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#### Next Week in Congress

The Senate is likely to begin addressing a series of smaller bills tied into a "jobs agenda." Although the contents are still being worked out, they include tax incentives for businesses to hire new employees (both a tax credit and payroll tax incentives are being discussed), an extension of surface transportation authorization, and a further extension of unemployment benefits. Given the contents of the package are still unknown, it is unclear how much such a package would cost (although it is rumored to be in the \$80-\$90 billion range), if it would be off-set, or how many jobs it would seek to create. However, the Senate Finance Committee is likely to forgo a hearing in order to move the bill quickly, so ensuring adequate support may delay its introduction. The House will focus on a narrower healthcare bill next week, likely taking up a measure to revoke anti-trust exemptions from health insurance companies, a provision included in the broader healthcare bill approved by the House last year. In addition, the House is scheduled to authorize current-year funding for intelligence activities. Congress will be in recess the week of Feb. 15 in recognition of President's Day.

#### Budget/Appropriations

The Obama Administration released its \$3.8 trillion Fiscal Year 2011 [federal budget blueprint](#) on Monday. A New England Council summary of business community and New England regional priorities can be found [here](#). Introduction of FY11 federal budget outlines by the chairmen of the House and Senate Budget Committees is not expected for several weeks.

Yesterday the House approved a \$1.9 trillion increase in the national debt ceiling, passing a measure recently approved by the Senate to raise the ceiling to \$14.3 trillion (217-212). The bill is expected to be signed by President Obama, and should ensure the fulfillment of debt obligations through November's elections. In addition to the debt limit increase, the measure also enacts a statutory Pay-As-You-Go budget rule into law (233-187). Although often hailed as a panacea against Congressional overspending, the Pay-Go language exempts several "big-ticket" spending items from budget rules. These exceptions include the extension of a number of the 2001 and 2003 Bush-era tax cuts; as well as temporary patches to the Medicare "doc fix" (needed to prevent reimbursement reductions under the Sustainable Growth Rate), the alternative minimum tax, and efforts to reform the federal estate tax. In addition, priorities included in spending measures are often deemed "emergencies" (even for predictable or recurring events) and therefore exempt from Pay-Go constraints.

#### Healthcare

Within the President's \$81.3 billion [proposed budget for the Department of Health and Human Services](#), a proposed \$32.2 billion in funding for the National Institutes of Health showed a strong commitment to research and innovation. The \$1 billion increase over last year's NIH funding total is the largest requested increase in NIH funding in eight years. Research priorities for the NIH include genomics, global health, and translational research, as well as research to support healthcare reform. Cancer research, which would receive over \$6 billion, will include 30 new drug trials beginning in 2011. \$222 million would go for research, treatment, and other services related to Autism Spectrum Disorders. In line with the President's pledge to develop a national HIV/AIDS strategy, prevention and treatment programs would be expanded and the Ryan White program to provide support services for low-income individuals living with HIV/AIDS would see increased funding. In order to encourage the use of Health Information Technology including electronic health records, federal grants and adoption incentives from ARRA would be augmented by \$110 million to coordinate research and policy development.

The government [issued a report](#) this week estimating that healthcare spending made up 17.3 percent of the economy in 2009, for a total of \$2.5 trillion. This is a 1.1 percent increase in percent of GDP over 2008, the largest increase since the government began tracking these data in 1960. As unemployment rose across the country, so did enrollment in Medicaid, which accounts for a large portion of the rise in healthcare expenses as Medicaid costs grew. The report predicts that, without changes to current laws, healthcare spending will rise at an average rate of 6.1 percent annually over the next decade, or 1.7 percent faster than the GDP. According to Christopher Truffer, the report's main author, public healthcare spending could reach 52 percent of total health costs by 2019, up from 47 percent in 2008.

House Speaker Nancy Pelosi (D-CA) announced that she plans to introduce a bill stripping the health insurance industry of its anti-trust exemption on the House floor next week, and is confident that it will be approved. Originally part of the comprehensive healthcare overhaul legislation, the anti-trust repeal measure will be introduced on its own in the hopes of being passed, a strategy that Speaker Pelosi has supported as a means of passing smaller provisions of the overhaul bill which are more popular than the whole. At a hearing Wednesday, Senate Finance Committee Chairman Max Baucus (D-MT) said that he was in the process of drafting legislation to address another provision of healthcare reform legislation: Medicare's annual benefit caps for physical, occupational, or speech therapy. Under the caps, which took effect on January 1, 2010, Medicare recipients are limited to \$1,860 for physical and speech therapy and \$1,860 for occupational therapy every year, and patient and industry advocates claim that the caps are far too low. Committee Ranking Member Charles Grassley (R-IA) and others also came out against the therapy caps in a letter asking President Obama to delay the imposition of the benefit caps, writing that "these arbitrary financial caps are already resulting in restricted access to rehabilitation service." On Thursday, Senator Baucus said that the Democrats' new jobs bill may provide a means to both amend the therapy caps and prevent payment cuts to Medicare healthcare providers. A three-month fix of doctor payments is "being discussed... quite significantly," he said. The two-month delay of a scheduled 21 percent reduction in Medicare provider payments passed by Congress expires March 1.

After calls from several members of Congress, including Senate Finance Ranking Member [Charles Grassley](#), for the Administration to keep its promises of a transparent healthcare reform process, Secretary of Health and Human Services Kathleen Sebelius testified before the Senate Finance Committee that she was not in a position to guarantee openness. "I am not a principal in the negotiations," she said Wednesday. Earlier that day, President Obama had confirmed the need for transparency as Congress and the Administration worked together toward consensus, and took responsibility for the appearance of secrecy as lawmakers rushed to pass legislation before the holiday break.

#### Energy/Environment

During a Q&A session in Nashua, NH earlier this week, President Obama for the first time publically suggested the Senate may omit a nationwide cap-and-trade carbon emissions reduction program from a larger energy bill currently in bipartisan negotiations. Speaking to the difficulties in passing a bill to foster conventional and renewable energy production along with a carbon reduction program, the President noted "The most controversial aspects of the energy debate that we've been having -- the House passed an energy bill and people complained about, well, there's this cap and trade thing... The only thing I would say about it is this: We may be able to separate these things out. And it's conceivable that that's where the Senate ends up." Many lawmakers are publically acknowledging the difficulties in moving a cap-and-trade bill through the current Congress, and are far more optimistic about a smaller bill that will encourage domestic production of renewable and conventional energy along with energy efficiency programs.

On Wednesday, the Environmental Protection Agency announced a final rule that allows corn ethanol to qualify toward a national renewable fuels mandate. The mandate, 36 billion gallons of biofuels by 2022, seeks to promote the use of fuels with significant (at least 20%) savings in greenhouse gas emissions over the traditional gasoline resources they would replace. When fully implemented, the EPA estimates the renewable fuels mandate will replace 13.6 billion gallons of gasoline or diesel, and reduce greenhouse gas emissions by 138 million metric tons. In concert with that announcement, the EPA also announced the President has directed the establishment of an Interagency Task Force on Carbon Capture and Storage "to develop a comprehensive and coordinated federal strategy to speed the development and deployment of clean coal technologies." The Task Force is given six months to create a comprehensive strategy to pave the way for five to ten clean coal commercial demonstration projects to be on-line by 2016.

Earlier this week the U.S. Secretary of the Interior Ken Salazar travelled to Massachusetts to meet supporters and opponents of the proposed off-shore wind farm targeted for the Nantucket Sound. Recently, the National Park Service determined the history and cultural importance of the Sound make it eligible for protection afforded by the National Register of Historic Places, which would disable efforts to construct wind turbines in those waters. While promoting the importance of fostering new sources of renewable energy for our nation's energy future, the Secretary noted that "a future of uncertainty is bad for everybody that's involved." The Secretary summed up the conflicting priorities he faces in his final decision by saying our nation needs to prioritize "the new energy frontier and tackling climate change. That is a Presidential priority and one which he has assigned me to carry out." However, he noted that it is also "important for us as we embark on our agenda here at that Department of the Interior that we tell America's story fully and that we preserve of the history of America." The Secretary expects to have a final decision on the future of the project by the end of April.

#### Financial Services

On Tuesday, Former Federal Reserve Chairman and current economic adviser to President Obama, Paul Volcker [testified](#) in front of the Senate Banking Committee outlining plans to limit commercial banks from making proprietary trades -- essentially preventing federally-insured banks from owning and investing in hedge funds and private equity funds. In his testimony, Volcker told the Senate Banking Committee, "What I want to get out of the system is taxpayer support for speculative activity. I don't want my taxpayer money going to support somebody's proprietary trading." The plan targets a small number of U.S. institutions and "perhaps a couple of dozen worldwide" that generated significant revenue from proprietary trading. He acknowledged that these proposed restrictions would require some international consensus and would be a part of broader effort for structural reform throughout the banking industry. Overall, Volcker testified that "curbing the proprietary interests of commercial banks is in the interest of fair and open competition as well as protecting the provision of essential financial services." While many on the Senate Banking Committee agreed that the plan was sound in principle, the Administration's plan comes at a time when the Committee is in the midst of bi-partisan negotiations on its administration bill. While receptive to the overall merits of the proposal, Banking Committee Chairman Chris Dodd (D-CT) was frustrated by its timing and cautioned adding too much into the bill may further damage its chances for approval. Sen. Dodd's views during the testimony put the short-term prospects for approval of the Administration's plan in jeopardy as he looks to bring a bill to the floor in the coming weeks. Yesterday the Banking Committee heard from leading economists and several former and current executives from major financial services companies on the proposal.

The Troubled Asset Relief Program remained in the spotlight this week, with President Obama calling for \$30 billion in repaid TARP loans to be used for a "[Small Business Lending Fund](#)." In an event in Nashua, NH this week, the President announced the initiative is aimed at extending "capital for community banks," with the President continuing that "It's the small, local banks that work most closely with small businesses. They usually provide them their first loan. They watch them through good times and bad. The more loans these smaller banks provide to creditworthy small businesses, the better deal we'll give them on capital from this fund that we've set up." Eligible banks would be those with under \$10 billion in assets. However, one of the original architects of the TARP program, Sen. Judd Gregg (R-NH), and a stalwart for small business priorities, blasted the idea saying "TARP is not a piggybank. Under the TARP law, repaid TARP funds must be used to reduce the debt -- and given that we will have a \$1.6 trillion deficit this year and the Senate just voted to in-

crease the debt limit to more than \$14 trillion, the requirements of the TARP law should not be changed...TARP dollars should not be used as a slush fund for the President's other priorities." Because the diversion of \$30 billion from the TARP program would represent a change in the program itself, legislation would be needed to alter the original TARP language.

In its most recent [quarterly report](#) to Congress the special inspector general for the TARP program continues to credit TARP with averting a far greater financial crisis but criticizes its ongoing usefulness. In part, the report notes the resources provided by TARP have benefitted the financial services industry and the overall economy and will cost less to the American taxpayer than previously thought, saying "there are clear signs that aspects of the financial system are far more stable than they were at the height of the crisis in the fall of 2008. Many large banks have once again been able to raise funds in the capital markets, and some institutions — including some that appeared to be on the verge of collapse — have recovered sufficiently to repay their TARP investments years earlier than most would have predicted." However, many challenges remain, including in the credit markets, noting "lending continues to decrease, month after month, and the TARP program designed specifically to address small-business lending...has still not been implemented by Treasury. Notwithstanding the fact that preserving homeownership and promoting... home foreclosures remain at record levels, the TARP foreclosure prevention program has only permanently modified a small fraction of eligible mortgages, and unemployment is the highest it has been in a generation." The report concludes that Congressional efforts to modernize and reform the financial services industry are critical to ensuring similar economic downturns in the future, saying "even if TARP saved our financial system from driving off a cliff back in 2008, absent meaningful reform, we are still driving on the same winding mountain road, but this time in a faster car."

### Technology

In his Fiscal Year 2011 budget outline released earlier this week, President Obama called on Congress to pass a permanent extension of the Research & Development tax credit at a cost of \$33 billion over five years and \$82 billion over the next decade. The Administration has called for the permanent extension in both its FY10 and FY11 budgets. The President noted a federal commitment to fostering R&D is "critical to long-term economic growth," and that the credit "will spur private investment in R&D by providing certainty that the credit will be available for the duration of the R&D investment." The budget outline includes a host of targeted R&D funding provisions, specifically in the areas of science and energy policy and the National Institute of Standards and Technology. In hopes of garnering adequate Republican support for one or more jobs bills expected to come before the Senate this month, bill authors are offering the possibility of including the revitalization of the R&D tax credit (which expired on Dec. 31) in one of the measures.

A recent [report](#) by the Center for Strategic and International Studies and the computer security company McAfee concluded that cyber attacks on various computer networks are increasing in size and complexity. The study surveyed 600 global IT and security personnel (the most numerous of which were American) across 7 sectors of the economy and determined that the threat of cyber attacks "will get worse not better in the future." In summary, the survey concluded that "critical infrastructure owners and operators worldwide report that their networks and control system are under repeated cyber-attack," and that "most owners and operators believe that foreign governments are already engaged in attacks on critical infrastructure in their country." Putting a cost quotient on the attacks, the study found "the reported cost of downtime from major attacks exceeds US\$6 million per day, but in some sectors such as oil and gas it can surpass US\$8 million per day." However, recipients generally noted that most attacks go unreported due to "damage to reputation" and loss of information about company consumers.

On Tuesday, the Senate Select Intelligence Committee heard a further call to act on securing critical computer networks in comments from the Director of National Intelligence. In his [testimony](#), Director Dennis Blair noted that "cyber domain is exponentially expanding our ability to create and share knowledge, but it is also enabling those who would steal, corrupt, harm or destroy the public and private assets vital to our national interests," and that recent incidents of cyber attacks should be "a wake-up call to those who have not taken this problem seriously." Director Blair pointed out that danger does not lie only within one sub-class of criminals, but that various "nation states, terrorist networks, organized criminal groups, individuals," are all capable of causing serious disruption to our digital infrastructure. The Director also stressed the need for Congress to fully fund the Administration's Comprehensive National Cybersecurity Initiative, which in part "stresses the importance of the private sector as a partner through information sharing and other best practices to address vulnerabilities."

### Transportation

Members of the House Appropriations Transportation Subcommittee pressed Transportation Secretary Ray LaHood on Wednesday for the timing of an Administration surface transportation reauthorization proposal. Subcommittee Chairman John Olver (D-MA) called on President Obama and the Administration to provide "greater leadership in this area." Secretary LaHood plans to go on a listening tour to gather input around the country before a formal proposal is made. He added that the Administration is "not in much disagreement" with the six-year authorization bill authored by Transportation and Infrastructure Committee Chairman James Oberstar (D-MN), and President Obama has requested that Congress pass an 18-month extension while a long-term reauthorization is being developed. The current authorization of surface transportation programs expires at the end of the month, although the House passed a jobs bill ([H.R. 2847](#)) which includes an extension of surface programs through the end of the fiscal year. Ranking member Tom Latham (R-IA) echoed the sentiments of many Republican members when he called the plan for another speaking tour unnecessary and suggested that congressional action would be easier "if the Administration would put something on paper." Speaking with reporters Wednesday morning, Secretary LaHood said that President Obama did not support solving surface highway program funding problems with a gas tax increase, and cited the new \$4 billion National Infrastructure and Finance Fund included in the President's [budget proposal for Fiscal Year 2011](#). This new fund would award grants and loans directly to individual projects, rather than reimbursing state and local funding. If no action is taken, the Highway Trust Fund will be insolvent by August. Senate Majority Leader Harry Reid (D-NV) said Tuesday that the first of several new jobs packages planned by the Senate Democratic leadership will include an extension of current surface transportation programs for one year. At a press conference Thursday, Senate Democratic leadership discussed their agenda for new jobs legislation, and Senator Reid noted that they plan to "invest in improving roads and bridges" among other projects.

On top of \$8 billion in grants announced last month, President Obama's budget proposal calls for \$1 billion to support "promising and transformative" high-speed rail projects. This request follows the President's 5-year, \$5 billion pledge for high-speed rail in the 2010 budget. Funding for Amtrak would remain on par with where it was the year before, around \$1.6 billion; and public transit's \$2.2 billion would put it at about \$221 million less than in FY 2010. The budget proposal also seeks to make closed system rail transit subject to federal safety regulations, and seeks \$30 million for a new federal transit safety program within the Federal Transit Administration (FTA). The budget request for the Federal Aviation Administration is \$500 million less than it received for this fiscal year, and includes a more than 30 percent increase in Next Generation Air Transportation (NextGen) funding to \$1.14 billion to modernize air traffic control systems. Despite previous statements from the Administration in support of helping to fund NextGen changes through aviation user fees, the budget proposal did not anticipate any new user fees, and Secretary LaHood commented that in the case of NextGen funding, it would be safe to "assume that President Obama is not for user fees."

On Thursday, the House Transportation Subcommittee on Aviation heard testimony regarding an update on the FAA's Call to Action for Airline Safety program. Transportation Department Inspector General Calvin Scovel said in his [testimony](#) that of the FAA's ten initiatives tied to the "Call to Action" effort, eight are either falling behind schedule or not meeting their intended goals. The FAA's program was established to push airlines toward stricter safety procedures and standardize pilot training requirements. Concerns over airline safety and pilot training were brought to light by the February crash of Colgan Air Flight 34007 outside of Buffalo, NY. It was recently determined by the National Transportation Safety Board that the crash was a result of pilot error. FAA Administrator Randall Babbitt defended the plan, saying that the FAA should be given credit for prodding all the nation's airlines into enlisting in the voluntary safety program that many had previously shunned and promised further recommendations for airlines on pilot fatigue and training in the spring. The House passed legislation (H.R. 3371) in October that would put many pilot training and airline safety requirements into law, which is still awaiting approval in the Senate.

### Higher Education

In his [proposed budget for Fiscal Year 2011](#), President Obama included significant increases to education funding. The 31 percent increase in Education Department spending is highly significant when contrasted with the President's promises to moderate federal spending and cost-cutting measures he has proposed for other sectors. President Obama is proposing \$49.7 billion in discretionary spending for the Education Department, which would include \$1.35 billion to expand Race to the Top and \$500 million for Investing in Innovation, both competitive grant programs to encourage innovative reform. \$1 billion of the Department's funding would hinge on Congress reauthorizing the Elementary and Secondary Education Act, or No Child Left Behind. A significant portion of the increase in funding would expand the Pell Grant program, raising the maximum grant (which was recently raised from \$5,350 to \$5,550 with stimulus funding) to \$5,710 with a mandatory source of funding and automatically increasing future grant limits at the rate of inflation plus 1 percent. The budget proposal also anticipated the passage of comprehensive student loan reform passed by the House last September and currently awaiting action by the Senate. The bill, [H.R. 3221](#), would eliminate federal subsidies for private lenders and bring student loans under the administration of the federal government, which the Congressional Budget Office estimates would save about \$87 billion. While President Obama was confident last fall that the bill would pass easily, backlash from the financial sector has become a significant roadblock. Sallie Mae, the country's biggest originator of student loans, held \$22 billion in student loans last year and organized a series of town hall-style meetings with other lenders around the country in opposition to the Administration's reform plan. Private lenders are concerned that with the elimination of the current system, students will receive less debt counseling and be more likely to default on their loans.

The Administration's planned reforms also include a limiting of student loan payments to 10 percent of a student's discretionary income and debt forgiveness after 20 years or 10 years if the student chooses a career in public service. Additional savings would come from the elimination of six K-12 education programs and a planned consolidation of 38 others into just 11 programs, for an estimated savings of \$123 million. Following through on promises to shore up the nation's Science, Technology, Engineering, and Math (STEM) education, President Obama's proposed budget includes \$300 million in grants to help states develop and implement new practices to improve teaching and enhance learning in science and math. \$150 million of the Investing in Innovation grants will be used to improve teaching and enhance learning in the STEM fields, and the Education Department will partner with the National Science Foundation, which would receive about \$1.2 billion in funding, to identify the most effective improvements to STEM education.

### Trade

In his State of the Union Address last week, President Obama announced his National Export Initiative, focused on doubling U.S. exports in five years. In his speech, the President noted that "the more products we make and sell to other countries, the more jobs we support right here in America," saying the Initiative "will help farmers and small businesses increase their exports, and reform export controls consistent with national security." Yesterday Secretary of Commerce Gary Locke expanded on that announcement, saying the three-pronged initiative would include increasing trade promotion efforts and advocacy, expanding credit opportunities for small- and medium-sized businesses, and a strict and thorough enforcement of existing trade laws. In his [remarks](#), Secretary Locke noted "At a time when traditional drivers of U.S. economic growth like consumer and business spending are strained, we simply must elevate exports as a key part of our economic recovery efforts." However, the Commerce Secretary did not elaborate on any plans by the Administration to send pending free-trade agreements with Colombia, South Korea, or Panama to Congress.