

Deep Spending Cuts Are on the Federal Agenda

Implications for California

Scott Graves, Budget Director



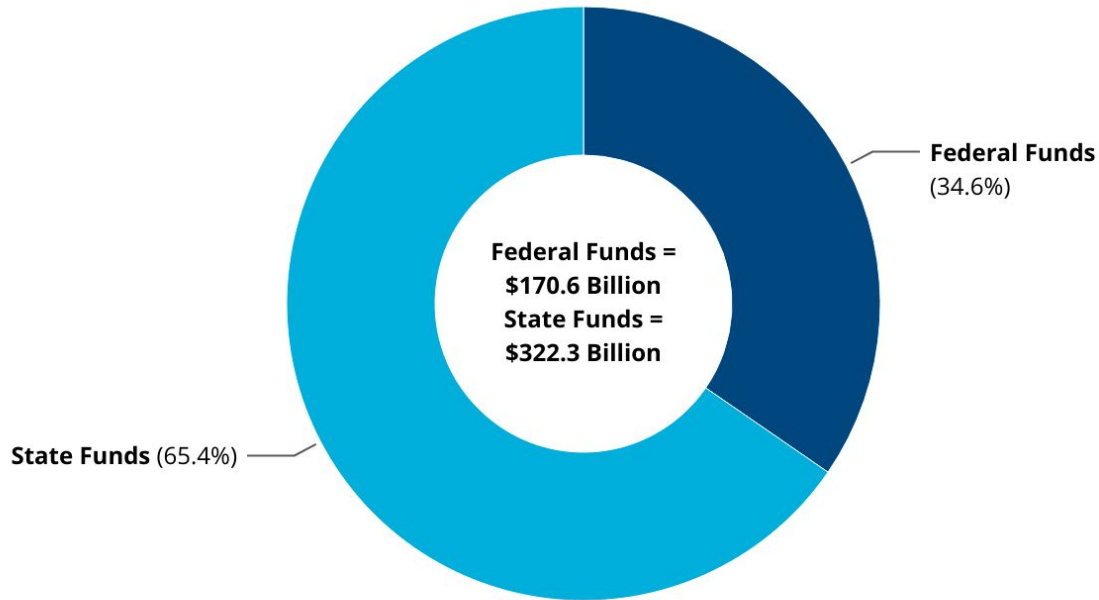
**Federal Funding Is the
Foundation for Essential
Public Services in California**

Federal funds matter

- Federal dollars are expected to make up **over one-third (34%)** of the proposed state budget in the current fiscal year (2025-26)
- Over **\$170 billion** in federal funds support critical public services and systems

Federal Funds Make Up Over One-Third of California's State Budget

Governor's Proposed 2025-26 Expenditures = \$492.9 Billion



Note: State funds reflect General Fund, special fund, and bond fund dollars.

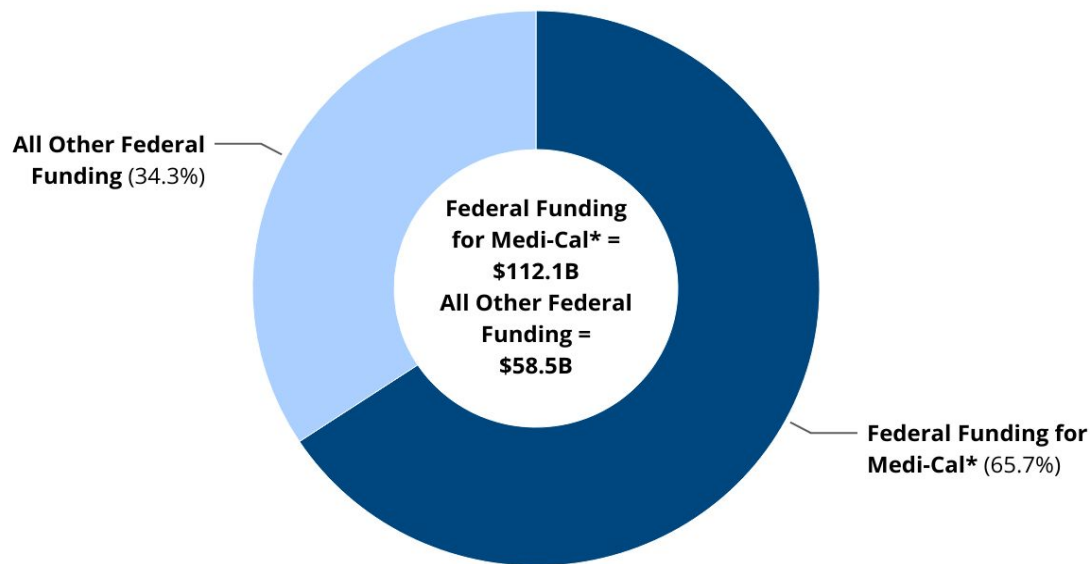
Source: Department of Finance



California Budget
& Policy Center

Medi-Cal Receives Nearly Two-Thirds of All Federal Funds That Flow Through California's State Budget

Governor's Estimate of Federal Funds That Will Flow Through the State Budget in 2025-26 = \$170.6 Billion



* Reflects federal funding for Medi-Cal benefits that is estimated to flow through the state Department of Health Care Services.

Source: Budget Center analysis of Department of Finance data



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& Policy Center

Medi-Cal Relies Heavily on Federal Funds

- Cuts to federal funding for Medi-Cal could profoundly impact the **over 14 million Californians** who are enrolled, with many potentially losing their coverage

Federal Dollars Support Additional Services and Systems Across CA

- Child care & development programs
- Income supports for families, seniors, and people with disabilities who have low incomes
- Housing & homelessness assistance programs
- K-12 & higher education (CCC, CSU, UC)
- Services provided by counties, cities & special districts



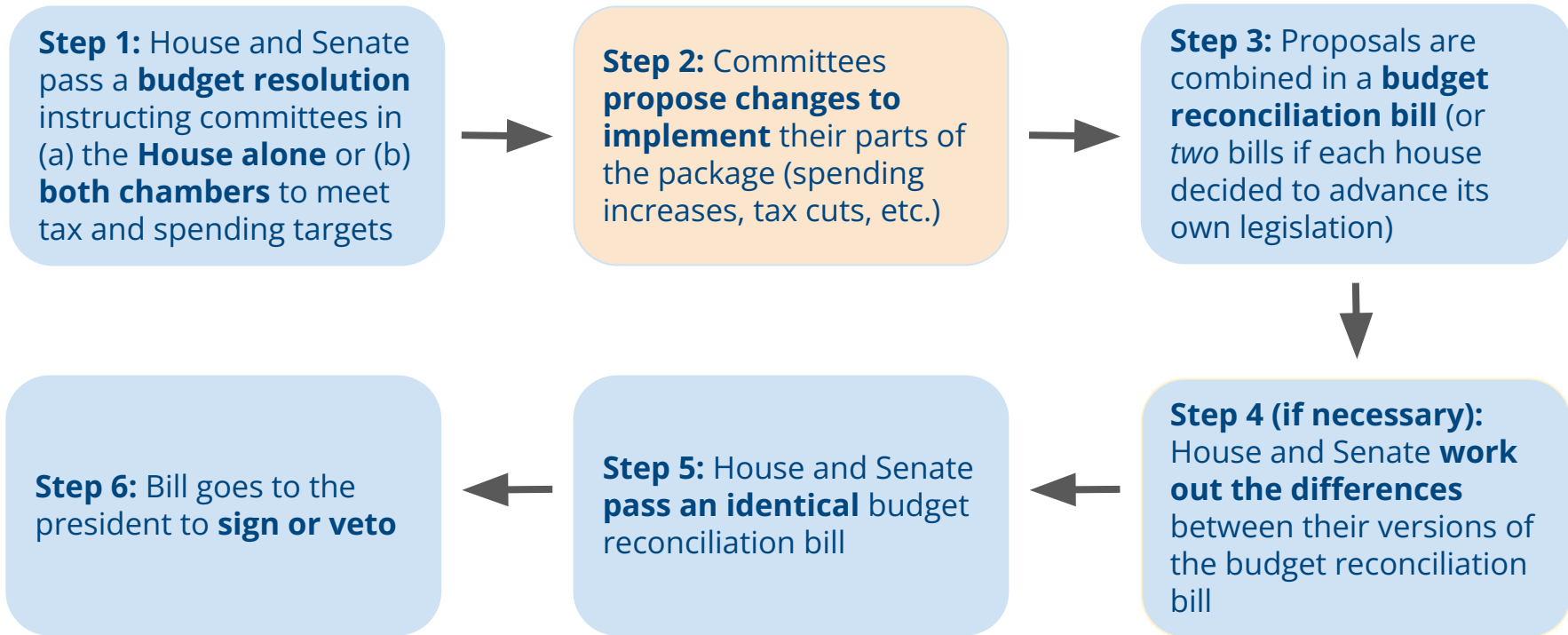
**Congress Is Using
“Budget Reconciliation”
to Advance Tax Cuts and
Spending Reductions**



“Budget reconciliation”
allows tax and spending
changes to pass the Senate
with just 51 votes, avoiding
the filibuster (which requires
60 votes to end).



Budget Reconciliation: Congress Is Now on Step 2 of This Lengthy Process





House and Senate leaders have “publicly promised to seek at least \$1.5 trillion in spending cuts to safety-net programs” (*Politico*, April 10).

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 - **June/July:** House and Senate work out the differences between their approaches and pass an identical budget reconciliation bill.
- This timeline **may prove challenging**, especially if the two houses cannot agree on cuts to vital public services like Medicaid and SNAP.

What Do Federal Threats Mean for California's State Budget?

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- **Gov. Newsom's revised budget** (the "May Revision") is likely to be **very cautious**, due in part to the federal funding uncertainty.
- The extent of **any *actual* federal funding cuts likely will *not* be clear** before state leaders finalize the 2025-26 state budget in June.
- If Congress approves huge funding cuts this summer, state leaders **would need to make major changes to the budget in August and/or in the fall**, forcing tough choices that could lead to many Californians losing health care, food assistance, and other essential services.

Budget Center Resources



Make Us Your Go-to Source

- Visit us at calbudgetcenter.org.
- Check out our [Federal Policy](#) page for helpful resources!

New Budget Academy



Check out our new **Budget Academy** [webpage](#) for tools and resources to help you master the budget process, strengthen your advocacy, and drive meaningful change!

Thank you!

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A CENTURY OF STRENGTHENING CITIES

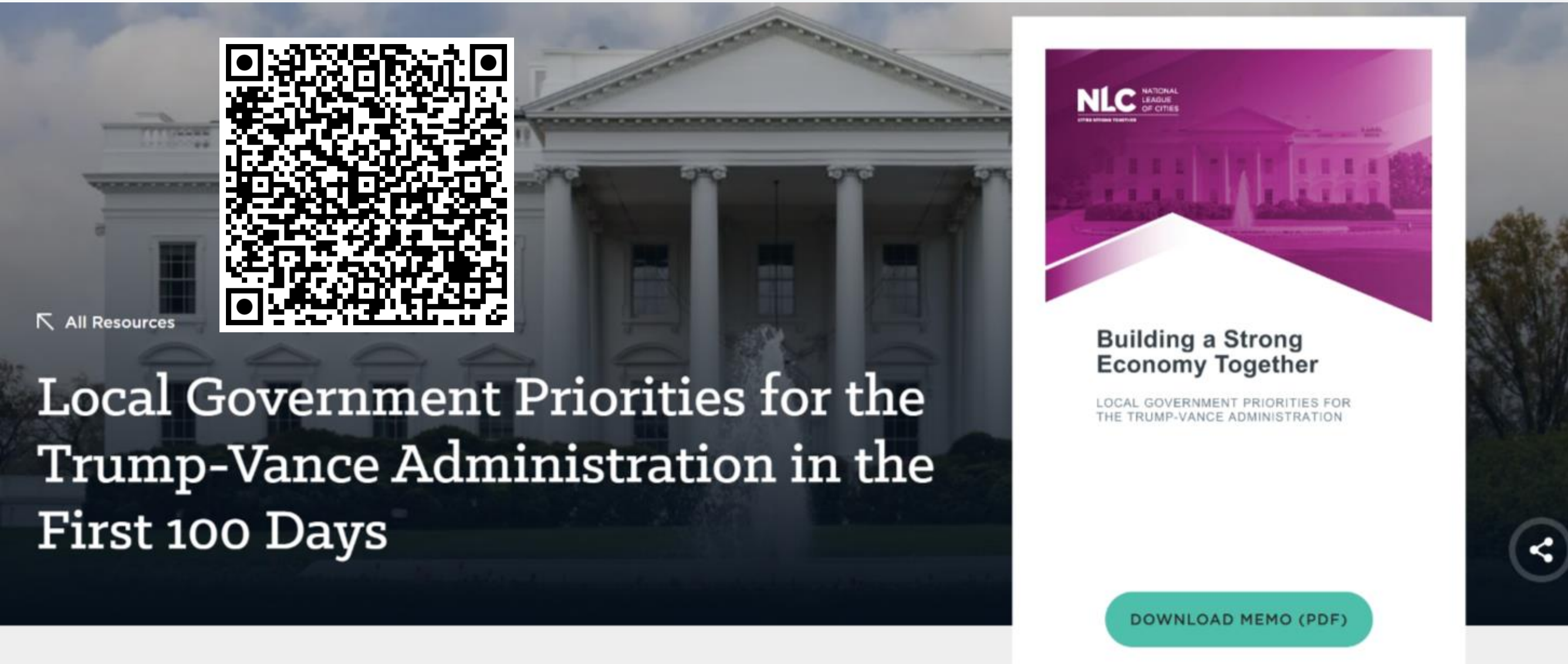
Federal-Local Partnership in the New Washington Landscape

4/16/2025

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Development

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New Administration's Agenda and Strategy



Sources of Uncertainty at the Federal Level



Budget Reconciliation, Tax Bill, and Appropriations



Putting it All Together: What's at Stake for Local Government



Ideas for City Advocacy and Local Government Action

Trump/Vance Agenda

185 Executive Actions (so far)

- Impacts a broad range of local government policy priorities
- Impacts local government roles and decision-making authority
- But, *local government itself* has not been deeply targeted

192 Legal Challenges to Administration Actions

- Diversity, Equity, and Inclusion Prohibitions
- Green Energy Rollbacks
- Immigration Enforcement and Border Security
- Federal Employee Reductions in Force
- Executive Branch Tariff Authority

5 Laws Have Passed Congress

- FY25 Appropriations Continuing Resolution
- Laken Riley Act
- CRA Repeals of Biden Energy Regulations and Penalties

Executive Actions Immediate Impacts on Local Government

- Funds initially frozen to review all existing federal programs for alignment with Trump/Vance Agenda
- Includes grants and loans, technical assistance, and other resources for local governments
- Funds Under White House Scrutiny include:
 - Programs advancing policies prohibited by executive order
 - Programs without a base of supporters with political capital
 - Programs with broad spending flexibility

Administration Strategy

Separation of Powers

- Executive Branch seeking to expand presidential authority in ways that call into question Legislative Branch authority over program authorizations and public spending, otherwise known as Congress's "[Power of the Purse.](#)"
- Executive Branch combative with lower court rulings, despite consistent messaging indicating it will comply with court rulings and orders from Supreme Court.
- So long as disagreement persists over the separation of powers, federal grantees including local governments, and other beneficiaries, will continue to experience uncertainty about their ability to access federal grant funds.
- State and local governments in particular may be challenged on policies that are traditionally under the purview of state authority and local control.

Administration Strategy

Reductions in Force



An executive order and subsequent guidance from the OMB and the OPM called for the “maximum elimination” of federal agency functions not required by law

Ex: 86% target staff cut for HUD Community Planning and Development

CPD administers local government grants including CDBG, HOME, Homeless Assistance, Disaster Recovery, Congressional Earmarks

Congress Top Priority

Reconciliation directives within the Fiscal Year 2025 Budget Resolution and the extension of the Tax Cuts and Jobs Act of 2017.

Offset considerations (House seeking \$1.5 trillion in spending cuts)

- Protect the federal tax exemption for municipal and private activity bonds. (\$364 Billion)
- Avoid interruptions to funds authorized under the Inflation Reduction Act and federal funding already awarded to local governments by multiple federal agencies.
- Proposed changes to Medicaid financing and eligibility requirements.
- Possible interruptions in federal food aid cannot be replaced with the support of local government revenues alone.

Tax expenditure considerations

- The downstream impacts of any decline in the credit rating of the federal government.
- Enhance the availability of public subsidies, production credits, and other incentives for housing supply.
- Provide additional flexibility and clarity to support water conservation and lead pipe replacement projects.
- Increase the State and Local Tax (SALT) deduction cap.
- Re-instate Advanced Refunding of municipal bonds.

What's at Stake for Cities?

Shifting Responsibility Downward

- FEMA Restructuring or Elimination
- Annual Grant Consolidation/Elimination
- Stricter Eligibility Limits on Federal Benefits

Disincentives/Limits on Local Authority

- New Policy Contingencies on Federal Funding
- New Penalties for Non-alignment with Administration Policies (Ex: Sanctuary Cities)

Loss of Capacity Supports for Local Governments

- Elimination of Federal Staff Program Experts
- Elimination of Field Offices
- Elimination of Interagency Coordinators (Ex: US Interagency Council on Homelessness)

More Recoupment Actions and Fewer Curing Opportunities for Federal Grantees

- Reductions in Customer Services for Grantees (Ex: Compliance and Reporting Assistance)

Possible New Limits on Federally-supported Financing for Local Government Projects

- Tax Exempt Bonds
- Community Development Financial Institutions

Cities and Towns Federal Agenda: Back to Basics

CORE PRINCIPLES

- Strengthen Local-Federal Partnerships – Ensure federal decisions reflect local priorities by fostering robust collaboration and empowering local governments.
- Avoid Unfunded Mandates – Federal rules and regulations must be practical, cost-effective, and free of undue burdens on local governments.
- Safeguard Local Authority – Oppose over-regulation by the federal government and protect the ability of local leaders to make decisions that reflect their communities' different needs.

Streamline Federal Programs for All Communities - Increase the Nation's Housing Supply
Promote Public Safety - Solidify Infrastructure Investment - Close the Digital Divide
Build Community Resilience - Reduce Legal and Financial Burdens on Local Governments

Resources and Actions for Local Governments on the Impact of Executive Actions



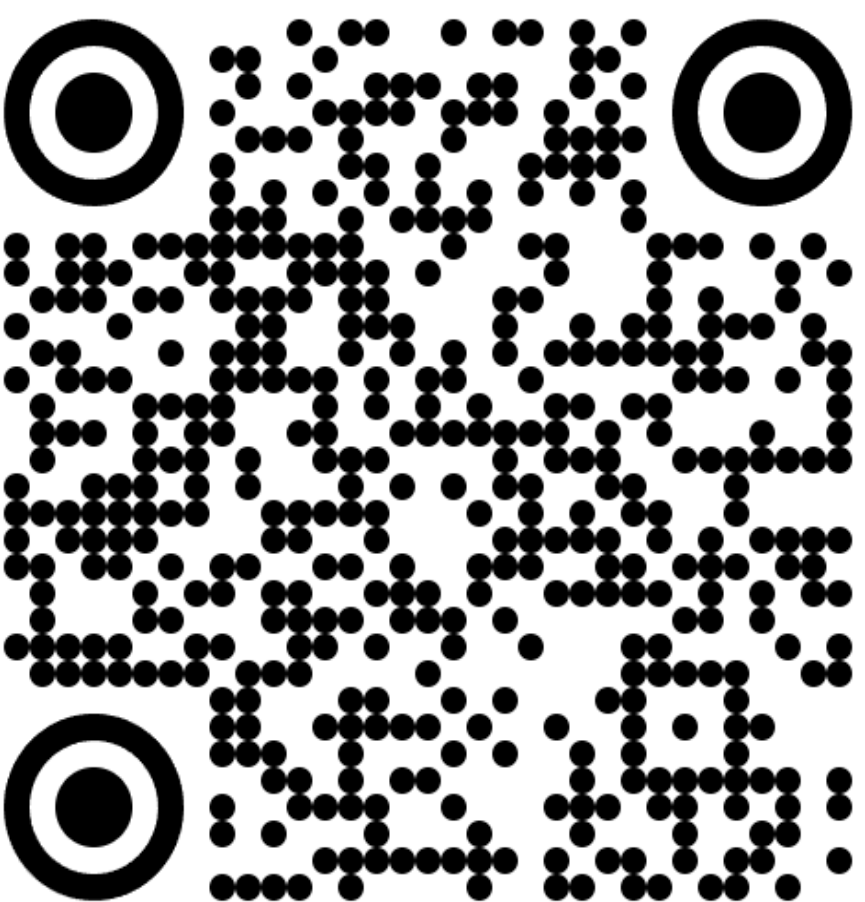
Resource Page:
Presidential Actions
Impact to Local
Governments

Member Webinar:
Impacts of
Immigration
Executive Orders on
Local Government
Operations



**Municipalities
Field Survey**
Impacts of Federal
Funding Delays
and Losses on City
Fiscal Conditions

Call to Action:
Send a letter to your
Congressional
delegation sharing
the impact of federal
programs that have
been disrupted
within your
communities



**Information
Sharing:** Complete
NLC's Federal
Grants Exchange
Form to help us track
agency
communications on
guidance for federal
programs



💡 Rewrite and Resubmit Grant Applications and Reports to Improve Alignment with Administration Priorities

💡 Involve you Congressional Delegation in Major Steps in the Grant Process



- [Presidential Actions Summary: Impacts to Local Government](#)
- Action Alert: [Update Congress on the Impact of Executive Actions on Your Community's Ability to Access Federal Fund Awards](#)
- [NLC Federal Grants Accessibility Exchange](#)
- [From the Event: Impacts of Immigration Executive Orders](#)
- [Built By Bonds Campaign](#)
- [Federal Budget Tracker](#)
- [FAQs: Meeting the ARPA SLFRF Reporting Deadline](#)
- [Unlocking Funding: A Guide to Community Project Requests](#)



Thank You

