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Federal Surface Transportation Reauthorization

U.S. Secretary of Transportation Anthony Foxx says lawmakers may be working on an extension of the surface transportation reauthorization utilizing existing revenues into July. Current federal highway and mass transit authorization is slated to expire May 31, and Congress will be on recess from May 25-29. Per Foxx, Congress should only go through with the extension if it uses the additional time to develop a long-term funding bill.

Per Foxx, changing the authorization's expiration date to the point at which the Highway Trust Fund reaches insolvency will afford Congress more time, but it's not a solution. The Department of Transportation may have to do cash management, with Foxx stating that six states have already cancelled nearly $2 billion in projects.

Foxx has been persistent with lawmakers to adopt the Grow America Act- the administration's proposal for a six-year, $478 billion reauthorization. The plan would be funded by a mandatory, one-time 14 percent transition tax rate on foreign earnings. Other tax plans have also been proposed.

Senator Rand Paul (R-KY) and Senator Barbara Boxer (D-CA) introduced a bill in mid-April that would apply a 6.5 percent tax rate to voluntarily repatriated offshore earnings. Rep. John Delaney (D-MD) proposed imposing an 8.75 percent tax rate on foreign earnings. A group of House lawmakers, led by James Renacci (R-OH), also introduced legislation (H.R. 1846) that would index the federal gas and diesel tax to inflation and establish a bipartisan, bicameral commission that would be required to identify a long-term funding solution by September 2016.

Senate Approves Changes to Medicare Bill

The Senate passed a bill (92-8) in April to change the way Medicare pays physicians, putting an end to "doc fixes." It passed hours before providers would have seen a 21 percent cut in payments. This signified an uncommon bipartisan policy feat and one of the first advances in health care legislation since the Affordable Care Act was passed in 2010.

The legislation repeals the Sustainable Growth Rate, the existing Medicare payment formula, and replaces it with a new one. Additionally, it funds the Children's Health Insurance Program and community health centers for two more years.

Basic co-payments in Medigap plans will be required, and high-income seniors will need to cover more of their Medicare costs. The $210 billion plan was negotiated by House Speaker John Boehner and Minority Leader Nancy Pelosi and was approved by their chamber. President Obama is expected to sign it.

There were obstacles prior to the bill getting passed. Democrats insisted on three amendments to eliminate a cap on Medicare therapy services, extend children's insurance program funding and add funding for other health programs. All failed. Republicans insisted on a vote to repeal the Affordable Care Act's individual mandate, but it fell along party lines 54-45. The Senate also voted on GOP amendments, which both failed, to force the legislation to be fully paid for and to rewrite how the program incentivizes quality.

New Jersey Economic Update

With Governor Christie's increased focus on his possible presidential run next year, Republicans in New

Jersey are focusing on ways to stimulate job creation, supporting a 36-bill package that includes efforts to reduce regulation, create an improved workforce, and improve marketing of New products made in New Jersey. Per Senate Minority Leader Tom Kean Jr. (R-Union), the goal is to foster an overall environment that leads to more job creation.

Senate President Stephen Sweeney (D-Gloucester) emphasized the Democrats' cooperation with the Republicans on the job-creation legislation and offered hope that progress can be made. Republicans and Democrats have co-sponsored certain legislation, including trying to revitalize Atlantic City as a result of casino closures, despite the Governor and Democrats recently being at odds. 11 of the 36 bills have Democratic co-sponsors; however, other measures, such as rolling back regulation and streamlining permitting processes, align more with Republicans.

Proposing revenue neutral measures is important to Republicans due to slow economic growth and a small pool of funds tied to economic development investment. State tax collections have rebounded slowly since 2010, so priority investment areas including higher education and transportation have seen less funding. Additionally, March unemployment numbers in New Jersey increased to 6.5 percent, a full percentage above the national unemployment rate.

Republicans have proposed certain measures to turn growth around. For example, one measure would update state regulations to facilitate innovation related to driverless vehicles. Fort Monmouth, a former Army base, could become a center for this technology, per lawmakers. The full Senate has passed this measure.

Another measure seeks to reestablish New Jersey as a leader in hosting clinical drug trials. Currently, New York and Pennsylvania have surpassed New Jersey in this area despite the state's ties with pharmaceutical companies. The bill, passed in the Senate but not in the Assembly, would allow trial partnerships between the state and its higher educational institutions with private-sector facilities.

Senator Diane Allen (R-Burlington) has sponsored a bill to expand access to vocational-technical schools by making it easier for districts to purchase new facilities. This would create a commission that focuses on improving technical education, a topic supported by Assembly Speaker Vince Prieto (D-Hudson).

Republicans also stated that a key focus is preventing new tax increases. In 2014, New Jersey Democratic legislative leaders proposed higher taxes on corporate earnings and personal income over $1 million. Amidst ongoing pension litigation, they are planning to again try to increase the top-end income tax rate from 8.97 percent to 10.75 percent on earnings over $1 million.

New Jersey Pension Reform

On April 27, the New Jersey Supreme Court said it will allow state Sen. President Stephen Sweeney (D-Gloucester) and state Assembly Speaker Vincent Prieto (D-Hudson) to weigh in on a legal dispute over Governor Chris Christie's cuts to the state's public worker pension contributions.

Sweeney and Prieto filed a "friend of the court" brief in support of public worker unions seeking to force Christie to restore $1.57 billion he cut from this year's pension payment. Per the filing, they asked the state's high court to uphold the trial court ruling that the Governor breached public workers' contractual right to full pension funding. Christie appealed the ruling, saying that the 2011 pension law is invalid and that the court shouldn't intervene in budget matters. Lawyers for the state also opposed allowing Sweeney and Prieto to interfere. Oral arguments are scheduled for May 6.

On May 5, New Jersey Governor Chris Christie's office stated that the state may collect up to $200 million more in taxes than it budgeted this year and could be put into the public worker pension system.

"While a final year-end total is still dependent on other factors, the governor believes any additional revenue from fiscal year 2015 should be added to the state's pension contribution when the payment is made in June," stated Kevin Roberts, Christie spokesman. "As he has repeatedly said, Gov. Christie is committed to making as large a pension payment as possible while we pursue reforms to fix the pension system once and for all."

Assemblyman Gary Schaer, chairman of the budget committee, noted that April is an important month in determining the state's revenue. Revenues came in billions short last year, prompting the Governor to cut $2.4 billion in planned pension payments. Christie cut $1.57 billion from this year's pension payment, leaving less than $700 million for a system facing a $40 billion unfunded liability. Christie proposed making a $1.3 billion payment in the fiscal year beginning in July, $1.8 billion less than what's required, stating that New Jersey simply can't afford to make the full payment.

New York State Budget Passed

On March 29, New York Governor Andrew M. Cuomo and legislative leaders reached an agreement on the state budget, which includes education reforms as well as several new ethics measures in response to the recent Albany scandals.

The budget will include a $1.6 billion increase in education aid, would establish parameters for teacher evaluations that would result in a more rigorous evaluation system, and would lengthen the time before teachers are eligible for tenure to four years, from the current three.

The Governor had initially proposed a $1.1 billion increase in education aid in exchange for the Legislature agreeing to pass a series of reforms, including tying teacher evaluations more closely to students' state test scores. Teachers' unions, school administrators and parents objected to the proposal on teacher evaluations saying it would increase the focus on testing, and lawmakers criticized tying school funding with the approval of policy changes.

School takeovers were also part of the agreement: Chronically low-performing schools will be given one or two years to improve; if they do not, local districts will have to appoint new management.

Several changes were also made concerning ethics measures, which Governor Cuomo said were critical for him to agree to a spending plan. Administration officials said the ethics changes would require lawmakers to disclose more about the income they earn on top of their government salaries, including broader disclosure of legal clients.

The budget also expands a pension-forfeiture law; further restricts the use of campaign funds for personal expenses; and puts in place new oversight for lawmakers' travel expenses. Also, the budget creates a commission that would study raising legislators pay, though no pay hike could take effect until 2017. This involves legislators who earn base salaries of $79,500 and have not received a raise since 1999.

Additionally, the governor's office relayed that $1.5 billion of the $5.4 billion settlements with financial institutions would go toward an upstate economic development program, and another $500 million would go toward expanding broadband access.

Governor Cuomo had proposed a $150 billion spending plan. He dropped a proposal to raise the minimum wage and a plan to offer state tuition aid to undocumented students, also known as the Dream Act. Both were opposed by Republicans, who control the State Senate. He also abandoned a proposal to create new oversight for cases when unarmed civilians are killed by the police; a tax credit meant to ease the burden of high property taxes; and new policies on sexual assault that would apply to all of New York's colleges and universities.

Ohio Budget Key to Military Workforce Growth

Ohio is on the verge of making multiple investments to protect and grow its military workforce and installations in order to position Ohio to compete nationally as other states step up to support their facilities.

Officials announced in April the creation of an Ohio Military Facilities Commission, which would start with $5 million to fund improvements at state and federal installations. Sites would be positioned across the state to withstand a future Base Realignment and Closure (BRAC) process. The new Ohio Military Facilities Commission would fill a specific need while the Ohio Federal and Military Jobs Commission formed in 2014 will support workforce development and a larger statewide strategy.

The facility commission's funds would go toward projects that shows Ohio's support for numerous installations across the state including Wright-Patterson Air Force Base, Rickenbacker in Columbus and Air National Guard bases in Springfield and Mansfield.

Those spearheading each commission are pushing for funding in the coming two-year state budget. As federal and military jobs account for tens of thousands of workers across Ohio and pump billions into the economy, success of the plan is crucial. Wright-Patt employs approximately 26,500 workers, supports tens of thousands of external jobs and has an estimated $4 billion impact on the Dayton region economy.

Ohio House Speaker Clifford Rosenberger (R-Clarksville) told the Dayton Business Journal he expects the commissions to work parallel and in tandem with each other. When the state budget is finalized, Rosenberger hopes the Ohio Military Facilities Commission will get more than the original $5 million that's in the House version of the budget. He also plans to be very supportive of the Ohio Federal and Military Jobs Commission. State Senator Chris Widener (R-Springfield) said the Ohio Military Facilities Commission fills an important void because a one-stop shop was needed for local communities and the state to increase the military value at installations. Boosting military value —from upgrading gates and utilities to the demolition of older buildings — will lead to higher scores on BRAC evaluations.

Additionally, the Ohio Federal and Military Jobs Commission spearheaded by Widener will focus on workforce development as well as increasing small business contracting and creating research centers of excellence to grow research contracts going to federal agencies. This broader strategic plan includes NASA Glenn Research Center in Cleveland.

State Rep. Rick Perales (R-Beavercreek) has been involved in creating the commissions and said both are needed for Ohio to be successful.

Those officials also expect the Dayton Development Coalition (DDC), which had been leading the coordination of a statewide federal retention strategy, to continue playing a significant role. Rosenberger said the DDC has done a great job building synergies across the state with the connections they've helped make between universities and federal installations. He expects both commissions to rely on the DDC for advice.

Global Trade Deals Under Consideration in Ohio

Ohio is among states most likely to benefit from global trade deals under consideration by U.S. policymakers, according to a study by the Organization for International Investment. Pending deals with Asia and Europe would increase foreign investment in Ohio by $6.3 billion, according to the association representing U.S. operations of foreign companies. That ranks the state eighth for estimated dollar value of investment.

Ohio could add 52,200 new jobs if both the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP) are approved, because most job gains are projected to come in manufacturing.

Advocates say the pacts would create domestic investment by removing trade barriers around labor and intellectual property, but opponents argue American jobs would be outsourced overseas.

The report does not project how they will affect U.S. investment in foreign countries.

A bill to give President Obama authority to fast-track negotiations on free trade appears to have support for passage in Congress.

Pennsylvania State Budget Update

PA Democratic Governor Tom Wolf and the Legislature's Republican leaders met for the first time on April 14 to set parameters for budget negotiations and form panels focused on financial and policy issues outlined in the governor's $33.8 billion spending plan.

"All parties came to an agreement that we are going to put together different working groups on the particular issues that are outstanding — both on-budget and off-budget," House Majority Leader Dave Reed (R-Indiana).

Wolf's budget is a mix of proposals that carry a cumulative 16 percent tax increase. That extra revenue would pay for more education spending and job-creation programs, while closing a structural deficit of $1.5 billion to $2.3 billion and reducing property and business tax rates.

Wolf's budget proposes a $500 million increase in public school funding and a long-term $675 million bond to support economic development programs by adding a 5 percent tax and a fee on Marcellus Shale natural gas drillers. It also would create a $2.1 billion fund to reduce school property taxes by an average of $1,000 per homeowner by increasing personal income tax from 3.07 percent to 3.7 percent.

Wolf would raise state revenue, in part, to pay for a mandatory $1.75 billion teacher pension payment by increasing the sales tax from 6 percent to 6.6 percent and expanding the number of taxable items. To pay for even more pension debt, Wolf proposes a $3 billion bond and would pay for it by allowing more state liquor stores to be open on Sundays. Business tax cuts would be covered by changing accounting rules to generate more corporate taxes.

House Republicans want to examine each piece of Wolf's plan and then "put the jigsaw back together," Reed said. However, if Wolf wants the 203-member House to have an up-down vote on his entire budget proposal, Reed said, he would do it by the second week of May.

The formation of the budget panels came a day after the House Finance Committee debated a property tax-relief bill offered by Rep. Stan Saylor (R-York). Saylor's bill carries the same higher income tax rate as Wolf's and pushes the sales tax to 7 percent to generate $4.9 billion in property tax relief for homeowners and businesses. The bill would not expand the number of taxable items. Under Saylor's plan, poorer districts would get more money, but not to the same degree as in Wolf's plan. Unlike Wolf's plan, Saylor's bill would preclude the state from keeping any of the new revenue for its own expenses. The bill was scheduled for a committee vote; however, Chairman Bernie O'Neill (R-Bucks) pulled the bill from the agenda and announced that the committee will be meeting in the first two weeks of May, indicating a possible vote on the bill at that time.

The House approved a bill to dismantle and sell the state liquor store system.

Despite the formation of budget panels, the consensus is that both sides are far apart on issues and a final budget may not be done by the June 30 deadline.

Pennsylvania Pension Reform

The Senate Finance Committee held a hearing in April that focused on the pros and cons of various proposals to change state workers' and public school employees' pension systems, which are carrying a combined debt of $50 billion. Sen. Pat Browne (R-Lehigh) is expected to soon introduce a bill to overhaul the pension systems, in part, by reducing future benefits for current employees.

The Senate Finance Committee on April 21 approved legislation aimed at providing savings to Pennsylvania's public pension system. The legislation, Senate Bill 401 introduced by Sen. Don White (R-Indiana), would generate savings by dramatically changing the program available to members of the Pennsylvania General Assembly. "Despite the reforms enacted by Act 120 of 2010, Pennsylvania's public pension systems remain in great financial distress and the burden on taxpayers is growing exponentially. It is well past time that we face economic reality," White said. "There has been a fundamental change in pension benefits offered by the private sector to its employees, with most companies offering defined contribution plans and few, if any, providing defined benefit plans. It is only right that we follow suit."

The bill would change all members of the Pennsylvania Legislature from a defined benefit pension plan to a defined contribution plan. The change would be obligatory for future and current state senators and representatives.

"By changing the pension plan available to legislators, we will set an example and create an environment to enact necessary broader pension reforms for all public employees in the commonwealth," White said. "We as legislators cannot in good faith ask public employees to move to a defined benefit program if we are not willing to do the same."

Governor Tom Wolf is not advocating changes to state pension laws, but rather proposing a $3 billion bond issue as the centerpiece of a plan to refinance the Public School Employees' Retirement System's debt.

Duane Morris Government Strategies, LLC will continue to monitor these and other important issues. Contact us if you have an issue you would like additional information on, or to be removed from the Capitol Commentary distribution list:

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