To: Biden-Harris U.S. Department of Treasury Agency Review Team
From: National League of Cities
Re: Policy Areas of Importance to Cities, Towns and Villages
Date: January 27, 2021

As the voice of America's cities, towns and villages, representing more than 200 million people across the country, the National League of Cities (NLC) looks forward to working with the Biden-Harris Administration and with the team at the U.S. Department of Treasury. Cities exist at the forefront of economic changes sweeping across America and have unique insight and understanding of the challenges and opportunities facing workers and businesses.

The federal government and municipalities play an important and interconnected role in helping both cities, towns and villages, as well as their residences. This is especially true during economically difficult times. Without a strong intergovernmental partnership between the two entities—the federal and local governments—vital changes to law to help municipalities and their residences cannot be achieved.

As cities look to partner with the Administration in the first 100 days and beyond, we hope that the following areas will be taken into consideration:

Direct Fiscal Relief to Cities, Towns and Villages
Cities are the engine of our nation's economy and essential to America's economic recovery. From infrastructure like roads and water to libraries and schools, to workforce development centers and childcare, cities towns and villages create the conditions that drive new business, spur innovation, and attract talent and investment. However, America's communities are hurting. As the findings of NLC's 2020 City Fiscal Conditions report reveals, America's cities are experiencing the fiscal consequences of the coronavirus pandemic-downturn at an unprecedented speed – and like recent recessions, it will take years for municipal budgets to recover from the impact of COVID-19. Cities, towns and villages across our country need direct fiscal relief to communities of all sizes to ensure that essential city services and important community-anchoring programs can remain in operation.

Regular Communication with Stakeholders and Increased Staffing Capacity
Local leaders are committed to intergovernmental partnership, through federalism, requiring a cooperative partnership among local, state and federal governments that must be strengthened through all levels of government. Local leaders look forward to working collaboratively with the Biden-Harris Administration and in a manner that recognizes the importance of a federal-local partnership. As such, we hope that the Department of Treasury will institute regular stakeholder meetings, as well as include cities at the table when rules are being crafted to provide their important perspective and to ensure that rules are effective, implementable, offer local flexibility, avoid a "one-size-fits-all" approach and avoid any unfunded mandates.

As municipalities and their citizens recover from the economic downturn, it will be key to have strong partnerships that work both ways. The slashing of budgets at the municipal level will mean that fewer key staffers, the decision makers, for economic recovery will be available to work with the new Administration, making it all the more important to help drive money to cities for stabilization and recovery.

Partnership With Local Governments to Restore Advance Refunding Bonds

Advance refunding bonds are highly beneficial to local governments and are another tool in the financial toolbox for helping to maintain good fiscal health for a municipality. A key feature of allowing cities, towns and villages to advance refund a bond is it allows local governments to keep tax rates level or allow a municipality to reinvest the savings of the advanced refunding into additional capital improvement projects. It also allowed cities, towns and villages to take advantage of lower interest rates on their debt service. Over the years, refinancing generated hundreds of billions of dollars of interest costs savings over time.[1] In 2007-2017, alone, there were 12,000 tax-exempt advance refundings, saving more than $18 billion for tax a rate-payers during that period.

Before the 2017 Tax Cuts and Jobs Act, the practice of advanced refunding was common. However, a bond issuance could be done only once. Changes after the 1986 Act limited multiple advance refunding's on a single issue and put in other guardrails.

Congress gave little policy justification for eliminating the refunding provision during the debate over the 2017 tax legislation. In one document, proponents of repeal stated only that "The ability to issue advance refunding bonds allows state and local governments to issue and have outstanding two sets of Federally subsidized debt associated with the same activity."[2] This is a misguided understanding of how advanced refunding bonds work and the guardrails that were put in place in 1986.

The alternative is to do a taxable refunding. The problem with this is that the investor base for taxable municipal bonds is much smaller than for tax-exempt issuances. Additionally, the taxable bond market is geared towards corporate investment grade bonds with shorter maturities than traditional municipal bonds.

Reinstating this provision, the advanced refunding provision into the tax code, would be helpful for municipalities across the country as they struggle with balancing their budgets.

Continued Ability For The Long-Term Unemployed To Be Able To Withdraw Savings From A Retirement Account Without Penalty

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided eligible taxpayers in need the flexibility to withdraw funds from retirement plans and IRAs. This was especially critical for the long-term unemployed, many of whom lost their jobs as a result of the COVID-19 pandemic and not through a fault of their own. The removal of the 10% additional tax on early distributions that would otherwise apply to most withdrawals before age 59½ was good policy that NLC supports. The policy expired at the end of December, 2020, and NLC believes it should be reinstated.

Exemption From Taxation Income From Loan Modification, Forgiveness, Or Cancellation For Small Businesses

In April and May 2020, nearly half of all retail rents went unpaid. Compared with the period a year before, the unpaid rate was approximately seven percent. The effects of businesses not being able to pay rents will mean in many cases that either need economically significant workouts or modifications, which can trigger tax consequence, or go under. NLC is supportive of providing flexibility to businesses

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[1] https://www.gfoa.org/advance-refunding-overview

[2] Committee on Ways and Means, US House of Representatives, Report of the Committee on Ways and Means, House of Representatives, on H.R. 1 Together with Dissenting and Additional Views, November 13, 2017, page 308.

with fewer than 50 full-time employees (FTE)s to make sure they do not get adversely affected by a loan workout. Small businesses are key to cities, and the loss of them can be devastating.

ENVIROMENTAL PROVISIONS

The intersection of tax policy and the environment is incredibly important. Incentives the federal government provides to help incent good policy for the residences of cities cannot be understated. As such, three provisions of the tax code that NLC would like three see amended and one renewed:

- Add water and sewerage facilities to the list of private activity bonds that are not subject to the volume cap to maintain tax-exempt status.
- Expand federal income tax exclusions to include homeowners who receive rebates from water utilities to purchase and install water conservation or stormwater management systems.
- Pass a long-term extension of the investment tax credit and the production tax credit for renewable energy as an incentive for their development and deployment.
- Renew the Brownfields Tax Incentive, section 198 of the Internal Revenue Code, which allowed taxpayers to deduct remediation expenditures for the cleanup of a property if the property was used for a trade, business or for the production of income. The incentive expired on January 1, 2012.