ECONOMY: HOUSE PASSES SEQUESTRATION SPENDING CUTS ALTERNATIVE; SPEAKER PULLS “PLAN B” AND RECESSSES FOR HOLIDAYS

On Thursday, December 20, 2012, the House attempted to consider two measures proposed by the Majority leadership as alternatives to the “fiscal cliff” tax increases and spending cuts set to take effect on January 1, 2013. The first measure passed the House by a slim margin, but Speaker John Boehner had to pull the second measure, which he had labeled “Plan B,” increasing tax revenues after he determined that there were not enough votes from the Republican conference to support the measure.

H.R. 6684, the Spending Reduction Act of 2012, would have replaced the across-the-board spending reductions mandated by the sequestration agreement earlier this year. It prevents the automatic cuts to the Department of Defense and proposes alternative spending reductions of about $236 billion in other government programs. The sequestration mandated cuts would be about $109 billion in FY13, across all federal agencies including DOD. The House passed H.R. 6684 by a party-line vote of 215-209, with one Member voting Present.

Among its provisions are:
- Restricting categorical eligibility under the SNAP (Food Stamp) Program, as well as modifications or repeal of several other SNAP-related provisions;
- Eliminating the Dodd-Frank “bailout fund;”
- Terminating the Home Affordable Modification Program (HAMP), aimed at preventing housing foreclosures;
- Eliminating or modifying several provisions related to the implementation of the “ObamaCare” health care law;
- Repealing the Medicaid Maintenance of Effort (MOE) requirement for states; and
- Repealing the Social Services Block Grant.

Detailed information on the provisions in the bill can be found at: http://www.majorityleader.gov/uploadedfiles/HR6684_2012.pdf.

The second measure, H. J. Res. 66, the Permanent Tax Relief for Families and Small Businesses Act of 2012, was proposed as an alternative to the expiration of the 2001 and 2003 tax cuts enacted during the Administration of President George W. Bush. After an emergency meeting of the Republican Conference, Speaker Boehner pulled the bill from the floor and recessed the House until after Christmas.
Included in the tax bill were the following provisions:
- Permanent extension of the 2001/2003 tax cuts for incomes up to $1 million
- Permanent extension of 2012 estate tax rules ($5 million exemption/35% top rate)
- Permanent extension of reduced capital gains/dividends rates (top rate of 15%) for incomes up to $1M
- Permanent extension of higher small business expensing limits under Sec. 179
- Permanent AMT patch (including interaction effects between the AMT patch and the 2001/2003 tax cuts)
- Permanent marriage penalty relief

For more information on the provisions in this bill can be found at: http://waysandmeans.house.gov/news/documentsingle.aspx?DocumentID=315670 and

**DEFENSE: HOUSE PASSES FY13 DEFENSE AUTHORIZATION ACT**

The House passed the Conference Report to H.R. 4310, the National Defense Authorization Act for Fiscal Year 2013, on Thursday, December 20, 2012 by a vote of 315-107. The Senate is expected to approve the measure and send it on to the President for signature in the near future. The original House bill was sponsored by Rep. Buck McKeon (Santa Clarita), Chairman of the House Armed Services Committee.

- The bill authorizes appropriations for Department of Defense military activities and construction as well as Department of Energy defense activities. Specifically, the bill authorizes $552.2 billion for base national defense and $88.5 billion for Overseas Contingencies Operations. It also authorizes a 1.7 percent pay increase for servicemembers. The total authorization is about $1.7 billion more than the Administration’s FY13 budget request, but about $30 billion less than the FY12 authorization, primarily because of expected savings resulting from the drawdown in Iraq.

Among its many provisions, the bill:

- authorizes about $6 billion to purchase 29 F-35 Joint Strike Fighters
- requires the Air Force to continue in service until 2014 a number of airplanes, including 18 Global Hawk drones.
- authorizes approximately $9.8 billion for missile defense programs, including the initial deployment of a California and Alaska based system.
- eliminates proposed increases in out-of-pocket health care costs for military health care.
- provides $5.4 billion for procurement and $2.7 billion for research and development of the F-35 Joint Strike Fighter, $2 billion for F/A-18 E/Fs, and $1 billion for EA-18G Growler electronic warfare planes. $1.3 billion for V-22 tilt-rotor aircraft for the Marines is also included.
- prohibits funding a new Base Realignment and Closure (BRAC) round.
- provides $70 million toward the construction of a $3.7 billion building for plutonium research at the Los Alamos National Laboratory in New Mexico.
- increase the time to implement sanctions on Iran – most likely from 90 to 180 days – per the White House's request.

The bill contains several measures related to the transfer and holding of detainees. A provision in the House version of the bill blocking the transfer of detainees from the detention facility at Guantánamo Bay,
Cuba was shortened to a one-year restriction. Additionally, the bill provides that funds cannot be used for building or modifying a detention facility in the United States for the purpose of holding terrorism detainees. Lawmakers also agreed to strike a Senate provision that would have barred indefinite detention of Americans taken in the War on Terror.

The bill includes several provisions related to social and women's health issues. The final bill retains a Senate provision allowing Pentagon funding for abortions for servicemembers in the case of rape or incest. Previously, unlike most other federal health programs, the Defense Department only exemption for abortion coverage was when the mother's life was at risk. The bill also retained a House "right of conscience" provision clarifying that military chaplains have discretion with respect to presiding over same-sex marriage ceremonies.

Lawmakers also compromised on funding toward the construction of a biofuels refinery. Specifically, the bill provides $70 billion in funds for a biofuels refinery; however, those funds must be matched in equal amounts by the Departments of Energy and Agriculture. House language that would have prohibited the purchase of biofuels if they were more costly than other typically-used fuels was stricken from the measure.


REPORT: LEGISLATIVE ANALYST'S OFFICE ASSESSES CA ENERGY EFFICIENCY AND ALTERNATIVE ENERGY PROGRAMS

The California Legislative Analyst's Office (LAO) released a report on December 19, 2012 providing an overview and preliminary assessment of the state's energy efficiency incentive programs over the past 10 to 15 years. California currently maintains over a dozen major programs that are intended to support the development of energy efficiency and alternative energy in the state. The state's incentive programs generally fall into the following categories: (1) energy efficiency programs, (2) renewable energy programs, (3) alternative transportation and low-carbon fuels programs, and (4) energy research programs. The state has spent approximately $15 billion on such efforts since 1979. For 2012-2013, largely due to forthcoming cap-and-trade auction and Proposition 39 (clean energy and energy efficiency initiative) revenues, more than $1 billion is estimated to be spent on the state's energy efficiency and alternative energy programs, according to the report.

Findings of the report include:
- The LAO found that the state lacks a comprehensive framework that fully coordinates the state's major energy incentive programs to help ensure that the state's goals are being achieved in the most cost-effective manner.
- The lack of a comprehensive framework results in the following issues: (1) some program duplication, (2) some misalignment between department policy choices and legislative priorities, and (3) difficulty in comparing program effectiveness.
- The LAO found that multiple state departments have overlapping jurisdiction in energy policy areas, such as energy efficiency programs, which can be inefficient and waste valuable resources.
- Some programs, particularly the IOU energy efficiency programs administered by the California Public Utilities Commission, intend major shifts in California's energy policy without first seeking appropriate legislative guidance.
- While some energy efficiency and alternative energy programs have an evaluation component, the state has not methodically assesses the relative cost-effectiveness of each program. Moreover, many departments have developed their own evaluation metrics, making it difficult to compare effectiveness.
- The LAO recommended that the Legislature develop a comprehensive energy strategy that (1) states energy efficiency and alternative energy goals, (2) describes the framework in which these programs –
individually and collectively – will achieve the state's goals, and (3) explains how these programs will be measured-individually and against each other.


**REPORT: REMI RELEASES ANALYSIS OF EFFECT OF “FISCAL CLIFF” ON STATES**

Another economic policy think tank, Regional Economic Models, Inc. (REMI), has released a simulation from its online economic forecast database analyzing the economic impact of the so-called "fiscal cliff" on a national and state-by-state basis. The report was released on December 17, 2012.

A few California-specific findings include:
- Employment would decrease by 2.33 percent (486,000 jobs).
- Gross domestic product would decrease by $46.16 billion.
- Real disposable income per capita would decrease by 1.95 percent.

For more information on the impact on California as well as the other states, go to: [http://data.eremi.com/fiscal/StateImpact.aspx](http://data.eremi.com/fiscal/StateImpact.aspx).