

# Government Relations - State of Play

October 2017

Since returning from the August recess, Congress has hit the ground running. The White House and Congressional leaders have engaged in negotiations on a number of key fiscal policy priorities, including the debt limit, fiscal year (FY) 2018 federal spending, and comprehensive tax reform.

The debt limit and federal funding were the first priorities addressed. Congress will need to approve another spending package before December 8, 2017 to extend federal funding while Treasury can use internal measures to extend borrowing authority and delay further congressional action on the debt limit until early 2018.

## **Tax Reform**

On October 5, 2017, the House passed its budget resolution, which brought Congress one step closer to tax reform. On October 17, critical progress was made when the Republican Leadership in the Senate indicated that it has the votes to pass its FY18 budget this week. The House and Senate need to approve an identical FY18 budget resolution that includes reconciliation instructions for tax reform; this provides a procedural mechanism for approval of tax reform legislation through a simple majority in the Senate (which avoids the filibuster). We expect a conference budget resolution to pass both Chambers the week of October 23. This means that tax reform will proceed, giving a much needed victory to the White House.

On September 27, 2017, the “Big Six” tax reform negotiations - Majority Leader McConnell, Speaker Paul Ryan, Ways & Means Chair Kevin Brady, National Economic Council director Gary Cohn, and Treasury Secretary Steven Mnuchin - released an updated tax reform framework providing guideposts for House and Senate tax-writing committees. The framework outlines, among other proposals, new target tax rates, including a 20% corporate rate, a maximum 25% small business rate (including pass-through entities), and a 35% top individual rate.

The tax reform framework created the momentum necessary for the House to pass its FY18 Budget Resolution. However, we don't expect to see the full legislative text until the budget resolution is cleared by both Chambers. Chairman Brady doesn't want Members of Congress to take tough votes unless he is sure tax reform can pass. Therefore, we've yet to see the full political dynamics and push back against various provisions and trade-offs that could be outlined in the Big Six proposal or those developed and proposed by the committees.

Regarding timing, the House leadership remains hopeful that they can get tax reform legislation passed before Thanksgiving and the Senate can pass it and send to the President's desk before Christmas. However, many are acknowledging, privately and publicly, that if comprehensive tax reform gets done at all, it will probably be in the first quarter of 2018. There still will be a push to get this done before the end of the year, especially in the House, so voters can feel the benefit before heading to the polls in November for the mid-year elections.

## **Disaster Relief**

Earlier this month, during an interview with Fox News, the President threw the markets into a tailspin with his comments about Puerto Rico's debt. While speaking to Geraldo Rivera, President Trump said the Administration would help Puerto Rico wipe out the debt to help it recover from the extensive damage left by Hurricane Maria, but he did not offer specifics. This was interpreted by many that the President meant the federal government would work to help Puerto Rico have the debt forgiven, which could result in major losses for investors large and small.

Later, Office of Management and Budget (OMB) Director Mick Mulvaney tried to clarify the President's comments and said the President meant the Administration would work with them to rebuild the island and proceed through the debt restructuring process. We have not heard any more on that topic, but members of Congress do admit that the situation in Puerto Rico is dire and that the island will need more federal assistance.

Earlier this week, Senator Elizabeth Warren (D-MA) commented that she will call for the cancellation of Puerto Rico's debt due to the full-scale humanitarian crisis that the island is facing. She feels that every last dollar of aid must go to helping the hurricane victims.

On October 12, 2017, the House passed a \$36.5 billion hurricane and wildfire relief bill that would give Puerto Rico access to \$4.9 billion in low-interest Treasury loans and allow the troubled National Flood Insurance Program to keep paying claims. The 353-69 vote sends the measure to the Senate, which is expected to take it up after returning to Washington from a week-long recess.