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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 donations from Sun Microsystems and Qualcomm, Inc.

REP. MATSUI ADDRESSES INSTITUTE'S ADVISORY BOARD

On Thursday, Rep. Bob Matsui (Sacramento) was the guest speaker at the California Institute's September Advisory Board breakfast, sponsored this month by GTE.

Mr. Matsui stated that he continued to support providing fast-trade agreement authority to the President, but he did not believe there were enough votes in the House to pass it this year. Instead, it would be necessary for the opposing interests to sit down and negotiate a compromise on fast-track, and he hopes this could take place next year.

The Congressman also outlined the status of the R&D tax credit extension that is currently contained in the Ways and Means tax cut bill (*see article below*). He believes the tax cut will have a difficult time obtaining passage, given the Administration's opposition, as well as that of many congressional Democrats. Nevertheless, he hopes that in the final days of the congressional session the R&D tax credit, either as a stand-alone bill or attached to some other vehicle, will be approved by Congress, although he feels that making the tax credit permanent will likely be a longer range goal.

During the Q&A, Rep. Matsui there has not been resolution regarding how to solve the problem of preparing Sacramento to withstand significant floods in the future.

The breakfast set an attendance record for these events. In addition to its regular attendees, the meeting included 20 government relations representatives from the University of California's campuses and about 10 members of the California-DC Alliance for K-12 education.

CALIFORNIA INSTITUTE RECEPTION MARKS (ALMOST) THE CLOSE OF 105TH CONGRESS

On Wednesday, supporters and colleagues of the California Institute were joined by a wide range of California Congressional delegation members and staff at a reception marking, albeit somewhat prematurely, the end of the 105th Congress. In addition to those who attended, the Institute would like in particular to thank the event sponsors, the Boeing Company and IBM, as well as the University of California Office of Federal Government Relations and California-DC: An Education Alliance, for their generous support.

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ADMINISTRATION EASES EXPORT ENCRYPTION CONTROLS

On Wednesday, the Clinton Administration announced that it was taking steps to ease its current controls on the export of very strong encryption devices and software. Following its decision some months ago to allow export of very strong encryption to financial institutions in 45 countries, the new plan will expand that treatment to other sectors, including insurance companies, and health and medical companies, with the exception of biochemical and pharmaceutical producers. In addition, the Administration's plan provides the same expanded treatment to on-line, electronic commerce merchants (with the exception of munitions merchants) operating in the 45 countries. The plan also allows encryption export of any strength, with or without key recovery, to foreign subsidiaries of U.S. companies worldwide, with the exception of any located in the seven U.S.-identified terrorist nations (Iran, Iraq, Libya, Syria, Sudan, North Korea, Cuba).

In addition the plan makes permanent the two-year window allowing the export of any encryption products up to 56-bit DES (the measure of encryption strength), and eliminates the requirement that a company commit to developing a key recovery plan to obtain that license exception.

The new changes come after months of intense negotiations between the Administration and U.S. high technology companies. In responding to the Administration's announcement, Americans for Computer Privacy and the business Software Alliance, groups representing companies that support the end to encryption controls, both lauded the Administration's steps, but noted that this is not the complete solution and the interested parties must continue to work toward ending encryption controls.

SENATE JUDICIARY MARKS UP Y2K LIABILITY BILL

The Senate Judiciary Committee approved a substitute bill granting companies that share information on fixing the Year 2000 computer problem some limitation on liability. The substitute takes the place of S. 2392, introduced at the request of the Administration, and which many companies had argued did not go far enough to protect them. Instead, the companies supported H.R. 4455, introduced on the House side by Reps. David Dreier (Covina) and Anna Eshoo (Atherton), and have now indicated support for the Senate's compromise bill. Computer companies have been reluctant to share information on possible fixes to the Y2K problem because of fear they made be sued.

The compromise makes inadmissible in a lawsuit information provided by a company in a "Year 2000 readiness disclosure" statement. Also, companies can not be held liable for false or misleading statements, unless there is "clear and convincing" evidence that the statements were made with knowledge of their false, inaccurate, or misleading nature.

During consideration, the Committee defeated an amendment, by a vote of 4-12, that would have made it easier to strip companies of their limited liability. Sen. Joseph Biden (DE) warned that further action in the Senate for this year would be difficult, because unanimous consent would be required as the Senate pushes to adjournment.

Many high technology companies in California argue that the legislation must be passed this year to provide adequate time to address the problem before January 1, 2000.

WAYS & MEANS SUBCOMMITTEE PASSES SSI/MEDICAID BILL FOR LEGAL ALIENS

On Tuesday, the Human Resources Subcommittee of the House Ways and Means Committee approved H.R. 4558 by voice vote. The bill will allow legal immigrants who were receiving SSI and Medicaid benefits as of August 22, 1996 to continue to receive those benefits. Under the welfare reform legislation passed in 1996, these benefits are due to be terminated as of October 1 of this year.

About 12,000 legal immigrants are slated to be cut off from SSI and Medicaid as of October 1. Although the exact number at risk who reside in California is not known, its 40 percent share of the nation's legal immigrant population indicates that many California legal immigrants would benefit from the bill.

The full Ways and Means Committee may take up the legislation next week.

CALIFORNIANS BRIEFED ON TITLE I PROGRAM AND EDUCATION APPROPRIATIONS

Representatives of various California education groups briefed California Congressional staff members on Wednesday regarding the pending education appropriations, with particular emphasis on the Title I program. Members of California-DC: An Education Alliance, a broad coalition of the state's education representatives which includes teachers, administrators, school districts and other advocates, are visiting Washington to relay their findings to Congress.

The Title I Education Program for the Disadvantaged (title one of the Improving America's Schools Act) is the largest federal education grant and the fourth largest federal formula grant of any kind. Title I is focused on poor K-12 children, and California's high child poverty figures would lead one to expect a high Title I funding share for the state. In 1994, the state's child poverty rate of 24.1% was well above the national rate of 20.4%. Yet California receives fewer Title I dollars than its share of eligible children. According to the California-DC Alliance, "[w]ith 14.1% of the nation's eligible children, we receive only 11.7% of the Title I dollars."

Citing figures from the California Institute, the Alliance briefers noted that California receives \$601 in Title I funds per poor child, below the national average of \$717 and well below some states whose receipts exceed \$1000 per poor child. For a graphic representation, see the attached chart.

Historically, California's low share of Title I funds could be explained in part by the fact that poverty figures have been only updated every 10 years, sending many Title I dollars to where needy children used to be, instead of where they are now. In 1994, California members of Congress successfully pushed to require updating between censuses, and the first updated figures were developed last year. Unfortunately, however, Senate appropriators from losing states stepped in last fall and inserted a 100% "special hold harmless" provision stating that no school district in 1998 could receive less than it received in 1997. The provision, added by Senator Tom Harkin (Iowa stood to lose funding) and other Senators, effectively prevented school districts in California and other growth states from receiving any of the further gains to which their poor children were entitled.

The Senate's FY99 Appropriations bill for Labor-HHS-Education includes \$300 million in additional funds, much of which reportedly would be used to compensate states harmed by the imposition of last year's special hold harmless. Of these new funds, reportedly \$60 million could come to California, potentially boosting the state's share of Title I funds from \$830 million total to \$892 million. The Senate's bill would retain the special hold harmless (which actually harms California and other states with growing poor populations), but these extra funds could move the state at least somewhat closer an equitable level.

WAYS AND MEANS TAX BILL CONTAINS R&D TAX CREDIT EXTENSION

On Thursday, the Ways and Means Committee voted out a tax bill containing \$80 million in cuts. In addition to the big ticket items of relieving the marriage penalty and giving self-employed individuals the right to deduct all health insurance costs, the bill contains an extension of the research and experimentation tax credit (known as the R&D tax credit).

Under the proposal, the credit, which expired as of July 1 of this year, will be retroactive to that date and extend until February 29, 2000. A one-percent increase is also included in the alternative incremental credit rate.

Rep. Bob Matsui (Sacramento), a long time champion of the R&D tax credit, spoke at a California Institute breakfast on Thursday before the markup (*see above article*). He said that even if the House tax bill is not enacted, he hopes a vehicle containing the R&D tax credit will be moved through Congress just before the end of the session.

Many of California's companies, which are heavily oriented to research and development, strongly support extension of the credit, as well as eventually making it a permanent credit.

JOINT STRIKE FIGHTER SITING CAMPAIGN BEGINS TO HEAT UP

Public and private sector stakeholders in California are working with the California Trade and Commerce Agency, California members of Congress and others to ensure that a California production site is selected for the Joint Strike Fighter (JSF), which has recently moved from the development to the demonstration phase. The JSF is intended to be the next generation strike aircraft and, in a new approach for the armed forces, would be used simultaneously by several services. Boeing and Lockheed Martin have been selected to build prototypes of the aircraft at facilities in Palmdale, but there remain questions regarding where production and assembly operations will be conducted. Rep. Buck McKeon (Santa Clarita) plans to work with his California colleagues in the remaining weeks of this Congress to support California's continued participation in the program. A public-private "red team" effort has been working with the state's Trade & Commerce Agency, which is finalizing a state incentive proposal.

GENENCOR SPEAKS ON INDUSTRIAL BIOTECHNOLOGY

Fully one third of all biotechnology industry in the United States is located in California. While great advances in the treatments of deadly diseases have made the pharmaceutical industry a highly publicized sector within biotechnology, another sector - industrial biotechnology, was the subject of a hearing Thursday of the House Committee on Science Subcommittee on Technology. Chairwoman Constance Morella (MD) described *industrial* biotechnology as the "use of modern biological life sciences in process industries" such as chemicals, food process and textiles. In a recent study the Organization for Economic Cooperation and Development stated that "industrial biotechnology has come of age" and Chairwoman Morella also described it as the industry's greatest emerging yet underdeveloped potential market. The purposes of the hearing were threefold: to review on-going private sector research and development in the field of industrial biotechnology and potential associated benefits; examine how to safeguard United States competitive advantage in industrial biotechnology; and to discuss public apprehension associated with biotechnology.

Karl Sanford, Vice President for Technology of Palo Alto's Genencor International was one of three witnesses providing testimony. Genencor is the largest company in the world focused primarily on industrial technology and has increased its sales revenues more than four fold since its founding in 1990. In addition to discussing current research, Sanford along with Robert Dorsch of DuPont and Edward Eisenstein of the Center for Advanced Research in Biotechnology also addressed the relationship between the federal government and the field of industrial biotechnology. They agreed that government financial support of basic biological and biotechnology research, while primarily driven by the health benefits desired, has over the past 50 years also enabled the US to make many strides in industrial biotechnology. Panelists argued industrial biotechnology is prudent ground for continuing and consistent federal dollars for research. Sanford also recommended tax incentives for companies which use

biotechnology to reduce pollution and replace fossil fuel with renewable feedstocks, and targeted research and development support of public-private research into this area.

The testimony can be obtained from the Committee's webpage at: <http://www.house.gov/science>.

SENATE CANDIDATE FONG ADDRESSES GOLDEN STATE ROUNDTABLE LUNCHEON

On Wednesday, Matt Fong, California's Treasurer and Republican candidate for the Senate seat held by Sen. Barbara Boxer, addressed the Golden State Roundtable lunch, organized by the California State Society. Mr. Fong spoke of the current instability in the world and laid out his views on U.S. foreign policy. He also voiced his support for providing the President with fast-track trade agreement authority, and for the continued extension of normal trade relations to China.

NEW STATE-FEDERAL RELATIONS FELLOW ARRIVES, SUPPORTED BY CSU SYSTEM

The Institute is pleased to announce the arrival of our new Congressional Fellow, Catharine Price. A native of the Bay Area, and a graduate of Pomona College, Catharine comes to us most recently from Sacramento where she served in the highly competitive Assembly Fellowship program. She has a background in budget, taxation, health policy and housing developed from her experience in the Assembly Fellowship program as well as work with the William and Flora Hewlett Foundation, Stanford University, and research and teaching assistantships at Pomona College and the University of Minnesota.

Each fall, the California Institute welcomes a Fellow for a year of work with us. This position is generously funded by the Center for California Studies at California State University Sacramento.

The Center for California Studies also runs four fellowship programs in Sacramento: Assembly Fellowship Program, Senate Associates Program, Executive Fellowship Program, and the Judicial Fellowship Program. The annual Congressional Fellow at the California Institute is selected from the previous year's class of Sacramento Fellows. Deadlines for applications to the Sacramento programs range from mid-January to mid-February for Fall of 1999. For information about and applications for the Sacramento programs, please call the Center for California Studies at (916) 278-6906.