Gray & Oscar LLC

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DT: 6/8/18
RE: CONGRESSIONAL UPDATE

This Week in Congress: The House and Senate were in session this week and the Senate Appropriations Committee considered the FY19 Transportation, Housing and Urban Development Appropriations. Meanwhile, the House considered H.R. 8, the Water Resources Development Act and H.R. 5895, the Energy and Water, Legislative Branch, and Military Construction and Veterans Affairs FY19 Appropriations Bills.

PBGC PROJECTIONS: On May 31, 2018, per the Pension Benefit Guaranty Corporation (PBGC)'s FY17 Projections Report, the PBGC's Multiemployer Insurance Program continues to face insolvency by the end of the fiscal year 2025. The likelihood that the Multiemployer Program will run out of money before the end of FY 2025 has grown to over 90 percent, and there remains a significant chance the program will run out of money during FY 2024. The likelihood the program will remain solvent after FY 2026 is now less than 1 percent. The narrower range in the new projections is based on the most recent available data on troubled pension plans. PBGC's Single-Employer Program, which covers about 28 million participants, continues to improve and is likely to emerge from deficit sooner than previously anticipated.

The Projections Report is PBGC's annual actuarial evaluation of its future operations and financial status. The report provides a range of estimates of the future status of insured pension plans and their effect on PBGC's financial condition, based on hundreds of different economic scenarios.

Over the next decade, the financial condition of PBGC's Multiemployer Insurance Program is expected to worsen. Projections made for FY 2027 show a wide range of potential outcomes, with an average projected deficit of about $89.5 billion in future dollars, an increase of over $11.7 billion from last year's projection for FY 2026. The insolvency risk and projected future deficits are very similar whether or not PBGC assumes multiemployer plans will continue to adopt benefit reductions or partitions under the Multiemployer Pension Reform Act of 2014.

About 130 multiemployer plans covering 1.3 million people are expected to run out of money over the next 20 years. Absent legislative changes, more and larger claims on the Multiemployer Program will lead to the program's insolvency. As insolvency nears, the specific year of insolvency becomes more predictable. The most recent projections show that the risk of the Multiemployer Program becoming insolvent prior to FY 2024 or remaining solvent after FY 2026 is now very small. It is increasingly likely that the Multiemployer Program will become insolvent during FY 2025.

If the Multiemployer Program were to run out of money, current law would require PBGC to decrease guarantees to the amount that can be paid from premium income, which would result in reducing guarantees to a fraction of current values. PBGC's guarantee is the amount of retirement benefits that PBGC insures for each participant, which is capped by law.

PREVAILING WAGE UPDATE: Over the past year, the U.S. Department of Labor has formally given approval for contractors to pay $7.25 for specific government-funded projects in six Texas counties; those counties are among dozens around the nation where the government-calculated prevailing wage listed for certain work such as by some carpenters in North Carolina, bulldozer operators in Kansas and cement masons in Nebraska is just the minimum wage.

The rationale for this discrepancy is that DOL is relying on wage survey data in more than 50 jurisdictions that's from the 1980s or earlier. Additionally, in some parts of America, the Department of Labor has not updated its "prevailing wage" for taxpayer-funded work in decades.

Legislation proposed to repeal federal prevailing wage rules has been dormant in Congress. Additionally, some members of President Trump's cabinet have indicated they want to retain Davis Bacon in his stalled infrastructure initiative.

NAFTA 2.0: At this point, the opportunity for a new NAFTA deal this year seems unlikely; especially with last Thursday's tariff announcement; the Trump Administration will impose new duties on steel and aluminum imports from three key trading partners, the European Union, Canada and Mexico, after failing to reach deals with them to address national security concerns related to the imports. Unfortunately, recent negotiations between the U.S., Canada, and Mexico came up short of deal that Congress could pass this year. While negotiations are expected to continue, the sense of urgency looks to be gone. Speaker Ryan cited timelines in U.S. trade law that Congress needed notice of intent to sign a deal by May 17th, which obviously did not occur. In the interim, it's more likely that a new NAFTA Trade Agreement will be dealt with in the next Congress.

AUGUST RECESS: On Tuesday, June 5, 2018, Senate Majority Leader McConnell stated that he will cancel the August recess citing "historic obstruction" by Democrats. Per McConnell, the Senate would stay in session to "pass legislation, including appropriations bills, and to make additional progress on the president's nominees, along with approving the National Defense Authorization Act, the water infrastructure bill, the farm bill, reauthorization of the Federal Aviation Administration, and the renewal of the flood insurance program." Currently, the Senate had been expected to leave town on August 3rd for a four-week break and not return to Washington until early September, but under McConnell's new plan, senators are expected to be out of town for the week of August 6nd and they will then return to Washington and remain in session for the rest of the month.

NORTH AMERICAN SHALE GAS EXPLORATION: ***U.S. to Become the Largest Oil Producer in 2019 -*** Two years ago, it was expected that Saudi Arabia would conquer the U.S. shale oil industry; however, as mentioned in this weekend's Wall Street Journal (WSJ), "instead of killing it, it spurred a wave of innovation that transformed U.S. drilling into a highly efficient process, dramatically lowering costs, and boosting output." Per the WSJ, "today it is more common for rigs to sit on giant pads, which host multiple wells and the necessary infrastructure, and for them to move on their own power to a new well yards away. These rigs drill over a wider area and increasingly are being guided by instruments developed for offshore drilling that see hundreds of feet into the rock. They inject more sand underground to break open rocks, boosting output." Ultimately, these efficiency gains mean "that even an epic price decline won't halt activity at the best fields."