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## FEBRUARY 14-18: THIS WEEK

The White House unveiled President Obama's fiscal 2012 budget request, which would extend a freeze in non-security discretionary spending to five years, up from the three years outlined in this fiscal year's funding request. Several Cabinet officials are scheduled to testify about the new request at congressional hearings.

House Republicans, meanwhile, began debate on a bill to provide billions of dollars less in fiscal 2011 spending than GOP leaders initially

envisioned. During debate, Republicans intend to introduce an amendment to prevent the funding of abortions with federal tax money.

The Senate resumed consideration of a bill to reauthorize the Federal Aviation Administration, and speeches about Obama's fiscal 2012 budget blueprint also are expected.

## Defense

The White House unveiled a \$670.6 billion fiscal 2012 defense budget request, which is \$4.6 billion more than current spending levels and begins to make good on promises to reduce planned spending over five years by \$78 billion. The request includes \$118 billion for spending related to military operations in Iraq and Afghanistan, a significant reduction over the current spending level of roughly \$156.6 billion. The base budget request

begins the process of reallocating about \$100 billion over five years for higher priority programs, such as the development or purchase of unmanned intelligence, surveillance and reconnaissance assets; more ships; a new ground combat vehicle; the Advanced Extremely High Frequency satellite; and the stealthy F-35 Joint Strike Fighter.

## Energy/Environment/Climate Change

The Obama administration's proposed budget for fiscal 2012 would raise funding for the **Energy Department** by 11.8 percent from fiscal 2010, with more than half of the increase going to the department's nuclear weapons and weapon site cleanup programs, according to data released by the **Senate Energy and Natural Resources Committee**. Additional funding is also provided for the department's basic science initiatives, energy efficiency programs, and Advanced Research Projects Agency-Energy, a program aimed at boosting cutting-edge technologies.

The **Environmental Protection Agency (EPA)** would bear the brunt of \$4.5 billion in proposed spending reductions targeting federal environmental and energy regulators and controversial greenhouse gas regulations would be blocked, under a House Republican funding measure unveiled late on Friday, February 11. The embattled agency would absorb 69 percent of the proposed cuts for programs under the jurisdiction of the Interior and **Environment Appropriations Subcommittee**, according to its chairman, **Rep. Mike Simpson (R-Idaho)**.

## Health Care

House Republicans revealed their proposal on Friday, February 11, to starve the Democrats' signature health care overhaul law and to slash funding for a broad range of domestic health programs, from cancer research to family planning services, in their seven-month spending proposal. The GOP proposal cuts discretionary spending for programs that were authorized to receive additional funding in the overhaul law, including community health centers, the **National Health Service Corps** and the **Maternal and Child Health Block Grant program**. Community health centers would receive \$1.29 billion less than President Obama's fiscal 2011 request, the corps \$173.6 million less than requested, and the block grant program \$61.1 million less than requested, Republican appropriators said. The proposal (HR 1) would cover the period from March 4, when the current stop-gap spending measure expires, to September 30, the end of the budget year. The House intends to begin debating.

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## Insurance

On Tuesday, February 8, the **Federal Reserve Board** requested comment on a proposed rule that implements two provisions of the **Dodd-Frank Wall Street Reform and Consumer Protection Act** related to the designation by the **Financial Stability Oversight Council (FSOC)** of systemically important nonbank financial companies for consolidated supervision by the Board. First, the proposed rule establishes the requirements for determining if a company is "predominantly engaged in financial activities." Under the Dodd-Frank Act, a company generally can be designated by the Council only if 85 percent or more of the company's revenues or assets are related to activities that have been determined to be financial in nature under the Bank Holding Company Act.

Second, the proposed rule defines the terms "significant nonbank financial company" and "significant bank holding company." Among the factors the Council must consider in determining whether to designate a nonbank financial company for supervision by the Board is the extent and nature of the company's transactions and relationships with other "significant" nonbank financial companies and "significant" bank holding companies. Under the proposal, a firm would be considered "significant" if it has \$50 billion or more in total consolidated assets or had been designated by the Council as systemically important. Comments on the proposal must be submitted by March 30, 2011.

In a Wednesday, February 9 joint letter to **U.S. Treasury Secretary Timothy Geithner**, the **American Council of Life Insurers**, **American Insurance Association** and the **Reinsurance Association of America** pleaded that FSOC hold off on the insurance portion of its work to designate nonbank financial firms at least until President Obama makes two insurance-related appointments to the council, as called for under Dodd-Frank: one independent member having insurance expertise, as well as the as-yet-unnamed director of the new Federal Insurance Office. The insurance trade groups also requested the FSOC work to formulate "qualitative and quantitative standards that it may use to assess insurers," and to make those subject to public comment, before

## Tax

The President's Fiscal 2011 budget proposal revives the debate over the 2001 and 2003 tax cuts that the last Congress extended through 2012 during its lame-duck session. Democrats have battled for nearly a decade to reverse those tax cuts for the wealthy, and Obama seeks to do so on family incomes over \$250,000. He also seeks to reinstate the estate tax rules that were in force in 2009, which were less generous than those enacted at the end of last year. But the new proposal goes further. For example, it would tie a measure to shield the middle class from the alternative minimum tax to limits on the deductions claimed by high-wage earners. Obama said he would push for a 30 percent reduction in itemized deductions for high-income Americans to pay for a three-year middle class exemption from the alternative minimum tax.

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## Insurance (cont'd.)

moving forward to designate any insurers as systemically significant.

On Thursday, February 10, **Reps. Spencer Bachus (R-Ala.), Barney Frank (D-Mass.), Judy Biggert (R-Ill.)** and **Luis Gutierrez (D-Ill.)** sent a letter to Secretary Geithner to express concern that the FSOC is proceeding with discussions on major issues affecting the insurance sector without the benefit of a full complement of insurance expertise, which is contrary to the provisions of Dodd-Frank. Rep. Bachus is Chairman and Rep. Frank is the ranking Democratic member of the **House Financial Services Committee**. Rep. Biggert is chair and Rep. Gutierrez is the ranking member of the **House Insurance, Housing and Community Opportunity Subcommittee**.

On Tuesday, January 25, **Rep. Candace Miller (R-Mich.)** introduced **HR 435, the National Flood**

**Insurance Program Termination Act** to terminate the National Flood Insurance Program and related mandatory purchases and compliance requirements. The bill was referred to the Financial Services Committee.

The **Senate Banking Committee** has scheduled a hearing for Thursday, February 17, to hear from the heads of the **Federal Reserve, FDIC, SEC, Commodity Futures Trading Commission** and the **Comptroller of the Currency** regarding the implementation of the Dodd-Frank financial reform law six months after it was enacted.

It has been reported that the **Financial Accounting Standards Board** recently voted to pursue convergence with the **International Accounting Standards Board** on a new set of standards for insurance contracts that would be adopted as part of both the U.S. GAAP and IFRS accounting systems.

## Trade

Senate Democrats were unable to move an extension of benefits for workers displaced by international trade, just days after a similar measure was pulled from the House schedule. Senate Democrats tried to extend **Trade Adjustment Assistance (TAA)** benefits — the program provides aid and training to workers who lose their jobs or have their wages or hours cut due to international trade — along with trade preferences for Andean countries. **Sens. Bob Casey (D-Pa.)** and **Sherrod Brown (D-Ohio)** offered both an 18-month and a four-and-a-half month extension of the programs as substitute

amendments to an unrelated House bill. **Sen. John Barrasso (R-Wyo.)**, objected to those requests.

**U.S. Trade Representative Ron Kirk** told **House Ways and Means committee** on Wednesday, February 9, that he hopes for congressional approval of the South Korea trade deal this spring and will work to resolve concerns about the Colombia and Panama trade deals this year. Kirk said the administration would send Congress the Korea deal in the next few weeks.

## Transportation and Infrastructure

As promised, high-speed rail would get an \$8 billion boost under President Obama's fiscal 2012 budget for the **Transportation Department**, which for the first time would fund rail programs from the transportation trust fund. The budget proposes merging rail spending with the **Highway Trust Fund**, which currently funds most highway and transit spending, into a new account to be called

the **Transportation Trust Fund**. The administration also reprises its recommendation to create a **National Infrastructure Bank**, which would be funded through the newly reconfigured trust fund. The budget requests \$30 billion over six years for providing grants and loans to infrastructure projects designed to boost economic competitiveness.