficient students' (LEP) scores were prohibited by court order. (Individual school districts were not specifically prohibited from releasing LEP scores.) The Oakland and Berkeley school districts requested the temporary restraining order because the districts said the results would be inaccurate or unfair to individuals not fluent in English. About 25% of California students are classified as LEP, compared to about 2% of students nationwide. The San Francisco Superior Court has set a hearing for July 16th.

California Department of Education has posted the statewide results on their web site at (<http://star.cde.ca.gov>) Release of district, school, or individual performance results is at the discretion of local officials.

## **CONGRESS REDUCES PENALTIES ON STATES FAILING TO ESTABLISH AUTOMATED CHILD SUPPORT SYSTEMS**

Before adjourning for the Independence Day recess, Congress approved legislation (H.R. 3130) to reduce penalties against California and 15 other states that had failed to establish a automated child support collection system by October 1, 1997. Without the approved changes to a reduced, sliding penalty scale, California would have lost over \$4 billion in federal funding to implement the automated collection system and federal assistance provided by the TANF block grant.

Under H.R. 3130, non-conforming states, like California, will be penalized 4% of their funds this year (about \$12 million), increasing to 8% in the second year of non-compliance, 16% the third year, 25% the fourth, and 30% in the fifth year and any year thereafter. The legislation also gives states more flexibility by allowing the Secretary to waive the single, statewide system requirement and allow states to establish alternative systems. The President is expected to sign the measure.

## **BANK OF AMERICA REPORTS CALIFORNIA ECONOMY IS HOLDING ITS OWN DESPITE CHALLENGES POSED BY ASIA'S ECONOMIC TROUBLES**

The increased diversity of California's economy has cushioned some of the shock which might have otherwise reverberated across the Pacific Ocean from Asia's continuing economic crisis, according to a report issued this week by the Bank of America. The report cautions, however, that the diversification should not lull Californians into a false sense that their booming state can weather the storm.

The "California Economic Briefing," authored by Howard L. Roth, the bank's Vice President and Director of Regional Economics and a member of the California Institute's Economic Advisory Council, notes that the state's 12% drop in exports to Asia in the first quarter of 1998 was more than offset by a 19% rise for the same period in exports to Western Europe, Mexico and Canada. The resulting 6% growth was small, but would have been much worse if the state were more Asia-reliant.

The report also notes some negative consequences in the services sector from Asia's woes, including California-based engineering and construction services companies experiencing project delays and cancellations, airlines eliminating flights between California cities and Asia, declining travel by Asian tourists, and entertainment industry difficulties in selling to Asian film distributors.

Despite dampened participation from Asian investors, the Bank of America report notes that real estate and construction continue to boom in the state by most measures, with demand sharply exceeding supply. Roth predicts that "home prices will likely increase sharply in the next few years," but adds that "home prices in much of the state are just undoing their declines of the early 1990s." He calls the resulting increases in consumer confidence "a positive development" but warns that "lack of affordability will become a problem before long."

On balance Roth predicts that 1998 will be "a very good year for the state. Job gains will come close to matching the impressive numbers posted in 1997. Growth in personal income and taxable sales will exceed national averages. And state unemployment will fall farther." However, the report cautions that "[a] meltdown in Asia will continue to be the major risk to the California economy in 1999," and predicts further slowing in the state's expansion.

The full report is available on the Bank of America website in text format at [http://www.bofa.com/econ\\_indicator/ca\\_9807.html](http://www.bofa.com/econ_indicator/ca_9807.html), or in Adobe Acrobat format at [http://www.bofa.com/econ\\_indicator/ca\\_9807.pdf](http://www.bofa.com/econ_indicator/ca_9807.pdf)

## **SEMICONDUCTOR GROUP RELEASES REPORT ON K-12 EDUCATION**

The Semiconductor Industry Association's (SIA) Workforce Strategy Committee released a report entitled "Educating Tomorrow's Workforce: A Report on the Semiconductor Industry's Commitment to Youth in K-12." The report highlights various programs that have produced positive results for college level education and how these techniques have been similarly applied to K-12 educational programs recently.

The report is being distributed to educators, the media, and policy makers with the intent of increasing awareness regarding the semiconductor industry's efforts in education. As the largest manufacturing industry in the nation, the semiconductor industry has initiated a number of programs to ensure the continuation of the industry's dominance. Recently, the SIA Board of Directors implemented a new industry-wide program on workforce and education focusing on K-12 education. The report emphasizes the innovative actions by semiconductor companies to improve education at the K-12 level.

Some participating companies include Advanced Micro Devices (AMD), which allocates about one-half of its corporate contributions budget to education programs including over \$600,000 to K-14 education programs and more than \$700,000 to engineering programs in universities in 1997; Hewlett

Packard, which \$55 million each year to education with about \$8 million to K-12; and IBM, contributes \$35 million to 16 school districts and six states that are interested in using technology to spur and support their reform efforts.

For additional information contact the SIA at: 181 Metro Drive, Suite 450, San Jose, CA 95110; (408) 436-6600; fax: (408) 436-6646 or check the web site at: <http://www.semichips.org>.

## **SENATE JUDICIARY SUBCOMMITTEE ON IMMIGRATION HOLDS HEARING ON H-2A AGRICULTURAL GUESTWORKER PROGRAM**

The Senate Judiciary Subcommittee on Immigration held a hearing on June 24 concerning the H-2A Agricultural Guestworker program. Created under the Immigration Reform and Control Act of 1986, the H-2A program is designed for U.S. agricultural employees to bring non-immigrant foreign workers into the United States to perform seasonal agricultural work on a temporary basis. The hearing was meant to address the ability of the H-2A program to meet the needs of agriculture both currently and in the future in case of sudden and widespread labor shortages. Also, the hearing allowed testimony on the pending proposals for the creation of a new temporary foreign agricultural, or "H-2C," program.

Following the Illegal Immigration Reform and Immigrant Responsibility Act in 1996, there have been concerns that increased constraints on the entry of foreign workers would result in a shortage of farm labor to meet agricultural needs. In response, the General Accounting Office (GAO) reviewed the H-2A program. Carlotta Joyner, Director of Education and Employment Issues, focused on two key matters related to the program. The first was the likelihood of a widespread agricultural labor shortage and its impact on the need for non-immigrant guestworkers. Also, Joyner addressed the H-2A program's ability to meet the needs of agricultural employers while protecting domestic and foreign agricultural workers. The GAO reported that the likelihood of a widespread farm labor shortage is small, although the potential for localized labor shortages for a specific crop or geographical area remains. Additionally, GAO does not believe that INS enforcement activity against those not authorized to work will generate a significant loss of labor. Second, GAO claimed that agricultural employers receive most of the workers requested, but the program could be improved to ease the complicated bureaucratic process.

Among the suggestions Joyner offered to improve service to employers was to shorten the application processing time from 60 to 45 days, by reducing the number of federal agencies involved, she stated.

For further information you may obtain the GAO report (GAO/HEHS-98-20, Dec.31, 1997) by accessing the web site at <http://www.gao.gov/AIndexFY98/abstracts/he98020.htm> or by calling the GAO's publications office at (202) 512-6000.

Also testifying was Congressman Howard Berman (Valley Village), echoing the argument presented by the GAO testimony. Berman claimed that agricultural employers are not proposing these bills to solve labor shortages but rather are seeking to reduce wage expenditures. He cited statistics for the 18 major agricultural production counties in California which had an average unemployment rate in June 1997 of 12.4% while the overall national rate of unemployment was 5.2%. In January 1998, the rate grew to 16.5%. These statistics, Rep. Berman noted, are not isolated to California but are present in many other states dependent on agriculture.

## **STATISTICS REVEAL SPECIAL EDUCATION DESIGNATION VARIES ACROSS URBAN SCHOOL DISTRICTS**

The number of students categorized in need of special education varies considerably across the nation's urban school districts, a problem with substantial consequences for the distribution of federal disabled education funding. The disparity in numbers can be attributed to the criteria used to identify

students with special needs. Although categories of disabilities are laid out in the Individuals with Disabilities Education Act (IDEA), the main federal special education law, the federal government has no direct authority over how districts interpret those classifications. Instead, the Department of Education's office of special education programs monitors the state education departments, which in turn monitor local districts.

For 94-95, the number of students identified for special education in large urban school districts illustrates how location can pose a greater influence on the statistics than other factors such as test scores or teacher evaluations. The Education Department's statistics for the 1994-95 school year, the most recent school year for which comparable data are available, demonstrate these disparities. In California, the percent of students in special education in large urban districts was as follows: Compton, 5.5%; Fresno, 10.6%; Long Beach, 7.8%; Los Angeles, 9.7%; Oakland, 9.8%; Sacramento, 10.7%; San Diego, 10.3%; San Francisco, 10.8%; San Jose, 10%. In direct contrast, the percentage of students in special education in Indianapolis was 19.7% while in Boston the number was 21.1%. The Department suggests that the disparity in numbers is the result of some school districts identifying too many of their students as special education, while others will only offer these services as a last resort.

These statistics impact the broader spectrum of educational funding. Numerous studies have demonstrated the rising costs of special education and the burdens placed upon school districts. Enrollments and services have increased dramatically in cost and in many districts, impacting funding available for regular education. Further, some school districts outside of California have been charged with "gaming the system" in order to boost their share of special education dollars. A Boston Globe article from last year highlighted the egregious example of one school identifying a child as in need of special assistance because of his difficulty in understanding the Pythagorean theorem.

For further information, see the June 24 edition of Education Week, at <http://www.edweek.org>.

## **STUDY SHOWS STATE LEADS IN U.S. SUBSIDIARY EMPLOYMENT**

While foreign direct investment in the United States fell in 1997 from a record high year in 1996, job growth in California and throughout the nation at U.S. subsidiaries of foreign companies outpaced growth in employment at U.S. companies between 1980-95.

A report released in April by the Organization for International Investment (OFII) showed California ranked number one in 1995 among states in terms of the number of employees, 548,600 or about 5% of the state's workforce, supported by foreign companies with U.S. operations. The Commerce Department's preliminary estimates for 1996 revealed a slight drop in subsidiary employment for 1996, but the state remained strong at 4.8%, or 545,300, of the state's total private industry employment. Japan, the United Kingdom, Canada, and Germany had companies with the largest subsidiary employment in California in 1996.

Between 1991 and 1996, California has led the nation in nonbank U.S. affiliate employment, averaging about 11% of total U.S. subsidiary employment. Over 1980-1995, California's total job growth at subsidiaries increased 150%, compared to 146% nationwide.

The automobile industry is one example of multinational companies with U.S. subsidiaries that provide substantial employment in the state. California is the home to the headquarters for the U.S. operations of Toyota, Nissan, Honda, Mazda, Mitsubishi, Hyundai, and Kia. According to a 1996 study by the UCLA's Anderson School and the California Automotive Industry Alliance (CIAA), the seven companies that have their sales, marketing and design headquarters in California contribute about 100,000 above-average paying jobs to the state's economy. While the average non-farm job in the state paid \$33,500 in 1995, the report noted, the average annual wage paid to employees by California-based auto companies was \$57,400, not including fringe benefits. For more information on the study, "The

Impact of California Automobile Companies on the State's Economy," contact the Anderson School at 310/206-8197 or Luanne Griffin with Nissan at 202/862-5523.

Visit the Bureau of Economic Analysis's web site accessible through the Commerce Department (<http://www.doc.gov/>) for a copy of the above mentioned article in the June 1998 issue of the *Survey of Current Business*. Please contact OFII at 202/659-1903, for a copy of "Investing in American Jobs: A State-by-State Examination of the Employment Impact of International Investment."

## **CALIFORNIA RANKS 35<sup>TH</sup> IN HIGH SCHOOL GRADUATES**

Last week the Census Bureau reported educational attainment by sex, race and age figures for 1997. Nationwide, the educational attainment of young women (age 25 to 29) exceeded those of young men, but overall men and women graduated from high school at about the same rate of about 82%. Women still trailed in postsecondary education achievement, as slightly more men nationwide earned bachelor's degrees (26%) than women (22%).

California ranked 35<sup>th</sup> among states in the number of high school graduates. In 1997, the study found 80.7% of the state's population age 25 and over had completed high school or more. Alaska and Wyoming led the nation with the only high school graduation rates that exceeded 90%. Broken down by race in the state, however, the number of high school graduates for people of Hispanic origin (49.5%) was significantly lower than the number of white (79.7%) and black (85.1%) high school graduates.

The Census Bureau reported that the Western region (25.9%), including California, and the Northeast (26.6%) had the most college graduates. California (27.5%) tied with Alaska and Kansas to rank ninth among states with the most college graduates; the District of Columbia (33.7%) and Massachusetts (33.5%) led the nation. More California men (30.2%) had earned a bachelor's degree in 1997 than California women (24.8%); nationwide, more than 1 in 5 (24%) of all adults had earned at least a bachelor's degree in 1997.

The Census Bureau's report on the Current Population Survey March 1997 data is available at <http://www.census.gov/population/www/socdemo/educ-attn.html>. The report also includes general measures of educational attainment by labor force status, occupation, and earnings.

## **CA HOMES SALES UP; PRICES CONTINUE TO CLIMB**

Statewide sales figures for May show the continued rise of the median sales price of existing homes. May 1998's median sales price increased 10.5%, to \$204,440 according to the California Association of Realtors. In May 1997, the median home price for the sale of an existing, single family-detached home was \$185,010. CAR recently reported that "more than two-thirds of California cities and communities showed an increase in their respective median home prices from a year ago."

The number of homes sold in California also increased by 19.4% over May 1997, according to the seasonally-adjusted annualized rate said CAR. In April, Bay Area home sales had reached their highest level in a decade and the median sales price increased to \$272,000 continuing a two-and-one-half trend, said Acxiom Corporation's DataQuick Products Division. Southern California home sales volume and price continued to grow in general, with the median price increasing to \$179,000 in March.

The top ten cities with the highest median home prices in California during May 1998 were, according to CAR: Hillsborough, \$1,415,000; Los Altos Hills, \$1,410,000; Atherton, \$1,176,000; Woodside, \$930,000; Los Altos, \$807,000; Saratoga, \$723,750; Pacific Palisades, \$705,045; Beverly Hills, \$690,000; Los Angeles-Westside, \$660,000; San Marino, \$650,000. For data on a specific city or county, please access the CAR website at: <http://www.car.org/economics/archives/datamay98.html>.