October 23, 2017

CITY COUNCIL STUDY SESSION ITEM

SUBJECT
Federal Legislative Update

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POLICY ISSUES
Congress, the Administration, and Federal agencies each year approve actions that impact the City in a broad range of areas. Staff may recommend, and/or Council may wish to direct, communication to the City's Congressional delegation on a range of issues throughout the year.

ACTION	DIRECTION	INFORMATION ONLY
☐	☐	☒

No formal action is required; this is an informational briefing.

Council may wish to provide direction to staff regarding particular legislative proposals.

BACKGROUND/ANALYSIS
D.C. Big Picture Update
Following the mid-October recesses, both the House and Senate will be in session every week until the week of Thanksgiving. After Thanksgiving, Congress is scheduled for two weeks of legislative work before adjourning for the year. In the coming weeks, congressional Republicans plan to tackle FY18 appropriations, tax reform (including finalizing a FY18 budget resolution), authorizations for many programs that are currently operating under continuing resolutions (example: National Flood Insurance Program) or those programs where the authorization has expired (e.g., Children's Health Insurance Plan).

Budget Resolution and Tax Reform
Typically, the appropriations process begins with the passage of a budget resolution that sets topline spending numbers and serves as a roadmap of priorities. It can also include reconciliation instructions that direct committees to develop budget-related proposals. Under reconciliation, a measure can pass with a simple majority vote in the Senate, sidestepping a potential filibuster. Congressional Republicans hope to use reconciliation to pass a tax reform bill before the end of the year. That process begins with the passage of an FY18 budget resolution including reconciliation instructions directing committees of jurisdiction to develop proposals within the limits set in the reconciliation process.

The House passed a budget resolution on October 5 on a largely party-line vote with all Democrats opposed and several Republicans joining the "no" votes. It calls for at least $203 billion in mandatory spending reductions over the next decade and directs the House Ways and Means Committee to develop a deficit-neutral tax reform bill. The Senate Budget Committee passed its own budget resolution earlier this month, and it is pending floor action. The Senate's proposal directs the tax-writing committees to produce a tax reform bill that results in no more than $1.5 trillion in lost revenue over 10 years. The full

Senate is expected to take up the measure soon, and then the House and Senate will need to iron out the differences between their two proposals before moving forward on tax reform legislation. Because it will be more difficult for Senate Republicans to reach a deal, it's expected that the final resolution will more closely resemble whatever ultimately passes the Senate.

The White House released its proposed framework for tax reform at the end of September. The proposal lowers the corporate tax rate from 35% to 20%, sets a new tax rate of 25% for pass-through businesses, and eliminates the alternative minimum tax and the estate tax. The plan also moves from seven tax brackets down to three with rates of 12%, 25% and 35% - an increase in the bottom rate and decrease in the top rate. It also increases the standard deduction to $12,000 for individuals and $24,000 for married couples filing jointly. To offset those changes, the proposal would eliminate many existing credits and deductions. Notably, the framework proposes the elimination of the state and local tax deduction which is claimed by around one-third of filers who itemize their deductions.

Spending and Budget Control Act Caps

The continuing resolution (CR) currently funding the government expires on December 8. It is not clear yet whether Congress will need to pass another CR or whether a compromise will be reached on a spending bill and a deal to raise the spending caps set by the 2011 Budget Control Act. House Republicans passed an FY18 omnibus spending bill in mid-September. That proposal will serve as a negotiating tool but is not representative of any final deal. The Senate continues to process spending bills through committee.

Ultimately, there will need to be a bipartisan deal, like the Murray-Ryan deal in 2013 and the Bipartisan Budget Act in 2015, to lift the spending caps. Many Republicans are seeking an increase in defense spending above the spending caps, and many Democrats are seeking an increase in non-defense discretionary spending above the caps. Without a compromise, spending levels above the current caps would trigger sequestration's across-the-board cuts.

Health Care

Shortly before the September 30 end of the federal fiscal year, Senate Republicans made one final attempt at repealing and replacing the Affordable Care Act (ACA). The proposal, from Senators Lindsey Graham (R-SC) and Bill Cassidy (R-LA), would have put the ACA's revenue into block grants to be distributed to the states. It also would have eliminated Medicaid expansion. The measure was never brought to a vote because there was not enough support within the Republican conference to pass the bill. The repeal and replace efforts were part of the FY17 budget resolution which went expired at the end of the fiscal year. For now, tax reform is the primary focus and any action on the ACA is on the back burner.

Meanwhile, Senators Lamar Alexander (R-TN) and Patty Murray (D-WA), the chairman and ranking member of the Senator Health, Education, Labor and Pensions (HELP) Committee, have been working on a bipartisan measure to stabilize the ACA's individual marketplaces. The measure, which is still being developed, would allow for more flexibility for states under the ACA's waiver provisions while also continuing to fund the cost-sharing reduction (CSR) subsidies that help to keep premiums affordable for low-income individuals. Even if Senators Alexander and Murray can reach a deal, it will be a challenge to pass the measure and secure the President's signature.

While Congress stalled in its efforts on health care, the Trump Administration has taken several actions of its own. The Administration announced on October 12 that it would discontinue paying the CSRs, and the President signed an executive order intended to start the process to boost association health plans and extend short-term coverage plans. The Administration has also dramatically curtailed funding for outreach in advance of the open enrollment period for next year's coverage.

Finally, on the health care front, the authorization for the Children's Health Insurance Program (CHIP), which provides insurance coverage for low-income children who don't qualify for Medicaid, expired on September 30. Negotiations are continuing to reach a deal on a five-year extension of the program's authorization, but to date, there is no agreement on how to fund the extension.

Transportation and Infrastructure
Infrastructure Package – The details of the Administration's $1 trillion infrastructure investment package remain unclear. There is a chance that the package could be linked with tax reform, which could provide a revenue source for the spending involved, but no additional details have been released to date.

Immigration
Some members of Congress are working on a compromise to address the status of Deferred Action for Childhood Arrivals (DACA) recipients before the end of the program. The White House announced last month that it would end the program in six months unless Congress takes action. The path forward on legislation on a DACA bill is unclear and complicated by the Administration's announcement of its demands for a deal to protect DACA recipients, including cutting legal immigration, increasing border security and funding for the border wall. Democrats are widely expected to oppose those requests, making a compromise deal difficult.

ALTERNATIVES
N/A

RECOMMENDATION
N/A

ATTACHMENT(S)
N/A