



INDUSTRIALS

Industrials: Three Items to Watch

In this note we spotlight several policy risk items likely to impact industrials in the near future.

- ❑ **Tax Extenders => Highway Trust Fund?** President Obama's veto threat on an emerging bipartisan tax extenders deal could trigger a one-year, 2014-only result. That would in turn set up the possibility of a mini-tax reform in 2015 to include a long-term Highway Trust Fund revenue fix.
- ❑ **Immigration Standoff.** Republicans are wrestling over how to push back on President Obama's immigration order. While some action is likely, anything that could trigger a government shutdown seems off the table. Regarding the order itself, we see it as less-than-meets-the-eye.
- ❑ **UAS/Drones.** FAA chief Michael Huerta appeared on CNN yesterday to outline new rules for the operation of unmanned aircraft systems, AKA drones. The FAA will propose new rules within weeks, but Congress must weigh in with a reauthorization of the agency next year.

Delay on Tax Extenders Could Aid Highway Trust Fund

President Obama's veto threat on an emerging bipartisan tax extenders deal could trigger a one-year, 2014-only result. That would in turn set up the possibility of a mini-tax reform in 2015 to include a long-term Highway Trust Fund revenue fix. Congressional Republicans and Obama may not agree on much - if anything - but both sides have proposed using a broader tax reform deal to sluice off money into the HTF.

A straightforward hike in the federal gasoline tax is preferred by many stakeholders and policymakers, but the lion's share of congressional Republicans is unalterably opposed. A mini-reform over the tax extenders could be the ticket.

Over the past couple decades, a number of expiring tax credits and deductions have accreted in the tax code with enough collective support to be extended every year or two, typically in a postelection package dubbed "tax extenders." Media reports say that Senate Majority Leader Harry Reid (D-NV) and House Ways and Means Chairman Dave Camp (R-MI) - both of whom will lose those positions at the end of the year - had agreed on a deal that would give Republicans some of their desired changes while leaving others on the cutting-room floor. Within hours, however, Obama said

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he would veto the package - an unusual public disagreement with Reid - setting back the negotiations. What happens next is unclear, but if a deal is not forthcoming by Dec 31, it sets up at least the possibility of broader action in 2015.

Immigration Standoff: Headline Risk, Little Change

Republicans are wrestling over how to push back on President Obama's immigration order. While some action is likely, anything that could trigger a government shutdown seems off the table. Regarding the order itself, we see it as less-than-meets-the-eye. That's because we expect far fewer than the five million estimated to be eligible for Obama's new program to actually sign up. More significant could be a) whether the move triggers another surge of illegal migration across the southern U.S. border and b) whether Obama's move paves the way for even more aggressive executive orders in the future.

This latter issue, along with anger among Republican voters, is why congressional Republicans are virtually guaranteed to act. The Republican plan seems to indeed to be to attach some restrictions to the budget process, though the plan - a hybrid "CROmnibus" - would avoid any risk of a government shutdown.

The "CR" would be short-term "Continuing Resolution" funding until January and February for immigration-related agencies within the Department of Homeland Security and perhaps a few other agencies, while the "Omnibus" would be full funding for Fiscal Year 2015 through September 30. That way, Congress could haggle over funding restrictions in January/February, without risk of a government-wide funding cutoff. We doubt Democrats will be passive during this period, however, so it's hardly a done deal that the final result will be this simple.

Uncertainty on Drones as FAA Could Clash With Congress

Federal Aviation Administration chief Michael Huerta [appeared on CNN yesterday](#) to outline new rules for the operation of unmanned aircraft systems, AKA drones. The FAA will propose new rules within weeks, but Congress must weigh in with a reauthorization of the agency next year.

Huerta's emphasis is on public safety, but it is a nuanced debate with the development and broad utility of the new technology having to be balanced as well. The issue is clearly moving up the radar screen in Congress, where members from both parties are weighing in. The current authorization for the FAA expires Sept 30 2015, although that date could be pushed back with an extension. See our longer note on this issue [here](#).

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