

Debt Limit Stalemate

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Congress Re-enacts Perils of Pauline



With just a handful of days before the Treasury Department's deadline of August 2 arrives, and with it the exhaustion of the federal government's ability to incur additional debt and thereby pay its outstanding bills, the House of Representatives' leadership has begun to resemble a hydra-headed beast with no sense of coming together to pass a debt ceiling increase. Contrary to conventional wisdom, this debate is not really about the 2012 election and hobbling the White House. To be sure, a small piece of this debate may involve gaming the upcoming election. However the essence of the debate has boiled down to a fight over the future of federal government programs.

The debt limit and deficit reduction debate are the public elements of the debate, but behind the curtain the debate really amounts to a fight over the role the federal government should play in the decades ahead. Thus, the turmoil in the House between TEA Party adherents and their Republican brethren over the amount of federal spending cuts, translates into a decision on whether the public is prepared for a massive scale-back of federal domestic and defense program spending into the foreseeable future. The debt ceiling increase is actually a real, but convenient vehicle, to reach an end-point where statutory limits are imposed upon the federal budget and with it the reversal of more than a half-century of domestic spending priorities, many of them Democratic priorities.



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House Democrats, accurately perceiving that the debate signals a game changing moment, remain on the sidelines honoring the strategy that in the House the party that holds the gavel rules. There is no dividend for House Democrats to attempt to broker a compromise with House Republicans. Any agreement would likely culminate in the emasculation of any number of cherished Democratic policy and program priorities. For this reason, the debt ceiling debate boils down to the following question: Will Speaker Boehner secure enough Republican votes to not only pass a budget measure (which he surely will), but also a large enough majority to demonstrate to the Senate that the House position must be seriously included in any final compromise that Congress agrees upon and sends to the White House for enactment? Absent such an outcome, the next year of federal policymaking is likely to resemble the movie Lord of the Flies.



The Next Battle(s) - Appropriations + Transportation Reauthorization

With Congress and the Administration consumed by deficit reduction negotiations it is difficult to see around the corner to consider future battles. However, a major partisan fight over both FY 2012 spending bills and the looming expiration of surface transportation funding are expected. Thus far, the House has passed six of the 12 annual appropriations bills. The Senate has passed only one spending measure, the military construction and Veterans Affairs appropriations bill. It is highly unlikely that passage of spending bills or the transportation reauthorization will occur prior to the September 30 deadline. Should a final deal on the debt ceiling present a way for an agreement on overall FY 2012 funding levels, there is a slight possibility of passage of individual spending bills or an omnibus measure. However, all signals currently point to the need for a short or long-term continuing resolution to allow additional time while negotiations continue.

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Highway Reauthorization - The [House](#) and [Senate](#) outlined competing proposals to reauthorize surface transportation programs in July (actual bill language has not been released). The six-year proposal by House Committee on Transportation and Infrastructure Chairman Mica (R-FL), limiting funds to those collected under the Highway Trust Fund, is stalled awaiting availability of floor time to debate the bill. The two-year bipartisan Senate plan is being held pending efforts by the Senate Committee on Finance to identify additional funding.

In a strange twist of fate, the current extension of the authorization expires on the same day as the federal gas tax expires. Mark your calendars for September 30 as the deadline by which Congress must address the delicate issues of funding and taxes. The following transportation taxes are set to expire:

- All but 4.3 cents-per-gallon of the taxes on highway gasoline, diesel fuel, kerosene, and alternative fuels
- Reduced rate of tax on partially exempt methanol or ethanol fuel
- Tax on retail sale of heavy highway vehicles
- Tax on heavy truck tires
- Annual use tax on heavy highway vehicles

New Transportation Bond Measure Introduced

On July 28, Senators Wyden (D-OR), Hoeven (R-ND) and Begich (D-AK) introduced the [Transportation and Regional Infrastructure Project Bonds Act of 2011](#). The proposed bill would provide a financial tool to help finance multiple modes of transportation, including roads, bridges, rail, transit, ports, and certain aspects of the inland waterway system (excluding locks and dams). According to the authors, the legislation would allow State Infrastructure Banks to issue \$50 billion in bonds over a six-year period. The proceeds of the bonds would be used to fund the construction of significant new projects across all modes of transportation, including roads, bridges, transit, rail, and waterways. An annual amount of approximately \$900 million from customs user fees will be placed in a TRIP Bond Trust Account and invested for the life of the bonds (30 years), which will generate more than enough to repay the entire \$50 billion principal amount.

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Cybersecurity Debate Moves Forward – Legislation Next?

On July 26, the House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations held the first in a series of hearings on cybersecurity and securing the nation's critical infrastructure. The stated purpose of the hearing was to get an overview of the Department of Homeland Security's (DHS) roles and responsibilities, and how it coordinates with the sector-specific federal departments and agencies, many of which are subject to this Committee's jurisdiction.

This hearing, entitled "[Cybersecurity: An Overview of Risks to Critical Infrastructure](#)," featured testimony from Ms. Bobbie Stempfley, Acting Assistant Secretary of the DHS Office of Cyber Security and Communications; Mr. Sean P. McGurk, Director for the DHS National Cybersecurity and Communications Integration Center; and Mr. Gregory Wilshusen, Government Accountability Office, Director of Information Security Issues.

In his opening statement, full committee Chairman Fred Upton (R-Mich.) stated, "In the face of cyberthreats that are both more frequent and more sophisticated, this committee is well-positioned to play an important role in any comprehensive cybersecurity legislation that moves through the House." In written testimony, Assistant Secretary Stempfley stressed that, "an event impacting control systems has potential implications at all these levels, and could also have cascading effects upon all 18 sectors. For example, water and wastewater treatment, chemical, and transportation sectors depend on the energy sector, and failure in one of these sectors could subsequently affect government and private sector operations."

Senate Update: On July 27, U.S. Senate Majority Leader Harry Reid and Minority Leader Mitch McConnell (R-KY) agreed to resume work on drafting cybersecurity legislation aimed at combating breaches and theft from U.S. companies and government networks.

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White House: In May, a [White House proposal](#) called for a comprehensive cybersecurity plan that includes a provision directing the Department of Homeland Security “to exercise primary responsibility within the executive branch for information security.” This includes “implementation of information security policies and directives and compliance.” In the [letters](#) transmitting the proposal to Congress, Office of Management and Budget (OMB) Director Jacob Lew, summarized the proposals key provisions.

House Hearing on Impact of EPA Regulations on Affordable Power

On July 26, the House Committee on Oversight and Government Reform, Subcommittee on Regulatory Affairs held a hearing entitled, “Lights Out: How EPA Regulations Threaten Affordable Power and Job Creation.” In his opening statement, Chairman Jim Jordan (R-OH) indicated that the hearing was part of an ongoing commitment by the Committee to examine onerous federal regulations that impact job creation. Specifically, Jordan noted a series of regulations (referred to as “EPA’s train wreck”) that include standards for cooling water intake structures, mercury toxic standards and air quality transport restrictions.

In response to issues raised regarding Mercury and Air Toxics Standards (MATS) under section 112 of the Clean Air Act, Bob Perciasepe, Deputy Administrator for the U.S. Environmental Protection Agency (EPA) testified that “the power plant rules that EPA is developing are necessary to protect public health and the environment from pollution produced by these plants – especially the oldest, dirtiest, and least efficient of them.” Perciasepe concluded his statement by expressing, “simply put, many of the studies, which have dire predictions for increases in electricity rates, reliability and other economic consequences are not based on the reality of the proposals the Agency is considering.”

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Water Desalination Legislation Introduced in House

On July 27, Representative Grace Napolitano (D-CA) introduced the Reauthorization of Water Desalination Act of 2011 ([H.R. 2664](#)), which reauthorizes the Desalination Act of 1996. The bill would provide \$2 million a year through 2016 to fund research and development projects in desalination. Napolitano stated, “desalination is another promising source of water, especially for western states, and these programs deserve federal support.”

According to background material provided on the legislation, since 1996 when the program started over half of the 50 states have had projects or studies funded, with 38 projects located in California. Some of this research has led to discoveries including determining how to dispose of saline wastewater, establishing uniform industry standards for common desalination components, funding “brackish” water projects to desalinate groundwater, discovering how to withdraw seawater from below the seafloor to minimize environmental damage, and developing reverse osmosis membrane pretreatment to improve desalination.

Hearings

Senate

Date: August 2, Time: 2:30 pm
Committee: Armed Services
Hearing: Cyber Issues

House

Date: August 3, Time: 10:00 am
Committee: Agriculture
Hearing: Audit of USDA Rural Development Programs