



Washington in Review

Presentation to AHFA Manufacturing Summit

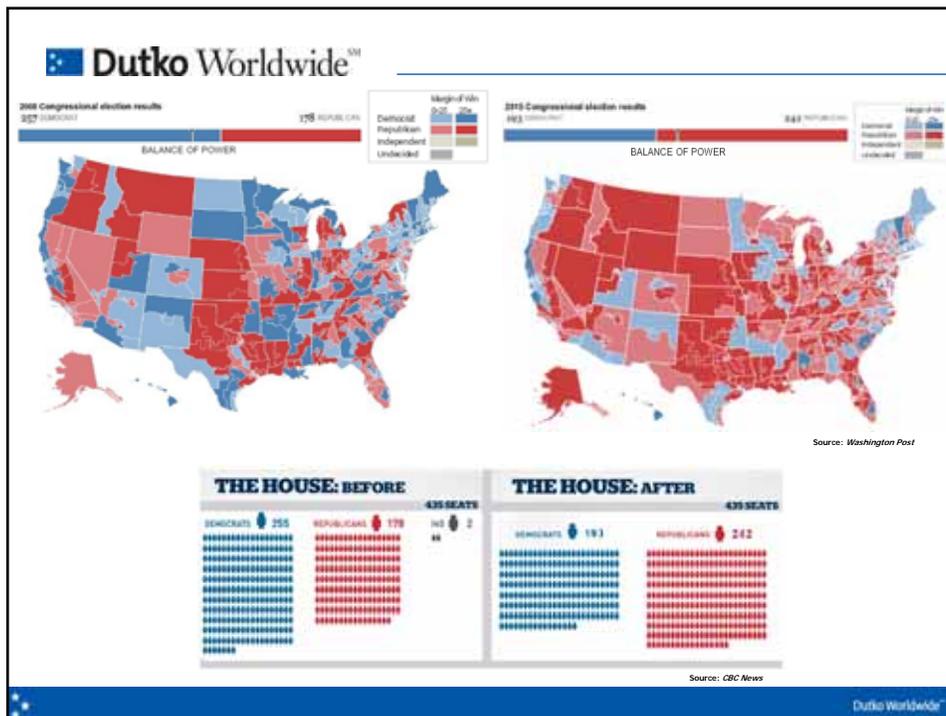
Wednesday March 9, 2011

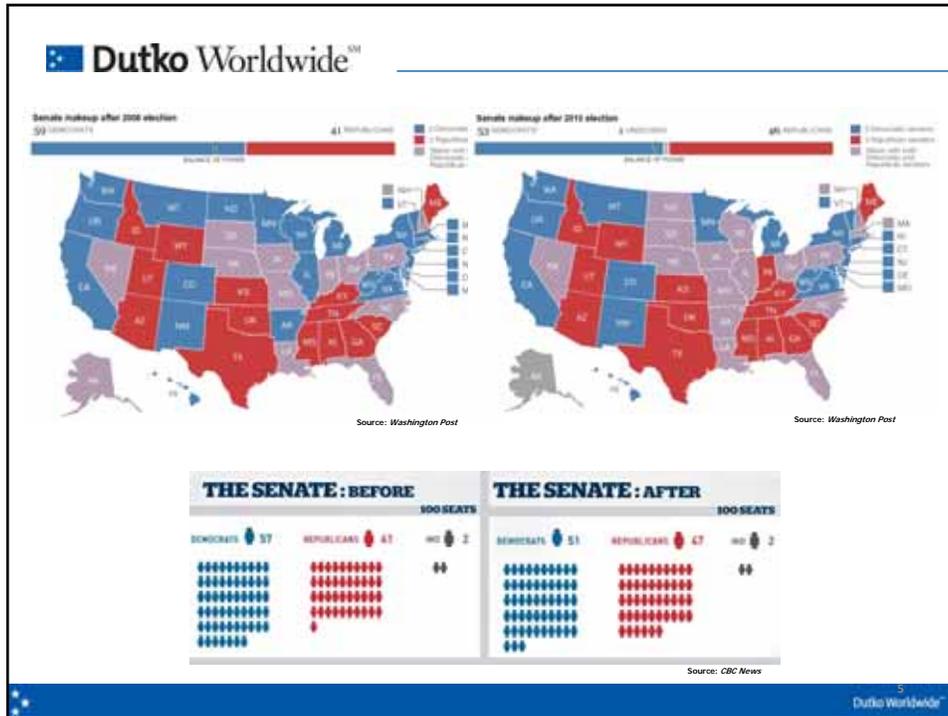
Political Landscape

- **House of Representatives**
 - “Wave” election sweeps Republicans to the majority
 - Elected to oversee the president’s agenda as well as reduce federal budget; these are the House’s two top priorities
 - Tea Party advocates continue to have an impact within Republican caucus
 - 241 Republicans, 192 Democrats (2 open seats for Jane Harman and Christopher Lee)
- **Senate**
 - Democrats retained a narrow majority, lost six seats
 - 53 Democrats, 47 Republicans

2012 Political Outlook

- **House**
 - Republicans picked up a number of seats that have traditionally been held by Democrats
 - Republicans may pick up additional seats due to redistricting
 - Democrats will likely re-gain some of those traditional seats but the gains will not be enough for a majority (25 seats)
- **Senate**
 - 23 Democratic seats compared to 10 Republican up for re-election in 2012
 - At least six seats currently held by Democrats are toss-ups right now; VA, NE, MO, MT, ND, NM
 - Republican incumbents can expect Tea party Primary challenges in IN, ME, and possibly MS





Political Trends – Where is the Center?

- *National Journal* Vote Ratings contain bad news for centrists. Of the 98 Democrats who had the most middle-of-the-road voting records in the last Congress, 55 of their seats are now in GOP hands.
- The center has fallen out of the Senate: not a single Republican member had a more liberal voting record than any of the Democrats and vice versa.
- Blue Dog Democrats, a group of conservative House Democrats, lost 28 of their 54 members during the 2010 election

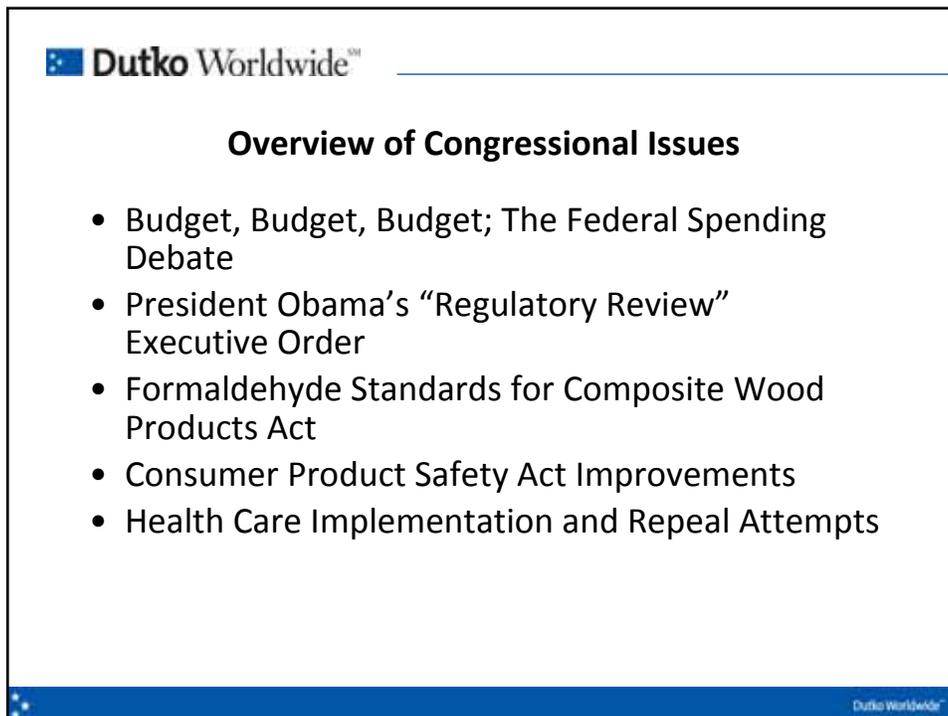
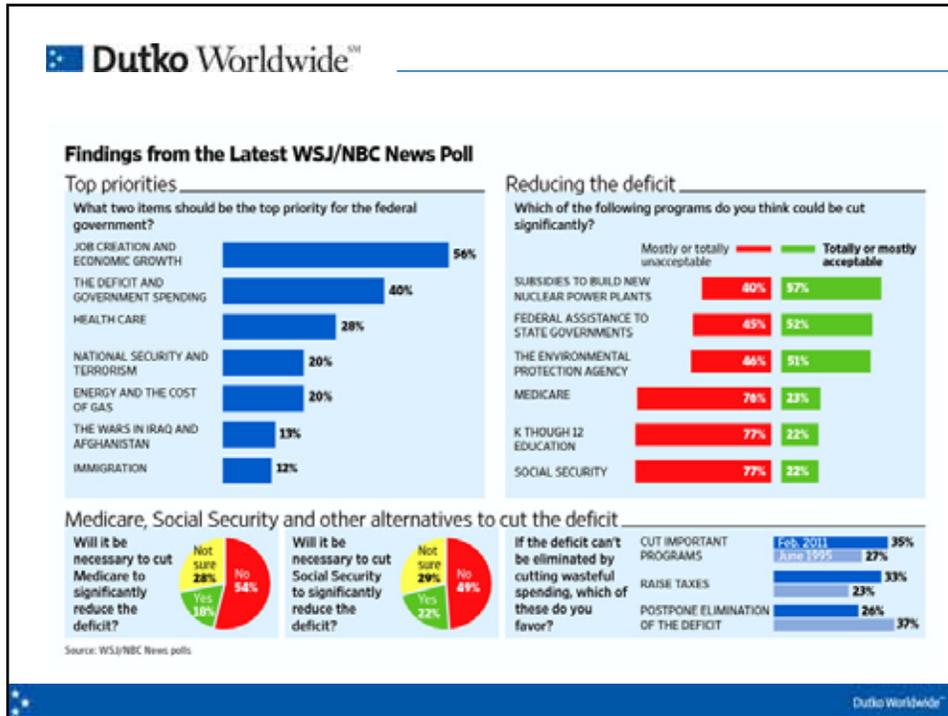
Investing in the United States

Imagine the U.S. as a public company with its citizens as shareholders...

- 2010: Net Operating Loss of \$2 trillion
- Net worth: - \$44 trillion
- Shareholder wealth: - \$143,000 per person
- Entitlements (Medicare, Medicaid, and Social Security) make up nearly 41% of federal spending
- The next largest pieces of federal budget are defense and interest on the national debt
- Together with entitlements, these five areas make up more than two-thirds of federal spending

Challenge Facing Congress; What is the Solution

- 77% of the public thinks it is “totally unacceptable” to make significant cuts to Medicare or Social Security to reduce the federal deficit
- More than 60% of poll respondents supported reducing Social Security and Medicare payments to wealthier Americans. And more than half favored bumping the retirement age to 69 by 2075. The age to receive full benefits is 66 now and is scheduled to rise to 67 in 2027.
- A large tax increase is likely to erode economic growth
- Individuals are concerned about the deficit but are unwilling to forego their own tax deductions such as mortgage interest, charitable contributions during overall tax reform



The Federal Spending Debate

- House Republicans initially released a funding proposal to eliminate \$74 billion in federal spending
- Within a few days, that number increased to \$100 billion due to pressure from the newly elected Republican members who believe they were elected to cut spending dramatically
- The House passed a long-term Continuing Resolution (CR) with \$61 billion in discretionary spending cuts
- The House and Senate have not reached an agreement on total spending cuts
- Therefore, they have passed a short term, 2 week, CR that funds the government through March 18, 2011
- This CR includes \$4 billion in cuts that President Obama outlined in his budget
- Republicans have said that they are willing to pass 2 week CRs as long as each one cuts spending
- There is a feeling that at least one more short term CR would be necessary before the House and Senate can agree on a long term funding solution

“Improving Regulation and Regulatory Review” Executive Order

- Seen as an attempt by the President to further mend his ties to the business community
- Directs agencies to consider ways to reduce burdens for U.S. businesses when they develop rules, allow more public participation and better follow the scientific integrity guidelines
- Closely examine costs of regulation as well as consider the net benefits (economic, environmental, public health and safety)
- Applies to existing regulations as well as future rulemakings

Formaldehyde Standards for Composite Wood Products Act (Public Law 111-199)

- Introduced in the Senate by Amy Klobuchar (D-MN) on September 10, 2009 (14 co-sponsors)
- Introduced in the House by Doris Matsui (D-CA) on March 10, 2010 (3 co-sponsors)
- Signed into law by President Obama on July 7, 2010
- Creates a national emission standard for formaldehyde in hardwood plywood, particleboard, and medium-density fiberboard based on CARB Phase II levels
- Rule is currently being drafted by the Environmental Protection Agency (EPA)
- EPA will address third party certification (TPC) oversight in an early rulemaking in September 2011
- Rest of the rule will be considered by the end of 2012
- AHFA has been very active during the legislative and regulatory debates

Consumer Product Safety Improvement Act (CPSIA)

- Impacts of legislation are now being seen as the Consumer Product Safety Commission (CPSC) releases its regulations
- Created a public safety database that is scheduled to go “live” on March 11, 2011; has received a great deal of scrutiny from a wide variety of industries and groups
- Rep. Mike Pompeo (R-4th/KS) introduced an amendment to a House-passed Continuing Resolution (CR) that would de-fund the implementation of the database at CPSC; it passed 234-187
- That de-funding mechanism would have to be passed through the Senate for it to take effect
- We continue to work with Congress and the CPSC to explore potential fixes to the public database

Health Care

- House voted closely along party lines to repeal health care overhaul legislation; as expected, the repeal measure failed in the Senate 51-47
- Both chambers have agreed on repealing certain sections of the bill, such as the widely unpopular 1099 reporting provision
- The House and Senate have separately passed measures repealing the provision but they do not agree on how to pay for the lost revenue to the government; it remains to be seen how those differences are reconciled during negotiations
- A couple of federal judges have ruled the individual mandate unconstitutional while three judges have upheld the law
- The ultimate fate of the health care bill will come down to a ruling from the Supreme Court
- President Obama has recently said that he would allow states to opt-out of the mandate earlier than the legislation calls for

Washington – Where Do We Go From Here?

- A lot can be done to operate like a well-run business
 - Where should we invest?
 - Where should we scale back?

Growing USA, Inc.

- Economic Growth
 - CBO estimates that USA, Inc can get to its break-even point with sustained 6% growth
- Good News
 - People are willing to sacrifice if they know that they are working towards something concrete