

THIS WEEK IN WASHINGTON

Week of March 7, 2017



Thanks for your continued interest in This Week in Washington.

Last week sent a record number of folks in Washington to their chiropractor with whiplash injuries and to their internist with stomach cramps. Each day was a spin cycle of highs, lows, noise, and news.

We focus on news – items that impact members of the Arizona Chamber. The news is that there really was news last week about progress in Washington, D.C. Our lead story this week is on immigration, written by Total Spectrum partner Andy Ehrlich. [John McKechnie](#), Total Spectrum’s Senior Partner, wrote an update on Dodd Frank and Financial Deregulation. Al Jackson, a strategic consultant to our firm, updates us on defense issues and the defense appropriations bill. Chairman Kevin Brady of the House Ways and Means Committee has a fascinating and excellent comment on trade negotiations in our NAFTA Box. Dana Marston updated her graphic on the President’s Cabinet, and has next week’s calendar.

“Heard on the Hill” returns with a summary of what we saw and heard last week – including a summary of the Obamacare repeal and replace language that was released Monday night. We greatly appreciate your interest, comments, feedback, and suggestions for future articles in This Week in Washington.

Heard on the Hill, Week of March 7

By [Steve Gordon](#), Managing Director, Total Spectrum

Administration

ICYMI: Arizona Issues in the News

[GOP's Health Plan Draws Skepticism on Capitol Hill](#)

[John McCain, Lindsey Graham: Deportation efforts should focus on serious criminals](#)

[Trade rep: NAFTA negotiation breakdown could be disastrous for Arizona](#)

[Texans, Mexicans Defend NAFTA](#)

Cabinet Update

Click the image below for a complete update on President Trump's cabinet nominees, including their confirmation status and hearing dates.



by the tenor and the tone – but many thought it lacked details and few in Congress know how to pay for the President’s agenda. Most Democrats admitted quietly that Donald Trump’s speech was indeed Presidential.

* *Cabinet.* Congressman Ryan Zinke from Montana was confirmed as Secretary of the Interior. Former Governor Rick Perry of Texas was confirmed as Secretary of Energy. Dr. Ben Carson was confirmed as Secretary of Housing and Urban Development. Wilbur Ross was confirmed as the next Secretary of Commerce. Remaining to be confirmed are: Alexander Acosta (Labor), Sonny Perdue (Agriculture), and Robert Lighthizer (U.S. Trade Representative). [Read more.](#)

NAFTA and TRADE

Note: The House Ways and Means Committee has jurisdiction over health care, economic and trade policy, and is the chief tax writing committee in the House of Representatives. The Chairman of Ways and Means is Congressman Kevin Brady from Houston, Texas. Last week Chairman Brady pushed back gently but firmly against some of candidate and President Trump’s statements on trade, saying:

“I appreciate President Trump’s strong support for trade agreements that grow our economy and create good jobs at home With 96% of the world’s consumers living outside of our country, we must continue to move forward with bold new trade agreements I strongly believe that our current trade agreements – including the World Trade Organization – have been successful for Americans because these agreements establish a firm rule of law to hold our competitors in check and open markets for us to sell our goods, services, and farm products.”

-- Congressman Kevin Brady
Chairman of the House Ways and Means Committee.

Dodd-Frank Reform Coming into Focus

By [John McKechnie](#), Sr. Partner, Total Spectrum

A senior Republican member of the House Financial Services Committee laid out a likely timetable for legislation that would roll back much of the controversial Dodd-Frank law.

In late February remarks to a D.C. financial institution conference, Rep. Blaine Luetkemeyer (R-MO) said that, although House Financial Services Committee Chairman Jeb Hensarling’s CHOICE Act will have to compete with the chamber’s top legislative priorities (such as Obamacare repeal and comprehensive tax reform), “the timeline on it is somewhere in the next two to three months to get it out of the House, hopefully get it to the Senate.” The yet-to-be introduced CHOICE Act would significantly pare back the enormous regulatory structure put in place by the Dodd-Frank law in 2010. [Read more.](#)

Immigration Enforcement, a Wall, and a Call for Reform

Monday

12 p.m.

[Heritage Foundation event on Judge Neil Gorsuch’s cases](#)

2 p.m.

Senate Convenes

Tuesday

10 a.m.

[Senate Judiciary Committee Hearing on Justice Department nominees](#)

2:15 p.m.

[Senate Appropriations Subcommittee Hearing on Russian Policies](#)

5 p.m.

[House Rules Committee on Defense Appropriations Act](#)

6:30 p.m.

House votes schedule

Wednesday

10 a.m.

[Senate Judiciary Committee Hearing on Investor Visas](#)

10 a.m.

[Senate Appropriations Subcommittee Hearing on Infrastructure](#)

Thursday

No events scheduled

Friday

No events scheduled

Immigration policy has been at the heart of the American public policy discourse for years. Last summer, Republican presidential candidates made it a central theme in their campaigns. President Donald Trump now has the power of the White House and the Department of Homeland Security to make changes, and Republicans in Congress will help him achieve some of them.

Whenever a President speaks to both a Joint Session of Congress and the American people, his words should be taken seriously. [Read more.](#)

President Trump's Address to Congress

By [Steve Gordon](#), [Jim Miller](#), and [Larry Smith](#)

The speech was billed as optimistic and forward looking by the President who wanted to reset his communications. It was – and it did. The speech was thin on details and instead restated his campaign promises – but in an upbeat and presidential style with equal flashes of empathy and theatre.

We've highlighted President Trump's remarks on key issues, using his own words. [Read the highlights here.](#)

Defense Agenda Update

By Al Jackson, The Jackson Group

As promised, President Trump called for a dramatic increase in defense spending during his speech to the joint session of Congress. The Trump Administration's plan is to add \$54 billion to the Pentagon's budget, which is designed to deal with the immediate readiness crisis. Currently, the Army is down to 470,000 soldiers, which is the smallest number the US has had since World War II. Only one-third of the Army's combat brigade teams are considered "ready," to deploy in 30 days. The Air Force faces a shortage of at least 700 fighter pilots and 4,000 maintainers, which is the product of a retention issue as the service cut back on flying hours and laid off personnel. President Trump indicated during his speech that he would also eliminate the budget sequestration of 2013, which led to an additional cut of \$37 billion. The cuts hit operations and maintenance particularly hard, with a 30% reduction in day-to-day operating funds. [Read more.](#)

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Dodd-Frank reform, continued.

Luetkemeyer also laid out plans on how Republicans plan to handle the Consumer Financial Protection Bureau, a key target of their Dodd-Frank overhaul efforts, following an appeals court decision last month to rehear a case that would allow the president to fire the CFPB director at will. Luetkemeyer said that the forthcoming CHOICE Act would codify the president’s authority to dismiss the head of CFPB, rather than restructure its leadership as a bipartisan commission. But he said that provision might not remain intact over in the Senate.

“When the bill goes to the Senate, I think what you’ll see is a compromise down to the Commission,” he said, adding that he expects “a lot of bipartisan support” for that measure. Democrats, he explained, would likely want some sway at the agency if a Republican-appointed director takes the helm.

Questions linger over how much Administration support may be given to Dodd-Frank reform. President Trump made no mention of the need to update the 2010 Dodd-Frank law and during his address to Congress.

A Call for Reform, continued.

President Trump repeated last week his campaign promise to build a wall on the U.S.-Mexico border. He said that his Administration would enforce the current laws by removing gang members, drug dealers, and criminals from our country.

The President also spoke to the nation about reforming our legal immigration laws. He surprised many by supporting a “merit-based” immigration system, like the programs established by Australia and Canada. He noted that higher skilled workers could support themselves and could reach the middle class faster. He then asked Republicans and Democrats to compromise so we could achieve real immigration reform.

Heard on the Hill, continued.

* *Trade.* The Office of the US Trade Representative said last week that the Trump Administration will fight the trade practices of other countries – and might not adhere to those World Trade Organization rulings that it thinks are unfair to the US.

* *Travel Ban.* The Administration released a new executive order on the travel ban on Monday. .

Congress

* *Healthcare.* Just as we were putting this week’s Heard on the Hill together, the outline of the Republican plan to replace Obamacare was released by the House Energy and Commerce Committee and the House Ways and Means Committee. Speaker Paul Ryan said the goal of the American Health Care Act is to “replace Obamacare with a program that drives down costs, encourages competition, and gives every American access to quality, affordable health insurance”. The key points:

Changes to Obamacare—

Subsidies are out. Tax Credits are in. People would get tax credits to buy insurance based on age. Younger people would receive less of a tax credit than older folks. Tax credits would be phased out for individuals who make \$75,000 and couples who make \$150,000.

Health Savings Accounts. The bill doubles the allowable contribution to a health savings account to more than \$6,000 per person and \$13,000 for a family.

Medicaid. Expansion would be frozen at 2020. Medicaid will change to per capita caps -- allowing states to implement eligibility based on population, effectively capping the number of people who would be eligible.

Additional points:

The plan encourages continuous coverage by including a 30% surcharge if individuals go weeks without insurance – so that people don’t drop coverage and pick it up again when they get sick.

There will be a special fund set up to help states set up ‘high risk’ pools, fix their insurance markets, or help low income patients.

Things that stay--

of Eight bill - by a wide margin. It is now the House's turn to consider and pass immigration reform. The Members of the U.S. House understand this, but serious activity is probably months down the road - or longer -- because the President can achieve large parts of his immigration enforcement goal without major legislation. Also, Congress has higher priorities right now, such as Obamacare repeal and replace, tax reform, and funding transportation infrastructure.

President Trump's first goal is enforcement. One of the first Executive Orders on immigration would have barred for at least 90 days almost all permanent immigration from seven Muslim countries. Challenged as an indefinite ban, this Executive Order was struck down by the federal courts. A new and revised Executive Order will probably be issued this week - one that is unlikely to ban immigration based on national origin.

The federal government has also adopted strict new rules intended to increase deportations of immigrants living illegally in the U.S. For three years, the Obama Administration prioritized illegal aliens who posed a threat to national security, border security, and public safety. The previous Administration also focused on those with misdemeanor convictions and recent border crossers. The Trump White House and the Department of Homeland Security's new policy continues the targeted deportation operations of criminals and national security threats. However, the new Trump policy subjects to deportation those that are charged with crimes or could be charged with crimes. This impacts a much broader pool of immigrants than was impacted by the Obama Administration.

The controversial Deferred Action for Childhood Arrivals (DACA) program remains intact. The 750,000 so-called Dreamers, who arrived as children to the U.S., are not touched, remain protected, and are able to live and work in our country.

It is absolutely important to note that President Trump, White House Press Secretary Sean Spicer, and Homeland Security Secretary John Kelly have all said publicly that there will not be mass deportations from our country.

The President can propose, but the Republican Congress has the power of the purse. President Trump will formally seek funding to build a southern wall and to hire an additional 10,000 agents and officers for the U.S. Immigration and Customs Enforcement (ICE) which enforces the laws at the borders.

People under the age of 26 can stay on their parent's insurance

Things that are out--

Obamacare taxes and subsidies - including its premium tax credit
Employer mandates
The so-called Cadillac Tax - until 2025
Provisions for selling insurance over state lines and medical malpractice reform were not included because they cannot be included in a bill that will be considered under 'reconciliation' - which is a provision that considers items that have an impact on the budget.

What's next. The Energy and Commerce Committee and the Ways and Means Committee both have jurisdiction over health-related issues. Both committees will begin this week to review ("mark up") legislation, and then the bill must go to the Budget Committee and then the Rules Committee - before being considered by the full House, which Republicans will happen before Easter.

Four Senators - Cory Gardner (CO), Rob Portman (OH), Shelley Moore Capito (WVA), and Lisa Murkowski (Alaska) wrote a letter on Monday to Majority Leader McConnell raising concerns about the House Republican Plan to repeal Obamacare. "While we support efforts to repeal and replace the Affordable Care Act and make structural reforms to the Medicaid program, we are concerned that the February 10th draft proposal from the House of Representatives does not provide stability and certainty for individuals and families in the Medicaid expansion program or the necessary flexibility for states." Senator Gardner said that this is the start of conversations, and "we want to make sure we're part of the conversation going forward".

We'll watch the hearings and provide additional information next week.

* *Tax Reform.* Republicans have long believed that corporate rates AND rates for partnerships, limited liability companies (LLC's), and other pass must be reduced at the same time, but there is not yet agreement on how to handle pass through entities. Rules for handling income generated by pass through entities affect millions of business owners.

* *Appropriations.* The votes from members of the Republican Freedom Caucus in the House will determine how important Democrat votes will be on appropriations bills. Members of the conservative Freedom Caucus often voted against appropriations bills during the Obama years, and Democrats had to help the Republican leadership pass the legislation. If members of the Freedom Caucus vote for

Trade: “Our trade deficit in goods with the world last year was nearly \$800 billion. Currently, when we ship products out of America, many other countries make us pay very high tariffs and taxes – but when foreign companies ship their products to America we charge them nothing. I believe strongly in fair trade, but it also has to be FAIR TRADE”.

Tax Reform: “American companies are taxed at one of the highest rates anywhere in the world. My economic team is developing historic tax reform that will reduce the tax rate on our companies so that they can compete and thrive anywhere and with anyone. At the same time, we will provide massive tax relief for the middle class. We must create a level playing field for American companies and workers”.

Infrastructure: “Another Republican President, Dwight D. Eisenhower, initiated the last great national infrastructure program – the building of the interstate highway system. The time has come for a new program of national rebuilding. To launch our national rebuilding, I will be asking Congress to approve legislation that produces a \$1 trillion investment in United States infrastructure – financed through both public and private capital – creating millions of jobs”.

Obamacare: “Tonight I am calling on Congress to repeal and replace Obamacare with reforms that expand choice, increase access, lower costs, and at the same time provide better healthcare. Mandating every American to buy government approved health care was never the right solution for America. The way to make health insurance available to everyone is to lower the cost of health insurance, and that is what we will do. Obamacare premiums nationwide have increased by double and triple digits. As an example, Arizona went up 116% last year alone. Governor Matt Bevin of Kentucky just said that Obamacare is failing in his state and is not sustainable. One third of counties have only one insurer on the exchanges, leaving many Americans with no choice at all. So I am calling on all Democrats and Republicans in Congress to work with us to save Americans from the imploding Obamacare disaster.

Here are the principles that should guide Congress to work with us to save Americans from the imploding Obamacare disaster. First, we should ensure that Americans with pre-existing conditions have access to coverage, and that we have a stable transition for Americans currently enrolled in the healthcare system. Second, we should help Americans purchase their own coverage through the use of tax credits and expanded health savings accounts, but it must be the plan they want not the plan forced on them by

House.

* *Debt limit.* Technically March 15th is the deadline to raise the debt limit, but not much will happen until the fall – because the Administration can shift dollars around until then.

* *Dates to watch.*
March 16th: Tentative date for the President to unveil his budget
April 28th. The continuing resolution that was passed last year that continued government funding at the rate specified runs out on this date.

* *The Wall.* Watch for Senate Democrats to use the filibuster threat to prevent passing this funding request. Republicans will attach it to a must-pass bill.

Sign of the Times

* Two Michigan Senators and two Michigan Congressmen sent a bipartisan letter requesting \$200 million to be inserted in the Administration’s upcoming budget for the development of 10 testing sites designated in January by the Department of Transportation for autonomous and connected vehicles.

Defense Update, continued.

President Trump also hinted that the Fiscal-Year 2018 budget proposal will likely include a significant funding increase for combat readiness. The model is the two-conflict standard, and it indicates that the US military as it now exists is too small. The priority in the upcoming budget will be to ensure that the military has sufficient forces to fight one war while maintaining the ability to deter other adversaries from harming US interests elsewhere. Modernizing our military -- including our missile defense systems -- will be a focus in the 2018 Fiscal year budget.

The Fiscal-Year 2018 budget is expected to reach Capitol Hill in the May/June timeframe. This year’s Pentagon budget will likely be \$619 billion, of which \$68 billion is for “overseas contingencies” in Iraq and elsewhere. Defense spending will not skyrocket to the level congressional defense hawks and the industry would like because defense needs will have to compete with proposed tax cuts, healthcare reform, and border security.

The final version of the Fiscal-Year 2017 Defense spending bill was released. It includes a \$6.8 billion increase in procurement above the Obama administration’s budget request for more fighter jets, ships and helicopters. It provides \$583.7 billion in total defense

flexibility they need with Medicaid to make sure no one is left behind. Fourth, we should implement legal reforms that protect patients and doctors from unnecessary costs that drive up the price of insurance – and bring down the artificially high price of drugs and bring them down immediately. Finally, the time has come to give Americans the freedom to purchase health insurance across state lines, creating a truly competitive national marketplace that will bring down costs and provide far better care”.

this week, which will fund the government through the end of this Fiscal-Year on Sept. 30, 2017. The current continuing spending resolution that funds the government expires on April 28.

Appropriators in the supplemental appropriation pushed for more funds in procurement accounts, spending \$117.8 billion. Operations and maintenance funding, meanwhile, was \$400 million lower than the Obama budget request at \$215.3 billion. The Navy was the biggest beneficiary of the procurement boost, with appropriators allocating \$4.8 billion above the Obama administration's \$44 billion request – with the funds to be used to purchase both aircraft and ships.

Army helicopters were also a winner, as was the Air Force. The war budget, known as Overseas Contingency Operations account, includes a \$750 million boost for National Guard equipment.

Lawmakers offset some of the procurement increases with commonplace savings, including cutting \$1.1 billion in fuel costs and rescinding \$4.7 billion in unused prior-year funds. Appropriators also appear to have found some savings from President Trump's government-wide civilian hiring freeze implemented in January, though some positions have been exempted from the freeze. For instance, appropriators, didn't specifically fund a higher 2.1 percent civilian pay raise, but said "sufficient funding is available within the appropriations accounts" for the pay increase due to the hiring freeze and the extended length of a continuing spending resolution.

In addition to the appropriations bill, the Trump administration is preparing a separate \$30 billion supplemental spending request for fiscal 2017 that is expected to boost readiness funding. The funding request may also include money for Homeland Security. It's not yet clear how the Trump administration will seek to pass the supplemental as a standalone or if they will combine it with defense spending legislation.