

THE
NEW ENGLAND
COUNCIL

Weekly Washington Report
Friday, February 29, 2008

Next Week in Congress

Next week the House will likely address the Foreign Intelligence Surveillance Act, a bill to expand mental health insurance coverage, and the creation of a House ethics board. The Senate will address reforms to the Consumer Products Safety Commission and possibly revisit a mortgage relief bill that would allow bankruptcy judges to modify the terms of certain loans.

Financial Services

Senate plans to debate a bill designed to alleviate the downturn in the mortgage market were sidetracked this week by a prolonged debate on the Iraq war. Senators had planned on using a procedural maneuver to bring up the substance of S. 2636, the Foreclosure Prevention Act of the 2008. The package includes several mortgage-related provisions, including allowing bankruptcy judges to modify the terms of an existing sub-prime or non-traditional mortgage (on a primary residence) for a homeowner in bankruptcy. Supporters argue it could help prevent up to 600,000 foreclosures, while opponents, including the many in the mortgage industry, argue it will lead to higher interest rates for everyone else. On Tuesday, the Administration lodged a veto threat against the bill, stating that, "Amending the bankruptcy code in this manner would undermine existing contracts, leading to contraction in mortgage credit availability and affordability." The bill also includes a \$4 billion payment to the Department of Housing and Urban Development to develop an assistance program to redevelop abandoned or foreclosed homes.

In its annual report released on Wednesday, Government Sponsored Enterprise Fannie Mae reported a net loss of \$3.6 billion in the fourth quarter of 2007, and an overall net loss of \$2.1 billion in 2007 compared to a 2006 net income of \$4.1 billion. Fannie's President and CEO Daniel Mudd called the current environment, "The toughest housing and mortgage markets in a generation," and continued that, "While we are pleased that demand for our mortgage guaranty business has surged...this positive trend has been far outweighed by the negative financial impacts of rising mortgage defaults, falling home prices, and extraordinary disruptions in the credit markets." On Thursday, Freddie Mac

released its annual report, showing a \$3.1 billion net loss in 2007 (compared to \$2.3 billion in net income in 2006) and a net loss of \$2.5 billion in the 4th quarter of 2007.

On Wednesday, Federal Reserve Chairman Ben Bernanke continued the gloomy news while testifying before the House Financial Services Committee, testifying that, “The economic situation has become distinctly less favorable since the time of our July report,” and while referring to the January 2008 meeting of the Federal Open Market Committee (FOMC) stated, “The incoming information since our January meeting continues to suggest sluggish economic activity in the near term.” However, the Chairman did note that the FOMC is prepared if economic news indicates action is needed, noting that it, “will be carefully evaluating incoming information bearing on the economic outlook and will act in a timely manner as needed.”

Energy & Environment

On Wednesday, the House passed a renewable energy tax package (H.R. 5351, 236-182) that extends current energy production and energy conservation provisions to encourage the development of solar, wind, biomass, geothermal, hybrid and alternative fuel vehicles, and energy efficiency techniques.

In order to offset the cost of the production and conservation incentives (estimated at \$8.4 billion and \$9 billion in lost revenue respectively by the Joint Committee on Taxation) to comply with budget rules, the bill seeks to roll back around \$18 billion in tax benefits to oil and gas companies, a provision that has drawn considerable opposition in the past. The bill is written to preclude Chevron, BP, ExxonMobil, Shell, and ConocoPhillips from the tax benefits, (estimated at \$13.6 billion over the next 10 years), but allows CITGO to continue to receive them. Supporters argue rolling back the tax incentives will barely make a dent (or none at all) in the profit margin of large energy companies while opponents believe energy companies will pass the cost on to consumers through higher energy and gas prices, a burden many Americans are already feeling with crude oil finishing over \$100 a barrel this week and gas prices soaring. On Tuesday, the Administration released a veto threat against the bill in part, “because the bill would use the tax code to target tax increases on a specific industry in a way that will lead to higher energy costs to U.S. consumers and businesses.”

The Senate has on several occasions (most recently Dec. 2007) failed to pass similar provisions. However, Senate leaders may include these provisions in a filibuster-proof reconciliation measure that is expected to be included in budget proposals introduced in the House and Senate next week.

The House Energy and Commerce Committee continued its deliberate approach to writing and introducing a comprehensive climate change bill by releasing another white paper to members of the Committee and asking for their suggestions. The paper (“Appropriate Roles for Different Levels of Government”) attempts to flush out how programs and participation designed by all levels of government should be treated under a mandatory climate change plan, noting that, “Sorting out appropriate roles of each level

of government in addressing climate change is far more complicated than the specific question of whether State climate change programs should be preempted.” The Senate Environment and Public Works Committee approved a cap-and-trade climate change measure in Dec. 2007.

Last Friday the U.S. Department of Health and Human Services released \$40 million in Low Income Home Energy Assistance Program emergency funding, with nearly 40% of the assistance going to New England. State-by-state awards include: CT -- \$3.03 million; ME -- \$3.84 million; MA -- \$4.99 million; NH -- \$1.62 million; RI -- \$843,000; VT -- \$1.28 million. In January the Administration released an initial \$450 million in emergency funding. According to HHS it retains \$121 million in LIHEAP contingency funds at its disposal for the rest of the 2008 fiscal year.

Health

On Tuesday, the Senate passed the Indian Health Care Improvement Act Amendments of 2007 (S. 1200) by a vote of 83-10. The bill contains an amendment that blocks regulations from the Centers of Medicare and Medicaid Services from taking effect on March 3rd that would prevent federal reimbursement for the ancillary services states provide to Medicaid beneficiaries under case-management plans. S. 1200 authorizes \$35 billion over 10 years for the Indian Health Service.

Medicare legislation was introduced this week in response to a 2003 law that requires the government to cut Medicare spending growth and to address the financial stability of the program by 2008. The bill was drafted by the Administration and introduced in the House by Majority Leader Steny H. Hoyer (D-MD) and Minority Leader John A. Boehner (R-OH) and in the Senate by Senators Max Baucus (D-MT) and Judd Gregg (R-NH), the chair and ranking member respectively of the Senate Finance Committee. The legislation has been sent to the House Ways & Means Committee and the Senate Finance Committee for consideration where the bills are likely to be heavily amended.

The Senate Health, Education, Labor, and Pensions Committee approved two bills by voice vote on Thursday. S. 579, the Breast Cancer and Environmental Research Act, would authorize \$40 million each year through FY 2012 to study the environmental causes of cancer. The Prenatally and Postnatally Diagnosed Conditions Awareness Act (S. 1810) would establish support services for parents of children diagnosed with Down Syndrome.

The House Ways & Means Committee held a hearing on Thursday regarding the structure, cost, and oversight of the Medicare Advantage program, at which the Government Accountability Office released its new report on cost-sharing changes under the Medicare Advantage plans. James C. Cosgrove, Acting Director, Health Care Issues, U.S. Government Accountability Office shared the conclusions of the report with Congress, stating, “Medicare spends more per beneficiary in Medicare Advantage than it does for beneficiaries in the original Medicare fee-for-service program, at an estimated additional cost to Medicare of \$54 billion from 2009 through 2012.” The report urges

Congress to balance the needs of all Medicare beneficiaries and the program's long-term financial health.

Technology

The Federal Communications Commission (FCC) held a hearing on Monday to discuss the possibility of new regulations to manage heavy Internet traffic. FCC chairman Kevin J. Martin indicated that the hearings regarding network neutrality and network management are intended to be open and transparent, allowing commissioners to define reasonable network management and unreasonable discrimination of bandwidth intensive activities.

The House Appropriations Subcommittee on Labor & Health and Human Services held a hearing on Wednesday regarding the National Science Foundation and the National Science Board. Dr. Arden L. Bement, Jr., Director of the National Science Foundation testified. Both the NSF and the NSB received increased funding requests in the President's budget, an important step in implementing many STEM education priorities set out in the America COMPETES Act, as well as supporting critical research ongoing throughout New England at its research universities.

Education

The New England Council continues to monitor Higher Education Act reauthorization legislation that is currently moving through Congress. Conferees have not yet been named to negotiate the differences between the Senate and House bills, including the use of endowments to defray tuition costs, watch lists, federal government penalties, and increases to the maximum Pell Grant.

Transportation

Amtrak President Alexander Kummant testified before the House Appropriations Transportation Subcommittee, chaired by Rep. John Olver (D-MA), on Wednesday, calling on Congress to dramatically increase Amtrak's budget to \$1.67 billion for the upcoming fiscal year (\$506 million in operating costs; \$804.1 million in capital projects; \$19 million for the Inspector General; and \$345 million for debt service). After calling Fiscal Year 2007 a, "strong year" for Amtrak (achieving record ridership numbers) and predicting a, "bright future" for Amtrak, Kummant said significantly more funding is needed to make to payments Amtrak will be responsible for due to a recent labor settlement, to combat the rising cost of fuel and health care, and to keep its equipment well maintained.

President Bush has proposed \$800 million for Amtrak (\$275 million for operations and \$525 for capital improvements) for FY2009, far below last year's appropriated level (\$1.325 billion). Last year the Senate was successful in passing a multi-year extension for Amtrak, however, the House has yet to introduce a companion measure.

Trade

Both the House and Senate approved a short-term extension (through the end of 2008) to the Andean Trade Preference Act, originally enacted in 1991, ensuring trade benefits to Bolivia, Colombia, Ecuador, and Peru are extended despite its potential expiration on Feb. 29. The Congressional Budget Office estimates the measure (H.R. 5264) will reduce revenues from customs duties by \$119 million in 2008 and 2009. Despite the numerous political and economic challenges to passing trade bills before the upcoming Presidential election, three trade agreements remain before Congress -- Colombia, Panama, and South Korea, and provisions under the Caribbean Basin Economic Recovery Act are set to expire on Sept. 30.

###