



These past several months show us that much is at stake regarding the Federal budget, entitlement programs, tax policy, and discretionary spending. With the last minute passage of the American Taxpayer Relief Act (ATRA) of 2012, Congress and the Administration were able to forestall immediate economic catastrophe, commonly referred to as the “Fiscal Cliff.” While important tax issues were resolved with the enactment of ATRA, several budgetary and spending issues remain unresolved and have fast-approaching deadlines.

Within the mix are a number of discretionary and entitlement programs that are of great importance to Jewish family and community service agencies. The decisions ahead will impact programs and services we care about and rely upon. The Budget Control Act of 2011 requires Congress to cut \$1.2 trillion in discretionary spending through 2023. This means that for the foreseeable future, we will need to work harder to ensure that the brunt of these cuts does not disproportionately fall upon the most vulnerable among us, whose lifelines are dependent on critical federal assistance programs.

This comprehensive update includes our assessment of critical political factors, several upcoming budget considerations, implications for entitlement programs, legislative initiatives likely to dominate the early legislative calendar, potential priority programs that may move, and the related work and advocacy of AJFCA and the JFNA Washington Office.

### **Political Outlook**

AJFCA’s and the Jewish Federations’ public policy and advocacy work is non-partisan. We strive to find balance and comity in the pursuit of legislative initiatives and policy changes to advance our goals and priorities. Our past achievements and deliverables is a testament that this is the best approach to success. We shall continue in this fashion during the 113<sup>th</sup> Congress. Still, we understand that politics is partisan and that it is critical to understand the political environment within which we operate in order the best develop our legislative strategies and pursue our goals.

The following is an overview of current posturing in the House and Senate with regard to some of the more critical and pressing business Congress will take up during the next 90 days.

House of Representatives:

Speaker John Boehner is coming into the 113<sup>th</sup> Congress with a smaller majority and arguably a weaker position.

To appease restive members within the ranks, Speaker Boehner is expected to pivot to the Right during the 113<sup>th</sup> Congress. We can expect there will be even more pitched battles over upcoming budget considerations than those that occurred during the last Congress, resulting in less compromises with the President, and the possibility of brinkmanship that could result in a government shut down or the default on the nation's debt.

The House Republican retreat will take place on January 16<sup>th</sup>, where opportunity for crucial unity within the party could lead to the emergence of a clearer strategy and approach for the legislative session ahead.

Senate:

The Senate is also expected to shift in greater partisan directions. The old guard, including notable stewards such as Robert Byrd, Daniel Inouye, Ted Stevens, and Ted Kennedy are gone. In their stead are younger Senators with either little experience in national politics or those who came from a hyper-partisan House of Representatives, where the majority tends to lead the minority with a heavy hand.

The Senate may see more direct confrontations during the 113<sup>th</sup> Congress in place of the long-standing customs of decorum, courtesy and compromise. With Republican Leader Mitch McConnell (KY) and new Republican Whip John Cornyn (TX) each up for reelection in 2014, we can expect them to take a harder line, or risk potential conservative primary challengers next year. McConnell has already ruled out any additional tax increases as a part of a debt ceiling deal. Cornyn has openly suggested that a government shutdown may be needed to force the President's hand on entitlement program cuts.

In the name of countering legislative gridlock, a number of Senate Democratic reformers are seeking to end filibusters under certain circumstances. Currently a rules change such as this would require a two-thirds vote of the Senate, but these reformers, led by Senators Jeff Merkely (D-OR) and Tom Udall (D-NM), are calling on Majority Leader Harry Reid (D-NV) to allow the proposed filibuster changes to go through by a simple majority of 51 votes. Under a simple majority vote, the rules changes could be passed on a strictly party-line vote. Referred to as "the nuclear option", this effort is expected to be met by steep opposition by the Republican minority.

### **The American Taxpayer Relief Act (ATRA) of 2012**

Sequester Agreement:

The American Taxpayer Relief Act, or ATRA, provided a two month delay for Congress to prevent or replace \$109 billion in mandatory across-the-board spending cuts for the remainder of fiscal year 2013, which ends September 30th.

ATRA replaced prior “defense” and “non-defense” spending caps with “security” and “non-security” caps, a shift that created greater flexibility for spreading the reductions across federal programs. It also increased the non-security spending cap by \$3 billion for a total of \$359 billion in budget authority, and lowered the security spending cap (for defense, homeland security, veterans and intelligence programs) by \$6 billion for a total of \$684 billion in budget authority.

The sequester next year and in subsequent years is not affected by the ATRA agreement. The schedule of automatic spending cuts required through the Budget Control Act of 2011 remains in place unless Congress acts further to prevent or replace them.

#### Tax Provisions:

ATRA permanently extended the income, dividend, and capital gains tax rates for most taxpayers, raised the top tax rates for couples earning more than \$450,000, among other provisions. JFNA's Washington Office has drafted detailed analysis on the impact of specific provisions in ATRA, such as the [“Limitation on Itemized Deduction”](#), the [IRA Charitable Rollover](#), as well as [other major tax provisions of interest to Federations and agency partners](#).

#### Health Care Provisions:

ATRA included a number of [health provisions of interest](#) to our network. Among them is a provision to avoid steep cuts to Medicare physician payments and limitations on the Medicare physical therapy benefit that would have gone into effect on January 1, 2013. The provision provides a 12-month delay, but it can be expected that the cuts will come up again for consideration. This reprieve, or “patch”, will allow more time for health and social services advocates to seek a further extension or more permanent solution moving forward.

ATRA also included a permanent repeal of the Community Living Assistance Services and Supports (CLASS) Act provisions of the health reform law. The repeal will not impact providers as implementation was halted on the program fifteen months ago. As a requisite for repeal, Congress established a new Long-Term Care Commission, which presents an opportunity for JFNA and its stakeholders to work constructively with the Commission members toward a pragmatic consensus-based solution for both financing and delivery of long-term

care services. JFNA's Washington Office co-chairs a Long-Term Care Financing Collaborative that will take a lead on this outreach.

### **Debt Ceiling Limit**

One of the first major budget battles looming in the new Congress will be on reaching agreement on raising the debt ceiling. By late February or early March, the Treasury Department will run out of options to cover the nation's debts and could begin defaulting on government loans unless Congress raises the legal borrowing limit, or debt ceiling. Many argue that a default on the debt would be economically devastating to the nation's fiscal health and credit worthiness and could trigger a global recession.

The brinkmanship on resolving the debt ceiling limit has already begun. Speaker Boehner has already warned that any increase in the nation's \$16.4 trillion debt limit will have to be matched by equal or greater spending cuts. Senate Republican Leader McConnell has ruled out any additional tax increases as a part of a debt ceiling deal. Both the President and House Democratic Leader Nancy Pelosi (CA) have made clear that raising the debt ceiling and reducing spending should not be coupled.

### **Fiscal Year 2013 and 2014 Appropriations**

In addition to the spending decisions the House and the Senate must make in order to avoid automatic across-the-board spending cuts that are scheduled to occur on **March 1**, it must complete the Appropriations bills for FY2013 by **March 27** or face a government shutdown. This will most likely be accomplished through a continuing appropriations resolution (a temporary stop-gap spending measure) for the remainder of FY2013 or through an omnibus spending bill (a grouping of the unfinished spending bills). It is unlikely that Congress will attempt to finish each of the 12 individual spending bills separately. An omnibus spending bill would provide more latitude and flexibility in spending decisions for federal agencies and would be the preferred way forward absent passage of the unfinished bills individually.

There are a number of programs, funded primarily through the Labor-Health and Human Services Appropriations bill but also within the Homeland Security and Housing and Urban Affairs spending bills, which are priorities of the Federations and affiliated agencies. High among them are the Community Services Block Grant, the Emergency Food and Shelter Program, the Older Americans Act, the Social Service Block Grant, Sections 202 and 811 Housing, and the Nonprofit Security Grant Program. As in every fiscal year, we will work to ensure that discretionary spending cuts do not disproportionately target the most vulnerable among us, whose lifelines are dependent on these critical assistance programs.

Soon after the President gives his State of the Union Address in late January, outlining his top spending and policy priorities for the coming year, the Office of Management and Budget will send to Congress the President's spending recommendations for fiscal year 2014, which begins on October 1. As in past years, AJFCA and JFNA's Washington Office will review, analyze and update the field on the President's budget request, including our assessment on the impact of the President's recommendations on our program priorities.

### **Entitlement Reform:**

As ATRA did not deal directly with spending cuts, it is uncertain what approach Congress and the Administration will take on entitlement reforms of importance to the Federation system such as Medicaid.

AJFCA understands that all solutions to the debt crisis require shared sacrifice, but these solutions must be carefully calibrated and balanced so that the most at risk among us are protected while our collective national interests are preserved. We promote reasonable changes to ensure that Medicaid, Medicare, and Social Security remain solvent, but we maintain strong opposition to turning Medicaid into a block grant or capped entitlement. JFNA's Washington Office has drafted detailed analysis on [entitlement and long-term care financing reform](#).

### **Looking Ahead on Domestic Policy Legislation:**

#### **Comprehensive Immigration Reform:**

Immigration reform is also likely to be a prominent topic of the President's legislative agenda. While the specifics are still murky, the White House has indicated it will move quickly on immigration reform. It is expected that it will take two months for legislators to draft a bi-partisan bill and another few months before a vote – sometime around June. A new "Gang of Eight" Senators -- made up of Democratic Senators Chuck Schumer (NY), Dick Durbin (IL), Michael Bennet (CO), Bob Menendez (NJ), and Republican Senators John McCain (AZ), Lindsey Graham (SC), Mike Lee (UT) and Jeff Flake (AZ) – have already begun to meet. Representative Zoe Lofgren (CA) is expected to lead on immigration reform for the Democratic Caucus in the House.

Assisting immigrants and refugees is a long-standing aspect of the Jewish community's advocacy. In the context of the upcoming debate, we will work closely with the Hebrew Immigrant Aid Society for fair and compassionate immigration reform and to advance the support for refugee and resettlement assistance, such as for those fleeing from persecution in Iran.

#### **Comprehensive Tax Reform:**

Some members of Congress and the Administration believe that in furtherance of deficit reduction, additional fundamental tax reforms are necessary. Both the House Ways & Means Committee and the Senate Finance Committee have held extensive hearings on fundamental tax reform over the last several years and appear poised to act in 2013. For most, the formula for fundamental tax reform begins with: (1) broadening the base of income subject to tax by eliminating or recasting many or most of the so-called "tax expenditure items" that permit individuals and corporations to reduce their tax bill; and (2) lowering the tax rates that apply to the broadened base.

The major sticking point in tax reform negotiations is expected to be the amount of revenue raised by a revised tax code. The Administration and many congressional Democrats believe that revenues raised in the "fiscal cliff" agreement are only the start and that fundamental tax reform must raise additional revenues if it is to be part of a "grand bargain" with spending cuts such as those in the entitlement programs. For their part, Republicans counter that there will not be support of further tax increases in the guise of tax reform.

In our view, it is expected that the Administration will again propose some sort of limitation on itemized tax deductions, including the charitable contribution deductions, as a way to broaden the tax base during fundamental tax reform negotiations. Although the Administration again proposed to limit the value of the charitable contribution deduction during the "fiscal cliff" negotiations, the proposed limitation was ***less than that would have applied to other itemized deductions***. This represents at least partial recognition of the "special status" that the charitable contribution deduction might be expected to be given during the tax reform negotiations.

JFNA is a strong advocate for protecting the charitable contribution deduction up to and through the ATRA legislation. In the context of comprehensive tax reform, we will also continue to support making the IRA Charitable Rollover permanent

Other Initiatives:

AJFCA advocates on behalf of individuals with disabilities, for at-risk children and families, to sustain community services, and alleviate poverty, and to secure our institutions from terrorism, among other priorities. The House of Representatives returns for legislative business on January 14<sup>th</sup> and the Senate a week later. Both chambers and their respective caucuses will undertake organizational meetings to firm up their legislative and policy priorities for the session. Soon after, Senate and House leadership will make their agendas known. Coupled with the President's State of the Union address, we will have a much clearer picture for our own advocacy agenda for the session.

**Generally speaking, we expect to be active on the reauthorizations of the Older Americans Act, the "Farm Bill", and the Violence Against Women**

**Act, each including important social services provisions.** We expect to work to protect the Nonprofit Security Grant and the Emergency Food and Shelter programs from being underfunded. We will continue to work to ensure our agencies and communities impacted by Hurricane Sandy receive adequate and appropriate FEMA resources for rebuilding, and we will promote new initiatives such as nonprofit cyber security, nonprofit energy efficiency, and mature workers employment initiatives to respond to emerging concerns. The federation system operates with approximately \$10 billion in public support, annually, and we remain dedicated to the task of protecting these funding streams in the midst of further deficit reductions.

JFNA will also continue to advocate for a strong US-Israel relationship, including support for robust military aid. JFNA will also work to strengthen sanctions on Iran in an effort to stop Iran from attaining a nuclear capacity.

### **Advocacy and Engagement**

AJFCA and JFNA regularly provide updates and Action Alerts to the field over the course of the legislative calendar. Moreover, we scheduled this year's Government Affairs Institute and Advocacy Mission (GAI) to coincide with the installment of the new Congress and the start of the new session. The GAI brings together professionals and volunteers from Federations and Jewish family and children's service agencies to meet with Members and staff of Congress and White House and federal agency officials to advocate on policies that impact the vulnerable populations that they serve. **(For more details on the upcoming GAI, please contact Shelley Rood, senior legislative associate of JFNA and Washington Director of AJFCA, at: [shelley.rood@jewishfederations.org](mailto:shelley.rood@jewishfederations.org).)**

In addition to our own direct advocacy, JFNA has developed a number of tools and programs to promote critical partnerships with the federations, including:

- Public policy updates and Action Alerts
- Advice on national and local advocacy
- Research on domestic human services
- Assistance with planning and evaluation
- Research on potential grant opportunities
- Sharing of programs and best practices
- The Washington Missions Program
- The Ambassador Program
- The Human Services and Public Policy Committees (Aging and Family Caregiving, Charitable Giving and Incentives, Disability, Long-Term Care)
- The Government Affairs Institute

In the coming days, we will utilize the advocacy tools and programs at our disposal to ensure that Jewish family and children's service agencies, Federations, state government affairs professionals, JCRC directors, lay leaders,

and agencies partners are active and engaged to advance our legislative and public policy agenda and to optimize our opportunities to be impactful on behalf of our constituents.