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Memorandum

From:	Jane Sargent, Rick Spees and Jose Villalobos
To:	Chairwoman Audrey Edmonson Board of County Commissioners
CC:	Joe Rasco
Date:	May 3, 2019
Subject:	April 2019 Monthly Report

In April, Rick Spees and Jane Sargent met with Phillip Drujak from the Office of Intergovernmental Affairs (OIA). We discussed a number of the County's federal issues and legislative priorities, including appropriations, transportation and potential grant opportunities. We also discussed changes in the Congress and the potential opportunities that creates, including the possibility for an infrastructure package, increased appropriations for County priorities, and other possible legislative opportunities. We also discuss the FY2020 budget and outlook for the appropriations process this year.

Appropriations:

In March, President Trump released his FY2020 budget. Congress has been holding hearings on his budget proposal, and this week the House Appropriations Committee started working on the individual FY2020 appropriations bills. They marked up three of the twelve bills – Labor-HHS-Education, Military Construction-VA and Legislative Branch. The full committee is expected to take them up next week and other subcommittees will continue marking up their bills.

While the House Appropriations Committee has started marking up the individual bills, the larger and more complicated issue of the discretionary spending caps remains unresolved. An agreement has yet to be worked out on the spending levels for FY2020, which would waive the austere spending caps set under the Budget Control Act of 2011. For FY2020, those caps would require cuts of $126 billion (or 10%) from the current FY2019 levels. The caps set defense spending at $576 billion (a cut of $71 billion) and $542 billion for nondefense spending (a cut of $55 billion) for FY2020.

With no agreement in place, the House is going ahead with bills that assume higher levels than allowed under the 2011 law. In April, the House adopted a resolution that sets an overall limit on discretionary spending at $1.295 trillion -- $664 billion for defense and $631 billion for nondefense spending.

While the House is moving ahead with its bills at these higher numbers, there is no agreement with the Senate or White House on the overall spending limit. The White House would like to spend more on defense, $750 billion, but wants to keep the current $542 billion nondefense cap set by the 2011 law. The Senate wants to spend more on both defense and nondefense programs, but it is unlikely to agree to higher House numbers.

The Senate Appropriations Committee Chairman has indicated that he would like to have a budget agreement in place before his committee starts marking up its FY2020 bills, but it is unlikely that will happen quickly. It is expected that the House will move ahead with their bills at their higher number. The Senate will likely agree to write its appropriations bills at an amount above the current law, but below the House number. Eventually, Congress and the White House will agree on an overall spending level and the House and Senate will have to finalize the FY2020 bills in accordance with those agreed upon caps.

In the meantime, the House Appropriations Committee is moving ahead with its bills, with plans to have them all marked up by mid-June. The Senate is further behind in the process, but will likely start marking up their bills in June. With all of the budget issues to be resolved, Congress will not be able to complete the appropriations bills before the start of the fiscal year on October 1. They will need to pass a Continuing Resolution (CR) to keep the government operating until they can work out all of the issues, which may take until December or even early next year.

United States-Mexico-Canada Agreement (USMCA):

As you are aware, President Trump began re-negotiating the 1994 North American Free Trade Agreement (NAFTA) in 2017. After several months of negotiations between the U.S., Canada and Mexico, those discussions wrapped up in October and a new deal was announced – the United States-Mexico-Canada Agreement (USMCA). The agreement was signed by the three counties on November 30, 2018. In order for the new agreement to take effect, each country must ratify it. Until that happens, NAFTA remains in effect. Neither Canada nor Mexico have ratified the agreement to date.

In the U.S., Congress must approve implementing legislation for the agreement. The Administration intends to submit a final trade agreement to Congress under Trade Promotion Authority (TPA) or "fast track" authority, which allows trade agreements to move through

Congress under special expedited procedures and pass by a simple majority in both chambers. As part of the TPA process, the International Trade Commission (ITC) is required to issue a report on the USMCA. That report was issued in April. The ITC found that the USMCA would have minimal impact on the economy. As you know, the County and Florida Congressional Delegation have had concerns about the southeast specialty crop issue. Both the Florida and Georgia Fruit & Vegetable Associations weighed in with the ITC on this issue, which was briefly discussed in the ITC's report.

While the President has recently been pushing for the USMCA publically, it is not clear when the Administration plans to submit the final text of the agreement and the implementing legislation to Congress. The implementing bill that Congress needs to pass to approve the trade agreement contains all the changes to U.S. law necessary to bring the United States into compliance with the agreement. That bill, which is normally drafted through negotiations between the Administration and the Congress, has yet to be released. Once it is sent to Congress, it would be considered under TPA fast-track procedures. However, there continues to be concerns in Congress about the USMCA, particularly among House Democrats. The Administration has indicated that it would not submit implementing legislation to Congress without House Speaker Nancy Pelosi's approval.

Infrastructure Bill:

On April 30, President Trump met with Congressional Democratic leaders to discuss a possible infrastructure package. Democratic leaders would like to see a $2 trillion comprehensive infrastructure bill, but there was no agreement on that size of a package and also no discussion on how it would be paid for during the meeting. Negotiators are supposed to meet again this month to discuss possible ways to pay for the bill.

While there may be some bipartisan support for increasing the federal gas tax, it would run into strong opposition from conservative Republicans. The money from the gas tax goes into the Highway Trust Fund, which pay for roads, bridges and transit systems. Because the gas tax has not been increased in more than 25 years, the Highway Trust Fund does not have enough money pay for a comprehensive infrastructure bill and certainly not one at the level of $1 to $2 trillion.

Without an agreement on how to increase revenue to pay for the package, it is difficult to see how an infrastructure bill can get done this year. The existing surface transportation law, the FAST Act, expires on September 30, 2020. While Congressional Democrats and the White House are eager to find bipartisan agreement on a bill this year, it will likely slip into next year unless they are able to make significant progress on the revenue issue this summer.

BUILD Grants:

In April, the FY2019 Notice of Funding Opportunity (NOFO) for BUILD grants (formerly TIGER) was released. For this round of grants, $900 million is available. The application deadline is July 15, 2019. As we previously reported, the maximum award is $25 million and the minimum is $5 million for urban area projects. The Department also plans to award planning grants this year, which have no minimum award size. Project selections are expected to be announced by mid-November.

As in previous rounds, eligible projects include roads, bridges, transit, rail, intermodal and port infrastructure. However, the Trump Administration has tended to favor highway projects over multi-modal or transit-oriented projects in the two previous rounds. Additional information about awarded projects is available on the USDOT's website.

Opportunity Zones:

As you are aware, the Opportunity Zones program was created by the 2017 Tax Cuts and Jobs Act to encourage investment in distressed communities. Last June, the designations for Qualified Opportunity Zones were finalized.

In April, the U.S. Treasury Department proposed a second set of proposed rules related to the Opportunity Zone program. The first set of proposed rules was released last October clarifying other program requirements. These proposed rules provide more guidance on how investors can roll over deferred gains into property and businesses in designated opportunity zones. The proposed rules will be open for public comment and finalized after input from interested stakeholders.

While these proposed rules address a number of key issues with the Opportunity Zone program, there other questions that remain unanswered. The Treasury Department and IRS will continue working on additional guidance, but it is thought that these proposed regulations will provide Opportunity Funds with enough detail to get organized and possibly begin making investments. Additional information about the latest proposed rules in available on the Treasury Department's website. In case you have not previously seen it, the NLC also has an easy to understand resource guide for local governments on the program.

Activities for May:

The House and Senate were out for two weeks in April. They reconvened this week and are moving ahead with the FY2020 appropriations process. While Congress will continue working on other authorization legislation, such as the annual national defense authorization act (NDAA) and nominations, Congress will also continue to be consumed by the recently released Special Counsel's report on the Russian Interference in the 2016 Presidential Elections ("the Mueller Report"). House committees, in particular, are expected to ramp up their investigations into the 2016 elections and any findings by the Special Counsel's office. Congress will be out of session again the last week of the May for the Memorial Day recess. We will continue to monitor and report on Presidential actions and any other legislative developments of interest to the County.