



BUDGET CONFERENCE OUTLOOK

This week, members of the bipartisan and bicameral Fiscal Year 2014 (FY14) Budget Conference Committee came together in the hopes of coming to an **agreement** on federal funding for the remainder of FY14. The budget group is led by House Budget Chairman, Rep. Paul Ryan (R-WI), and Senate Budget Chairwoman, Patty Murray (D-WA), and was established as part of the agreement Congress reached earlier this month to end the government shutdown and raise the debt limit. Under that agreement, budget conferees must reconcile their differences for FY14 by December 13th.

The Conference Committee is comprised of 29 members, including seven members from the House, and 22 members of the Senate.

This is the first Budget Conference Committee formed since 2009. One of the biggest takeaways from today's opening meeting was that all sides seem to agree that this Conference Committee will not produce a so-called "Grand Bargain" agreement that would include entitlement and tax reform. With only 16 legislative days remaining this calendar year, the consensus among the members is that there is not enough time to produce such a major agreement. Instead, the expectation is that what will be produced is a framework that will set forth processes for such reforms to take place.

Nearly all members of the Committee expressed a desire to see sequestration cuts replaced with other more responsible spending reductions, as well as a mutually agreed upon funding level for the remainder of FY14. The House Republican Budget caps federal spending at \$967 billion, whereas the Senate sets spending levels at \$1.058 trillion, a difference of \$91 billion. If no agreement is reached for FY14 and the sequester remains in place, there will be a \$20 billion dollar cut in discretionary spending.

During the meeting, many of the same policy issues that have divided Republicans and Democrats were reiterated. Republicans on the panel talked about the need for reforming the nation's entitlement programs and pro-growth tax reform as key to solving the long-term debt crisis, while Democrats talked about the need to ensure our nation's most vulnerable, which includes seniors, low-income individuals and middle-class families, aren't stripped of their government benefits. Democrats used their statements to highlight the negative impact the recent government shutdown and threat of default had on the economy. There was also bipartisan agreement on healthcare spending being the largest driver to our long-term debt, but the need to curb healthcare spending trajectories was not discussed as widely as tax and entitlement reform.

Members' remarks gave the impression that there is common ground to be had on the issue of tax reform, specifically with closing loopholes for certain high-income individuals and corporations. Closing loopholes in the tax code would generate more revenue for the federal government, which is an important goal for Democrats on the panel. What remains to be seen is whether or not the panel can come to an agreement on how best to generate revenue through tax reform while encouraging economic growth. While some of the Democrats on the Committee maintain that high-income earners should be paying their fair share, Republicans counter that higher individual tax rates unnecessarily punish small business owners and instead they would like to see tax reform that makes America's tax code more competitive for businesses.

Many members, both Republicans and Democrats, mentioned their support for legislation authored by Sen. Rob Portman (R-OH), the End Government Shutdowns Act, which would automatically trigger a continuing resolution (CR) should Congress fail to act on all 12 appropriations bills by the end of the fiscal year. The bill would also reduce discretionary spending levels by 1 percent every 90 days Congress fails to act. Senator Portman sees this legislation as an incentive for Congressional appropriators to move their bills while offering an end to the crisis oriented atmosphere that has dominated Washington politics.

The conference committee's next public meeting will be November 13th at 10 a.m.

Click here to view the *Washington Business Brief*—Obamacare, Budgets and the Doc Fix.

HOUSE VOTES TO REPEAL DODD-FRANK PROVISION

On Wednesday, the House, with bipartisan support, passed legislation that would roll back a major element of the 2010 Dodd-Frank financial regulations law.

The bill, which passed by a 292-122 vote, would repeal a requirement in the Dodd-Frank law that big banks "push out" some derivatives trading into separate units that are not backed by the government's insurance fund. This change would result in allowing big banks to continue to handle most types of derivatives trades in-house.

The House legislation, formally known as the Swaps Regulatory Improvement Act, has almost no chance of becoming law. The Senate has shown no interest in moving on a companion bill and the Obama administration has made it clear that the president opposes the legislation.

OBAMACARE ROLLOUT CONTINUES TO BE PLAGUED BY PROBLEMS

The rollout of President Obama's signature healthcare law continues to be plagued by technical and substantive problems. The most serious of the substantive problems to the Affordable Care Act so far relates to the president's promise that if you liked your current doctor or healthcare plan that you could keep them. Unfortunately, for as many as two million Americans, that promise has not turned out to be true.

With Obamacare rolling out, Americans have begun receiving notifications from their insurers that their current plans cannot continue because they do not cover certain "essential" benefits, such as preventive care and mental health services as required by the law.

mcdonald hopkins government strategies advisory this week in washington november 1 2013

The idea was to phase-out bare bones plans that do not cover catastrophic events, sometimes to the surprise of the consumer and also have the effect of increasing costs across the healthcare system.

While the administration grapples with this latest development, it also continues to struggle with the well-publicized technical problems with the HealthCare.gov website.

DOC FIX PLAN CIRCULATED

On Thursday, the Senate Finance Committee and House Ways and Means Committee circulated a bipartisan, bicameral plan to deal with the so-called "Doc Fix." The Doc Fix, which has become a yearly headache for legislators, deals with the payment cuts to Medicare doctors caused by the Sustainable Growth Rate—or SGR—formula.

Unless Congress acts, SGR will result in a 25 percent cut in payments to Medicare doctors.

The proposal would shift payment criteria away from an emphasis on volume and toward pay models that focus on quality care.

The proposed framework would repeal the SGR and hold doctors' pay at current levels as alternative payment models are developed. It would combine some existing Medicare quality programs into an initiative, starting in 2017, that would offer doctors additional pay based on new metrics. For example, rewards might go to doctors who make more same-day appointments available for patients in urgent need of care or who increase use of electronic medical records.

Providers who receive a significant portion of annual revenue from an alternative payment model would receive a 5 percent bonus through 2021. One example might be an "accountable care organization," in which doctors and hospitals collaborate on reducing the cost of care and share the savings. Another might be a "patient-centered medical home," in which a primary-care practice oversees the medical needs of patients and monitors the use of specialists.

The cost of a permanent Doc Fix has been pegged at \$139 billion over 10 years by the Congressional Budget Office. How to pay for this proposal has yet to be determined and poses the most serious challenge to the legislation moving forward.

BIPARTISAN PLAN TO BLOCK EPA RULE CHANGES

House Energy and Power Subcommittee Chairman Ed Whitfield (R-KY) and Sen. Joe Manchin (D-WV) have drafted legislation that would make EPA's forthcoming rules for existing power plants, as well as for modified and reconstructed plants, contingent upon Congress passing a law "specifying the effective date." Given the gridlock on Capitol Hill, such a move could essentially stop the administration from finalizing the rules, which are a cornerstone of Obama's agenda for addressing climate change without new legislation being approved by Congress.

The bill also addresses EPA's rules for new power plants, proposed in September. It would block the proposal and require the EPA to set a standard for coal-fired power plants that has "been achieved over a one-year period by at least six units located at different commercial power plants in the United States."

FARM BILL CONFEREES MEET

On Wednesday, House and Senate farm bill conferees met in their first and possibly only public meeting. While significant policy differences continue, the tone was conciliatory and congressional farm leaders made plans to continue negotiations next week even though the House is out of session.

House Agriculture Committee Chairman Frank Lucas (R-OK) and ranking member Collin Peterson (D-MN), as well as Senate Agriculture Committee Chairwoman Debbie Stabenow (D-MI) and ranking member Thad Cochran (R-MS) all expressed hope that the conference committee will be able to keep control of the farm bill and finish it this year.

Members repeated their well-documented views on farm policy, but one new piece of information emerged when Stabenow noted that the expiration of special Recovery Act food-stamp benefits will result in savings that will total \$11 billion over the next three years.

Stabenow said the \$11 billion cut could be used to help forge a compromise on the funding level for the Supplemental Nutrition Assistance Program (SNAP), the official name for food stamps, which has been a major stumbling block between the House and Senate. The Senate's farm bill would reduce SNAP spending by \$4 billion over 10 years while the House bill would cut food stamps by \$39 billion over the same period.

CABINET UPDATES

The Senate GOP held up the nomination of Congressman Mel Watt (D-NC) to head the Federal Housing Finance Agency this week. The Watt nomination failed to move forward after a 56-42 vote to "proceed to a vote" on Watt's nomination—shy of the 60 votes required to end debate.

U.S. Senator Rand Paul (R-KY) announced this week that he would be putting a hold on the nomination of Jessica Yellen to become the next Chair of the Federal Reserve. The Paul hold is a delaying tactic that can be utilized by any Senator, but Yellen is still expected to be confirmed eventually.

Political bits:

House

Arkansas 2nd Congressional District Special: Banker French Hill, a top recruit for the National Republican Congressional Committee, announced on Tuesday that he is seeking the Republican nomination for Arkansas' 2nd Congressional District.

Florida 13th Congressional District: Democrats got good news this week with news that former gubernatorial candidate Alex Sink will run for the seat left open by the passing of former U.S. Rep. Bill Young (R-FL).

Senate

Mississippi: FreedomWorks announced on Monday that it is backing state Sen. Chris McDaniel, a Republican, in his primary challenge to Sen. Thad Cochran (R-MS). McDaniel already has support from the Club for Growth and Senate Conservatives Fund.

New Hampshire: Former Sen. Scott Brown's (R-MA) decision to form a PAC in New Hampshire is driving speculation that he will challenge Sen. Jeanne Shaheen (D-NH) next year.

A look ahead:

The House is in recess next week

Senate

Tuesday, Nov. 5 – The Senate Banking, Housing and Urban Affairs Committee will hold a hearing on Housing-Finance Reform: Protecting Small-Lender Access to the Secondary Mortgage Market at 10 a.m. in 538 Dirksen.

Tuesday, Nov. 5 – The Senate Foreign Relations Committee will hold a hearing on the U.N. Convention on the Rights of Persons with Disabilities at 2:30 p.m. in 419 Dirksen.

Tuesday, Nov. 5 – The Senate Health, Education, Labor, and Pensions Committee will hold a hearing on The Online Federal Health Insurance Marketplace: Enrollment Challenges and the Path Forward at 10 a.m. in 430 Dirksen.

mcdonald hopkins government strategies advisory this week in washington november 1 2013

Wednesday, Nov. 6 – The Senate Finance Committee will hold a hearing on Health Insurance Exchanges: An Update from the Administration at 10 a.m. in 215 Dirksen.

Wednesday, Nov. 6 – The Senate Veterans' Affairs Committee will hold a hearing on the nominations of Sloan Gibson to be deputy VA secretary, Linda Schwartz to be assistant VA secretary for policy and planning, and Constance Tobias to be chairman of the Board of Veterans' Appeals at 10 a.m. in 418 Russell.

Thursday, Nov. 7 – The Senate Armed Services Committee will hold a hearing on The Impact of Sequestration on the National Defense at 9:30 a.m. in G-50 Dirksen.

Washington by the numbers

18 – The **percentage of Americans** who say they've seen a ghost.

20 – The **percent of aid** to Hurricane Sandy victims that has actually been distributed.

They said what?

"Whatever." – Sebelius, on whether the flawed rollout was Obama's responsibility. (*Washington Post*)

Washington humor

"There was some good news today for embattled Health and Human Services Secretary Kathleen Sebelius. Obamacare will cover all her injuries after the White House throws her under the bus. She is totally covered." – Jay Leno

□

Steven C. LaTourette, President | 202.559.2600

McDonald Hopkins Government Strategies LLC
101 Constitution Avenue NW, Suite 600 East, Washington, D.C. 20001

www.mcdonaldhopkinsgs.com

IMPORTANT NOTICE:

Although McDonald Hopkins Government Strategies LLC is owned by the law firm McDonald Hopkins LLC, McDonald Hopkins Government Strategies is not a law firm and does not provide legal services. Accordingly, the retention of McDonald Hopkins Government Strategies does not create a client-lawyer relationship and the protections of the client-lawyer relationship, such as attorney-client privilege and the ethics rules pertaining to conduct by lawyers, do not apply.