

November 8, 2017

Dear Members of Congress:

On behalf of 19,000 cities and towns across the country, the National League of Cities and the nation's State Municipal Leagues write to express our views on the House Tax Cuts and Jobs Act, a bill that would significantly alter the fiscal basis of federalism as it has existed for over a century since institution of the original 1913 federal tax code.

First and foremost, we would like to express our gratitude for maintaining the tax-exemption for municipal bonds, without which municipalities simply could not finance the vast majority of roads, water infrastructure, public utilities, and health care facilities, that our communities, and our economy, needs to grow. We also thank you for recognizing that the federal deduction for state and local property tax is an important protection for taxpayers from being double-taxed; and a protection against federal intrusion on local authority to pay for community needs. Finally, we are pleased the bill maintains authorization for the Low-Income Housing Tax Credit and the Earned Income Tax Credit, both of which are irreplaceable incentives that move families and neighborhoods in a successful direction.

At the same time, the Act still falls short on critical issues for municipalities, including bonds, credits, and deductions. For the following reasons, we cannot support the House Tax Cuts and Jobs Act in its current form:

- **We urge Congress to preserve the tax-exemption on Private Activity Bonds.** Tax-exempt private activity bonds ("PABs") represent a critical source of financing for important qualified projects and programs, including infrastructure, affordable housing, economic development, the funding and refinancing of student loans, and much more. PABs help spur private investment and allow state and local governments to harness the private sector's experience and expertise toward public projects and initiatives, and therefore should be preserved and enhanced.
- **We urge Congress to preserve the advance refunding authorization.** Repealing the advance refunding authorization is a direct hit to municipal budgets because advance refundings are specifically and exclusively done by governmental issuers to achieve debt service cost savings. Losing the authority to do advance refunding's strips away a tool for responding to a sharp economic downturn because the lower interest rates that make an advance refunding feasible and attractive are typically sparked by a broader slowdown in the economy. In that scenario, municipalities will lose economically-sensitive revenues like sales taxes, so the ability to manage otherwise fixed costs like the debt service bill is particularly valuable.
- **We urge Congress to preserve the State and Local Tax Deduction, as is.** Eliminating or capping federal deductibility for state and local property, sales and income taxes would represent double taxation, as these taxes are mandatory payments for all taxpayers. No federal law or regulation should preempt, limit or interfere with the constitutional or statutory rights of states and local governments to develop and operate our own tax systems. States and local governments deploy revenues from state and local property, sales and income taxes to help finance long term infrastructure projects, local law enforcement, emergency services, education costs and many other services. By eliminating the federal deductibility of these taxes, Congress

would be shifting the intergovernmental balance of income taxation and could limit state and local control of our tax systems.

- **We urge Congress to preserve the New Markets Tax Credit and the Historic Tax Credit.** Congress should reconsider eliminating tax incentives when no similar tool is available in the private market. That includes the Historic Tax Credit (HTC), which encourages the redevelopment of historic and abandoned buildings in unique and challenging circumstances; and the New Markets Tax Credit (NMTC), which is a modest tax incentive that significantly increases the availability of private capital to small businesses and local entrepreneurs working in distressed communities. Both would be eliminated under the proposed Act.

Unfortunately, this Act asks cities and towns to do far more with far less. We recognize that our federal tax code is in need of simplification, but offsetting a tax plan on the back of municipal governments should be rejected.

Sincerely,

The National League of Cities

Mississippi Municipal League

Alabama League of Municipalities

Missouri Municipal League

Arkansas Municipal League

New Jersey State League of Municipalities

League of California Cities

New Mexico Municipal League

Colorado Municipal League

New York State Conference of Mayors and  
Municipal Officials

Delaware League of Local Governments

The Pennsylvania Municipal League

Florida League of Cities

Municipal Association of South Carolina

Georgia Municipal Association

South Dakota Municipal League

League of Kansas Municipalities

Texas Municipal League

Maryland Municipal League

Vermont League of Cities and Towns

Massachusetts Municipal Association

Virginia Municipal League

Michigan Municipal League

West Virginia Municipal League

League of Minnesota Cities