



1701 Pennsylvania Ave, NW
Suite 200
Washington, DC 20006
beaconpa.com

MORNING COLOR

February 15, 2018

Today's Driving Events

Azar Testifies on Trump's 2018 Healthcare Agenda: Health and Human Services (HHS) Secretary Alex Azar is set to testify this morning before the Senate Finance Committee on President Trump's FY19 budget request. The president's [FY19 budget request for HHS](#) proposes \$95.4 billion in discretionary budget authority and \$1.1 trillion in mandatory funding. In total, the \$1.2 trillion in FY19 outlays would be an increase of 8.9 percent from FY17. Azar, who is still in his first month as secretary of HHS since being confirmed in January, said of the president's FY19 budget that "The President's budget makes investments and reforms that are vital to making our health and human services programs work for Americans and to sustaining them for future generations. In particular, it supports our four priorities here at HHS: addressing the opioid crisis, bringing down the high price of prescription drugs, increasing the affordability and accessibility of health insurance, and improving Medicare in ways that push our health system toward paying for value rather than volume." **While presidential budgets are more "messaging documents" than an actual prescription of future policy and funding allocations, investors can glean from the budget documents and today's hearing which budget proposals could potentially garner legislative support from Congress as well as which budget proposals could advance without congressional action. In general, we view proposals seeking to repeal and replace the Affordable Care Act (ACA) as non-starters.** The president's budget supports the enactment of legislation closely resembling the Graham-Cassidy-Heller-Johnson bill that failed to pass the Senate last year. Congressional Republican leaders have indicated they will not be using the reconciliation process this year that would enable the Senate to bypass the 60-vote threshold for passing legislation, all but dashing any Republican ambitions to address repeal and replace of the ACA in 2018. However, the budget does call for providing appropriations to pay cost-sharing reductions (CSRs) through CY19 and fully funding the Risk Corridors Program. While opposed by conservatives, these proposals could bolster the efforts of Senator Susan Collins (R-ME) who last year sought a vote on the Alexander-Murray CSRs bill and the Collins-Nelson reinsurance bill. **Despite the low probability of legislative changes to healthcare in 2018, we view several policies set forth in the budget dealing with prescription drug pricing and payment as deserving closer attention. Though the president's budget does not include sweeping policy changes like allowing Medicare to negotiate drug**

prices or allowing the importation of drugs, there are some policies that would go directly after reducing drug prices. Such proposals would allow up to five states to negotiate Medicaid drug prices, would seek to limit the growth of payments under Medicare Part B to no more than inflation, would authorize Azar to leverage Medicare Part D plans' negotiating power for certain drugs covered under Part B, and would give the Food and Drug Administration (FDA) greater ability to bring generics to market faster by incentivizing more competition among generic manufacturers. Furthermore, the budget presents a five-part proposal for Medicare Part D that seeks to realign incentives and enhance benefit management. We will publish a Spotlight Report later today that goes into greater detail about the healthcare provisions in the president's budget that have a realistic chance of coming to fruition and their potential effect on the various industries in the healthcare space.

Trump's Gas Tax Endorsement Lacks GOP Support: President Trump called for a 25 cent gas and diesel tax increase to help pay for his proposed infrastructure plan during a meeting with legislators yesterday, according to Senator Tom Carper (D-DE). Carper told CNN, "He said that he knew it was a difficult thing for legislators to support and said that he would support the leadership to do that and provide the political cover to do that. And he came back to that theme again and again and again." The current gas tax is set at 18.4 cents per gallon, and was last raised in 1993. This isn't the first time Trump has proposed increasing the gas tax. In December, Trump reportedly suggested a 50 cents per gallon increase during a meeting with retiring House Transportation Committee Chairman Bill Shuster (R-PA). Shuster has also come out in support of the gas tax, but as a retiring member, he faces little political backlash for doing so. For those Republicans facing re-election next fall, the idea is a lot more difficult to swallow, however -- the president is proposing a tax increase while the party is trying to sell its tax cuts to the public. In January, Senate Majority Whip John Cornyn (R-TX) told the *Washington Post* about talk that Trump had proposed a gas tax during meetings at Camp David, "I'm sure it came up in some context because that's what a lot of people have proposed at different times. But I have complete confidence that we will not be raising the gas tax." Even Trump's advisors have been quick to note that increasing the gas tax is not the preferred option for raising infrastructure funding. Transportation Secretary Elaine Chao told CNN yesterday, "The President has not declared anything out of bounds, so everything is on the table. The gas tax, like many of the other pay-fors that are being discussed, is not ideal ... The gas tax has adverse impact, a very regressive impact, on the most vulnerable within our society; those who depend on jobs, who are hourly workers." **With so much Republican pushback, we think a gas tax increase is likely to sputter before it reaches the finish line (or even makes it very far past the starting line). It would be a huge political lift in any congressional session, but will be even more so this year, as Republicans struggle to retain their majority in the House, with a speaker whose top priority has always been cutting -- not raising -- taxes.**

Fed Vice Chair Prospects: Earlier this week, the *Wall Street Journal* reported that

Cleveland Fed President Loretta Mester is among the names being considered to serve as the central bank's next vice chair for monetary policy – a position that has been vacant since Stanley Fischer retired in October. With Republican economist Lawrence Lindsey no longer on the list, the remaining candidates that are known at this time aside from Mester include Richard Clarida, a managing director at money manager Pimco; San Francisco Fed President John Williams; and chief economic advisor to Allianz, Mohamed El-Erian. **It is believed that no one person in the administration is pushing for anyone in particular, though there are some factors at play that lead us to believe certain candidates will be chosen over others.** First, we do not believe El-Erian is a likely pick due to the fact that reports first came out about him being in the running several months ago. This suggests that if he were President Trump's guy for the job, an announcement would have happened already. In addition, El-Erian has faced considerable criticism over the generous compensation package he awarded himself after his brief stint as the head portfolio manager of Harvard University's \$35 billion endowment. Despite leaving Harvard in 2007, El-Erian has also faced questions about his prior investment decisions and the massive losses the endowment suffered during the financial crisis. It is also worth noting that President Trump – a president who insists on being the only one in the spotlight – is unlikely to choose an outspoken figure that appears on TV as much as El-Erian does. Some have also speculated that John Taylor – the one-time contender for the Fed chair slot – is pushing the White House to nominate San Francisco Fed President John Williams for the vice chair position. It is rumored that Taylor wants Williams's current spot, though we do not see this scenario playing out given how Taylor would only have four years of eligibility left to serve at the San Francisco Fed because of the mandatory retirement age imposed on Fed bank presidents. As far as Loretta Mester's chances go, media sources have said that she reportedly impressed the selection team. All three of Trump's Fed nominees thus far have been men, though this could serve as an opening for more moderate senators to look past her mildly hawkish views on monetary policy in the interest of diversity. The fact that she teaches at the Wharton School – the president's alma mater – probably does not hurt her chances either. **Nevertheless, it does not appear at this time as though any decision about a vice chair nominee is imminent and whoever ultimately gets the nod very well may not yet be among the names that have already been circulating in the press.**

House

The House will reconvene at 9:00 a.m. and will consider a bill that would require individuals, before they file a lawsuit under the Americans for Disabilities Act (ADA) for failing to accommodate the disabled, to first verbally request the removal of an architectural barrier and then provide written notice to give the establishment sufficient time to correct the infraction.

Senate

The Senate will reconvene at 10:00 a.m. and will continue to debate immigration legislation.

White House

At 1:15 p.m., President Trump will meet with US Ambassador to the United Nations Nikki Haley.

Macroeconomic

At 10:00 a.m., the House Ways and Means Committee will hold a hearing on President Trump's FY19 budget proposal for the Department of the Treasury. Expected participants include:

- Steven Mnuchin, secretary, Department of the Treasury

At 12:20 p.m., the Economic Club of Washington, DC will hold a discussion on "tax reform and its effects on US businesses, the future of Dodd-Frank and other financial regulations, and the state of the US and global economies." Expected participants include:

- Brian Moynihan, CEO, Bank of America

Agriculture

At 10:00 a.m., the House Small Business Committee will hold a hearing titled "Restoring Rural America: How Agritech is Revitalizing the Heartland."

Criminal Justice

At 10:00 a.m., the Senate Judiciary Committee will hold a markup hearing to vote on the "Sentencing Reform and Corrections Act of 2017."

Energy

At 9:30 a.m., the Business Council for Sustainable Energy and Bloomberg New Energy

Finance will hold a media briefing on the sixth annual edition of the "Sustainable Energy in America Factbook." Expected participants include:

- Dave McCurdy, president and CEO, American Gas Association
- Tom Kiernan, CEO, American Wind Energy Association
- Abigail Ross Hopper, president and CEO, Solar Energy Industries Association

At 10:00 a.m., the Department of Energy and the Federal Energy Regulatory Commission will hold a meeting followed by a press briefing on agency administrative matters and customer matters, as well as reliability, security and market operations.

Financial Services

At 9:30 a.m., the Senate Agriculture, Nutrition and Forestry Committee will hold a hearing titled "State of the CFTC (Commodity Futures Trading Commission): Examining Pending Rules, Cryptocurrency Regulation, and Cross-Border Agreements." Expected participants include:

- J. Christopher Giancarlo, chairman, Commodity Futures Trading Commission

At 10:00 a.m., the House Financial Services Committee's Subcommittee on Financial Institutions and Consumer Credit will hold a hearing titled "Examining De-risking and its Effect on Access to Financial Services."

Geopolitical

At 10:00 a.m., the House Armed Services Committee will hold a hearing titled "Strategic Competition with China."

Healthcare

At 9:00 a.m., the Senate Finance Committee will hold a hearing on the FY19 budget request for the Department of Health and Human Services. Expected participants include:

- Alex Azar, secretary, Department of Health and Human Services

At 12:30 p.m., the House Energy and Commerce Committee's Subcommittee on Health will hold a hearing titled "Oversight of the Department of Health and Human Services." Expected participants include:

- Alex Azar, secretary, Department of Health and Human Services

Immigration

At 11:00 a.m., the *National Journal* will hold a webinar titled "Immigration Reform Under the Trump Administration." [More information here.](#)

At 5:00 p.m., America's Voice will hold a conference call briefing to discuss the Senate immigration debate.

Infrastructure

At 7:30 a.m., the *Washington Examiner* will host a discussion titled "Examining Infrastructure." Expected participants include:

- Senator James Inhofe (R-OK)

At 3:30 p.m., several Democratic mayors from around the country will hold a conference call briefing to discuss "the Trump administration's infrastructure scam." [More information here.](#)

Judicial

At 11:00 a.m., the Heritage Foundation will hold a discussion titled "Sovereignty in Cyberspace: What is the International Reach of American Law in the Digital Age?" Expected participants include:

- Rep. Warren Davidson (R-OH)
- Rep. Doug Collins (R-GA)

At 12:00 p.m., the Washington, DC Chapter of the Federalist Society will hold a discussion with former Associate Attorney General Rachel Brand.

Political

Today, the Ripon Society will hold a discussion titled "the goal of the newly-formed Main Street Caucus and how the group plans to represent the 'governing wing' of the Republican conference." Expected participants include:

- Rep. Rodney Davis (R-IL)
- Rep. Jeff Denham (R-CA)

Tax

At 9:00 a.m., the Washington International Trade Association will hold a discussion titled "Implications of Tax Reform on International Trade and Investment."

Tech-Media-Telecom

At 12:00 p.m., the American Enterprise Institute for Public Policy Research will hold a discussion titled "Securing the Internet of Things." Expected participants include:

- Senator Edward Markey (D-MA)
- Rep. Ted Lieu (D-CA)

Trade

At 9:30 a.m., the US International Trade Commission will hold a hearing "on whether an industry in the US is materially injured or threatened with material injury, or the establishment of an industry in the US is materially retarded, by reason of imports of silicon metal from Australia, Brazil, Kazakhstan, and Norway."



Website



Twitter



LinkedIn



Email

Copyright © 2018 [Beacon Policy Advisors LLC](#)

1701 Pennsylvania Avenue, NW, Suite 200 Washington, DC 20006 | (202) 729-6335

[Our Compliance Policy](#) [Unsubscribe](#)