Attachment A

TOWNSEND
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MEMORANDUM

To: **Mayor Libby Schaaf**
Council President Rebecca Kaplan and Members of the City Council

From: Townsend Public Affairs, Inc.

Date: January 20, 2020

Subject: **Update of the 2020 State & Federal Budgets**

State Budget

As background, TPA sent the City of Oakland a budget update on January 10th once Governor Newsom unveiled his 2020 budget. This marks the official beginning of the state budget process, which will culminate with the Legislature's approval of a state budget in mid-June.

The Governor's January Budget Proposal contains $222 billion in proposed expenditures, $153.1 billion of which would be from the State's General Fund. These proposed expenditures represent a 2.2% increase in spending over the budget that was adopted last year. The January Budget proposal includes a $5.3 billion surplus for FY 2020-21, which is over a billion lower than was projected by the Legislative Analyst's Office in November.

During his press conference, the Governor reinforced that his proposed budget makes a number of innovative investments, but does so in a way that acknowledges that the State's economy is seeing a slowing in its growth and could slip into a recession in the near future. As such, the Governor's budget proposal focuses largely on one-time spending items, in addition to investing in the State's Rainy Day fund and other budget reserves. The proposed budget would increase the State's Rainy Day fund to $18 billion by the end of FY 2020-21 and would reach the constitutional 10% reserve cap in FY 2021-22.

The Governor touched on nearly all of the major items within his budget proposal; however, the main focus of his budget are: education, housing and homelessness, and climate resiliency.

Housing and Homelessness

The Governor's budget proposal builds on investments over the past two budgets in the areas of housing and homelessness. Most notably, the budget contains $750 million in one-time funding to establish the California Access to Housing and Services Fund, which would be administered by the Department of Social Services. This funding would be used to reduce homelessness by moving individuals and families to permanent housing and to increase the number of units available to those that are at risk of becoming homeless.

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The budget proposes to disperse the funding through regional administrators that can provide short- and long-term rental subsidies, make contributions to the development of units, and stabilize community facilities through capital projects and operating subsidies. These efforts are in addition to the funding that was released via Executive Order earlier to secure temporary trailers and tents for emergency shelters for homeless individuals.

The Governor's budget also continues to build on the investments that were made in last year's budget to expand the amount of affordable housing that is produced in the State. Several of the major programs that were included as part of the FY 2019-20 State Budget, including funding for infill infrastructure and multi-family housing, are just now being made available through grant programs through the Department of Housing and Community Development.

This year's budget proposal would increase state funding to help expedite the release of those funds, as well as provide over $6.8 billion in funding to over 25 different programs aimed at increasing the amount of housing in California. The Governor's budget proposal also contains funding for the State to continue to assess and make recommendations to improve the RHNA process.

The Governor has directed the Department of Housing and Community Development to work with stakeholders to revamp the RHNA process by 2023. This aligns with the Governor's stated goal of working with the Legislature to expedite housing production, including making changes to local zoning and permitting processes and by adding predictability and reducing the cost of development fees.

Education
In regards to education, the Governor's January budget proposes $84 billion in Proposition 98 funding for K-12 and community college districts, up approximately $3.8 billion from the current fiscal year. The bulk of this increase focuses on continued efforts to strengthen underperforming schools, close achievement gaps, and improve student services in K-12 districts.

Governor Newsom specifically highlighted efforts to improve funding for teacher recruitment and retention, which total $900.1 million. An additional $100 million will be allocated to provide stipends for individuals who elect to teach at some of the state's most needy districts. Expansion of school meal programs, increased focus on STEM, and additional funding for school facilities are also among the increases outlined in the proposal.

On the community college side, the January budget offers only minor increases to programs and called on the system to continue gathering data on the implementation of the new Student Centered Funding Formula. Approximately $83.2 million has been allocated to improve apprenticeship opportunities and $15.8 million has been allocated for Dreamers and other resources for immigrant students.

Climate Resiliency
In addition to the investments in education and housing/homelessness, the Governor's January budget proposal contains significant resources for climate resiliency in response, and preparation, for extreme wildfires, flooding, heat, and mudslides due to climate change.

The cornerstone of the Governor's proposal is a new $4.75 billion climate resiliency bond that the Governor proposes to be placed on the November 2020 ballot. The bond measure would provide funding to five major areas: Drinking Water, Flood, Drought ($2.9B), Wildfire ($750M), Sea Level Rise ($500M), Extreme Heat ($325M), and Community Resilience ($250M). In addition to the new bond measure, the Governor's budget proposes $1.7 billion in climate related investments in FY 2020-21 and $12.4 billion in investments (including the bond) over the next five years.

These additional funds would be spread over a large number of programs that focus on responding to the climate problem, including: transportation emission reductions, smart agriculture and forestry, water resiliency, and emergency response and preparedness.

Next Steps
The next step in the budget process is for the Legislature to begin to consider the Governor's budget. In the coming weeks, the Senate and Assembly Budget Committee, and the various Budget Subcommittees, will conduct hearings to receive more detail about the various items within the Governor's budget proposal. Additionally, the committees will begin the process of determining legislative priorities for inclusion in the budget.

These hearings will continue for several months until the Governor releases his May Revise of the budget, which will contain updated revenue and expenditure figures, revised policy proposals, and incorporate certain legislative items. Once the May Revise is released, the Legislature will move swiftly to make final changes to the FY 2020-21 budget, which they will need to approve by June 15th.

Federal Budget

Federal Budget & Appropriations Overview

- At the federal level, the **budget** is a non-binding, broad outline of spending that is recommended but not required, which is followed by appropriations bills that fund all federal government agencies.
- **Appropriations bills**, which fund the federal government, are traditionally adopted in twelve individual bills pertaining to the various federal departments and agencies. These bills may also advance in the form of a:
    - **Continuing Resolution (CR):** Extension of federal funding for a set amount of time at the same level as previously negotiated
    - **Omnibus:** Full-year funding, all in one bill
    - **Minibus:** Full-year funding, but for several departments at a time
    - **CRomnibus:** Combination CR and omnibus, which negotiates new funding levels for some areas of government and simply extends federal funding at same levels for other areas of government
- In a typical legislative year, Congress begins crafting their annual funding bills after the president submits his proposal in February, followed by appropriation committee hearings in early spring, appropriation bill mark-ups in late spring, floor debate and passage in summer, conference committee negotiations in early fall and final approval by the House and Senate before the September 30 end of the fiscal year.
- However, for the past several years, Congress has been unable to pass all twelve bills in time, and has relied in a series of CRs or omnibus bills.
- An omnibus (and sometimes minibuses) can be unwieldy and under-scrutinized compared to the individual twelve bills, but ultimately, they fund the government in the same way individual appropriation bills would.

FISCAL YEAR 2020 BUDGET AND APPROPRIATIONS

In the last few months of 2019, the House and Senate worked to finalize Fiscal Year 2020 spending through a series of appropriations bills to fund the federal government. After a series of Continuing Resolutions, Congress passed a legislative package containing full-year funding, which President Trumps signed on December __, 2019.

What follows is a chart of FY 2020 federal funding progress for Oakland priority programs.

Housing/Community Development:

Program	FY 2019 enacted	FY 2020 President's Request	FY 2020 House	FY 2020 Senate	FY 2020 Enacted
Community Development Block Grant (CDBG)	$3.3 billion	$0	$3.6 billion	$3.3 billion	$3.4 billion
HOME Investment Partnerships	$1.25 billion	$0	$1.75 billion	$1.3 billion	$1.35 billion
Homeless Assistance Grants	$2.64 billion	$2.6 billion	$2.8 billion	$2.8 billion	$2.8 billion
HUD Tenant-Based Rental Assistance (Section 8 Vouchers)	$22.5 billion	$22.2 billion	$23.8 billion	$23.8 billion	$23.9 billion
HUD Project-Based Rental Assistance	$11.74 billion	$12 billion	$12.6 billion	$12.6 billion	$12.6 billion
Economic Development Administration (EDA)	$304 million	$0	$540 million	$319.5 million	$333 million

Transportation:

Program	FY 2019 enacted	FY 2020 President's Request	FY 2020 House	FY 2020 Senate	FY 2020 Enacted
Better Utilizing Investments to Leverage Development (BUILD) Transportation Discretionary Grants	$900 million	$1 billion	$1 billion	$1 billion	$1 billion*
Infrastructure For Rebuilding America (INFRA) Grants	$1 billion	$2.04 billion	$1 billion	$1 billion	$1 billion

*Ensures parity between urban and rural awards.

Public Safety:

Program	FY 2019 enacted	FY 2020 President's Request	FY 2020 House	FY 2020 Senate	FY 2020 Enacted
Community Oriented Policing Services (COPS)	$225.5 million	$99 million	$323 million	$245 million	$235 million
Recidivism/Reentry Grants (Second Chance Act)	$87.5 million	$85 million	$80 million	$90 million	$90 million
Assistance to Firefighters (AFG) Grants	$350 million	$344 million	$375 million	$355 million	$355 million
Staffing for Adequate Fire and Emergency Response (SAFER) Grants	$350 million	$344 million	$375 million	$355 million	$355 million
FEMA Pre-Disaster Mitigation Grant Program	$250 million	$0	$250 million	$250 million	$250 million

Education:

Program	FY 2019 enacted	FY 2020 President's Request	FY 2020 House	FY 2020 Senate	FY 2020 Enacted
Head Start	$10.1 billion	$10.1 billion	$11.6 billion	$10.1 billion	$10.6 billion
Job Training/WIOA	$2.77 billion	$2.77 billion	$3 billion	$2.8 billion	$2.8 billion

Environment:

Program	FY 2019 enacted	FY 2020 President's Request	FY 2020 House	FY 2020 Senate	FY 2020 Enacted
Brownfields Grants	$87 million	$62 million	$105 million	$85.2 million	$89 million

Welfare Assistance:

Program	FY 2019 enacted	FY 2020 President's Request	FY 2020 House	FY 2020 Senate	FY 2020 Enacted
Supplemental Nutrition Assistance Program (SNAP)	$73.5 billion	$69.1 billion	$71.1 billion	$69.2 billion**	$67.9 billion
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	$6 billion	$5.8 billion	$6 billion	$6 billion	$6 billion
Community Service Block Grant (CSBG)	$725 million	$0	$796 million	$700 million	$740 million
Senior Community Service Employment Program	$400 million	$0	$464 million	$400 million	$405 million

*** Cut due to declining enrollment.*

Homelessness
In November, the Trump Administration fired Matthew Doherty, the Director of the US Interagency Council on Homelessness, the senior interagency individual charged with coordinating 19 departments' homelessness efforts. It was not immediately made clear why Director Doherty was asked to leave, and no replacement named.

This is the biggest move in the homelessness space the White House has made since President Trump mentioned ways his Administration might intervene in California homelessness issues.

This latest action is part of an ongoing consolidation of control of federal homelessness policy by members of the Trump Administration inner circle.

COPS Grants
In January, DOJ reopened the COPS Hiring and Microgrants programs for the first time in years, after a favorable decision in a City of Los Angeles lawsuit over provisions to prevent cities from limiting police communication with federal law enforcement.

There is currently $400 million available in backlogged funding for the COPS Hiring program that will be distributed in this round. The deadline is March 11, 2020.

Firefighter Grants
FEMA Firefighter grants program officers are indicating that their three firefighting grant programs (Assistance for Firefighters (AFG), Staffing for Adequate Fire & Emergency Response (SAFER), and Fire Protection & Safety (FP&S)) will be opening in the coming months. AFG will likely open in the next few weeks, followed by SAFER and FP&S between February and May 2020. Now is the time to prepare project ideas and data for all three applications.

Public Charge Rule
An appeals court ruled against the Trump Administration's "public charge" rule, which prevented the rule from taking effect on October 15. Currently, only one of the injunctions still stands.

This latest move by the Trump Administration seeks to add Medicaid and food stamps to the list of programs whose past recipients could be deemed a potential future "public charge," potentially jeopardizing legal immigrants' ability to become citizens. The lawsuit is based on several key factors, including the new rule's violation of the U.S. Constitution's equal protection guarantee. This disproportionately blocks admission of non-white immigrants from Asia, Latin America, and Africa. Another major factor is based on the federal government's failure to adequately determine the cost on states and counties if more people suffer from poverty as a result of the rule change. Finally, the lawsuit focuses on parameters such as the rule's improper punishment of immigrants for participating in widely used public benefits programs, as well as the concern of federal interference with states' rights to protect residents.

The rule potentially jeopardizes the more than 382,000 people who are currently applying for green cards, potentially denying them access to public assistance, including food stamps, Medicaid and housing vouchers. In California specifically, the new rule could have a chilling effect on nearly 2.2 million people in immigrant families who might disenroll from Medi-Cal and the CalFresh food stamps program, most of whom would not actually be legally subject to the proposed new public charge test.

Wireless Infrastructure
The Federal Communications Commission (FCC) quietly opened a comment period on proposals from the Wireless Industry Association (WIA) and the Communications Technology Industry Association (CTIA) to further limit local oversight of wireless towers and pole attachments.

If enacted, the proposals from WIA and CTIA would substantially limit the current authority local governments have to manage the changes made to large wireless towers in their communities, as well as further limiting the control pole owners, such as local governments or utilities, have over pole attachments.

The proposals from WIA and CTIA also cited many cities' permitting practices and ordinances by name, and still other cities' elements anonymously. Furthermore, the comment period, was a surprisingly short 30-45 days depending on type of comment (most comment periods are 60-90 days). This meant that the cities cited by name had only a short time to collect the data necessary and organize an approved city response in order to defend their practices in comments; cities cited anonymously had no way to confirm it was their practices being described, and therefore no recourse to argue against WIA's and CTIA's descriptions.

Although the U.S. Conference of Mayors, the City of Eugene, Oregon, and others filed a motion to extend the deadline on the extremely short comment period, the FCC did not adopt the motion and extend the deadline.

Given the fact that FCC requested comments on two industry proposals, is anticipated that the FCC will draft and propose additional rules that would implement some or all of the changes WIA and CTIA request, upon which another comment period will open.

SALT Taxes
In December, the House voted to repeal the cap on state and local tax, or SALT, deductions. The House passed the legislation 218-206, mostly on party lines.

The legislation would repeal the $10,000 cap in 2020 and 2021, and raises it to $20,000 for married couples for 2019. The measure is offset by raising the top individual tax rate to 39.6% from 37%.

Republicans, with Democratic support, amended the legislation at the last minute to prohibit those earning $100 million or more a year from deducting their entire state and local tax bill, a move that would prevent extremely wealthy taxpayers from benefiting from the more generous SALT allowance. The change also allows first responders and teachers and write off $1,000 for work-related expenses.

The House vote faces backlash from Republicans and some Democrats who say the change would benefit high-earners at the expense of the middle class. Senate leaders have already indicated they won't bring up the bill, and the White House has threatened a veto as well.

As a reminder, the 2017 tax law capped the SALT deduction at $10,000 as a way to pay for some of the levy reductions in the law. The write-off was previously unlimited, though some higher-income people weren't eligible to claim it. Still, the change sparked ire from lawmakers from high-tax states saying Republicans targeted mostly Democratic states to pay for their tax law.
Since the overhaul, lawmakers from the high tax states most affected -- including New York, New Jersey and California -- have vowed to repeal the $10,000 cap. They argue that higher incomes and home values in those areas mean some middle class taxpayers are unable to deduct large portions of their SALT liabilities.

Opportunity Zones
In October, the House Ways and Means Committee held a closed-door meeting with civic leaders on opportunity zones. Although the information gathered is currently confidential, the meeting demonstrates that Congress, and namely the House (which has had a much smaller role in opportunity zone policy compared to the two bipartisan champions in the Senate, Senators Cory Booker (D-NJ) and Tim Scott(R-SC)), are paying more attention to how opportunity zones impact communities, rather than how investors will utilize them.

Also in October, reports indicated that wealthy investors may have had an outsized role in the opportunity zone rule making process. Specifically mentioned was the Milken Institute, and how the Department of Treasury granted exemptions to the opportunity zone designation criteria specifically to accommodate the Milken Institute's CEO's property in Nevada exemptions criteria. There were also reports that additional flexibility was added after unreported meetings took place outside of the rulemaking process, including making affluent areas adjacent to opportunity zones eligible for tax breaks, and making projects that preceded the creation of opportunity zones eligible for tax breaks.

These reports were met with intense response to the Treasury and the IRS, as department staff worried that these exceptions to standards would call into question the legitimacy of the process entirely and disincentivize investment in opportunity zones across the board. While much of this has been going on over the course of the previous year, and only publicly reported recently, it remains to be seen how this information will influence the opportunity zones landscape going forward.