# Washington Update

**COUNTY OF SANTA BARBARA** **November 29, 2017**

**FY 2018 FUNDING**

In September, Congress approved a short-term Continuing Resolution (CR) to keep the Federal government operational as the new Fiscal Year began, and to buy time to negotiate final FY 2018 funding levels. With the CR set to expire on December 8, the potential for chaos in the legislative process looms large as Congress attempts to finish the appropriations bills for Fiscal Year 2018. Congressional leaders are trying to negotiate an omnibus package because none of the twelve individual appropriations bills have been enacted so far. Numerous funding and policy issues are making it difficult to come to an agreement in time, and coupled with work on tax reform and other issues, this could keep Congress in session beyond the current recess date of December 14.

The spending caps imposed by the Bipartisan Budget Act of 2013 will impose automatic spending cuts through sequestration unless the legislation is amended for FY 2018, which is giving Democratic members of Congress a seat at the negotiating table. Both sides want to increase spending over mandated levels, but Democrats are insisting that any increase in defense spending must be accompanied by an equal increase for domestic programs. Numerous other issues could potentially be rolled into this process, including disputes over funding the border wall, the extension of amendment of the Deferred Action for Childhood Arrivals Program, and whether to include a longer debt ceiling extension.

President Trump is pressing Congress for a quick agreement, but a further extension of short-term funding is likely so that negotiations can be completed. A shut-down of the Federal government is not out of the question if an agreement is not reached in time.

**TAX REFORM**

As we have previously discussed, the adoption of the FY 2018 Budget Resolution late in October set up the process for the House and the Senate to use a budget reconciliation bill to enact tax reform using expedited legislative procedures similar to those attempted regarding health care. For example, in the Senate, a simple majority will be needed for passage, instead of the sixty votes usually needed to bring legislation to the floor.

Prior to the Thanksgiving week recess, the House moved quickly on its version of tax restructuring, with the House Ways and Means Committee marking up H.R. 1, the *Tax Cuts and Jobs Act*. As expected, the House bill would lower overall rates and consolidate tax brackets, partially offset by eliminating many exemptions and deductions. It would allow deduction of State and local property taxes (SALT) up to $10,000, but would eliminate the itemized deduction for State and local income taxes. In addition to concerns over the impacts of the SALT provisions, stakeholders are also worried about impacts on low-income housing. While the bill continues the current Low-Income Housing Tax Credit, it would eliminate tax benefits for Private Activity Bonds, which are a tool used by some developers of housing projects. The mortgage interest deduction would be continued for existing mortgages, but capped for new mortgages at $500,000.

The House approved H.R. 1 on November 16, and when Congress returned to work this week, tax overhaul shifted to the Senate. The close margins in the Senate mean that Majority Leader McConnell (R-KY) can lose only two Republican votes and still pass the legislation. Among the myriad of issues that must be addressed, the treatment of State and local taxes (SALT) continues to be a major concern for NACo and other local government stakeholders. As approved by the Finance Committee, the Senate bill would eliminate the deductibility for SALT for taxpayers who itemize. Floor debate is scheduled to begin today, and may continue into the first week of December.

## HEALTH CARE

The Senate Finance Committee reignited the health care debate by including a provision in their version of the tax reform bill that would effectively repeal the individual mandate from the Affordable Care Act. This controversial step could end up being a stimulus for other mitigating health care initiatives as Congressional Leaders try to shore up support for the end-of the year tax and funding packages. In particular, Senators Murray (D-WA) and Alexander (R-TN) have developed bipartisan support for their legislation to provide cost-sharing subsidies to stabilize the insurance markets, and Senator Collins (R-ME) is proposing legislation to provide reinsurance funds to States for the establishment of high-risk pools. Legislation to extend the Children's Health Insurance Program and Community Health Centers are also candidates for inclusion.

## MARINE VESSEL EMISSIONS

We contacted the House Transportation Subcommittee on the Coast Guard and Maritime Transportation to advocate in support of Congressman Lowenthal's (D-CA) H.R. 3682, the *Blue Whales and Blue Skies Act*. Congressman Carbajal is an original co-sponsor of the proposal, which would create a program to reduce air pollution and harmful underwater acoustic impacts and the risk of fatal vessel whale strikes by recognizing voluntary reductions in the speed of vessels transiting the Greater Santa Barbara Channel Region. The program would be modeled after the pilot Vessel Speed Reduction Program, of which the Santa Barbara County Air Pollution Control District is a member. The Subcommittee has not yet scheduled hearings on H.R. 3682.