FEDERAL AND STATE LEGISLATIVE UPDATES

FEDERAL BUDGET UPDATE

On May 23, 2017, the President unveiled the complete details of his nearly $4.1 trillion Federal Fiscal Year 2018 (FFY 2018) budget request. The President's spending plan, which would reduce entitlement programs by $1.7 trillion over the ensuing decade and cut $54 billion from domestic discretionary accounts next year, has been dismissed by congressional Democrats and does not appear to have broad based support from GOP lawmakers, suggesting that the 12 annual appropriations measures may look substantially different than the President's budget proposal.

The budget assumes that total revenues in FFY 2018 will reach $3.7 trillion, producing a net budget deficit of $440 billion next fiscal year. Based on proposed shifts in federal spending and tax revenues, the budget projects a $16 billion surplus by 2027, with the gross federal debt growing to $25 trillion by that same year.

With regard to entitlement savings, the President is recommending cuts of $610 billion to Medicaid on top of the program reductions that were included in the House-passed healthcare reform bill (HR 1628). The combined cost shift to states and counties would amount to between $1.3 and $1.4 trillion over ten years, or a 45 to 50 percent cut in the federal contribution to Medicaid compared to what is projected under current law.

The administration is proposing long-term funding reductions for a number of other mandatory spending programs, including: a 10 percent cut in the Temporary Assistance for Needy Families block grant (which would translate into California losing nearly $360 million annually); a decrease in the federal matching percentage for the Children's Health Insurance Program (the federal contribution to California would decrease from 88 percent to 65 percent); and, a 25 percent cut by 2023 to the Supplemental Nutrition Assistance Program.

Within the proposed $54 billion in cuts to domestic discretionary programs – which would be used to offset a commensurate increase in defense-related spending – the administration is seeking the elimination of a number of programs, including: the State Criminal Alien Assistance Program, the Community Development Block Grant, the Community Services Block Grant, the Low-Income Home Energy Assistance Program, and the Transportation Investment Generating Economic Recovery (TIGER) grants. The budget would completely eliminate funding for over 60 federal programs to the tune of nearly $27 billion.

Dozens of other county programs would be cut by varying percentages, including state and local law enforcement grants, state and local Homeland Security and FEMA grants, and the Payments-in-lieu-of-Taxes program.

In light of the congressional response to the administration's proposed budget cuts, this year's appropriations process is expected to be long and contentious. With a limited number of legislative days remaining on the calendar due to the impasse over the Federal Fiscal Year 2017 (FFY 2017) budget, a continuing resolution (CR) will almost certainly be needed in order to allow for extended negotiations on the 2018 spending bills.

Additional details on several of the administration's key budget proposals are also included below.

Health and Human Services

Medicaid

The President's budget proposes changes that would reduce Medicaid spending by nearly $3.9 billion. Like the House GOP-sponsored American Health Care Act, the administration would provide states with the choice of either a per-capita cap or a block grant, beginning in FFY 2020. The proposal would save the federal government $610 billion over the next decade.

Children's Health Insurance program (CHIP)

The CHIP program helps provide health coverage to children from moderate-income families, with eligibility determined by counties as a part of the Medi-Cal program. The President's budget proposes to reauthorize CHIP for an additional two years, but would eliminate the enhanced federal match. Under current law, the federal government pays 88 percent of the cost, while the State pays only 12 percent. This proposal would return California's contribution to its base level of 35 percent. The budget also would cap the availability of federal matching funds to only serve children up to 250 percent of the federal poverty level (California currently serves children up to 266 percent of the poverty level).

Supplemental Nutrition Assistance Program (SNAP)

SNAP, formally known as the Food Stamp program, helps provide nutrition assistance to low-income individuals and families. The FFY 2018 budget request includes a number of legislative proposals that would reduce long-term SNAP spending. Proposals include tightening eligibility and benefit calculation standards, establishing fees for retailers who accept SNAP benefits, and implementing a cost-share requirement for states, among other things.

Temporary Assistance for Needy Families (TANF)

The budget proposes to reduce spending on the TANF program by $2.2 billion. The savings would be realized by cutting the TANF block grant for states, eliminating the TANF Contingency Fund, and diverting funding to other programs.

Social Services Block Grant (SSBG)

The SSBG is a flexible funding source that allows states to tailor social service programming to their population's needs. California primarily uses the funding to provide services for those with developmental disabilities, as well as for child abuse prevention activities. The president's budget would eliminate funding for SSBG, saving $1.4 billion in FFY 2018.

Low-Income Home Energy Assistance Program (LIHEAP)

The administration also has proposed eliminating funding for the LIHEAP program, which helps provide heating and cooling assistance to low-income families. This would amount to a cut of nearly $3.4 billion.

Community Services Block Grant (CSBG)

The CSBG provides funds to alleviate the causes and conditions of poverty in communities. The president's budget would eliminate funding for the program, which would amount to a savings of $714 million.

Workforce Opportunity Investment Act (WIOA)

The budget proposes substantial cuts to WIOA funding across all sectors of the Act, including a $490 million cut to adult employment, $699 million reduction to the dislocated workers program, and a $608 million cut to youth activities.

Water Resources/Air Quality

CALFED Bay-Delta Restoration

The FFY 2018 budget provides $37 million for California Bay-Delta Restoration, a slight boost from the FFY 2017 enacted level. The account focuses on the health of the Bay-Delta ecosystem and improved water management and supplies. According to the administration, the budget supports the coequal goals of environmental restoration and improved water supply reliability.

Within the Bay-Delta account, $3 million would be set aside for the Bureau of Reclamation's efforts related to the ongoing development of California WaterFix (CWF). Proposed actions in FFY 2018 would include the following: activities associated with CWF legal and permitting requirements, including compliance with the Endangered Species Act, National Environmental Policy Act, Clean Water Act, and the National Historic Preservation Act. Funding also would be used to continue the Bureau's work on the program's Adaptive Management and Monitoring element, as well as the development of an operations plan and the development of a cost recovery strategy for the Central Valley Project related to CWF.

Solano Project

The president's budget proposes level funding for the Solano Project, which includes:

- $2.4 million for facility operations;
- $1.2 million for management of the recreation area at Lake Berryessa; and,
- $107,000 for NEPA compliance activities and aquatic weed research.

Clean Water and Drinking Water State Revolving Funds

The White House spending plan includes level funding for both the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund. These programs provide federal financial assistance for the construction of drinking water and wastewater infrastructure and treatment facilities.

Diesel Emissions Reduction Act Grants

Diesel Emissions Reduction Act grants help local governments reduce diesel emissions. The budget proposal would cut the program by $50 million.

Targeted Airshed Grants

The FFY 2018 budget request would eliminate the Targeted Airshed Grant program, which offers competitive grants to reduce air pollution in the most polluted nonattainment areas relative to annual ozone or PM2.5.

State and Local Air Quality Management

The FFY 2018 request includes $159.4 million for the State and Local Air Quality Management program, which provides grants to state and local air pollution control agencies to develop and implement programs that help reduce air pollution. This would represent a cut of approximately $69 million from the FFY 2017 enacted level.

Department of Justice

State Criminal Alien Assistance Program (SCAAP)

The current administration, like the administration before it, has proposed eliminating the SCAAP program. SCAAP partially reimburses counties for incarcerating undocumented criminals with at least one felony or two misdemeanor convictions.

Byrne Justice Assistance Grants (JAG)

JAG is the primary source of flexible federal criminal justice funding for state, local, and tribal jurisdictions. The budget would cut JAG funding by over $70 million.

COPS Hiring Program

The President's budget would increase funding for the COPS Hiring Program by $12.5 million. The program provides competitive grants to hire and re-hire entry level career law enforcement officers.

Homeland Security

FEMA Grants

FEMA grants to state and local governments would be reduced by nearly $800 million through proposed spending cuts, program eliminations, and a proposed cost-share. The budget proposes a 25 percent non-federal cost match for grant programs that currently do not require one, including the State Homeland Security Grant Program (SHSGP) and the Urban Area Security Initiative (UASI).

National Flood Insurance Program

The federal government provides flood insurance through the National Flood Insurance Program (NFIP). The program has operated at a loss since Hurricane Katrina struck the Gulf Coast in 2005, and is currently in debt by $24.6 billion. The FFY 2018 budget request includes a proposal to reform the NFIP by encouraging private competition in the market, among other things. If fully implemented, the administration projects that this would result in a savings of $8.9 billion over the next decade.

Flood Hazard Mapping

The President's budget proposes eliminating discretionary funding for NFIP's Flood Hazard Mapping Program (RiskMAP). Instead, the program would be supported entirely from surcharges and fees collected from NFIP policyholders. According to the administration, flood maps largely benefit policyholders and communities at risk of flooding, therefore they should bear the mapping costs.

Border Wall

The President's budget includes $1.6 billion for 32 miles of new border wall construction, 28 miles of levee wall along the Rio Grande Valley, and 14 miles of a new border wall system that will replace existing secondary fence in the San Diego Sector.

Additional Border Patrol and ICE Officers

The budget requests an additional $314 million to hire 500 new Border Patrol officers and 1,000 new ICE officers.

Aviation Passenger Security Fee

The Aviation Passenger Security Fee is assessed on flights originating at airports in the United States. The FFY 2018 budget proposal increases the fee by one dollar, from $5.60 to $6.60 per one-way trip.

Transportation

Infrastructure Package

Within the White House budget document is a preview of how the administration intends to make good on the President's pledge to spend $1 trillion over 10 years to modernize the nation's crumbling infrastructure. According to the proposal, the target of $1 trillion in infrastructure investment will be met by a combination of new federal funding, incentivized non-federal funding, and newly prioritized and expedited projects. In total, the FFY 2018 budget would provide $200 billion in direct federal spending for the infrastructure initiative. To help leverage public and private dollars, the budget proposes to expand the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. TIFIA helps finance surface transportation projects through direct loans, loan guarantees, and lines of credit. The White House also is proposing to drive investment by lifting the cap on private activity bonds and expand eligibility to other non-federal public infrastructure. Furthermore, the budget includes language that would liberalize tolling policies, as well as allow private investment in rest areas.

According to the DOT secretary, a complete infrastructure package, with proposed legislative language, will likely be sent to Capitol Hill in the third quarter of the year. In the meantime, 16 federal agencies and departments are working as part of the president's infrastructure task force and are in the process of further developing the administration's proposal.

Amtrak

The President's budget would terminate federal funding for 15 Long Distance routes and dedicate the remaining funds to the Northeast Corridor (NEC) and State-Supported services. Four of the Long-Distance routes travel through stations in California, including:

- California Zephyr route (Chicago-Emeryville);
- Southwest Chief route (Chicago-Los Angeles);
- Sunset Limited route (Orlando-Los Angeles);
- Coast Starlight route (Seattle-Los Angeles)

Consolidated Rail Infrastructure and Safety Improvement Grants

The budget requests $25 million for grants to improve the safety, efficiency, and reliability of passenger and freight rail systems. These competitive funds would support a wide range of freight and passenger projects, including safety efforts like reducing grade crossing incidents.

Housing Programs

Community Development Block Grants (CDBG)

The CDBG program provides flexible formula funds to state and local governments for a wide range of community and economic development activities (e.g., housing rehabilitation, blight removal, infrastructure and public improvements, public services). The budget eliminates funding for the program, contending that it is not well targeted to the poorest populations and has not demonstrated a measureable impact on communities.

Choice Neighborhoods

The Choice Neighborhoods program provides competitive planning and implementation grants to improve neighborhoods with distressed public and/or assisted housing. The president's budget eliminates funding for the program and encourages state and local governments to work with the private sector on locally-driven strategies for neighborhood revitalization.

Home Investment Partnerships Program

The HOME Investment Partnerships Program, which provides flexible formula grants to local governments to expand the supply of affordable housing for low-income households, is also eliminated in the president's budget. Like the Choice Neighborhoods program, the administration believes that state and local governments are better positioned to meet community needs.

Agriculture

Water and Waste Disposal Program

The Water and Waste Disposal Program provides financing for rural communities to establish, expand, or modernize water treatment and waste disposal facilities. The president's budget would eliminate funding for the program.

Rural Economic Infrastructure Grants

The president's budget proposes $162 million for a new Rural Economic Infrastructure Grant program, which would consolidate several existing grant programs, including Distance Learning and Telemedicine, Broadband, Community Facilities, and housing repair for low-income residents.

Energy

Energy Efficiency and Renewable Energy

The President's budget would slash funding by nearly $1.5 billion for DOE's Office of Energy Efficiency and Renewable Energy. Funding for renewable energy programs – including solar, wind, geothermal, and water – would also be substantially reduced.

Weatherization and Assistance Program

The administration has proposed eliminating the Weatherization Assistance Program, which helps low-income families make their homes more energy efficient and ultimately reduces the homeowner's energy costs.

STATE BUDGET UPDATE

In January, Governor Brown proposed to spend about $122.5 billion from the General Fund. The May Revision projects $2.5 billion in additional revenues and proposes $1.5 billion in increased 2017-18 General Fund spending above the January budget proposal.

The Governor's May Revision is an improvement to the January proposal, it rescinds some proposals from January to revisit investments agreed to in the 2016 budget, such as the proposed pause to child care increases. However, the May Revision still includes reductions to health care, homeless prevention programs, and financial aid.

There are three other major changes to the January proposal:

1. Proposition 98 funding increases by $1.1 billion, reflecting the higher projected revenues. The May Revision proposes $661 million in additional Local Control Funding Formula funding, reaching 97 percent of full implementation for that program.
2. The Coordinated Care Initiative/In Home Support Services share-of-cost proposal is significantly modified to soften the impact on county realignment funding and make these costs a more predictable maintenance of effort.
3. The May Revision proposes to save $11 billion over the next two decades by leveraging $6 billion in existing State funds from the Surplus Money Investment Fund to make a supplemental payment for State pensions.

Overall, the May Revision projects $126.6 million in revenue and $124 million in General Fund spending, leaving, after adjusting for encumbrances, a reserve of $1.6 billion.

Overall state reserves have grown to $10.1 billion. The Rainy-Day Fund, the Budget Stabilization Account, is projected to increase to $8.5 billion.

Health and Social Services

In Home Supportive Services (IHSS) Program

See Significant Pending Issues in the FY2017/18 Solano County Supplemental Budget - Attachment A for further details.

Health Care

- For Medi-Cal, the Brown Administration has revised the current year shortfall by approximately $620 million compared to the Governor's January proposed budget. The reduction is primarily attributable to savings from drug rebates in Medi-Cal managed care, retroactive managed care rate adjustments, and slower caseload growth than previously estimated. However, Medi-Cal expenditures are still expected to exceed the appropriation included in the 2016 Budget Act by approximately $1.1 billion.
- Coverage of Undocumented Children – no change from the Governor's January proposal - $279.5 million General Fund to provide full-scope benefits to approximately 185,000 children. This amount reflects the full-year costs for this program. Chapter 18, Statutes of 2015 (SB 75), expanded full-scope Medi-Cal benefits to undocumented children under 19 years of age effective May 2016.
- Prop 56 Revenues to Medi-Cal –the May Revision also maintains the allocation of $19.8 million from Proposition 56 funds, the California Healthcare, Research and Prevention Tobacco Tax Act of 2016, to the state's Medi-Cal program, a proposal from January. The Revision notes that overall revenue from Proposition 56 increased by $23.3 million compared to the Governor's January Budget Proposal. This proposal is causing much consternation in the Legislature and with the sponsors of Proposition 56, as the Proposition 56 funds were intended to increase Medi-Cal reimbursement rates for medical doctors.

1991 State-Local Realignment Health Account Redirection

The May Revision notes that county savings are estimated to be $585.9 million in 2016-17, and $688.8 million in 2017-18, or approximately $143 million higher compared to Governor's Budget estimates. A portion of these additional General Fund savings will be redirected to offset increased county IHSS program costs. Additionally, actual expenditure data reported by counties indicates county net savings in 2014-15 were $255.6 million higher than estimated based on the preliminary reconciliation of 2014-15. The May Revision continues to assume reimbursement of this amount from the counties in 2017-18.

Social Services

Significant Adjustments in the May Revision to the Social Services portion of the State Budget include:

- Immigration Services - increase of $15 million General Fund to further expand the availability of legal services for people seeking naturalization services, deportation defense, or assistance securing other legal immigration status.
- Continuum of Care Reform - increase of $11.2 million General Fund to implement a higher hourly rate for county social worker and probation staff for certain administrative components, and to provide foster youth placed with relative caregivers the same infant supplement grant and dual agency rate as federally eligible foster youth.
- IHSS - decrease of $22.5 million General Fund in 2016-17 and $80.8 million General Fund in 2017-18 due primarily to a projected decrease in costs associated with IHSS provider travel time and medical accompaniment wait time, partially offset by increases in caseload growth, average hours per case, and average costs per case.

- SSI/SSP - decrease of $34.1 million General Fund in 2016-17 and $37.3 million General Fund in 2017-18 to reflect updated caseload and average cost per case projections.

Developmental Services

The May Revision proposes $7.5 million to establish acute crisis services in the community given the closure of developmental centers and state-run crisis units at the Fairview and Sonoma Developmental Centers (SDC). These new services are part of the State's new plan to provide access to crisis services after the closure of these developmental centers. As the SDC is not that far outside Solano County, the State's plans for post-closure are important to monitor.

Children's Mental Health Crisis Services Grants – the May Revision still includes the proposed reversion of $17 million General Fund intended for local governments to increase the number of facilities providing mental health crisis services for children and youth under the age of 21. The Governor has included this as part of the "corrective action" needed as part of the budget solutions, or programs he proposes to scale back, in his efforts to manage the expected deficit.

Public Safety

Post Release Community Supervision - the May Revision includes $15.4 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on PRCS because of the implementation of court-ordered measures and Proposition 57. This is an increase of $4.4 million over the January Budget.

Proposition 47 - the May Revision estimates net savings of $45.6 million, an increase of $3.5 million over the estimated savings in 2015-16, and an increase of $2.6 million over the January estimate for 2016-17. This estimate assumes savings from a reduction in the state's adult inmate population, and increased costs due to a temporary increase in the parole population and trial court workload associated with resentencing. The estimate also takes into consideration the savings associated with fewer felony filings and more misdemeanor filings, and the number of offenders resentenced and released from the Department of State Hospitals. In calculating state savings attributable to Proposition 47, the state considers the average length of stay of offenders that are no longer prison-eligible.

Proposition 57 - the Governor's Budget assumed that the non-violent parole process and credit-earning changes authorized by Proposition 57 would be implemented on October 1, 2017, and estimated an average daily adult inmate population reduction of 1,959 inmates in 2017-18. Consequently, in future years, Proposition 57 will reduce the estimated length of stay for offenders that would have, absent Proposition 47, otherwise been sentenced to prison. Ongoing savings are currently estimated to be approximately $75 million. The May Revision reflects the accelerated implementation dates proposed in the emergency regulations, which results in a revised estimated population impact of 2,675 inmates in 2017-18, growing to an inmate reduction of approximately 11,500 in 2020-21. The May Revision estimates that Proposition 57 will result in net savings of $38.8 million in 2017-18 and augments the Governor's Budget proposal by $1 million General Fund, for a total of $6.7 million to implement Proposition 57.

Cannabis Regulation

The May Revision notes that the Administration continues to implement the regulatory framework for cannabis. The May Revision reflects the ongoing efforts to provide adequate resources to protect consumers, the environment, and public safety. To assist with the regulation of both medicinal and adult use of cannabis, the Administration proposed legislation to blend the components of the regulatory structure to avoid duplicative costs and provide clarity for licensees, regulatory agencies and the public. The proposed legislation seeks to clarify and enhance the Medical Cannabis Regulation and Safety Act (2015), the Compassionate Use Act

(Proposition 215), and the Adult Use of Marijuana Act (Proposition 64), by providing a clear regulatory structure and eliminating ambiguity.

The cannabis licensing entities have released proposed regulations for all license types. In addition, each entity is developing a licensing system to manage applications, and CDFA is implementing a robust Track and Trace system. The May Revision provides an additional $43.2 million for cannabis related activities for a total of $96 million. Significant Adjustments include:

- Department of Pesticide Regulation - $1.3 million Cannabis Control Fund to develop and update guidelines for pesticide use on cannabis. In 2018-19 and 2019-20, the allocation increases by $1 million annually for County Agricultural Commissioners to provide training, outreach, and education to industry regarding the proper and safe use, handling and disposal of pesticides at cultivation sites.
- Cannabis Control Appeals - $1 million Cannabis Control Fund and 8 positions to provide the necessary resources for the operation of the Appeals Panel to effectively review all appeals related to cannabis licensing decisions.
- Bureau of Cannabis Control - $664,000 and 5 positions for environmental impact review required under CEQA.
- Department of Public Health - $9.3 million Cannabis Control Fund to implement cannabis manufacturers regulations, enforcement, training, and information technology activities.
- Department of Food and Agriculture - $3.9 million Cannabis Control Fund and 10 positions for required environmental impact review activities. The funding also will support information technology projects and cooperative agreements with County Agricultural Commissioners for cannabis cultivation licensing, inspection and enforcement.

Resource Management

Transportation

Given the enactment of SB 1 (Beall), the Governor's May Revision recaps how new revenues are expected to flow through state and local mechanisms. While SB 1 will raise an average of $5.2 billion per year in new transportation funding at full implementation, $2.8 billion is expected in 2017-18. The first new fuel tax rates imposed by the bill will begin in November 2017 and the value-based "transportation improvement fee" will be implemented in January 2018.

Cities and counties will split Road Maintenance and Rehabilitation Account (RMRA) funding from SB 1 evenly with the State. In 2017-18, $445 million (which includes $75 million in loan repayments) will be allocated to cities and counties by formula and equal amounts will be allocated to state highways. RMRA funds are continuously appropriated and will begin to flow to counties in monthly apportionments from the State Controller's Office by February 2018.

Cap and Trade

There is no change from the Governor's 2017-18 Proposed Budget in January that recognized there has been significant volatility in the Cap and Trade market, and proposed a $2.2 billion Cap and Trade Expenditure Plan to be allocated *after* legislation confirming the ARB's authority to administer the Cap and Trade Program beyond 2020 is enacted through a 2/3-vote of the Legislature. Included within the $2.2 billion Cap and Trade Expenditure Plan is $500 million for the Governor's proposed Transportation package, which would be annualized for 10 years; and, $900 million to fulfill ongoing commitments to high-speed rail, affordable housing, sustainable communities and public transit established by SB 862 (Budget and Fiscal Review) [Chapter 36, Statutes of 2014].

Of the remaining $1.3 billion, $863 million is proposed for programs that lower emissions from the transportation sector. This funding could support a reduction in housing and transportation costs through the development of transit-oriented development that brings jobs and housing closer together, as well as provide a substantial investment in incentives for electric vehicles and the development of in-state low-carbon biofuels. An additional $392 million is proposed for programs that could expand the amount of green spaces and new and upgraded housing in the state's disadvantaged and low-income communities, reduce pollution at landfills and provide new recycling jobs, improve the condition of the state's forests, and enhance agricultural water conservation.

The Governor has made it known that he expects the legislature to approve a new Cap and Trade program current with, or even prior to, adoption of the 2017-18 State Budget.

Water

The May Revision includes an increase of $387.1 million Proposition 1 funds for the Department of Water Resources to accelerate a balanced portfolio of flood control projects over the next two fiscal years. These funds, provided from the flood management allocation of Proposition, will complement existing Proposition 1E and Proposition 84 funds that have already been appropriated.