BUDGET/APPROPRIATIONS: FEDERAL SHUTDOWN ENDS; DEBT CEILING RAISED

Sixteen days into the shutdown of the federal government, and hours before the federal debt ceiling would have been reached, Congress agreed to a deal to end the shutdown and raise the ceiling, temporarily. The agreement, brokered by Senate Majority Leader Harry Reid (NV) and Minority Leader Mitch McConnell (KY), passed the Senate by a vote of 81-18 and the House by a vote of 285-144. The bill, H.R. 2775, was supported by all of the Democrats in the Senate and House, and by 27 Republicans in the Senate and 87 in the House.

The agreement funds the federal government through January 15, 2014 at the FY 2013 sequester level of $986 billion, and suspends the debt limit through February 7, 2014. The bill also requires that the House and Senate convene a conference on the FY2014 budget. Immediately after passing the legislation, the bodies named their conferees, and the Republican and Democratic leaders of the House and Senate Budget Committees met Thursday morning to lay the ground work for the conference. The conferees are required to issue a report on their negotiations by December 13th.

The bill also contains provisions reimbursing states that used their own money to fund any function normally paid for by the federal government, and authorizing the payment of back wages to federal employees. The only provision in the bill dealing with the Affordable Care Act requires the Health and Human Services Department to tighten up the regulations verifying the income of anyone applying for a federal subsidy to help pay for insurance under the Act.

H.R. 2775 also provides some additional funding to fight wildfires, if the current funding is inadequate, and increases emergency relief funding to states suffering a natural disaster.

For more information, go to:

RESOURCES: HOUSE WATER & POWER SUBCOMMITTEE REVIEWS DROUGHT RELIEF ACT

The House Natural Resources Subcommittee on Water and Power held a hearing on October 10, 2013 on H.R. 3176 to reauthorize the Reclamation States Emergency Drought Relief Act.
emergency drought relief program reauthorized in the bill helps expedite water transfers, move non-project water on federal facilities, and construct temporary structures and wells in communities plagued by extreme drought.

Witnesses at the hearing were: Tony Willardson, Executive Director, Western States Water Council; and Wayne Crews, Vice President, Competitive Enterprise Institute.

In his opening remarks, Subcommittee Chairman Tom McClintock (Thousand Oaks) noted that other federal programs, such as those for the construction of dams and aqueducts, use the “beneficiary pays” principle, under which the federal government provides upfront funding for the project that is then repaid by the beneficiaries of that project. He was interested in exploring why the beneficiary pay principle should not apply to drought relief as well.

Rep. Grace Napolitano (Norwalk), Ranking Member of the Subcommittee, voiced her support for H.R. 3176, and noted that “[n]ext year is expected to be a very dry water year in California, and this legislation will help our communities with their water challenges.”

Mr. Willardson detailed the effects of the recent drought and stated that “according to some estimates, drought costs the U.S. economy between $6 billion to $8 billion per year, with the cost of the 2012 drought possibly exceeding $35 billion.” Testifying in support of H.R. 3176, he stressed that “the exceptional drought conditions of 2012 and the ongoing drought that covers much of the West underscores the need to reauthorize the Act. Reauthorization will provide Reclamation with clearer direction and greater flexibility to continue delivering water and much needed financial and technical assistance to states, tribes and local communities suffering from record-breaking drought impacts. Reauthorization will also facilitate more effective state-based and other grassroots drought preparedness and mitigation efforts. Absent reauthorization, Reclamation will lack critical authority to provide emergency assistance.”

For further information, go to:

ECONOMY: SENATE SMALL BUSINESS COMMITTEE EXAMINES IMPACT OF SHUTDOWN

On day 15 of the government shutdown, the Senate Small Business Committee held a hearing entitled "Small Businesses Speak: Surviving the Government Shutdown?" to focus attention on how the closure of federal agencies has effected America's 27 million small businesses. Witnesses at the October 15, 2013 hearing represented a variety of industries, including tourism, IT, health care, manufacturing, and banking. Committee Chair Mary Landrieu (LA) pointed to the current non-operation of the federal Export-Import Bank as representing a loss of $16.7 million a day in transactions for small businesses across the nation, among other impacts faced by businesses in her state, especially in terms of the closure of the Small Business Administration (SBA).

Witnesses were: Ms. Sabrina B. Poole, President & CEO, SERDI, LLC; Ms. Lisa Firestone, President & CEO, Managed Care Advisors; Mr. Antwayne Ford, President & CEO, Enlightened, Inc.; Mr. Keith Griffall, CEO, Western Leisure, Inc.; Mr. Chris Leh, President, TL Technologies, Inc.; Mr.
Ronald D. Paul, Chairman, Eagle Bancorp, Inc.; Mr. Barun Singh, Founder & Chief Technology Officer, WegoWise, Inc.; Ms. Joaneane Smith, President & CEO, Global Commerce & Services, LLC; and Mr. Charles Withee, President, The Provident Bank.

Ms. Smith testified on behalf of her small business which services contracts with the USDA. She detailed the challenges of keeping her employees on payroll without the income from due invoices. While her company was able to use reserves to sustain her employees, others were not as fortunate. Ms. Poole testified to her company's need to lay off employees almost immediately and predicts that as the government invoice cycle continues to progress, it will take about one year to recuperate the losses to her company. These concerns were reiterated by Mr. Singh, who highlighted the fact that small businesses are more "sensitive to unexpected interruptions in cash flow" than more deep pocketed companies, and that even short term interruptions will be difficult to recover from for small businesses and individual employees.

Another small business owner, Mr. Leh, detailed his company's endeavor to nearly double in size – they were four weeks into the process of securing an SBA-backed loan to achieve this goal, but then missed the window of opportunity because of the government shutdown. Subsequently, he could not proceed with crucial equipment purchasing and had to rescind offers of employment, stating the company is in a "stall mode."

"It would be pretty hard to overstate the adverse economic effects this shutdown of the government and the national parks has had on small businesses and entire communities of the Western United States," stated Mr. Griffall. "There are thousands of small businesses that are related to the tourism industry. It is an industry that is populated mostly by small and very small businesses…these businesses were immediately affected by the shutdown and many of their workers won't get backpay."

For the full hearing, please visit http://www.sbc.senate.gov/public/index.cfm?p=Hearings&ContentRecord_id=12ad9c4d-d494-4713-9cc2-49d90e1ea1a6

REPORT: BIPARTISAN POLICY CENTER ANALYZES SEQUESTRATION IMPACT ON DEFENSE

On October 11, 2013, the Bipartisan Policy Center released a report on the current and projected effects of sequestration on the defense industry and national security, as well as the cascading effects on the economy as a whole. Former Senators Pete Domenici and Charles Robb co-chaired the report along with Mort Zuckerman, and the project directors were Maj. Gen. Arnold Punaro (USMC), Steve Bell and Blaise Misztal. The report argues that despite the fact that the sequester cuts have not been as immediate and severe to the defense industrial base as initially projected, which has led some to believe that the sequester has been a harmless and effective deficit reduction tool, there has already been real and significant harm inflicted on the defense industry to the detriment of military readiness. Furthermore, the report argues, the worst effects are yet to come: the impact of the defense sequester on spending, and the subsequent economic impact, will double in Fiscal Year 2014 and triple in FY15 compared to FY13.

The authors urge policymakers to replace the sequester with a more strategic long term debt solution. They outline how the arbitrary nature of the cuts only exacerbates inherent budgetary structural problems and does little to actually reduce the deficit in the long run. Rather than focusing on the actual size of the federal and defense budget, they argue that the budget crisis is primarily an issue of how the budget is allocated. Over the past decade, entitlement spending has been growing while investment is declining; a trend, authors say, is only accelerated by sequestration. These cuts
disproportionately affect the areas in defense spending that are important for maintaining combat ready troops, modernized equipment, and effective decision making processes for long term planning, while ignoring structural problems in the defense budget that are leading to increased personnel costs, massive overhead, and inefficient acquisition. If sequestration is not replaced with a solution that effectively addresses these already existing structural issues in the budget, the report claims that fighting forces will be reduced by at least 50% by 2021.

The report also cites the broader impact on the economy of the defense sequester. Reduced spending results in lower GDP growth, lower employment, and erosion of the industrial base. Supply companies, especially smaller contractors in the private sector, will be especially adversely affected. California is home to 29 federal military installations and the Department of Defense directly employs more than 236,000 people in the state. The military infrastructure in California is vitally important to national security, as it is to the health of the state's economy.


**REPORT: CA DEPARTMENT OF FINANCE RELEASES OCTOBER ECONOMIC UPDATE**

The California Department of Finance has released its October 2013 economic update, in which it reports that the state continued to see strong job growth in August, though the unemployment rate rose for the second straight month. Permits and sales for multi-family units continued to support recovery in the real estate market. While sales of existing single-family homes in August decreased 1.9 percent compared to the prior month, sales of multi-family units continued to increase as rising single-family home prices drove buyers to look for a more affordable alternative. Sales of condominiums and townhomes increased almost 8 percent from last August and are up nearly 5 percent year-to-date compared to last year.

In the labor market, California's unemployment rate rose again to 8.9 percent in August, up 0.2 percentage point from July. The year-over-year drop was 1.5 percent. The rise in the unemployment rate widened the gap with the US unemployment rate of 7.3 percent in August. The labor force participation rate dropped to 62.5 percent after holding steady at around 62.9 percent before starting to decline in July.

The number of nonfarm payroll jobs increased by 29,100 in August—the highest pace of the year. The year-over-year growth was 223,900 jobs, and August was the 26th consecutive month of adding jobs. The number of jobs added in July was revised down to 27,800, which is still the second-highest number added in a month in 2013, the update found. The robust growth contrasts with the rise in the unemployment rate.

Most sectors continued to add jobs in August. Only trade, transportation, and utilities (down 1,600) and information (down 3,400) lost jobs. The government sector added 1,100 jobs in August, with the federal government adding 600 and the state government adding 500. This follows a 7,900 drop in the sector in July. Construction added the most jobs in August, at 7,700, following a revised July drop of 3,600. With the exception of mining and logging, all the other sectors added more than 3,000 in August, indicating a broad-based employment recovery.

In the housing market, housing prices are at the highest level in more than five years: the median price of existing, single-family homes sold in August was $441,330, an increase of $104,270 from January 2013, and almost 30 percent higher than August 2012. However, this remains 24 percent below the pre-recession peak.

Housing inventory levels in August were improving, according to the update, especially in homes priced below $750,000. The unsold inventory index of existing homes, which tracks the expected amount of time a home will be on the market before a sale, inched up to 3.1 months. Since last year, the median number of days needed to sell a home decreased from 41.1 to 28.8 days.
Home building is improving, with multi-family permits leading the way. Total residential permits were issued at a seasonally adjusted annual rate of 81,452 units in August, 46.6 percent higher from a year earlier. On a year-over-year basis, single-family permits were up 30.4 percent, while multi-family permits were up 65.6 percent.

The value of nonresidential construction permits issued rose sharply in August compared to a year ago. Nonresidential construction permitting grew 125.3 percent from August 2012. The gains were spread across most commercial and industrial building categories.

To obtain the update, go to: http://www.dof.ca.gov/finance_bulletins/2013/october/