WASHINGTON ATTACKS MUNICIPAL BONDS & CDBG AS REPORT SHOWS 312,000 JOBS WOULD BE LOST FROM TAX EXEMPTION CHANGE

House Proposal Cuts CDBG By Half

Las Vegas, NV – Working to recover jobs lost since the Great Recession, the nation’s local officials said today that two federal proposals are standing in the way of their economic development efforts: a 50% cut in CDBG funding and the elimination or curtailment of the tax exemption for municipal bonds. Both CDBG and municipal bonds are key economic tools that local governments deploy to create jobs.

Over two-thirds (254) of the 383 metro areas in the U.S. have not recovered the jobs lost following the 2008 economic downturn, show data released today in Las Vegas at the 81st Annual Meeting of the U.S. Conference of Mayors, where almost 200 mayors are in attendance.

A jobs impact report also released today, in partnership with the National League of Cities, found that if Congress capped the tax exemption to 28% for municipal bonds that finance local infrastructure projects 311,736 jobs, $16.4 billion of labor income and $24.7 billion in GDP would have been lost in 2012. If Congress eliminated the tax exemption all together, then the loss would have been 891,962 jobs, $46.9 billion of labor income and $70.7 billion in GDP.

“Mayors built America with CDBG and municipal bonds. Now Washington wants to demolish these programs when the vast majority of our metro areas need every means to create jobs. We keep hammering away at jobs while Washington keeps pulling the nail outs,” said newly elected USCM President Scott Smith of Mesa, Arizona.

Said Avondale, AZ Mayor Marie Lopez Rogers, President of the National League of Cities, “Our message to Congress must continue to be don’t touch our bonds.”

Ending or reducing the tax exemption is under consideration in tax reform proposals. The White House has expressed support for a 28% cap on exemptions that include municipal bonds, despite loud opposition from cities and counties. The Simpson Bowles plan calls for its elimination.
“Changing the tax exempt status of municipal bonds is simply a bad idea. If the goal is to help cities recover from the economic downturn and spur job growth, then this just doesn't make sense,” said Philadelphia Mayor Michael Nutter, USCM Immediate Past President.

The U.S. House of Representatives also has proposed a 50% cut in Community Development Block Grant funds on top of cuts already in place from sequestration. The sequestered amount for 2013 was $3 billion; the proposed House budget would cut it in half to $1.6 billion. CDBG, which supports local social programs, also is used to leverage private investment in economic development and infrastructure projects.

In recent testimony before the House Ways and Means Committee in opposition to changes in the tax exemption for municipal bonds, Mayor Stephen Benjamin of Columbia, South Carolina, said:

“While Washington holds hearings, fights ideological battles about infrastructure funding sources and otherwise wrings its hands about our nation’s aging infrastructure, state and local governments are busy creating jobs and building, renovating and maintaining the core infrastructure that serve as the backbone of civilized society and are essential to our economy.”

Sacramento Mayor and USCM Vice President Kevin Johnson also expressed concern about the impact upon education. “What concerns me most is the hit education will take if the exemption is reduced or eliminated. Mayors are most dependent on bonds for the building and repair of our schools, where our children spend the most time during their young lives,” said Johnson.

“From 2003 to 2012, $514 billion of primary and secondary schools were built with financing from tax exempt bonds. It's hard enough now to modernize and upkeep our schools. Don't make it harder by taking this financing tool away from us.”

Las Vegas Mayor Carolyn Goodman, the host of this year's conference, said, “Raising critical issues that impact cities is why the U. S. Conference of Mayors is so important. I'm proud that the issue of municipal bonds, and what changes would mean to every city, is being brought to the public's attention here in Las Vegas.”

Key findings from the US Metro Economies: Job Impact of Proposals to Limit the Municipal Bond Market report, written by IHS Global Insight, are as follows:

• State and local infrastructure investment is a crucial fuel for US economic growth. Primary and secondary education, mass transit, public power, water and sewer facilities, roads, streets, highways and hospital…are an integral part of the engine that powers our national economy.

• Over the last decade (2003-2012), localities financed $1.65 trillion of these infrastructure projects through tax exempt, municipal bonds.

• If a 28-percent benefit cap on tax exempt interest was in place for projects financed over the last decade, the report estimates that it would cost state and localities an additional $173 billion in interest expenses.

• If tax-exempt interest were eliminated completely, it would have cost state and local governments an additional $495 billion.
• The report estimates that if these proposals to limit municipal bonds were in place, they would significantly curtail infrastructure investment.

• Under the 28% scenario, this would have resulted in a 20 basis point reduction in year-over-year job growth and the unemployment rate would have been 8.3% as oppose to 8.1% in 2012. Real GDP growth would have been 0.2% lower.

• Under the full repeal scenario, year-over-year job growth would have been 70 basis points lower, and the unemployment rate would have been 8.6% (compared to 8.1%) and real GDP growth would have been 0.5% lower.

• Under the 28% cap proposal, Construction jobs would suffer most, with a loss of 122,370 jobs annually, followed by Professional and Business Services with 38,441 jobs lost, and Trade, Transportation, & Utilities with a 36,119 job loss.

• Under the full repeal scenario, Construction would lose 350,134 jobs, followed by Professional & Business Services losing 109,989 jobs, and Trade, Transportation, & Utilities losing 103,347 jobs.