City of Long Beach
Working Together to Serve

Memorandum

Date: November 21, 2017

To: Federal Legislation Committee Members

From: Patrick H. West, City Manager

Subject: **FY 17 Federal Legislative Session in Summary**

Introduction

Following the 2016 Presidential Elections, the 2017 Federal Legislative Session began with the transition of power from the 44th President of the United States, President Barack Obama to the nation's 45th President, President Donald Trump. As in any Presidential transition, the year was marked with significant proposals to change policy and regulatory practices. This memorandum summarizes federal policies that are important to the City of Long Beach, as well as provides context for the discussion.

Federal Policies Debated

Affordable Care Act. The President has indicated a strong and consistent interest in repealing the Affordable Care Act (ACA) which according to the Congressional Budget Office in June 2017, provides 22 million Americans with insurance coverage. Congress has tried roughly 50 attempts to repeal, modify or otherwise reduce the ACA since the beginning of 2017. While the last effort in mid-September failed with a "no" vote from Senator McCain, the next attempt may come as part of the tax reform proposal.

The ACA has expanded health coverage nationwide through the creation of health exchanges. California was one of several states to build its own exchange for individuals and families, which is called Covered California. State officials estimate there are 1.4 million people enrolled in Covered California. While Covered California is administered by the State, most consumers benefit from federal subsidies that offset the cost of their monthly premiums.

While debate over the ACA continues, open enrollment for 2018 began on November 1 and will close December 15. According to early reports, the number of people who signed up are up compared to the 2017 open enrollment season. Covered California is reporting a 25 percent increase, while the Maryland exchange reports an 80 percent increase.

On a related note, voters in Maine became the first state in the nation to approve Medicaid Expansion under the ACA on November 7, 2017. The Maine State Legislature had voted to adopt bills to expand the insurance program five times since 2013, but Maine Governor Paul LePage vetoed each one.

Tax Reform. The House of Representatives released a framework for comprehensive tax reform in November 2017 with impacts to every individual or entity paying or benefiting from taxes. This proposal will likely change when it reaches the Senate.

- State and Local Tax (SALT) deduction – California State and local governments have voiced significant concerns with the proposed reduction and potential elimination of the State and Local Tax (SALT) deduction. This deduction reflects a partnership between the federal government and state and local governments. The deduction is fundamental to the way states and localities budget for and provide critical public services. Currently, the SALT deduction is an accepted part of the tax structure that is critical to the stability of state and local government finance. Compared with other common deductions, the state and local tax deduction has a larger impact than the deductions for both charitable giving and mortgage interest. The tax break is especially popular — and more valuable — in states such as New York, New Jersey and California.

- Private Activity Bonds (PABs) – State and local governments are also concerned about the proposed elimination of Private Activity Bonds (PABs). PABs have assisted in providing affordable financing options for public facilities and infrastructure, including hospitals, schools, highways, bridges, railways, water and sewage facilities, energy facilities, low-income housing, and countless others. Without PABs, financing for these types of projects will become more expensive, and in some cases, preclude projects from moving forward.

- Affordable Housing – With respect to affordable housing, the House tax reform bill proposes to eliminate Private-Activity bonds, so while Low-Income Housing Tax Credit (LIHTC) is explicitly retained in the bill, the elimination of the bonds will effectively eliminate the 4 percent credit and likely lead to a precipitous drop in construction of low-income housing units. The House tax bill also proposes to cut the corporate tax rate from 35 to 20 percent, which would ultimately lower the value of LIHTCs and thus the amount of equity available to developers for building low-income housing units.

  In Long Beach, these changes would dramatically reduce the City's ability to preserve affordable housing. The LIHTC enables attractive refinancing options for units that are at risk of converting to market-rate, thus keeping them affordable. Additionally, California's Affordable Housing and Sustainable Communities (AHSC) program is currently structured to be combined with the Multifamily Bond/4-percent tax credit program – if the federal funds go away, the bundling of public incentives will decrease significantly and impact the number or scope of projects that may be funded.

- Individuals – Many itemized deductions are proposed for elimination. For individuals, the mortgage-interest and charitable deductions, as well as the property-tax portion of the state and local tax deduction (capped at $10,000), would remain, but other itemized deductions would be eliminated. The elimination of many itemized deductions would broaden the individual income-tax base as a means to pay for lower overall rates. Their elimination would also be offset by an increase in the standard deduction and a higher child tax credit.

Immigration. The current administration has made a number of statements about strengthening immigration and border control. With respect to "sanctuary cities", the United States Department of Justice (DOJ) appears to be focusing on four major U.S. cities: New York, Philadelphia, Chicago and New Orleans. Those cities are the only cities in the United States that have been directly requested to prove compliance with federal immigration enforcement laws, or lose federal DOJ Byrne JAG grant funding, which has for years, supported local law enforcement. Beyond the DOJ Byrne JAG program, the immigration debate does not appear to be impacting any other federal grant programs benefiting cities.

Community Development Block Grants (CDBG) and HOME Program. The President had indicated a desire to eliminate federal funding for CDBG and HOME. Fortunately, Congress disagreed with the Administration on this point, and funded both programs in FY 17. Funding for CDBG and HOME also remains in the FY 18 Continuing Resolution.

Internet privacy. Congress voted to repeal, and President Trump signed into law a bill that overturned rules adopted by the Federal Communications Commission in October 2016 to require internet service providers, or ISPs such as Comcast, Frontier, and AT&T to ask consumers before collecting certain personal information. Currently, ISPs are not prohibited from collecting web browsing history and while the companies have pledged to not monetize and sell the data at this time, there are no clear regulations to prohibit the companies from doing so.

Net neutrality. Following the deregulation of internet consumer privacy could be net neutrality. Adopted in 2015, current laws applicable to net neutrality aim to preserve an open internet that cannot be divided into a forum where some websites and users can load and operate the internet faster than others on "pay-to-play" basis. The President has indicated an interest in working with Congress to overturn these laws.

Next Steps

City staff will continue to monitor policy debates impacting Long Beach. If you have any questions, please contact Diana Tang, Manager of Government Affairs, at 562-570-6506.

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