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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.

BUDGET DEAL REACHED; CONGRESS SET TO ADJOURN BY WEEK'S END

After a week of intense negotiations, it appears Congress and the Administration final reached agreement on an omnibus spending package as of Thursday afternoon. The \$500 billion bill, which will incorporate eight unfinished appropriations bills, as well as emergency spending, and provisions extending certain favored tax treatments, will run the government through FY99, which began on October 1 but which has been operating under four short-term extensions. A final vote on the measure is expected after 3:00 p.m. on Friday in the House, with a Senate vote shortly thereafter.

Although the legislative language implementing the agreement reached had not been finalized at press time, the following discusses at least some of the items resolved in final negotiations on the bill.

Education: The agreement provides an additional \$1.2 billion for reducing class sizes by moving toward a goal of hiring 100,000 new teachers. The the number actually hired with these funds may be considerably lower, reportedly perhaps as low as 30,000 in the first year. As drafting was nearing a close, the allocation formula for the new funds was to be based on the higher of the share of two existing federal education programs – the Title I program for disadvantaged students or the Eisenhower Professional Development Grant program. (California receives roughly 11% of the nation's funds from each program.) Funds were to be concentrated at the local level and could be used to hire, recruit, and train new teachers in order to reduce class size down to 18 students per class in grades 1-3, after which funds could be used to reduce class size in other grades and for teacher training.

Negotiators also reportedly removed a House provision to set a two-year limit on student participation in a bilingual education program supported by federal dollars, opting instead for a study of the matter.

Immigration: The package is expected to contain the compromise worked out to increase the number of **H1-B skilled worker visas** annually to a high of 115,000 for fiscal years 1999 and 2000, then to 107,500 in FY01, and reverting to 65,000 in FY02. See, [Bulletin, Vol. 5, No. 31 \(9/24/98\)](#). Employers will also pay a \$500 fee for each application, and that money will be earmarked for training and scholarships for American workers and students. There is one roadblock to the provisions inclusion in

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the spending bill, however. Sen. Tom Harkin (IA) opposes the visa increase, claiming that a shortage of skilled workers does not exist, and had threatened earlier in the week to slow down consideration of the omnibus package if the H1-B increases are included. As of press time, it was unclear whether an agreement between him and the leadership had been worked out.

Under the Commerce, Justice, State appropriations that will be contained in the bill, \$585 million in State Criminal Alien Assistance Program (SCAAP) funding is expected to again be appropriated to partially reimburse states for the costs of incarcerating illegal criminal aliens. As the state with the greatest number of undocumented immigrants, California has received the lion's share of SCAAP dollars over the last several years. However, as more states and counties nationwide are filing claims for the money, California's actual allotment has gone down. For instance, although California received about 45 percent of the FY97 appropriation, \$223 million out of \$500 million, that was \$47 million less than it received in FY96. The state estimates that its total costs (including local jurisdictions) for incarcerating criminal illegal aliens is approximately \$663 million annually, substantially more than the maximum SCAAP authorization.

Taxes: The omnibus agreement will contain a package of tax provisions, extending certain sections of the tax code. The good news is that among those included will be the **R&D tax credit** (also known as R&E credit) strongly supported by California's leading-edge companies. The credit, which expired as of July 1st of this year, will be reinstated retroactive to that date. The bad news, however, is that it appears the credit will sunset as of June 30, 1999. Under the initial agreement contained in the now dead \$80 billion tax bill, the credit would have extended until February 29, 2000. See, [Bulletin, Vol. 5, No. 30 \(9/17/98\)](#). Limiting the credit to June 30, will set up another battle to be fought early in the next Congress.

The agreement will also renew the **Trade Adjustment Assistance** to workers who lose their jobs due to trade legislation.

The moratorium on **Internet access taxes**, which recently passed the Senate after lengthy debate, may also be included in the omnibus. Although both houses have now passed similar bills calling for a three year moratorium and grandfathering in those states, including California, which have already enacted such a tax, there were differences in the bills with respect to the mission of the commission established to study electronic commerce taxes. See, [Bulletin, Vol. 5, No. 33 \(10/8/98\)](#). If the bill is not included in the spending package, it is hoped that one version or the other of the bill will be passed by both houses before tomorrow's expected adjournment.

The tax provisions of the bill will boost tax credits for employers who hire workers off of the **welfare** rolls, a potential boon for California, which houses nearly one fourth of the nation's welfare recipients. The agreement will also accelerate the date by which **self-employed** individuals may deduct their entire health insurance premiums, from 2007 to 2003. California is home to a greater-than-average share of the nation's home-based businesses and small entrepreneurs.

Defense and Intelligence: The package includes nearly \$10 billion for various purposes related to national defense and military intelligence. Most of these funds are classified as emergency spending, for maintaining operations in Bosnia, upgrading security at embassies and other overseas installations, and other priority matters. A number of congressional hearings over recent weeks have focused on military readiness, a subject addressed by another \$1 billion in non-emergency funds. Reportedly more than \$1 billion are provided to address intelligence needs, and \$700 million are provided for a missile defense program (another estimate pegged the missile defense figure at more than \$1 billion).

Census: The thorny issue of funding for the 2000 census was resolved by providing funding only through next spring for the Departments of Commerce, Justice and State and for the judicial branch. (The cut-off date has been reported variously as April 15, June 15 and July 15.) It is anticipated that the U.S. Supreme Court will have ruled by roughly March on the legality of using sampling methods for

conducting the census, and Congress thus will be able to revisit the issue with better information next spring. Census Bureau funding would rise \$75 million above the \$952 million previously approved, with half the increase to be used for non-sampling approaches.

Disaster Relief: The package provides \$1.55 billion for disaster relief related to Hurricane Georges, \$6 billion for farm relief (much of which is considered disaster-related), and \$253 million to repair flood damage to U.S. military bases in South Korea. The disaster funding, as well as much of the defense and other spending, is classified as "emergency" funds, thus requiring no offsetting cuts – an issue raised in past supplemental spending bills for earthquakes and other disasters in California.

International Monetary Fund: The package also includes the full \$17.9 billion the Administration had sought in U.S. funding for the International Monetary Fund. However, provisions are also included to make the IMF's procedures more transparent in an attempt to reduce the risk of bad loans.

UNANIMOUS CALIFORNIA DELEGATION SUPPORTS COAST GUARD FACILITY

Faced with the threat that the Coast Guard would close its training center at Petaluma, Rep Lynn Woolsey (Petaluma) generated a letter garnering the signatures of all 52 members of the California House congressional delegation and the state's two Senators. The letter marks the second instance in two weeks in which the entire 54-member California Congressional delegation has weighed in unanimously on an important state issue. The letter to Secretary of Transportation Rodney Slater urges him to allow the U.S. Coast Guard Training Facility in Petaluma, "Two Rock", to stay open. The Petaluma site is the only West Coast training facility, and underwent \$22 million in improvements in the late 1980s. Admiral James Loy is expected to decide by next spring which, if any, training facilities to close.

CONGRESS CLEARS COPYRIGHT BILL FOR PRESIDENT'S SIGNATURE

On Monday, the House joined the Senate in passing by voice vote the conference report to accompany H.R. 2281, the WIPO Copyright Treaties Implementation Act. The bill implements two world intellectual property treaties which strengthen protections against copyright infringement of digitally produced works. The bill also provides limited liability from copyright infringement claims to online and Internet service providers, where a third-party uses the provider's network to infringe on copyrighted materials. See, [Bulletin, Vol. 5, No. 31 \(9/24/98\)](#).

The bill will provide on-line service providers with limited protection from copyright suits brought by content owners where a third-party violates copyright laws without the provider's knowledge. In addition, the final bill makes it a federal crime to knowingly circumvent an encryption code designed to protect copyrighted online content, such as games and videos, and bans the manufacture and sale of devices designed to circumvent encrypted copyrighted content.

The conferees also stripped from the bill a controversial provision that would have made it a crime to "misappropriate" information databases. Opposed by many in the industry, as well as libraries and universities, the provision was considered too broad.

California's information technology industry has strongly supported enactment of the WIPO treaties and protection from unlimited liability for the copyright violations of third-party users of the Internet.

SENATE PASSES STREAMLINED SALTON SEA AUTHORIZATION BILL

On Tuesday, the Senate by voice vote passed a scaled back version of the Sonny Bono Memorial Salton Sea Reclamation Act, H.R. 3267, that passed the House earlier this year. See, [Bulletin, Vol. 5, No. 24 \(7/16/98\)](#). The Senate's bill will only authorize \$5 million for the Interior Department to study reclamation proposals for the Sea; the House bill would have authorized \$378 million to both study and implement the plan. Both the House and Senate bills would rename a wildlife area the "Sonny Bono

Salton Sea National Wildlife Refuge" after the late Congressman who spearheaded efforts to clean up the Sea.

Earlier in the year, Sen. Barbara Boxer had introduced S. 1716, the Senate counterpart to the House bill. It is possible that the authorization language will be included in the omnibus package.

SECURITIES LITIGATION PROCEEDS TO THE PRESIDENT

On Tuesday the Congress cleared S. 1260, by a vote of 319-82 in the House, and a voice vote in the Senate. The bill will close a loophole in the 1995 securities litigation reform law by requiring plaintiffs to bring class-action securities fraud lawsuits concerning nationally traded securities in federal court. See, [Bulletin, Vol. 5, No. 22 \(6/25/98\)](#). Since the enactment of the 1995 Act, plaintiffs' lawyers have evaded the stricter standards of the new law by bringing suit in state courts, which generally have looser pleading standards and discovery rules.

Rep. Anna Eshoo (Atherton) has been among the champions of the legislation in the House, and the bill is strongly supported by California's high technology companies. The bill now goes to the President for his expected signature.

SEN. FEINSTEIN GARNERS 39 SIGNATURES TO R&D TAX CREDIT LETTER

Sen. Dianne Feinstein, joined by Sen. Barbara Boxer and 37 other Senate colleagues wrote the Senate Majority and Minority leadership this week urging passage of an R&D tax credit extension before adjournment. The letter cites the critical importance of R&D expenditures to the nation's current economic boom and argues that failure to extend the credit could result in slowdowns in corporate employment and growth.

The negotiated omnibus spending package now contains an extension of the credit (see article above).

PANEL URGES 9TH CIRCUIT SUBDIVIDE

The 9th U.S. Circuit Court of Appeals has the largest caseload of all 13 federal appeals courts. The idea of splitting the court, which serves California and much of the western United States, has been debated for decades. On October 7th, the Commission on Structural Alternatives for the Federal Courts of Appeals, headed by former U.S. Supreme Court Justice Byron White, recommended that the Court be subdivided into three sections, with California split between two of those sections. The Circuit, however, would continue to function administratively as one unit, rather than be split into three separate circuits.

At least seven active appellate judges would sit in each division, and a majority would be residents in the area served by that division. Under the proposal, should a legal disagreement arise among the three divisions, a seven-judge panel drawn from each of the divisions would resolve it. A final draft of the commission's report is expected to be submitted to Congress and the President before the end of the year.

HOUSE SCIENCE COMMITTEE ISSUES POLICY REPORT

Last week, House Science Committee member Vernon Ehlers (MI) held a briefing on the Committee's report on the condition of U.S. science policy. The study is available online at http://www.house.gov/science/science_policy_report.htm. Ehlers was asked by Speaker Newt Gingrich and House Science Committee Chairman James Sensenbrenner (WI) to lead an examination of the current state and effectiveness of federal policy toward science and research. California is a perennial winner of federal research and development dollars, making the issue one of particular importance to the state.

Ehlers noted that the federal science budget has been in decline relative to inflation and stated that he did not expect that trend to reverse in the foreseeable future. One of the report's findings was a concern regularly raised by ranking Democrat George Brown (Colton), that the nation's science policy is

“outdated,” and is more focused on dollars than on science. He also lamented that the public does not understand the scientific process (only scientific tidbits) and that scientists are not well versed at making their points to legislators, and emphasized the importance of reassessing education in mathematics and science.

The report comments that States, universities, and the private sector are also situated to play a critical role in research and science, and that government should work in parallel with market forces in the process. The report states that, “we must make federal research funding stable and substantial, maintain diversity in the federal research portfolio, and promote creative, groundbreaking research.” Particular emphasis is placed on “fundamental” research. The report notes a second key role that government must play: “in addition we must also take steps to explain the benefits of that research and make its results and benefits broadly known and available.” (The report considers only the \$35 billion spent annually on civilian R&D, not military or defense R&D spending by the Departments of Defense or Energy.)

PROPOSITION 13 CONSIDERED AT 20TH ANNIVERSARY

The Center for California Studies at California State University Sacramento, in association with the Public Policy Institute of California (PPIC) and the California State Library, sponsored the Tenth Annual Envisioning California Conference, "California's Taxing Evolution: The Legacy of Prop. 13," held in Sacramento September 24-26. At the conference, PPIC released copies of several reports about Proposition 13.

PPIC commissioned Jeffrey Chapman of USC to prepare a paper entitled *Proposition 13: Some Unintended Consequences* to provide an overview of Proposition 13 and to motivate discussion of the initiative at the Envisioning California Conference. In addition to a chronology of the adoption and implementation of Prop 13, Chapman delineates three unanticipated consequences of the measure: the fiscalization of land use, the growth of arcane finance techniques, and the increase in state control over county finance. He goes on to propose public policy reforms to each of these unintended consequences.

In *Has Proposition 13 Delivered? The Changing Tax Burden in California*, authors Michael Shires, John Ellwood, and Mary Sprague report that citizens are paying less today in taxes and other public fees and charges than they were preceding Proposition 13. Public revenues were 15% of personal income in 1978, and 12.5% in 1995. While per capita public revenues have grown in current dollars from \$1,340 in 1978 to \$2,910 in 1995, per capita public revenues in constant 1995 dollars, or constant purchasing power, have declined from \$3,395 in 1978 to \$2,910 in 1995.

In *Proposition 13, the Recession, and the Tax Assessor's Dilemma*, Steven Sheffrin and Terri Sexton analyze the dynamic interplay between market value and assessed value since 1975 and the far-reaching effects it has had on property tax administration in California. They predict that property values will fully recover, assessments will be completely restored to their base year levels, and court appeals for reassessment will decline. The authors recommend shifting property tax revenues back to counties as their primary source of revenues to solve the budgetary problems.

Paul Lewis authored a report entitled *Deep Roots: Local Government Structure in California*. He found that the Proposition did not have a substantial effect on local government structure. Some had predicted that Prop 13 tax limitations would exacerbate a complex and fragmented system of local government, leading to a proliferation of new cities and special districts. Lewis reports that the Proposition did not counteract the slowdown in new incorporations brought about by the creation of Local Agency Formation Commissions in 1963, that California's local government system is actually less fragmented than other states, and that the number of cities per 100,000 Californians has declined steadily during the past 100 years.

These reports may be ordered by e-mail (order@ppic.org) or by phone (415-291-4400), and the full text is available on the internet at <http://www.ppic.org>.