CONGRESS: 113th Congress Sworn In

On January 3, 2013, members of the 113th Congress were sworn in by House Speaker John Boehner (OH), who won re-election as Speaker of the House. Rep. Nancy Pelosi (San Francisco) was re-elected Minority Leader. Reps. Eric Cantor (VA) and Kevin McCarthy (Bakersfield) were re-elected to the posts of Majority Leader and Majority Whip, respectively.

In the Senate, both Sens. Dianne Feinstein and Barbara Boxer returned to their seats. The California congressional delegation welcomed 14 new members to the House.

The California Institute has a roster of the California delegation, with contact information, which can be obtained at: or http://www.calinst.org/pubs/113th.pdf.

ECONOMY: 112th Congress Averts Fiscal Cliff In Last Days

President Obama signed HR 8, the American Taxpayer Relief Act of 2012, on Wednesday, January 2, 2013. The Senate and House both passed the legislation on January 1, 2013 by a vote of 89 to 8 and 257 to 167, respectively. In doing so, they averted the so-called “fiscal cliff,” which would have triggered massive budget cuts and tax increases.

H.R. 8 permanently extends the 2001 and 2003 Bush-era income and other tax cuts for taxable income up to $400,000 for individuals and $450,000 for couples, but allows tax rates to rise from 35% to 39.6% on income over that level. The tax on capital gains and dividends will be permanently set at 20% for those with income above the $400,000/$450,000 threshold and remain at 15% for everyone else. The bill increases the estate tax from 35% to 40% with a $5 million exemption and a threshold indexed to inflation. The bill also includes a permanent "patch" for the alternative minimum tax (AMT) to prevent tens of millions of Americans from having to pay higher taxes under that alternative system.

Other significant provisions include a one-year extension of long-term unemployment benefits benefitting those unemployed for longer than 26 weeks, prevention of a 27% cut in Medicare reimbursement rates through "doc" fix provisions, which the CBO estimates will cost $25.2 billion over 10 years., The bill re-imposes a pay freeze on members of Congress through September 30, 2013, and a two-year extension of the research tax credit equal to 20% of the amount by which a taxpayer's qualified research expenses for a taxable year exceed its base amount for that year.

The bill made several notable postponements and omissions, including: (1) delays 2013 sequestration by two months; (2) omits extension of payroll tax cut holiday; and (3) fails to address the debt-ceiling limit for two months.
The bill postpones the 2013 sequestration, a combination of automatic spending cuts and revenue increases, for two months. Half the delay will be offset by lower discretionary spending caps, split between defense and non-defense, and the other half will be offset by $12.2 billion in new revenue raised by taxing the voluntary transfer of retirement savings from traditional Individual Retirement Accounts (IRAs) to Roth IRAs.

Under the measure, the sequester would be implemented on March 27, the same day that the current six-month continuing resolution funding the government expires. Additionally, the total automatic cut for FY 2013, currently estimated at $109 billion, would be reduced to $85 billion. The measure also does not include an extension of the payroll tax cut. As a result, 160 million Americans, including two-thirds in the bottom 20% income bracket, will receive paychecks that are 2% smaller.

The bill also extends the 2009 expansion of tax breaks for low-income Americans: the Earned Income Tax Credit, the Child Tax Credit, and the American Opportunity Tax Credit will be extended for five years.

H.R. 8 extends through FY 2013 most federal farm programs and policies that were in effect on September 30, 2012 under the 2008 farm bill, thereby preventing farm policy from reverting to underlying 1949 farm policy law. The bill also creates a one-year extension for the Dairy Product Price Support Program and the Milk Income Loss Contract Program, which prevents a spike in milk prices.

Two limits on tax exemptions and deductions for higher-income Americans will be reimposed: Personal Exemption Phaseout (PEP) and the itemized deduction limitation (Pease) will be set at $250,000 for individuals and $300,000 for couples.

The bill also extends dozens of expiring business tax provisions. One provision allows businesses to deduct from their taxes 50% of the value of certain property in addition to amounts that they could otherwise claim under depreciation rules. Another provision extends the ability of financial services companies and manufacturers with financing arms to defer taxes on income earned overseas from active financing operations.

The bill also extended the tax credit for employing those who work and live on or near an Indian reservation, as well as accelerated depreciation rules for certain business property placed in service on an Indian reservation.

Included in the bill is an extension of a tax break for film and television productions that shoot in the United States, allowing them to expense the first $15 million of costs—or $20 million if the production occurs in economically depressed areas. The incentive will cost an estimated $266 million in 2013.

The measure extends the following provisions that are aimed primarily at energy incentives, which would reduce revenue by nearly $18.1 billion over 10 years, for the 2012 and 2013 tax years: (1) the requirements for exterior windows, doors and skylights to be eligible for the non-business energy property tax credit; (2) the credit for alternative fuel vehicle refueling property; (3) the credit for two-wheeled or three-wheeled plug-in electric vehicles; (4) the credit for production of cellulosic biofuel; (5) extension of the expiration date for renewable electricity production credit construction through 2013, including for wind facilities; (6) the credit for construction of energy-efficient new homes and energy-efficient appliances.

The bill also provides mortgage debt relief by allowing up to $2 million of forgiven debt through mortgage forgiveness and cancellation programs to be eligible for exclusion from income ($1 million if married filing separately) through tax year 2013.
The measure repeals the Community Living Assistance Services and Supports (CLASS) Program, which was enacted as part of the 2010 health care overhaul law. The Department of Health and Human Services notified Congress that CLASS, while showing a cost savings over the short-term, would not be able to sufficiently fund the program's obligations over a 75-year period as required by law.

The bill would not extend authorizations for a number of programs, including local and regional food aid procurement, the McGovern-Dole International Food Program and market loss assistance for asparagus producers.

The Congressional Budget Office (CBO) estimates the bill will increase the deficit by $3.92 trillion over 10 years, including $1.53 trillion from extending the 2001 and 2003 tax cuts, $1.82 trillion from the AMT patch, and $369.1 billion from extending current estate tax rules.

For more information, see the following sources:
- Senate Committee on Finance, Summary and Revenue Estimates
  http://www.finance.senate.gov/legislation/details/?id=acd8d505-5056-a032-5213-d4c3ac0bb7b0
- Congressional Budget Office, Estimate of the Budgetary Effects
  http://www.cbo.gov/publication/43829
- Joint Committee on Taxation, Estimated Revenue Effects
  https://www.jct.gov/publications.html?func=startdown&id=4497
- White House Office of Management and Budget Summary
  http://www.whitehouse.gov/blog/2013/01/01/amERICAN-TAXPAyER-RELIEF-ACt-REDuceS-DEfICITS-737-BILLion.

**REPORTS: CALIFORNIA’S LAO RELEASES CAL FACTS 2013 REPORT**

The California Legislative Analyst's Office issued *Cal Facts: 2013* in January 2013. Rather than attempting to summarize California’s complex economy and how the state budget works, the report is aimed at providing various "snapshot" pieces of information, through which LAO hopes to provide the reader with a broad overview of public finance and program trends in the state.

*Cal Facts* consists of a series of charts and tables which address questions frequently asked of LAO. Some of the facts include:

- California’s gross domestic product (GDP), the total value of goods and services produced in the state, was just under $2 trillion in 2011. California, with 12 percent of the U.S. population accounts for 13 percent of the nation’s output. Over one-third of California GDP is produced in the Los Angeles-Long Beach-Santa Ana metropolitan area.
- California has an above-average share of jobs in professional/business services and in information due in part to the state’s leadership in two sectors: technology and film/television production. The state’s relatively young population helps explain its smaller share of workers in health services.
- As of September 2012, the state had recovered about 500,000 of the net 1.4 million jobs it lost between July 2007 and February 2010. Construction and manufacturing were two of the hardest-hit sectors during the recession, and they have grown little or none at all since February 2010. The recovery in most service sectors has been more substantial, and employment in educational and health services kept growing during the recession.
- The number of workers seeking jobs who have been unemployed for more than six months has risen steadily over the last five years. These unemployed workers made up about one-half of the unemployed in 2012, compared with only about one-sixth five years ago.
- The unemployment rate in inland counties as of October 2012 was 12.2 percent, whereas unemployment in coastal counties (including the Bay Area counties) was 8.8 percent. Since the recession began, California’s unemployment rate has been between 2 and 3 percentage points higher than the U.S. unemployment rate. Only eight counties had unemployment rates below the national average: Marin, San Mateo, San Francisco, Napa, Orange, Santa Barbara, San Luis Obispo, and Sonoma.
- In FFY 2009-10, federal spending in California was roughly three times the amount of state spending (General Fund and special funds). The federal government provides funding to individuals, state and local governments, nonprofits, and businesses in the form of payments (such as Social Security and Medicare), employee and retiree compensation, grants, and procurement (spending on goods and services). About one-quarter of these federal funds flowed through California's state budget.

- The median single-family home sales price in California declined by $250,000 when the housing bubble burst. Home prices have recently begun to climb again. Many homeowners remain underwater on their mortgages (when the mortgage amount outstanding is greater than the market value of the home) and thousands have gone through foreclosure. In 2011, there were 155,000 foreclosures in California, down from 238,000 in 2008. Though foreclosures have declined, more than 250,000 delinquency notices were issued in 2011.

- The first “baby boomers” turned 65 in 2011. The aging of this generation and continuing drops in death rates are projected to cause the share of California’s population age 65 and over to grow rapidly through 2020. As of 2010, the largest groups by age listed above were those ages 25 through 44 (10.5 million Californians) and 45 through 64 (9.3 million). The school and college-age groups are projected to be slightly smaller in 2020 due mainly to falling birth rates.

- Non-Hispanic whites made up 40 percent of California’s population in 2010, down from 67 percent in 1980. Between 1980 and 2010, the population of California’s Hispanic and Asian-American communities increased substantially. Hispanics, for example, made up 38 percent of the population in 2010, up from 19 percent in 1980. African-Americans made up 6 percent of the population in 2010, down from about 8 percent in 1980.

To obtain more information from the report, go to: http://lao.ca.gov/laoapp/PubDetails.aspx?id=2674