BUDGET: HOUSE BUDGET COMMITTEE REPORTS FY13 BUDGET

On Wednesday, March 21, 2012, the House Budget Committee reported its FY 2013 budget plan, by a vote of 19-18. The plan was unveiled by Rep. Paul Ryan (WI), Chairman of the Budget Committee, earlier this week.

The budget calls for discretionary spending for FY13 of $1.028 trillion, $19 billion less than the $1.047 trillion agreed to by the Administration and Congress in last year’s Budget Control Act (PL 112-25). It also calls for reducing spending over ten years by $5.3 trillion more, compared to the spending proposed in President Obama’s FY13 budget, and reduce the deficit by $3 trillion more than the President’s plan. In FY13, budget outlays would be $3,530 billion, about $187 billion less than the President’s FY13 budget proposal.

Major provisions provided in the bill include:
- Setting two federal income brackets at 10 percent and 25 percent, rather than the current six brackets, reducing the corporate tax rate to 25 percent, and eliminating the alternative minimum tax. To compensate for the lower tax rates, the Ways and Means Committee would be tasked with reforming the tax code by closing loopholes and eliminating some unspecified current deductions.
- Preventing the trigger of the sequestration cuts set for fiscal 2013 by charging six House Committees (Agriculture, Energy and Commerce, Financial Services, Judiciary, Oversight and Government Reform, and Ways and Means) with finding at least $18 billion of deficit reduction in the first year, and $261.5 billion in reconciliation savings over 10 years to achieve the savings called for under the Budget Control Act. Under reconciliation procedures, the Senate would also have to act to produce the savings.
- Setting defense spending at $554 billion, rather than the $546 billion set in the Budget Control Act. If sequestration is triggered in January 2013, defense spending would be cut by $55 billion, on top of the $487 billion in cuts over ten years proposed by the President’s budget.
- Eliminating federal spending on high-speed rail projects, such as the one being developed in California.
- Reducing federal financial aid for college students and refocusing aid on low-income students. The plan would reduce mandatory higher education funding by $285 billion more than the President’s request and $166 billion below current-law levels over ten years.
- Restructuring federal funding of Medicaid as a block grant to the states, with indexing for population growth and inflation, and changing food stamp funding under the Supplemental Nutrition
The California Institute wishes to express its gratitude to the following donors for their generous support, without which our work would not be possible.

**Benefactors**
- AT&T
- Center for California Studies, CSUS
- PG&E Corporation
- Sempra Energy
- Southern California Edison
- University of California

**Sponsors**
- Applied Materials
- Assn of California Water Agencies
- Bay Area Economic Forum
- California Airports Council
- California Association of Realtors
- CA Council Science & Technology
- California Farm Bureau Federation
- California Federation of Teachers
- California Institute of Technology
- California School Boards Association
- CA State Association of Counties
- Chevron
- Diesel Technology Forum
- Metropolitan Water District of So. Calif.
- San Bernardino Valley MWD
- University of Southern California


Assistance Program into a block grant starting in 2016. Federal payments would also be reduced for other welfare programs and time limits and work requirements imposed. States would be granted more flexibility to define and administer their programs.

- Repealing the 2010 Affordable Care Act comprehensive health law.

- Converting Medicare to a voucher program in 2023, with participants given the option of using the federal payment to either buy private insurance or to pay for Medicare insurance.


**ECONOMY: SENATE PASSES SMALL BUSINESS SECURITIES BILL**

By a vote of 73-26, the Senate passed H.R. 3606, the Jumpstart Our Business Startups (JOBS) Act. The bill is intended to increase job creation and economic growth by improving access to the public capital markets for emerging growth companies. The House passed the bill by a vote of 390-23 on March 8, 2012.

During consideration of the bill, the Senate adopted an amendment, so the House will have to act again on the bill. The amendment will help small businesses raise capital by allowing them to use the Internet and social media for fund raising, rather than rely on traditional “Wall Street” sources. The businesses will be able to raise up to $1 million in new investments using a “crowdfunding” portal. The portal must be registered with the SEC in order to protect investors.

The bill will: ease Securities and Exchange Commission rules preventing small, privately held companies from using advertisements to solicit investors; allow companies to sell up to $2 million worth of securities without registering with the SEC; ease SEC filing requirements concerning the annual public offering threshold; raise the threshold for mandatory SEC registration to companies with 1,000 shareholders instead of 500; ease regulatory rules to reduce the costs of small and medium-sized companies going public; and increase the number of shareholders from 500 to 2,000 necessary to trigger an SEC registration requirement for a bank.

**EDUCATION: SENATE SUBCOMMITTEE EXAMINES STUDENT DEBT ISSUES**

On Tuesday, March 20, 2012, the Senate Judiciary Subcommittee on Administrative Oversight and the Courts held a hearing to examine student loan debt. The hearing was titled *The Looming Student Debt Crisis: Providing Fairness For Struggling Students*.

Witnesses included: The Honorable Jack Conway, Attorney General for the Commonwealth of Kentucky, Frankfort, KY; The Honorable Lisa Madigan, Attorney General for the State of Illinois, Chicago, IL; G. Marcus Cole, Professor of Law, Stanford University, Stanford, CA; Danielle Jokela, Chicago, IL; Deanne Loonin, National Consumer Law Center, Boston, MA; and, Neal P. McCluskey, Associate Director, Center for Educational Freedom, Cato Institute, Washington, DC.

The hearing touched on many subjects, including private and institutional student loan debt and the inability for students to discharge such debt when a school declares bankruptcy and bars them from completing their education. Federal loans may be discharged in this instance under the closed school discharge rule; private loans are excluded.
In the hearing, this was presented in conjunction with testimony on rising college costs, debt-to-income ratios of graduates, and the propensity of some colleges to graduate students with high debt (and/or engage in evasive or inaccurate advising on job placement, credit transferability, and lending to students). Mr. Conway testified that investigations into colleges that "made false and misleading statements to consumers on matters including the rate of job placement, transferability of credits, and the students' financial aid" led to a "multistate working group looking into this issue with 23 other state attorneys general." The hearing also touched upon certain consumer protections not always available for private loans, including the ability to defer payments while a student is still in school.

Additionally, as Mr. Cole testified, student loan debt is difficult to discharge should a student declare bankruptcy. Mr. Cole spent discussed a proposed change to the Bankruptcy Code that would eliminate the exemption from discharge currently extended to private, for-profit student loan obligations and made alternate suggestions. Making such a change to the code, he stated, would "result in a dramatic increase in the cost of student loans for all student borrowers" and effectively dry up the private student loan market. Calling the proposal "a blunt instrument that is unlikely to address the root source of the problem," he said that this protection for for-profit lenders is what keeps interest rates low. Without it, interest rates would rise or loans would disappear altogether as the lenders experience more uncertainty in regards to repayment.

Mr. Cole offered several alternatives to an exemption. He suggested looking at the problem of why students' "borrowing did not result in increased human capital sufficient to repay the loan." This would include investigating for institutional fraud, among other things. He also suggested what he called two "novel" concepts. "The first would be to internalize the cost of 'bad' educational lending upon the lenders themselves by forcing them to do what all lenders do in the contexts of secured and unsecured lending alike … Congress may wish to require private student lenders to assess the earnings potential of any student borrower associated with any particular educational institution."

Second, Congress could consider a "creative approach" borrowed from Europe. Namely, students would agree to pay a fixed percentage of future income over a capped period of time after graduation in lieu of paying annual tuition during schooling. Thus, "the more money a … graduate earns, the more money the school receives from its graduates. The reverse is also true." He cautions, however, that the one thing that makes this arrangement work "is that the obligation to repay the school is not dischargeable in bankruptcy." He testified that the chancellors of the University of California are reportedly exploring similar arrangements.

Statistics concerning student loans include:
- The average debt a college senior graduated with in 2010 was about $25,000.
- U.S. student borrowers number about 37 million; together they owe about $870 billion.
- Of those 37 million, 27 percent are 30 days or more past due on their loans.
- Borrowers are not just young adults; 5 percent are over age 60 while another 11 percent are in their 50s (this number may include parents who take on loans to pay for a child's education).
- 14 percent of undergraduates and 11 percent of graduates in the 2007-2008 school year took out private loans.
- Students at the for-profit schools are 10% of the higher education body, but they account for 47% of all defaults on federal loans.

For more information, go to:
http://www.judiciary.senate.gov/hearings/hearing.cfm?id=eb997a7c3376c76b36a41cf2a10ca10.

Housing: Senate Subcommittee Holds Hearing on Strengthening the Housing Market

The Senate Banking, Housing and Urban Affairs Subcommittee on Housing, Transportation and Community Development held a hearing on Thursday, March 15, 2012.
Witnesses included: Mr. John C. Dilorio, CEO, 1st Alliance Lending; Dr. Mark Calabria, Director of Financial Regulation Studies, CATO Institute; and Dr. Laurie F. Goodman, Senior Managing Director, Amherst Securities.

Mr. Dilorio testified about several programs and loan options that help homeowners who find themselves "underwater," including the Home Affordable Modification Program (HAMP), Home Affordable Refinance Program (HARP), Fannie Mae and Freddie Mac refinancings, the Federal Housing Administration's (FHA) streamlined refinancings, and assistance to unemployed homeowners. He emphasized the need for principal reduction, which he called "critical, in concert with affordability efforts," to long term solutions. The aforementioned programs generally "do not provide for principal reduction," but should, he said, and cited his firm’s experiences as substantiating that need.

Dr. Calabria illustrated that most homeowners that are underwater are still current on those mortgages (including the majority of deeply underwater borrowers). Specifically, he stated that "for prime borrowers with loan-to-values (LTV) over 125%, over 75% are current." To put those numbers in perspective, "total delinquencies are down over 25% from the peak in January 2010, having declined from 10.97% to 7.97% in January 2012." In addition, he testified, "no one can say, with a straight face, that foreclosures, in general, are happening 'too fast.'" Indeed, "only 19% of loans in foreclosure are less than 8 months past due."

Furthermore, Dr. Calabria stated that he is skeptical of "many of the efforts at mortgage modification, as most seem aimed at dragging out the problem and avoiding the inevitable correction of the housing market." Acknowledging the fact that programs will probably continue, however, he said that modifications to delinquent and/or underwater borrowers should include the following provisions:

- All modifications should include and exercise recourse.
- Modifications should be limited to those have been current at some point within the previous year.
- Modifications should be targeted to those who display a "willingness to pay" but lack the ability to do so.

Dr. Goodman focused her testimony on three fixes she believes will strengthen the mortgage market at little or no public cost. These three fixes include: increasing reliance on principal reduction modifications; ramping up of the bulk sales program, coupled with financing for these properties; and a careful vetting of new rules that affect already tight credit availability.

Other items discussed at the hearing included:

- The number of American households "underwater," was estimated to number 11.1 million nationwide at the end of 2011 (23 percent of all U.S. homes).
- Predictions that new housing construction levels will not reach 2007 rates until at least 2015. It was also noted that while overall housing starts are up, on an annualized level from 2011, this increase is mostly driven by a jump in multifamily starts versus single-family starts, which have decreased slightly.
- The nation's oversupply of housing is estimated at 3 million units, and the effects thereof.
- The national homeowner rate in the last quarter of 2011 (about 66 percent). This represents a level similar to that in 1997.
- Housing price decreases since 2006, estimated to be down about 31 percent. This does not include many metro areas where costs of homes still greatly outpace median incomes. For example, homes in the San Francisco area generally cost nearly eight times that of the median income. In fact, the high cost of homes in much of coastal California still makes homeownership "out of reach" for many, according to Dr. Calabria.

For more information, go to: http://banking.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=53bda60f-64e1-43d8-9adf-a693c31eb56b
ENVIRONMENT: HOUSE SUBCOMMITTEE HOLDS HEARING ON THE NATIONAL OCEAN POLICY'S EFFECT ON FISHING


Witnesses included: Captain Robert F. Zales, II, President, National Association of Charterboat Operators; Gary Zurn, Senior Vice President Marketing, Big Rock Sports, LLC; Terry Gibson, Principle, North Swell Media, LLC; George J. Mannina, Jr., Partner, Nossaman, LLC; and Justin LeBlanc, Federal Representative, United Charter Boats.

The President signed an executive order on July 19th, 2010 to adopt the final recommendations of the Interagency Ocean Policy Task Force, effectively instituting the new National Ocean Policy (the Policy). Over 140 federal laws and numerous agencies have jurisdiction over ocean resources. The aim of the Policy is to manage commerce and conservation of ocean resources through a “comprehensive and collaborative framework for the stewardship of the ocean, our coasts, and the Great Lakes that facilitates cohesive actions across the Federal Government, as well as participation of State, tribal, and local authorities, regional governance structures, nongovernmental organizations, the public, and the private sector.” The National Ocean Council, tasked with implementing the Policy, extended the public comment period on the draft National Ocean Policy Implementation Plan by one month through March 28, 2012. House Resources Committee Chair Doc Hastings (WA) had requested that the deadline be extended by 90 days, arguing “[t]he likelihood of deterring new investment and job creation is too great to rush the implementation of this questionable new federal bureaucracy.”

This week’s hearing focused on the effects of the Policy on commercial and recreational fishing. Issues discussed included:

- Recreational and commercial fishing statistics, including that recreational fishing in 2009 produced sales impacts totaling $50 billion and value added impacts of $23 billion while providing over 327,000 jobs. Commercial Fishing provided over 1 million jobs, $116 billion in sales and $32 billion in income impacts.
- The possible negative effect of the Policy on jobs directly and indirectly related to fishing.
- The level of involvement of stakeholders in the advancement of the Policy, with concerns raised regarding the lack of fishery representatives on the Policy's Regional Planning Bodies.
- The current regulatory burdens on fishing (including no-fishing mandates), and whether the industry can absorb more regulation without serious consequence to its economic value.
- The Policy's lack of regulatory authority, but the concern that it may still add new and expanded regulations on already regulated industries and activities.
- The impact of California's expected finalization of a statewide effort that will place 15-20 percent of the state's coastal waters off limits to fishing through a process called the Marine Life Protection Act Initiative (MLPA).
- The benefits that can be realized because of the Policy's new management framework, which will create a coordinated, regional system that breaks down barriers between different agencies and reduces the complicated regulatory bureaucracy currently governing the oceans.