



Distributed on:
DEC 21 2012
City Manager's Office

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Betsy Shotwell

SUBJECT: SEE BELOW

DATE: December 21, 2012

Approved

Date

12/21/12

SUBJECT: PATTON BOGGS UPDATE ON U.S. FISCAL CLIFF CRISIS

INFORMATION

Attached is a special update from the City's Federal lobbyist firm of Patton Boggs on the fiscal cliff negotiations. Patton Boggs financial services and tax policy team is providing these updates on the negotiations for their clients.

BETSY SHOTWELL
Director, Intergovernmental Relations

Attachment: Patton Boggs LLP: Fixing the Debt: Update on U.S. Fiscal Cliff Crisis 12/21/12

FIXING THE DEBT: UPDATE ON U.S. FISCAL CLIFF CRISIS

December 20, 2012

WHAT HAPPENED

- Speaker Boehner pulled the House's "Plan B" tax bill from the floor Thursday evening due to lack of support among Republicans, many of whom will not vote for any tax increases, at least absent inclusion of spending cuts of equal magnitude. House Majority Leader Cantor has notified Members that the House will recess until after the Christmas holiday, and convene after that, whenever necessary, to continue legislative business.
- Speaker Boehner's statement calls on the President to work with Senate Majority Leader Reid to produce a plan to avert the fiscal cliff that can pass the Senate.
- Leader Reid has said several times over the past few days that the Senate will not consider further fiscal cliff legislation until the House allows a vote on legislation passed by the Senate in July that extends the Bush tax cuts through 2013 for income below \$200,000/\$250,000 and includes an AMT patch for 2012. Expect that message to continue in the coming days with greater volume given the lack of House action on "Plan B" tonight. There will be increasing pressure for Congressional Republicans to bring up the Senate-passed tax bill (or some variant thereof) and avert the fiscal cliff by agreeing to the President's proposed tax increases, while punting other issues into next year.
- Earlier in the evening, the House passed separate legislation, H.R. 6684, the Spending Reduction Act, which is similar to legislation passed earlier this year by the House that would delay the spending sequester for one year. H.R. 6684 passed on a party line vote of 215-209 and is not expected to gain traction in the Senate as it reduces spending in a variety of areas strongly opposed by the President and Congressional Democrats.

SPENDING REDUCTION ACT

- The legislation that narrowly passed tonight was H.R. 6684, the Spending Reduction Act, is similar to H.R. 5652, the Sequester Replacement Reconciliation Act of 2012.

H.R. 6684 would:

- Repeal automatic defense and non-defense discretionary cuts scheduled to take effect in 2013 under the sequestration provision of the Budget Control Act.
- Result in net deficit reduction of \$217.7 billion over the next 10 years. That figure reflects the gross budgetary savings of \$314.5 billion through 2022, offset by the \$96.8 billion cost through 2022 for the sequester replacement provisions.

- Major spending reductions in the legislation include a number of provisions opposed by the President and Congressional Democrats, including:
 - Specify a cap on total discretionary budget authority for 2013 that is \$19.1 billion lower than the total funding level of \$1.047 trillion that could be provided under current law.
- The legislation is subject to a veto threat and is not expected to pass the Senate.

AFTERMATH OF THE CANCELLED TAX VOTE

- Thursday night's action may turn cliff dynamics on its head, so there could be some unexpected twists and turns ahead. That said, since House Republicans have made clear they do not support the last White House offer made earlier this week, it is becoming more likely that, unless President Obama agrees to further compromise with Speaker Boehner, the House and Senate will pass a tax increase bill (perhaps limiting an extension of the Bush cuts to \$200,000/\$250,000, or perhaps at a higher income threshold, with an AMT patch) and punt all other issues to next year (debt ceiling, sequester, UI, extenders, doc fix, spending cuts etc.).
- Alternatively, Speaker Boehner and President Obama can continue to negotiate, though with President Obama's already strong hand now further strengthened though it seems unlikely Speaker Boehner will be able to negotiate a better deal than that which was on the table earlier this week (despite White House sources stating that Monday's offer was not yet its bottom line position). It is also worth noting that many House Republicans seem to prefer allowing a tax increase to occur (on the backs of mostly Democratic votes) as opposed to voting for a comprehensive package that they do not view as balanced, even if it includes a smaller up-front tax increase (as the Obama proposal from earlier this week would).
- To that end, if he so chooses Speaker Boehner can call up the House version of Majority Leader Reid's bill, H.R. 15, and allow a vote on it. This bill extends for one year, through 2013, the middle income (\$200,000/\$250,000) tax cuts, and patches the AMT for one year, through 2012. All other tax provisions would revert to pre-2001 levels. (Notably, this legislation does not include estate tax provisions, so if not added in the estate tax would revert to a \$1M exemption with a 55 percent top rate in 2013; nor does it include tax extenders, unemployment insurance, doc fix, etc.).
- At this point it is unclear if H.R. 15 could pass the House, as it would take at least 25 Republican votes to pass, assuming unanimous Democratic support. It is possible the legislation would have to be tweaked to pass, though it is unclear at this point what the magic formula might be to produce 218 votes. For example, would more Republicans vote for it if the income threshold is \$500,000? Would enough Democrats vote for it if so changed?

- Had the House sent “Plan B” over to the Senate tonight, a possible compromise may have been brokered. At this point, however, while the Senate could conceivably move some version of compromise legislation prior to House action, Leader Reid seems more likely to wait for House legislation.

As noted above, other possibilities could emerge in the coming days.

FOR MORE INFORMATION

For up to-the-minute fiscal cliff updates, please contact a member of the Patton Boggs Tax Policy team:

Rosemary Becchi

202-457-5255

rbecchi@pattonboggs.com

Micah Green

202-457-5258

msgreen@pattonboggs.com

Aubrey Rothrock

202-457-5620

arothrock@pattonboggs.com

Manny Rossman

202-457-5664

mrossman@pattonboggs.com

Daris Meeks

202-457-5205

dmeeks@pattonboggs.com

Erin McGrain

202-457-5344

emcgrain@pattonboggs.com

Joe Urso

202-457-5349

jurso@pattonboggs.com