
MEMORANDUM

To: Mayor Libby Schaaf
Council President Lynette Gibson McElhaney and Members of the City Council

From: Townsend Public Affairs, Inc.

Date: June 22, 2016

Subject: Ongoing update of the 2016-2017 State & Federal Budgets

The purpose of this memo from Townsend Public Affairs, Inc. (TPA) is to provide the City of Oakland with updates regarding Governor Brown's Proposed Budget for 2016-17, released on January 7, 2016, and President Obama's Budget, released on February 9, 2016.

State

On the afternoon of June 15th, 2016, the Legislature met to consider the Budget Act and a package of trailer bills that implement the budget agreement that was reached between the Governor and Legislature.

The approved budget will establish a \$122.5 billion General Fund spending plan for the upcoming fiscal year, which is based on the Administration's overall revenue projections for the coming year and are in alignment with the Governor's May Revision.

The Senate and Assembly took up SB 826 (Leno), the main budget bill, along with five budget trailer bills. The Legislature will meet again to consider additional budget trailer bills and delay consideration of some items, for which there is not yet consensus, to later in the legislative session.

Specific highlights of the budget package include:

- **Steady Reserves:** The budget shifts an extra \$2 billion into the State's Rainy Day Fund, which is beyond the automatic contributions that were mandated by voters in 2014. With these actions, the State now has approximately \$8.5 billion in reserves that it will be able to access in the event of economic downturn.
- **Investment in Public Education:** The budget includes an increase of \$3.5 billion in Proposition 98 funding from last year's budget, bringing the funding level to \$71.9 billion. In addition, the budget includes a \$100 million increase for child care and preschool programs in the coming year, including increased access to preschool, raised reimbursement rates for providers, and the preservation of transitional kindergarten. Furthermore, the budget includes \$200 million for a K-12 College Readiness Block Grant, as enacted through SB 1050 (De Leon) Postsecondary Education: College Readiness.

- **Fighting Poverty and Homelessness:** The overall budget package will include funding for the No Place Like Home Initiative, which will secure \$2 billion through Proposition 63 in order to build thousands of permanent housing for those living on California streets, thereby helping countless cities and counties address and prevent homelessness.

The budget trailer bill for the No Place Like Home Initiative is anticipated to be taken up by the Legislature Thursday, June 23rd. In addition, the budget includes \$45 million in one-time General Fund monies for a State Emergency Shelter Grant Program and \$45 million in one-time General Funding monies to create the Housing and Disability Income Advocacy Program, which will provide grant funds to participating counties for the provision of outreach, case management, and advocacy services to assist clients who are homeless or at risk of becoming homeless to obtain disability benefits.

- **Investing in Safer Communities:** The budget seeks to support criminal justice and safety by reducing jail populations through the provision of \$68 million in community treatment centers, to address the needs of the re-entry population in a non-incarcerated setting.
- **Seismic safety.** We have succeeded in getting a \$10 million dollar appropriation for the State Treasurer's CalCAP program, which encourages banks and other financial institutions to make loans to help property owners without much capital or access to capital to make much needed seismic improvements. We would like to thank Council Member Kalb and the Mayor's office for all of their work and support on this effort.

It should be noted that at least two major budget sticking points were not taken up by the Legislature and will instead be considered later in the legislative session: the cap and trade expenditure plan and the "by-right" affordable housing proposal.

The Administration has chosen to delay putting together a cap and trade expenditure plan, due in large part to the dismal revenue performance of the last cap and trade auction in May. At that auction, which was anticipated to generate \$500 million in funding for the State, only \$10 million in credits were sold. The Administration is trying to determine if this poor auction performance was indicative of a trend where it is easier to buy carbon credits through the open market or if this was just a one-time anomaly. The next cap and trade auction is scheduled to occur in mid-August, which would provide the Administration and the Legislature approximately two weeks to put together an expenditure plan.

Also not considered today, and likely to not be considered until the Legislature returns from their summer recess, was the Governor's "by-right" proposal. As you may recall, this proposal would require only ministerial approvals for affordable housing projects that meet certain requirements and are compliant with a local planning document, such as a general plan, housing element, or other long-range land management planning document. There are still a number of concerns that various stakeholders have regarding this proposal, including concerns from local governments, environmentalists, and labor. It does not appear that the Administration currently has the votes to approve this proposal, so they will continue to work with the Legislature over the coming weeks to see if they can refine their proposal into something that can garner further support. A one-time allocation of \$400 million for affordable housing would be provided through the budget if the bill is enacted.

The package of bills that were approved by the Legislature have been sent to the Governor for his consideration, along with the main budget bill that was approved. The Governor has twelve days to sign the bills once he receives them, but it is likely that he will sign the bills by the end of this week.

Federal Budget

The mood in Washington was somber but combative this week in the wake of the terrorist attack in Orlando. Democratic Senator Chris Murphy (CT) took to the Senate floor to filibuster for greater gun control, and Republicans scrambled to stay ahead of the latest anti-immigrant proclamations by their presumptive presidential candidate, Donald Trump. The filibuster gambit appeared to bear fruit as Senate Majority Leader Mitch McConnell (R-KY) is allowing several gun control amendments (by both parties) to receive votes next week, as part of the debate on the FY2017 Commerce-Justice-Science appropriations bill. However, it is unclear whether there are enough votes for any of the four proposed amendments (two Republican, two Democrat) to reach the 60-vote threshold for cloture. Despite the Hill's heavy focus on terrorism and gun control, other business did move forward as several appropriations bills were voted out of full committee (more details below), and the Senate passed its \$602 billion 2017 Defense Authorization bill.

Appropriations Update

After the typically popular FY2017 Energy & Water bill suffered an embarrassing defeat on the House floor, GOP leadership was able to get back on track by shepherding the FY2017 Legislative Branch spending bill through the House without controversy. The bill includes raises for House staff, although not for Members of Congress. The House also passed its FY2017 Defense spending bill, which has drawn veto threats from the White House for shifting money within accounts to fund more aircraft.

Separately, the House and Senate continue to confer regarding the FY2017 Military-Construction & Veterans Affairs appropriations bill, and Zika funding; negotiators are optimistic that a final agreement can be reached by next week. Below is a summary of current appropriations bills to date:

Appropriations Bill	House Status & Funding Level	Senate Status & Funding Level	Floor Vote & Details
Agriculture-FDA	Passed Committee at \$21.3 billion	Passed Committee at \$21.25 billion	None
Commerce-Justice-Science	Passed Committee at \$56 billion	Passed Committee at \$56.3 billion	Imminent. This is the bill on which two Republicans and two Democrats have proposed gun control amendments.
Defense	Passed Committee \$575.7 billion	Passed Committee at \$574.5 billion	Passed House
Energy & Water	Passed Committee at \$37.4 billion	Passed Committee at \$37.5 billion	Failed House vote; Passed Senate
Financial Services	Passed Subcommittee at \$21.7 billion	Passed Committee at \$22.4 billion	None
Homeland Security	Markup scheduled for June 22, 2016	Passed Committee at \$48 billion	None
Interior-Environment	Passed Committee at \$32 billion	Passed Committee at \$32 billion	None
Labor-HHS-Education	No Action To-Date	Passed Committee at \$162 billion	None
Legislative Branch	Passed Committee at \$3.48 billion	Passed Committee at \$3 billion	Passed House
Military Construction-VA	Passed Committee at \$81.6 billion	Passed Committee at \$83 billion	Passed House; Passed Senate
State-Foreign Operations	No Action To-Date	No Action To-Date	None
Transportation-HUD	Passed Committee at \$58.2 billion	Passed Committee at \$56.4 billion	Passed Senate

Looking Ahead...

Look for Congress to stay busy next week: on Monday, the Senate is likely to take procedural votes on gun control measures offered by Senators Grassley (R-IA), Murphy (D-CT), Cornyn (R-TX), and Feinstein (D-CA). On the House side, Majority Leader Kevin McCarthy (R-CA) has laid out a schedule that includes floor consideration of the FY2017 Financial Services & General Government appropriations bill. As in years past, the White House has voiced its displeasure at the bill, which makes further cuts to IRS funding and blocks various Dodd-Frank regulations.

Racing Against the Clock

Time is dwindling for Congress to act on spending bills and other priorities. The House will be in session four days next week, and has the following week off. The Senate has nine legislative days left before it takes off for the July 4th holiday. Both chambers will recess for the final two weeks of July to accommodate each party's political convention, and then Congress will take its annual summer recess for the month of August. Given the small number of legislative days left on the calendar prior to the end of the government's 2016 Fiscal Year on September 30, lawmakers and their staff have been hinting at the possibility of a Continuing Resolution to keep the government open and funded through at least the first part of the new Fiscal Year and possibly until after the general election in November.

With that, please let us know if you have any questions or need additional information.