

REPUBLICAN PARTY OUTLOOK



Republicans in Washington are pursuing an ambitious agenda in 2018, while facing stiff political winds as the midterm elections approach. However, there are many key take-aways from the recently enacted tax bill that may give them some comfort and guidance for handling their remaining legislative priorities.

- The Administration (White House and Treasury) worked well with Congressional Republican Leadership and the Committee Chairmen to orchestrate a roll out of the principles guiding the bill and to help get the bills through Congress relatively quickly.
- Republicans in the Senate were able to work through their differences and decide not to let the perfect be the enemy of the good.
- The business community was engaged on many levels and the committees were able to build a strong coalition supporting the bills.
- Republicans are now successfully promoting the actions' businesses are taking in terms of raising workers' pay, planning new investments, and providing benefits to their employees.

Republicans will be spending much of 2018 touting the success of the tax bill and will be seeking to replicate those coordinated efforts as they tackle other big issues on their agenda.

The Republican agenda initially is filled with a number of must-pass items largely held over from last year including the following.

- Striking a compromise to lift the discretionary spending caps in the Budget Control Act – Republicans want to increase defense spending by \$54-\$60 billion. In the past, Democrats would push for dollar-for-dollar increases in non-defense spending in these kinds of agreements. Thus far, Republicans have rejected that position and are casting this as a fight overall supporting our troops. We will likely see an increase in discretionary spending by a little over \$100 billion with defense seeing bigger increases than non-defense.
- Completing the Appropriations process for fiscal year 2018 – The Appropriations Committees have been frozen by a lack of agreement on the budget caps. Once the cap agreement is struck, they will work quickly to write the appropriations bills which will likely be package in an omnibus or possibly two or more “bus” vehicles.
- Raising the debt ceiling – With the supplemental spending required in the aftermath of 2017’s natural disasters, Treasury is facing its limit on extraordinary measures sooner than what was expected in September. We expect the debt limit will be addressed in one of the must-pass measures early in the calendar year.
- Addressing the issue with DACA/DREAMERS – Republicans know they need to act before the end of the DACA program in March. They are hoping to thread the needle by either authorizing the DACA program or passing the DREAMERS bill along with border security measures including some funds for the “wall.”
- Reauthorizing the Children’s Health Insurance Program (CHIP) – The disagreement on CHIP has been over how to pay for the bill. We understand bipartisan negotiations have recently begun and will likely produce a bill that can pass on its own and not with other must-pass items.

- Passing the so-called Medicare Extenders package – There has been progress on achieving a bipartisan bicameral deal on this package but they are not there yet. These will probably be included in another must-pass measure.
- Passing the so-called Tax Extenders package – The tax extenders generally have had more bipartisan support in the Senate than the House. But the Senate will likely be successful in including these in another must-pass vehicle.

After they spend the first month or two of the year cleaning up these remaining agenda items, Republicans will turn to other priority initiatives.

The President has often talked about turning to an infrastructure package “seconds” after finishing the tax bill, and we have already seen a number of White House meetings on the subject. This has the potential to be a bipartisan legislative effort, which may be necessary in order to get a bill through the Senate.

Speaker Ryan and the President have both talked about pursuing “welfare reform.” Specifically, the Speaker has talked about controlling spending through our health care entitlement programs (mainly Medicare and Medicaid). There is also interest in exploring reforms to the Supplemental Nutrition Assistance Program (SNAP) which is the former Food Stamp program. Leader McConnell has been skeptical of the ability of the Senate to tackle entitlement programs given their narrow majority.

The President and Congressional Leaders met over the weekend at Camp David to put together a unified agenda for 2018. It sounds as though the consensus at the retreat was that 2018’s agenda will be comprised of issues that can achieve bipartisan support.

Even though there is an intended unified agenda between Congressional Leaders and the White House, it is possible the House may have votes on (and pass) some measures that have no chance of getting through the Senate. House Leaders have talked about trying again on a bill to “repeal and replace” the Affordable Care Act, knowing that what passes the House will not come up in the Senate.

There is also talk that the Republicans will need to move another tax bill in 2018 to begin to refine the bill recently enacted. Republicans would likely try to use the budget reconciliation process to pass refinements to the bill, as it is not likely there will be bipartisan support to fix a partisan bill.

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DEMOCRATIC PARTY OUTLOOK



2018 will begin finding the Democrats licking their wounds after a bruising tax battle loss. But the election of Doug Jones (D-AL) to the Senate, has given new life to Democratic pick-ups in the midterm elections and substantially increased the Party's leverage over many unfinished legislative items on this year's agenda.

While the current new Senate ratio of 51 Republicans to 49 Democrats is tight, this year's election numbers lean heavily to the Republicans, with 24 Democratic and 2 Independent seats in play (Sanders (VT) and King (ME)) vs. only 8 Republican seats. Additionally, the new Senator from Minnesota, Tina Smith (D), will

have to run in 2018 to fill out the remainder of Senator Franken's term until 2020.

The House midterm election will be interesting to say the least, with a current ratio of 239 Republicans to 193 Democrats and 3 vacancies. However, a pickup of 25 seats by the Democrats is possible. While the average loss for the President's party over the last 21 midterm elections is 30 seats, the numbers show a wide fluctuation. While Reagan's party lost 26 seats in 1982, George H.W. Bush only lost 8 seats in 1990, while George W. Bush lost only 8 in 2002. Clinton, however, lost 54 in 94 and Obama lost 63 in 2010.

Senator McConnell would like 2018 to be a year of bipartisan accomplishments, possibly to include an infrastructure bill, while Speaker Ryan has voiced enthusiasm for tackling entitlements as a way to address what he sees as the prime driver of deficits. This intention is an amazing piece of compartmentalization after they passed a tax bill which will add a trillion dollars to the deficit over the next 10 years. The Speaker's desire may stem from the rumors that he intends to retire next year, so it will be interesting to see which path McConnell and Ryan's Members choose to follow at their retreat, and whether the President hints at his preference in his State of the Union speech. The 2018 election and the memory of the recent Alabama special election results will clearly be factors in their decision.

Congressional Democrats will be a factor in this year's Congressional activity thanks to the tightness of the Senate numbers, given that Reconciliation can't be the solution for all of the Republican legislative priorities. On the House side, the House GOP leadership will have a difficult time corralling a working majority.

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