Attachment E

Federal Legislative Update

Fiscal Year 2018 Budget Resolution

Both the House and Senate recently adopted a final version of the fiscal year 2018 budget resolution. While the resolution is technically nonbinding, passage of the measure (H Con Res 71) paves the way for congressional Republicans to advance their ambitious tax-reform plan under fast-track procedures. The somewhat arcane process, known as budget reconciliation, would allow Republicans in the Senate to clear a tax-code rewrite with a simple majority vote (instead of the 60 votes that are typically required to pass most legislation).

With regard to discretionary spending, the final budget blueprint includes language that would allow Congress to spend billions of dollars more for defense programs compared to what is officially authorized by the 2011 *Budget Control Act* (BCA). In order for the additional defense spending to actually occur, Congress would need to pass a separate deal raising the BCA's caps.

Notably, the final resolution does *not* call for additional investment in domestic discretionary programs. Congressional Democrats, however, have stated that they are only open to raising the BCA's defense caps if there are commensurate increases in domestic spending. This matter will likely be addressed in some fashion later this fall, which is when Republicans will need Democratic votes in the Senate to advance a fiscal year 2018 appropriations package (the GOP cannot use the reconciliation process to advance spending bills).

Of additional importance to Solano County, the final budget blueprint jettisons a component of a previously passed House resolution that called for multiple authorizing committees to produce legislation that cuts mandatory spending by at least $203 billion over 10 years. While removal of the House language does not guarantee that Congress will not make cuts to entitlement programs, it does make it highly unlikely that the GOP-led Congress could advance such a bill since the legislation would be subject to a Democratic filibuster in the Senate.

Tax Reform

As stated above, passage of H Cons Res 71 tees up consideration of a Republican tax-cut bill, which, under the terms of the budget resolution, could increase the federal deficit by as much as $1.5 trillion over 10 years. Because the tax code changes being contemplated by the GOP are likely to exceed that $1.5 trillion threshold, committee leaders are considering the elimination and/or modification of a number tax deductions as a means to help offset the overall cost of the reform package.

One such "pay-for" is a partial repeal of the state and local tax (SALT) deduction. Although a number of Republican members of Congress are aggressively advocating to retain provisions of federal law that allow taxpayers to fully deduct their state and local taxes, GOP leaders are expected to unveil legislation that restricts this authority. As of this writing, it does not appear that Republican tax writers will look to modify the tax exempt status of municipal bonds.

Looking ahead, House Ways and Means Committee Republicans are planning to release the legislative text of their tax bill on November 1. A committee markup, followed by House floor action, is expected to occur shortly thereafter.

Health Care

In early November, the House is expected to vote on legislation that would extend funding for the Children's Health Insurance Program (CHIP). While the bill would reauthorize program funding for five years, the measure (HR 3821) would gradually scale back the *Affordable Care Act's* higher federal contribution for CHIP coverage. Specifically, the bill would maintain the current 23 percentage point boost in the federal matching rate through fiscal year 2019 before phasing the rate down by half that amount in 2020. Beginning in 2021, the federal contribution for CHIP would return to its regular (pre-ACA) level.

Although federal funding for CHIP expired on September 30, the Department of Health and Human Services has signaled that states generally have sufficient funding to continue financing their programs after that date. California is expected to exhaust its CHIP funding by January 1, 2018.

In other recent developments, bipartisan legislation designed to fund the ACA's Cost-Sharing Reduction (CSR) payments through 2019 failed to get off the ground in the Senate. A source of controversy for months, the payments are made to health insurance companies to assist low and moderate income subscribers meet their co-pays and deductibles. The impetus for the bill gained urgency given the recent announcement by the Trump administration that the executive branch would cease the monthly CSR payments.

For their part, health insurance companies have stated that the loss of the CSRs would greatly disrupt the individual marketplace and would lead to double-digit increases in premiums. Ironically, given the interaction between increased premiums and marketplace subsidies to pay for them, the Congressional Budget Office has estimated that it would cost the federal government *more* to help lower-income subscribers pay their premiums than to offer subsidies for co-pays and deductibles under the CSRs. In light of the Trump administration's action, and absent legislation to address CSR payments, more moderate income individuals will likely see their premiums skyrocket and insurers may pull out of some states due to the tremendous uncertainty of the federal commitment to them and their subscribers.

With regard to the Golden State, Covered California has indicated that the state's proactive planning likely means there will be little or no impact on current 2017 coverage or rates for California subscribers. Moreover, there is expected to be no effect on 2018 premiums or subscribers' ability to access those benefits next year.

Infrastructure

As stakeholders and members of Congress continue to wait for the release of additional details of the Trump administration's infrastructure proposal, the president's economic advisor recently stated that the White House may be open to a gas tax increase to help pay for the legislation. The remarks are significant and represent a first for the Trump administration, which has not provided full details regarding how its $1 trillion infrastructure plan would be financed.

Looking ahead, it's unclear whether Congress would agree to include a gas tax adjustment as part of any infrastructure bill. That decision will lie with the tax writing committees in the House and Senate.

Attachment E

WaterFix

A group of key House Democrats recently sent a letter to the General Accounting Office (GAO) urging the investigative arm of Congress to initiate a new inquiry into the Bureau of Reclamation's use of federal taxpayer dollars in the BDCP/WaterFix planning process. The action comes on the heels of a recent Department of the Interior Inspector General report, which revealed that Reclamation, among other things, obscured the source of its planning-related funding and the total cost of its participation in the water conveyance project.

In the wake of the call for a GAO investigation, a spokesperson for the Interior Department appeared to distance the Trump administration from the State's project. In a subsequent statement, however, the Department indicated that while Interior does not expect to participate in the construction or funding of the tunnels, they intend to continue to work with the State and stakeholders as the project is further developed.