NATIONAL LEAGUE OF CITIES

A CENTURY OF STRENGTHENING CITIES

April 14, 2025

The Honorable Mike Johnson
Speaker of the House
United States House of Representatives

The Honorable John Thune
Senate Majority Leader
United States Senate

The Honorable Hakeem Jeffries
Minority Leader
United States House of Representatives

The Honorable Charles E. Schumer
Minority Leader
United States Senate

Dear Speaker Johnson, Leader Thune, Leader Jeffries and Leader Schumer:

On behalf of the National League of Cities (NLC) and the nation's more than 19,000 cities, towns and villages, I write to share **municipal government perspectives on reconciliation directives within the Fiscal Year 2025 Budget Resolution and the ensuing extension of the Tax Cuts and Jobs Act of 2017.**

The fiscal and broader national economic objectives of federal tax bills impact municipal government operations, local planning and development, budgeting, and services sought by residents. Local budgets are sound in proportion to the consistency and predictability of federal aid available to localities. Cities and towns thrive when the federal budget provides for meeting both immediate national needs that local governments have a role in carrying out, and long-term fiscal stability in the form of reasonable measures for debt reduction.

Given the patchwork of revenue and expenditure limitations already imposed on local governments, substantial unanticipated reductions of federal aid generally cannot be supplanted with local revenue. This is also the case when awarded federal funds are unexpectedly frozen or subject to unanticipated recoupment for reasons other than misspending funds. Because of this, any changes to federal tax and spending that directly targets local government revenue or financing mechanisms have an outsized impact on the overall fiscal capacity of municipal governments and limit the ways local elected officials fulfill their fiduciary duty to the cities and towns they serve.

Local governments are also impacted by federal tax bills in their collective capacity as a major employer, particularly for workers in the fields of public safety, public health, and education. State and local governments collectively employ over 20 million workers and contribute approximately 15 percent of national GDP. Analysis of data collected from local government grantees consistently shows that every federal dollar spent through local governments generates multiple dollars more in economic activity from both the public and private sector which strengthens the economy locally and nationally. For example, on average every $1.00 of Community Development Block Grant funding for local governments produces just over $4.00 in additional economic activity.

Among the many considerations involved in assembling the next tax bill, **NLC urges Congress to consider how the reconciliation directives in the FY25 Budget Bill and ensuing extension of the Tax Cuts and Jobs Act of 2017 could alter the intergovernmental partnership and the ability of municipal governments to make necessary and reasonable adjustments to carry out their role in it.** Such considerations include the impacts of potential offsets and proposed new tax expenditures.

OFFSET CONSIDERATIONS

Protect the federal tax exemption for municipal and private activity bonds. Cities of all sizes rely on tax-exempt municipal bonds as a critical tool to finance infrastructure projects and essential public services. The tax-exempt bonds issued by state and local governments and nonprofit entities have financed more than three-quarters of our nation's infrastructure, helping to fund everything from schools and firehouses to roads and utilities. On the critical issue of clean drinking water and wastewater management alone, local governments fund 98 percent of all capital, operations and maintenance investment in the nation's commercial and residential water infrastructure, primarily through user fees, loans and bonds.

Avoid interruptions to funds authorized under the Inflation Reduction Act and federal funding already awarded to local governments by multiple federal agencies including USDA, EPA, DOE and the Department of Treasury. NLC is encouraging the Treasury Department in particular to devote attention to effectively rolling-out the Investment Tax Credit and Production Tax Credit elective payment provisions, and other administrative requirements of the Inflation Reduction Act to ensure cities, towns and villages can maximize their own capital investments and strategies for planning and budgeting purposes.

Proposed changes to Medicaid financing and eligibility requirements. Medicaid is a federal-state-local partnership that provides health coverage to approximately 79 million Americans. Policy changes that mandate specific eligibility requirements and alter the fiscal makeup of the program threaten Medicaid's effectiveness and reduce state flexibility in program design. Such changes have costly implications, leading to significant coverage losses for beneficiaries and increased medical debt, with unclear long-term savings. While eliminating instances of fraud in the Medicaid program is important, preserving state flexibility and preventing significant funding cuts are both critical to ensuring Medicaid can be tailored to local priorities, as such cuts would severely limit this ability, forcing states to reduce services, restrict eligibility, or shift costs to local governments.

Possible interruptions in federal food aid cannot be replaced with the support of local government revenues alone. To the best extent possible, reconciliation directives should not result in additional challenges for eligible residents to obtain food that is healthy, affordable and, where practicable, locally grown under the Supplemental Nutrition Assistance Program or lessen SNAP's role in obtaining healthy food as a step toward greater self-sufficiency.

TAX EXPENDITURE CONSIDERATIONS

The downstream impacts of any decline in the credit rating of the federal government. The increasing federal deficit and the politicization around raising the debt ceiling over the past two decades has negatively impacted the credit rating of the United States. This impacts the credit ratings of cities, leading to higher borrowing costs and decreased infrastructure investment. NLC urges Congress to make the nation's fiscal health a bipartisan priority and preserve the full faith and credit of the United States from harm resulting from the federal debt limit.

Enhance the availability of public subsidies, production credits, and other incentives for housing supply. As part of the tax package, NLC supports enhancements to the Low-Income Housing Tax Credit program, such as those included in the Affordable Housing Credit Improvement Act, and inclusion of the Neighborhood Homes Tax Credit. NLC also supports enhanced incentives within Opportunity Zones targeted to increasing production of new attainable housing supply. Federal agencies should offer resources to assist local governments to maximize the potential of opportunity zones within their communities, similar to the resources co-developed by HUD and Treasury to support eligible housing investments with State and Local Fiscal Recovery Funds.

Provide additional flexibility and clarity to support water conservation and lead pipe replacement projects. NLC supports the Water Conservation and Tax Parity Act, which would amend federal tax law to exempt homeowners from paying income tax on rebates received from water utilities for water conservation and runoff management improvements. NLC also supports streamlining the tax code to allow public water utilities utilizing bonds to finance the replacement of private lead service lines to bypass the U.S. Internal Revenue Service's "private business use test," allowing more communities access low-cost financing for lead service line replacement. We urge these provisions to be included in the legislation.

Increase the State and Local Tax (SALT) deduction cap. The SALT deduction has long been a cornerstone of the federal tax code enacted in 1913. Until 2018, the deduction ensured that Americans were not double taxed on the income they already used to pay mandatory state and local taxes. Prior to the establishment of the cap, SALT was one of the highest claims made by individuals on their annual tax filings. Capping the deduction at $10,000 has limited state and local control of tax systems, shifting the intergovernmental balance of taxation.

Re-instate Advanced Refunding of municipal bonds. Advance refunding is an important tool for refinancing outstanding debt at lower interest rates. It has generated many billions of dollars of interest savings over decades. Prior to 2017, states and local governments were able to advance refund municipal bonds once on a tax-exempt basis, typically at a lower interest rate than the original bond. With the reinstatement of advanced refunding, the billions of dollars states and localities can save will allow local governments to reinvest those savings back into their communities to bolster resources and provide critical infrastructure such as clean water systems, roads and bridges.

Thank you for considering the views of the municipal governments represented by NLC. We also encourage Members of Congress to directly solicit the views of local elected officials in your states and districts. If NLC can be of assistance, or if you have any questions, please contact Irma Esparza Diggs, NLC Senior Executive and Director of Federal Advocacy, at 202-626-3176 or diggs@nlc.org.

Sincerely,

Clarence Anthony
CEO and Executive Director
National League of Cities