July 14, 2017

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hatch:

On behalf of the 19,000 cities, towns and villages represented by the National League of Cities (NLC), I am writing in support of a comprehensive tax reform that promotes growth and mobility and provides the means for municipalities to continue driving our nation’s economy.

Local elected officials agree that the federal tax code is in need of reform, including both the individual and business sections of the tax code, to address the rising federal deficit and to promote jobs and economic growth. Since the last major reform in 1986, the code has grown burdensome. The complexity limits state and local governments’ ability to efficiently provide the services citizens need most.

Cities cannot afford a federal cost shift onto state and local governments. Our member cities work within a balanced budget system, fiscal responsibility is expected and delivered. Daily, local leaders are tasked with providing vital goods and services to the citizens they serve. With limited resources and funds, small changes in the intergovernmental balance between entities can have dire fiscal consequences for local government. Any effort to offset tax revenue lost on the back of municipal governments should be rejected.

As Congress works to develop a tax reform proposal, we want to share with you key local government principles for consideration. Most important, any reform must maintain well-established federal, state and local partnerships embodied in the principle of federalism. NLC opposes any preemption by Congress or the federal government of local taxing authority. We urge Congress to preserve the tax-exempt status of municipal bonds and the state and local tax deduction.
Municipal bonds and the state and local tax deduction promote employment and investment in our nation’s cities and towns. NLC strongly opposes any attempt to (1) eliminate or cap the federal tax exemption for municipal bond interest or (2) eliminate or cap the state and local tax deduction as a part of a federal deficit reduction plan or comprehensive tax reform. Any alteration in these two revenue sources would put pressure on local governments to alter their tax rates. Local tax rates are best decided by those who are closest to their constituencies, not by Congress.

The Tax Exemption on Municipal Bond Interest Must Remain Intact

Tax-exempt municipal bonds are the primary funding mechanism for state and local government infrastructure projects with three-quarters of the total United States investment in infrastructure accomplished with tax-exempt financing from over 50,000 state and local governments and authorities. Over the past decade alone, over $2 trillion in infrastructure projects have been bond-financed. From schools to roads, from public safety to clean drinking water, bonds provide cities the ability to build and maintain vital services to their citizens’ daily lives with no addition to the federal deficit.

The tax-exemption for municipal bond interest was granted to ensure affordable access to credit for municipal projects that, among other things, provide for public health and well-being. As a result, local governments have saved taxpayers an average of 20 to 25 percent on interest costs with tax-exempt bonds as compared to taxable bonds. A cap or elimination of the federal tax exemption for municipal bond interest would place federal, state, and local governments at odds because any savings realized by the federal government, as a result of tampering with the tax exemption, would be more than offset by economic losses at the state and local level due to higher credit costs, canceled infrastructure projects, fewer job opportunities, and a greater burden on local taxpayers. Stability in the municipal bond market rests on the tax exemption for municipal bonds, and market stability is essential to local and national economic recovery.
The State and Local Tax Deduction (SALT) is Vital for Local Infrastructure

Any tax proposal will invariably impact local governments’ ability to provide critical infrastructure. But it is important that preferential treatment is not given to certain industries at the expense of other taxpayers, or that erodes local revenues, undermines tax policy and dismantles federalism.

At the heart of this intergovernmental relationship is the state and local tax deduction. Unlike other itemized deductions, state and local taxes are mandatory, but since the first federal tax code in 1913, residents have been able to claim what they paid in state and local income taxes as well as local property taxes as a deduction on their federal income tax. This allows local governments the flexibility to raise revenues as they need without concerns of double taxing their residents, particularly their most vulnerable populations. With state limitations on local governments’ ability to raise revenue, eliminating the state and local tax deduction would further preempt local government authority.

Cities are Vital for Continued Economic Growth

As you know, cities of all sizes are the driving force of our economy and they are growing rapidly. Currently, 90 percent of the U.S. GDP comes from metro regions. Cities continue to thrive, which enriches the national economy, but they will be able to excel when undue burdens from the tax code are corrected, resulting in economic prowess for the years to come. Federal tax cuts cannot come at the price of denying local leaders the ability to raise the revenues that helps communities rebuild main streets, protects public safety, and support schools.

We call on Congress and the Administration to create a comprehensive tax reform package that ensures local governments retain the authority to set their own tax policy and continue to drive the national economy. We look forward to working with you and serving as a resource as you move forward on this issue. Please reach out directly to my staff, Brett Bolton at bolton@nlc.org or 202-626-3183.
Sincerely,

Clarence E. Anthony  
CEO and Executive Director  
National League of Cities