Administration’s 2014 Budget Proposes to Cap Deductions on Municipal Bond Interest at 28 Percent

By Larry Jones

Included in the Administration’s 2014 budget, released April 10, is a proposal that would cap tax deductions at 28 percent for the wealthiest two percent of taxpayers (those in the 33 percent, 35 percent and 39.6 percent tax brackets). The limit would apply to all itemized deductions, including the interest earned from tax-exempt municipal bonds, which is the primary tool used by state and local governments for the last 100 years to finance critical infrastructure. Mayors, governors, county officials and other local leaders are united in opposition against this proposal because it could significantly drive up state and local borrowing costs for building and maintaining infrastructure projects. The proposal is similar to one included in last year’s budget.

Anticipating that the proposal would be in the Administration’s 2014 budget, the Conference of Mayors teamed up with the National League of Cities, the National Association of Counties, and the Government Finance Officers Association in releasing a study last February which shows that if the 28 percent cap on tax-exempt municipal bond interest had been in place during the last decade, it would have cost states and localities an estimated $173 billion; and if the deduction had been fully eliminated, it would have cost states and localities an estimated $495 billion during the same period.

Reacting to the 28 percent cap in the Administration’s budget, Conference President Philadelphia Mayor Michael A. Nutter released a statement that day as well, praising the Senators for developing the compromise and urging all Senators to vote for it.

Nutter Praises Background-Check Compromise, Urges Enactment of Gun Safety Bills

By Laura DeKoven Waxman

With the April 11 68-31 procedural vote to invoke cloture and proceed with debate, consideration of legislation to reduce gun violence is now underway in the Senate. The first pending amendment expected to be considered is the bipartisan compromise background-check proposal announced April 10 by West Virginia Senator Joe Manchin and Pennsylvania Senator Patrick Toomey. The next day, New York Senator Chuck Schumer said he expects a vote on their proposal on April 16.

The Toomey-Manchin compromise would require a background check for private-party gun sales in commercial settings, including at gun shows, on the Internet, and through classified or other advertisements. It also would preserve the record-keeping practices, which have been in effect for 40 years that have helped law enforcement solve crimes. In addition, it contains several provisions that would improve the current background check system, cut through red tape, and simplify certain gun laws for licensed dealers, gun owners and active military personnel.

The compromise was well received by many supporting legislation to reduce gun violence, including New York City Mayor Michael R. Bloomberg and Boston Mayor Thomas M. Menino, Co-chairs of Mayors Against Illegal Guns, who released statements in support of the agreement shortly after it was announced. Conference of Mayors President Philadelphia Mayor Michael A. Nutter released a statement that day as well, praising the Senators for developing the compromise and urging all Senators to vote for it.
President Obama released his budget on Wednesday. We are extremely disappointed that included in his budget is his recommendation to Congress to cap the tax-exempt status of municipal bonds. City and county officials have been very strong in disagreeing with this part of the budget proposal to change the one hundred year old law that has allowed a tax exemption on our municipal bonds. This initiative has resulted in the infrastructure that we have today.

For one hundred years, Presidents Wilson, Harding, Coolidge, Hoover, Roosevelt, Truman, Eisenhower, Kennedy, Johnson, Nixon, Ford, Carter, Reagan, George H.W. Bush, Clinton, and George W. Bush have supported the tax-exempt authority.

Over the past few months, we have attempted to make our case on this subject to The White House to no avail. It’s not because we haven’t tried. We had press releases last fall, a meeting with the Vice President the week before Thanksgiving, press conferences, an impact study with NACo and NLC. And at our Leadership Meeting in February, mayors expressed their strong views on the importance of municipal bonds to Valerie Jarret, President Obama’s top official for us.

Now that the President has proposed, we will work with Congress to dispose.

We have a strong city-county coalition led by The Conference of Mayors, the National Association of Counties and the National League of Cities and over fifty more organizations. In the days, weeks and months ahead, we will do everything within our power to support Republican and Democratic leaders who are committed to protecting the tax-exempt status of our municipal bonds.

Conference President Philadelphia Mayor Michael Nutter will confer with our Executive Committee through a conference call on Monday and we will have a strong bipartisan strategy. Our message is quite simple. Everyone in Washington talks about the need for infrastructure development and jobs. Today there are no new infrastructure funds in the pipeline and transportation funds are flat. Leaders who support infrastructure development should not seek to reduce or remove the primary law that allows for the financing of infrastructure development that is so needed today. Twelve million people are unemployed. The American Society of Civil Engineers continue to give America’s infrastructure a D+. We are indeed coming out of the recession. City and county officials are saying to Washington, DON’T MESS WITH OUR BONDS; IT’S ABOUT INFRASTRUCTURE. IT’S ABOUT JOBS.

We will need the mayors of the nation to stand strong and active as we go forward. It is a defining moment. We must not be quiet and still. We must stop Washington from damaging this important law that has stood firm for over one hundred years to make America what it is today.

Other aspects of the President’s budget... there is a $200 million cut in the Community Development Block Grant program (CDBG) at HUD. President Obama is recommending $75 billion over ten years to fund Preschool for All, to ensure that every four-year old in the nation has access to quality early childhood education, with an additional $750 million investment in preschool development grants to help states strengthen their early learning systems - the largest investment ever in early childhood learning. The Presidents budget would, in 2015, also provide for mandatory funding of oil and gas royalties for the Land and Water Conservation Fund totaling $900 million, and specifically includes our urban parks program (UPARR) which is to receive $15 million this year for the first time in over a decade.
The U.S. Conference of Mayors released the following statement in response to President Obama’s FY 2014 Budget Proposal:

“The nation’s mayors believe the President’s budget proposal today moves us toward a balanced approach to achieve deficit reduction while promoting growth and investing in national priorities.

“In light of fiscal constraints, we are pleased that there is increased funding for programs such as:
• COPS hiring grants
• School security
• Early childhood education
• Homelessness assistance grants
• Land and water conservation
• Increases to immediately repair highway, transit and other transportation facilities and additional freight and passenger rail investments
• Various new infrastructure programs

“However, we are disappointed that the budget cuts Community Development Block Grant funding, which is the largest funding stream of federal dollars to cities and municipalities used by local governments to leverage additional investment, but the budget has maintained funding for the HOME program.

“We are extremely disappointed that the budget included a provision that severely limits the tax exemption on municipal bonds that finance the nation’s schools, hospitals, roads, transit, water and other critical infrastructure. The proposal would result in billions of dollars in increased interest annually for communities all across the country.

“In meetings with the Administration, mayors have continually expressed strong opposition to this proposal and reiterated that tax-exempt municipal bonds are essential to providing services for middle-class Americans. We do believe that the Administration has heard and understands our case on this issue and we strongly believe that this proposal would be disruptive to the municipal bond market and it is our position that this proposal should not move forward.

“We support the President’s new proposals on infrastructure, but they should not come at the expense of the primary tool for infrastructure financing and job creation. We do not believe that the Administration will take actions that could damage municipal financing in our country.

“We will continue to work with the Administration, in addition to House and Senate members, on both sides of the aisle who are standing with us to create jobs, fund projects and improve our communities.

“Mayors are keenly aware of the current fiscal climate and that this $3.8 trillion dollar budget is only one of many proposals, from Democrats and Republicans, that we will examine and debate.

“Some of the budget ideas being proposed by members of Congress would likely be even more harmful to our cities than some of the provisions in the President’s budget. We will be vigilant in expressing our opposition to budget ideas that are not in the best interests of our cities. We are committed to working to advance initiatives that help cities to move forward and sustain the economic recovery that has already begun.”

**COCHRAN**

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There are other issues - positive and negative in this budget. An analysis on our key priorities is being sent to you. We will need your help as we go forward to protect our municipal bonds and other top priorities as the Congress acts on the budget during today’s most turbulent and politically charged atmosphere.
Potential Significant Win for Cities Nationwide

By Des Moines Mayor T. M. Franklin Cownie

Over the past several years, the Environmental Protection Agency (EPA) had undertaken a series of rule reinterpretations of federal regulations, made without benefit of public notice or comment that affected cities with significant wet weather collection issues. A number of cities, including Des Moines, were affected by the rule reinterpretations because of their combined sewers and combined sewer overflows. In the case of Des Moines and its regional partner, the Wastewater Reclamation Authority (WRA), the estimated costs to install additional biological treatment capability needed to meet these EPA reinterpretations was estimated at between $80,000,000 and $100,000,000.

In August of 2010, the Des Moines City Council joined other cities authorizing retention of Hall & Associates to represent the city’s interest in contesting the matter, through the Iowa League of Cities. The litigation challenged two wet weather permitting techniques related to mixing zones and blending. In a unanimous decision filed March 25, the Eighth Circuit Court of Appeals found that the reinterpretations constituted improper revisions to legislative rules concerning EPA’s permitting regulations. Specifically, the court found that EPA’s letters announcing the revisions, and EPA’s positions on bacteria mixing zones and blending the letters set forth, were illegal legislative rules promulgated “without observance of procedure required by law.” Accordingly, the court vacated the letters and the unlawfully promulgated rules announced in the letters. Finally, the court took the additional step of ruling that – on the bypass/secondary treatment rule issue – EPA’s attempt to regulate internal waste streams clearly exceeded EPA’s statutory authority under the Clean Water Act.

In the past, EPA had interpreted its federal bypass rule in a way that allowed cities to use flexible approaches and innovative technologies to process peak flows during wet weather events. More recently, EPA began reinterpreting these rules more restrictively. Here’s what happens technically:

During large wet weather events, large influxes of stormwater can overwhelm a facility’s standard biological secondary treatment processes, potentially rendering them inoperable. Blending can prevent this by channeling a portion of peak wet weather flows around biological secondary treatment units and through non-biological units, recombining that flow with its counterpart that traveled through the biological units and then discharging the combined stream. The combined output must still comply with all applicable effluent limitations. The new EPA position was that the channeling of the peak wet flow around the biological secondary treatment units would be a diversion from appropriate treatment facilities and would be considered a bypass that would be allowed only upon a showing of no feasible alternatives. Our position was that EPA was effectively improperly applying effluent limitations within a treatment facility, instead of at the end of the pipe discharge to a body of water.

EPA was also asserting a prohibition on the use of mixing zones for bacteria for primary contact recreation waters. That prohibition would have negatively impacted Des Moines’ storm water program. There was really no viable plan—economically or scientifically—to achieve bacteria standards as an end of pipe limitation for storm water outfalls. Given the volume of floodwater carrying high bacteria levels from numerous urban and rural sources, it would have been impossible to achieve this new mandate, subjecting the city to continuous noncompliance.

As a result of these EPA reinterpretations, cities were faced with the following issues:

See IOWA on page 5
The inability to use innovative/cost-effective peak flow technology to address wet weather flows in most situations.

2 Significant enlargement to treatment facilities to assure peak flows could be processed through all units, or in the alternative, construction of large holding basins to hold peak flows.

3 Extensive sewer system replacement programs would have been required to address overflows that could occur from extreme events.

Thankfully, the Eighth Circuit Court of Appeals ruled that the EPA actions were improper revisions to legislative rules concerning EPA’s permitting regulations on mixing zones and blending. The court held the letter’s prohibition of bacteria mixing zones in primary contact recreation waters—regardless of the presence of health risks—removed state discretion to utilize such mixing zones. This elimination of state discretion constituted a revised rule that did not go through proper Administrative Procedures Act (APA) rulemaking procedures. The court found EPA’s blending prohibition both procedurally and substantively improper as it was irreconcilable with both the secondary treatment rule and the bypass rule and exceeded EPA’s statutory authority. It should be noted that EPA’s new mixing zone rule is not necessarily precluded by the Clean Water Act and if EPA decides to implement the rule, it can do so by going through the appropriate procedures; however, the court ruled that the blending rule clearly exceeded EPA’s statutory authority.

In our estimation, these new regulatory requirements would have potentially imposed hundreds of billions of dollars in municipal expenditures nationwide even though they were unrelated to any demonstrable ecological or public health need. There was also no reliable data or information to show that the level of compliance with applicable National Pollution Discharge Elimination Permit (NPDES) would have improved in spite of the increased expenditure. EPA has 45 days from March 25 to appeal, so we will closely monitor developments.

Harkin Honored by Conference of Mayors, Americans for the Arts

Senator Tom Harkin was awarded the 2013 Congressional Leadership in the Arts Award by The U.S. Conference of Mayors and Americans for the Arts. This award is presented annually by the two organizations to a Member of Congress for the leadership in advancing the arts. Harkin was honored for his work on advancing federal support of arts education. The award was presented on Arts Advocacy Day, April 9. Left to right, USCM CEO and Executive Director Tom Cochran, Harkin, and Americans for the Arts President and CEO Robert Lynch.

For more Business Council profiles visit the Conference of Mayors website at usmayors.org/buscouncil

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For more Business Council profiles visit the Conference of Mayors website at usmayors.org/buscouncil
Oklahoma City Mayor Cornett Honored for Leadership in Urban Design

The American Architectural Foundation (AAF) and The United States Conference of Mayors honored Oklahoma City Mayor Mick Cornett as the third recipient of the Joseph P. Riley Jr. Award for Leadership in Urban Design. Cornett was honored at the 24th Annual Accent on Architecture Gala, presented by AAF on March 22 in Washington (DC).

Cornett was recognized for his leadership in The Metropolitan Area Projects (MAPS) 3 initiative. This ten-year, $777 million construction program is funded through a temporary one-cent sales tax and consists of eight projects chosen in conjunction with an extensive public outreach program:

- A new downtown convention center to replace a nearly 50-year-old facility;
- A 70-acre downtown public park;
- A rail-based streetcar system to service downtown and the vicinity with connections to other rail-based systems and/or a multi-modal transit hub;
- Oklahoma River improvements to enhance its existing profile as a global center for training and competition in rowing;
- Senior health and wellness centers that support active lifestyles for seniors;
- Construction of miles of walking, cycling, and running trails; and
- Construction of miles of new sidewalks to promote citywide walkability.

The MAPS model was first established under Mayor Ron Norick in 1993, when voters approved a temporary sales tax to fund $350 million in downtown revitalization projects. Maps for Kids followed in 2001 during Mayor Kirk Humphreys’ administration, coupling $514 million in temporary sales tax revenue with a $180 million Oklahoma City Public Schools bond issue. These funds allowed the district to build new or renovate 70 urban schools and were secured thanks to an unprecedented coalition of the city, the public schools, and the business community.

Since taking office in 2004, Cornett has brought leadership to the completion of these existing MAPS initiatives and has helped position Oklahoma City to continue its rapid revitalization through MAPS 3. In addition, in 2008 he spearheaded a short-term MAPS initiative to improve the downtown arena and build an off-site practice facility in order to secure the Oklahoma City Thunder, the city’s first top-level professional sports franchise. The impact of having an NBA team, both as an economic catalyst and source of pride for the city’s residents, has been substantial.

From 1993 to today, the MAPS initiatives have resulted in more than $5 billion in private and public investment in Oklahoma City. This investment has energized the downtown corridor, attracting new businesses and residents rapidly. From 2000 to 2008 alone, downtown residency increased by more than 1,500 residents, spurred by $238 million in private investments in housing and mixed-use facilities. Meanwhile, unemployment has dropped to 4.6 percent, and new cultural and entertainment amenities have helped Oklahoma City achieve widespread recognition as a “destination city.”

“The really remarkable thing about the Oklahoma City story, is that this transformative work was executed seamlessly over the terms of three mayors, was conceived on the simple notion of citizens coming together to invest in their future, and advanced architecture as the principal strategy for change,” said AAF President and CEO Ron Bogle.

“The beauty of the Oklahoma City story is that Mayor Cornett, and Mayors Norick and Humphreys before him, have raised taxes to make Oklahoma City into a vibrant metro city when very few cities could muster the political support to do it,” said CEO and Executive Director of The United States Conference of Mayors Tom Cochran. “It’s about mayoral vision, leadership, and communication with the people of his city. In this regard, Mick Cornett is one of the best of the best mayors in the U.S. and the world.”

The Riley Award is presented annually by AAF and The United States Conference of Mayors. It is named after Mayor Joseph P. Riley Jr. of Charleston (SC), who was first elected in 1975 and is now serving his tenth consecutive term in office. Under his leadership, Charleston has been widely acclaimed for its commitment to affordable housing and the revitalization of its waterfront and historic downtown business districts. Riley was a founding father of the Mayors’ Institute on City Design (MICD), a leadership initiative of the National Endowment for the Arts in partnership with the American Architectural Foundation and The United States Conference of Mayors. Established in 1986, MICD has provided leadership training in urban design to more than 850 mayors across America—including Cornett, Norick, and Humphreys.
Army Corps Bill Unanimously Passes Senate Committee

Vote in Full Senate Expected Soon

By Judy Sheahan

The Senate Environment and Public Works Committee passed unanimously, S. 601, the Water Resources Development Act (WRDA) on March 20 and is expected to come before the full Senate soon after the gun control debate is concluded. The bill was a bipartisan collaboration between Committee Chair Senator Barbara Boxer (CA) and Ranking Member Senator David Vitter (LA).

The bill covers many issues of concern to cities including flood protection and infrastructure projects such as levees, dams, inland waterways, and harbor maintenance programs. Also included are ecosystem and environmental provisions including beach nourishment programs, riverbank stabilization, extreme weather provisions, and vegetation management.

The bill clarifies a number of issues that the Conference of Mayors has policy on including the requirement that all proceeds of the Harbor Maintenance Tax be used for maintaining harbors. It is estimated that currently only about half of the money that is collected is used for that purpose with many harbors not being dredged to proper depths to accommodate larger and more modern vessels that are currently being used.

The Conference of Mayors also had policy regarding the vegetative maintenance of levees. S. 601 authorizes the Secretary of the Army within 180 days of the date of enactment to review the national vegetative maintenance guidelines to determine “whether current federal policy relating to levee vegetation is appropriate for all regions of the United States.”

Another issue pursued by the Conference of Mayors and included in the bill is the creation of a new infrastructure financing tool known as the Water Infrastructure Finance and Innovation Act or WIFIA. The act authorizes the Environmental Protection Agency Administrator and the Secretary of the Army to create a pilot program that eligible entities, including local governments, could apply to finance infrastructure projects.

The House Transportation and Infrastructure Committee held their second public roundtable on April 10 to help craft their own water resources legislation.

GUNS

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Nutter called the agreement “…a necessary first step toward reducing gun violence, saving lives and making our communities safer.” “We must maintain this momentum as we push Congress to consider this and other measures, including limiting high-capacity magazines, stiffer penalties for straw purchasers, and specifically, Senator Feinstein’s measure to ban military-style assault weapons,” Nutter continued. “The goal is to get these laws to President Obama’s desk for his signature, and we must not relent in our determination until that moment arrives.”

It is also expected that California Senator Dianne Feinstein will offer an amendment to add the Assault Weapons Ban of 2013 (S. 150) to the package. Her amendment would prohibit the sale, manufacture, transfer and importation of specifically identified military-style assault weapons, ban high-capacity magazines and other ammunition feeding devices that hold more than ten rounds of ammunition, protect the rights of law-abiding citizens who use guns for hunting, household defense or legitimate recreational purposes, and exempt all assault weapons lawfully possessed at the date of enactment from the ban.

Mayors Asked to Urge their Senators to Support Gun Violence Prevention Provisions

Consistent with the Conference of Mayors strong policy in support of the legislation under consideration, recent alerts from Conference of Mayors CEO and Executive Director Tom Cochran have asked mayors to contact their senators and urge them to support:

- The Manchin-Toomey Gun Check Amendment;
- Senator Feinstein’s amendment to ban assault weapons and large-capacity magazines;
- Senator Blumenthal’s amendment to ban high-capacity magazines; and
- The basic bill, S. 649, the Safe Communities, Safe Schools Act of 2013.
WASHINGTON OUTLOOK

By Laura DeKoven Waxman

The FY 2013 continuing resolution passed by Congress March 20 and signed by the President March 26 that funds the government through September 30 contains a provision that prohibits the Federal Emergency Management Administration (FEMA) from using FY 2013 appropriations to implement the National Preparedness Grant Program.

The National Preparedness Grant Program (NPGP), which was first proposed in the President’s FY 2013 budget, would have consolidated the various state and local homeland security grant programs into a single program that would provide funding both through formula and competitive grants to the states.

The Conference of Mayors has strongly opposed the NPGP proposal since it was proposed and has worked to defeat it. Conference of Mayors leaders raised concerns with the proposal in a March 19 conference call with Homeland Security Secretary Janet Napolitano. Philadelphia Mayor Michael Nutter, then Conference of Mayors Vice President, testified in opposition to the proposal before the House Homeland Security Committee on March 20. Conference of Mayors staff participated in numerous meetings on the subject and helped to spearhead a joint effort challenging the proposal by 12 national groups representing local elected officials, emergency managers, major city police chiefs, sheriffs, and the major fire service organizations.

The 12 national groups sent letters on March 8 to the House and Senate appropriations and homeland security authorizing committees urging them to include language in the continuing resolutions that would prohibit FEMA from implementing the NPGP this year — exactly what happened.

This is a short-term victory; however, it’s expected that FEMA will continue this year to push for reform of the homeland security grant programs through the NPGP or something like it.

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an April 10 press release said, “We are extremely disappointed that the budget included a provision that severely limits the tax exemption on municipal bonds that finance the nation’s schools, hospitals, roads, transit, water and other critical infrastructure. The proposal would result in billions of dollars in increased interest annually for communities all across the country.”

The Conference of Mayors is making progress on this issue in both chambers of Congress. On behalf of state and local governments, Senator Mark Begich and 13 other Democratic Senators sent a letter to the President on April 2 urging against capping or eliminating the tax-exempt status of municipal bonds. A bipartisan resolution was also introduced in the House last month celebrating the 100-year history of tax-exempt municipal bonds by Representatives Lee Terry (NE) and Richard Neal (MA). The Conference of Mayors is also pleased that House Majority Leader Eric Cantor has expressed support for preserving the tax-exempt status of municipal bonds.

Over two hundred mayors have already signed on a letter to the President and Congressional leaders urging them to reject any proposal that would limit or eliminate the tax-exempt status of municipal bonds. All mayors are strongly urged to go to the website http://www.usmayors.org/MuniBondLetter and sign on the letter that will be sent to the President and Congressional leaders soon.

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Connecticut Senator Richard Blumenthal is expected to offer a separate amendment to ban high-capacity magazines.

The basic bill being considered is the Safe Communities, Safe Schools Act of 2013 (S. 649), which would require criminal background checks for all gun sales, get the names of prohibited purchasers into the background check system, crack down on gun trafficking and straw purchasers, and enhance school and campus security. These three provisions were reported out of the Judiciary Committee in March, along with the assault weapons ban. Senate Majority Leader Harry Reid of Nevada assembled S. 649, but did not include the assault weapons ban in it.
President’s 2014 Budget Offers Mixed Bag of Budget Cuts, Increases, New Initiatives

President Obama sent his 2014 budget to Congress on April 10 requesting $3.77 trillion in new spending to keep government agencies and programs operating in FY 2014. Included in the budget is a proposal to reduce the deficit by an additional $1.8 trillion over the next decade. This includes $1.130 trillion in spending reductions ($930 billion in spending cuts and $200 billion from interest savings), $100 billion from changes to the consumer price index, and $580 billion from imposing a 28 percent limit on tax deductions for the wealthiest income earners. The 28 percent limit would apply to all itemized deductions, including the interest on tax-exempt municipal bonds. The Conference of Mayors is concerned this would significantly drive up state and local borrowing costs for critical infrastructure investments such as schools, hospitals, roads, transit systems, airports, bridges, water and wastewater treatment systems.

The Conference of Mayors is also concerned about the Administration’s proposal to cut Community Development Block Grants (CDBG). While the program would continue to be funded at $3 billion, $200 million would be set aside for new competitive funding to further reduce vacant and blighted properties. This would in effect reduce by $200 million the amount of funding available for CDBG formula grants to local communities.

The Conference of Mayors applauds the President for his commitment to increased investment in the nation’s infrastructure, challenging Congress to direct additional resources to our vital transportation networks. His call for an immediate infusion of $50 billion to repair highway, transit and other transportation facilities and his substantial renewal plan for the next surface transportation law, including additional freight and passenger rail investment, will create new jobs and help restore the nation’s economy.

The President’s budget also calls for a new $12.5 billion Pathways Back to Work Fund to support jobs and work opportunities for low-income youth and adults. The COPS Hiring Grants would be increased $76 million over the FY 2012 level and Homeless Assistance Grants would be increased $480 million above the 2012 level. It also calls for $8 billion to fund a New Community College to Career Fund and $75 billion over ten years—the largest investment in preschool ever—to fund preschool development grants.

The following is a summary showing how some of the key city priorities would be impacted in the President’s 2014 budget.

Revenue Measures
- Tax-Exempt Municipal Bonds—a 28 percent limit would be imposed on all itemized deductions, including interest earned from tax-exempt municipal bonds, for top income earners (those in the 33 percent, 35 percent and 39.6 percent tax brackets). If enacted this would increase state and local borrowing cost for critical infrastructure projects.
- New Market Tax Credits Program—would make the New Markets Tax Credits program permanent with an annual cap of $5 billion. This program provides tax incentives to investors for locating in economically distressed neighborhoods.

Program Reductions/Eliminations
- Community Development Block Grants (Formula Grants)—would be cut from $3 billion in the current Fiscal Year to $2.8 billion in 2014.
- Airport Improvement Grants (AIP)—would be cut $450 million to $2.9 billion, by eliminating formula grants to large airports but proposing to raise the Passenger Facility Charge (PFC) limit from $4.50 to $8.00.
- Clean Water State Revolving Loan Fund—would be reduced by $371 million, from $1.465 billion to $1.095 billion.
- Low Income Health and Energy Assistance Program (LIHEAP).
- State Criminal Alien Assistance Program—would be eliminated.

Program Increases/New Initiatives
- Immediate Transportation Investments—proposes $50 billion in funding for a range of transportation infrastructure investments, directing most of the new funding at repairing and maintaining existing facilities: $27 billion for highways and bridges (including $2 billion for cross-border transportation), $9 billion for public transit, $2 billion for current passenger rail, $3 billion for an intercity rail service improvement program, $4 billion in competitive grants and financing for qualified projects, $2 billion in competitive grants to DOTs, MPOs and other transportation agencies to spur transportation innovations, and $3 billion for airport improvements and facilities.
- Surface Transportation—reserves funding in FY 2015 to underwrite a multi-year reauthorization of the federal surface transportation law, including a 25 percent increase in current funding levels.
- Pathway Back to Work Fund—proposes a new summer and year-round jobs program for low-income youth; and connects long-term unemployed workers.

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and low-income adults to subsidized employment and training opportunities.

- Reducing Gun Violence—would add $4 billion for the hiring and re-hiring of police officers, $150 million for a Comprehensive School Safety Program to be administered by the COPS Office, and $50 million in grants to improve the National Criminal Instant Check System to carry out President Obama’s plan to reduce gun violence.

- Public Safety Assistance—proposes an increase in COPS Hiring Grants to $217 million next year in addition to the $4 billion proposal and a substantial increase (to $119 million) in Second Chance/Reentry funding.

- Homeland Security—would consolidate the various homeland security grant programs into the National Preparedness Grant Program. While the proposal is still under development, it would continue the requirement that 80 percent of the funds be passed through to local agencies.

- Preschool Development Grants—would provide $750 million annually ($75 billion over ten years) to fund preschool development grants.

- Community College to Career Fund—proposes to provide $8 billion ($500 million to each agency per year) over eight years to improve access to job training.


A more detailed analysis of the President’s 2014 Budget can be found online at usmayors.org.

Calendar of Events
(Updated 04/12/13)

April 10
U.S. Communities Strategic Sourcing Summit, Phoenix. Contact: Jeannie Fanning jfanning@usmayors.org / 240-393-9672

May 1-3
World Cultural Economic Forum (International and U.S. Mayors), New Orleans. Contact: Jocelyn Bogen jbogen@usmayors.org / 202-861-6727. Sponsorship: Geri Powell gpowell@usmayors.org / 202-861-6774. Registration Now Open

May 8
U.S. Communities Strategic Sourcing Summit, Tarpon Springs (FL) (Tampa area). Contact: Jeannie Fanning jfanning@usmayors.org/ 240-393-9672

May 13
U.S. Communities Strategic Sourcing Summit, Norristown (PA) (Philadelphia area). Contact: Jeannie Fanning jfanning@usmayors.org / 240-393-9672

May 15
Benefits Best Practice Forum, East Orange (NJ). Contact: Jeannie Fanning jfanning@usmayors.org / 240-393-9672

May 17-19
His Holiness the Dalia Lama Visit / Muhammad Ali Meeting / Compassion in Governing Panel, Louisville. Contact: Brenda Frank brenda.frank@louisvilleky.gov / 502-574-2018. Lori Hatton lori.hatton@louisvilleky.gov / 502-574-4543

May 22-24
Mayors Innovation Summit, Philadelphia. Contact: David Burns dburns@usmayors.org / 202-861-6765. Registration Open

May 23
Benefits Best Practice Forum, Greenwood Village (CO). Contact: Jeannie Fanning jfanning@usmayors.org / 240-393-9672

June 21-24
81st Annual Conference of Mayors, Las Vegas. Contact: Carol Edwards cedwards@usmayors.org / 202-293-7330. Sponsorship: Geri Powell gpowell@usmayors.org / 202-861-6774. Registration Open

August 1-3
Summer Leadership Officers Meeting (USCM Executive Committee, Advisory Board and Chairs Only), Park City. Contact: Carol Edwards cedwards@usmayors.org / 202-293-7330. Sponsorship: Geri Powell gpowell@usmayors.org / 202-861-6774. Registration Available in June

September 12-13
Coalition of Cities Against Racism, Birmingham. Contact: Tom McClimon mcclimon@usmayors.org / 202-861-6729. Registration Available Soon

For updates or changes, visit our website at usmayors.org
WASHINGTON OUTLOOK

Senator Begich (AK), 13 Other Senators Urge Against Capping or Eliminating Tax-Exempt Status of Municipal Bonds

By Larry Jones

In a strong show of support for state and local governments, Senator Mark Begich (AK) and 13 other Democratic Senators sent President Barack Obama a letter on April 2 urging against capping or eliminating the tax-exempt status of municipal bonds. The letter was sent in anticipation that the Administration would include a provision in its FY 2014 budget proposal that would cap deductions on interest earned from municipal bonds at 28 percent, which is similar to a provision included in the Administration's FY 2013 budget. As expected, on April 10, it was learned that the 28 percent cap was again included in the Administration's FY 2014 budget.

In the letter, Senators point out that while they acknowledge that the country faces significant fiscal challenges in coming together on a plan to reduce the federal deficit. "It would be inappropriate and shortsighted, however, to radically shift the burden of our national fiscal challenges to states and cities by capping or eliminating the tax-exempt status of municipal bonds," they noted.

Tax-exempt bonds are the primary tool used by states and localities to finance critical infrastructure such as schools, hospitals, bridges, roads airports, water and wastewater treatment systems. If enacted, mayors across the nation are deeply concerned that the 28 percent cap on municipal bond interest will significantly drive up their borrowing costs on infrastructure projects. They further worry it will force them to either increase local taxes or reduce services.

The Conference of Mayors will continue to work closely with Begich and the other Senators on the letter to protect the current status of tax-exempt bonds. Two of the signatories are in key positions that could enable them to have significant influence over this issue—Maria Cantwell, a member of the Finance Committee and Barbara Boxer, chair of the Environment and Public Works Committee.
Sequestration was designed to protect anti-poverty programs from cuts. But this did not happen with HUD’s housing and community development programs. Cuts are made in the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships program, Public Housing (both operating and capital funds), elderly housing and housing for people with disabilities, and Housing for Persons with AIDS.

While all cuts to housing and community development will hurt communities across the nation, the cuts appear to be especially severe on Section 8 Housing Choice Vouchers. The Center on Budget and Policy Priorities (CBPP) estimate that state and local housing agencies will likely be forced “to cut the number of low-income families using Housing Choice Vouchers to afford housing by roughly 140,000 by early 2014.”

According to the Center on Budget and Policy Priorities, $938 million will be cut from the Section 8 voucher program. This is six percent less for rental assistance “for the same number of families in 2013 as in 2012.” Housing agencies are already taking measures to reduce costs such as “shelving vouchers,” CBPP says. Shelving vouchers is “not reissuing vouchers to families on the waiting list when families leave the program” [CBPP]. The result is that the number of families assisted is reduced over time.

But such measures will not solve the budget shortfall problem. Eventually, housing agencies will have to consider terminating some families. The cut to vouchers may eventually increase rents and discourage landlords from renting to families using vouchers. Homelessness is also likely to be increased.

During a recent visit to Capital Hill, several members of Congress advised mayors to document the impact of the sequestration. Conference of Mayors staff is working with national groups representing housing administrators to determine the impact of sequestration in housing and community development programs.

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By Kevin McCarty

Led by Chairman Julius Genachowski, the Federal Communications Commission convened the first of three workshops designed to advance his initiative challenging local and state governments to ensure the development of at least one gigabit-speed Internet community in all 50 states by 2015.

Genachowski first outlined his “Gigabit City Challenge” during his remarks at the January Winter Meeting before the Conference of Mayors Transportation and Communications Committee, chaired by Atlanta Mayor Kasim Reed.

At that time, Genachowski explained the importance of governmental actions to support the development of these super-fast networks, moving data at one hundred times the speed of average fixed high-speed Internet connections. “American economic history teaches a clear lesson about infrastructure. If we build it, innovation will come. The U.S. needs a critical mass of gigabit communities nationwide so that innovators can develop next-generation applications and services that will drive economic growth and global competitiveness,” Genachowski told the mayors in making his announcement.

In launching the March 27 workshop at FCC’s headquarters, Genachowski further underscored the importance of this infrastructure investment in communities to help ensure the U.S. maintains its leadership role in technology and services. “The critical mass of gigabit communities will spur exactly the kind of innovation that we need to have to continue moving our economy forward,” he said.

“We need more gigabit communities in the U.S. And, we need to have a critical mass of one gigabit market to spur ultra high-speed investment here in the U.S.,” he told the workshop participants who gathered to hear from leading officials about local developments in the deployment of these networks.

Continuing to make the case that more action is needed here to accelerate this new infrastructure, Genachowski said, “We know in the 21st century economy that innovation leadership is economic leadership. We are in a global bandwidth race.” Further explaining the importance of these investments in broadband infrastructure, he said, “Broadband is our main innovation platform for the 21st century.”

Before turning over the workshop to the various teams of presenters, Genachowski praised a number of local high-speed infrastructure efforts, touting Chattanooga’s broadband network, Kansas City (MO) and its partnership with Google Fiber, and San Leandro (CA) for its public-private partnership that kept OSIsoft in that community. He also cited the mayors of Chicago, New York and Seattle for their broadband plans.

City officials from Chattanooga and Kansas City (MO) and Seattle joined with industry, academic, non-profit leaders on several panel sessions exploring opportunities and challenges in moving to ultra high-speed platforms at the local level.
Mayors Meet with Italian Mayors to Discuss Arts, Culture, Sports

By Tom McClimon

New York University’s Florence campus, Villa La Pietra, served as the meeting place on May 21 between American mayors and Italian mayors and officials on the importance that the arts and culture play in their cities. Led by Conference of Mayors President Philadelphia Mayor Michael A. Nutter, the mayors shared their experiences and ideas on ways that arts programs, and cultural and sporting events contribute to their local economies as well as provide enjoyment for their residents and visitors.

In addition to Nutter, members of the American mayoral delegation were Conference of Mayors Vice President Mesa Mayor Scott Smith, Columbia (SC) Mayor Steve Benjamin, Louisville Mayor Greg Fischer, Indianapolis Mayor Gregory Ballard, and Conference of Mayors CEO and Executive Director Tom Cochran.

Co-Sponsored by New York University’s Florence campus, this “Creative Metro Economies” Forum was part of their continuing series of La Pietra Dialogues which convenes some of the world’s foremost scholars, policy makers, business leaders and artists to discuss some of the most intractable issues of contemporary society. This round table explored ways investments in culture and sports can serve as an engine of economic development in a city. Presentations were made

Left to right, Piacenza Mayor Paolo Dosi, USCM President Philadelphia Mayor Michael A. Nutter, and Victor Magiar from the National Association of Italian Municipalities.

Left to right, Louisville Mayor Greg Fischer, Columbia (SC) Mayor Steve Benjamin, U.S. Consul General Sarah Morrison, President of Florence City Council Eugenia Giani, USCM President Philadelphia Mayor Michael A. Nutter, Indianapolis Mayor Gregory Ballard, USCM Vice President Mesa Mayor Scott Smith, NYU Florence Director Ellyn Toscano, and USCM CEO and Executive Director Tom Cochran.

At left, New York University Florence Executive Director Ellyn Toscano with Salvatore Ambrosino, NYU graduate student and moderator of roundtable.

See ARTS on page 15
on how the creation of a city office, such as Philadelphia’s Office of Arts, Culture and the Creative Economy, can increase the number of jobs in that city related to arts and culture—now the fourth largest employment sector in Philadelphia; to how the development of a downtown performing arts center as in Mesa can transform that area into a thriving arts community; to ways that major sporting events, such as the Kentucky Derby in Louisville and the collegiate events in Indianapolis and Columbia can help those local economies to do well.

Presentations also included how one of the oldest and largest horse races, the Palio in Siena, can help bring a community together; ways that festivals, such as the Festival of Laws in Piacenza, can help promote stability in a community; and the need to have a high priority to invest in the preservation of the arts as in Florence, Italy.

Agreement was reached that there was a need to continue these dialogues between American and Italian mayors, not only on arts and culture, but on a wide range of issues facing the mayors of both countries.

In addition to the meeting at New York University, the mayors had the opportunity to meet with Florence Mayor Matteo Renzi in his office at city hall and the United States Consul General in Florence Sarah Morrison.

At left, USCM CEO and Executive Director Tom Cochran with Salvatore Ambrosino, NYU graduate student and moderator of round table.

Left to right USCM Vice President Mesa Mayor Scott Smith, Columbia (SC) Mayor Steve Benjamin, Louisville Mayor Greg Fischer, and Indianapolis Mayor Gregory Ballard.

Left to right, Columbia (SC) Mayor Steve Benjamin, Indianapolis Mayor Gregory Ballard, Florence Mayor Matteo Renzi, USCM President Philadelphia Mayor Michael A. Nutter, USCM Vice President Mesa Scott Smith, Louisville Mayor Greg Fischer, and USCM CEO and Executive Director Tom Cochran.

The United States Conference of Mayors
By Ed Somers

After 30 years in elected local office, including almost 20 as mayor, Thomas M. Menino announced on March 28 that he would not seek re-election in November of 2013.

Menino has been elected five times as mayor of Boston, served as President of The U.S. Conference of Mayors from 2002-2003, and hosted the Conference of Mayors 72nd Annual Meeting in June of 2004. As Conference of Mayors President, Menino championed an agenda on affordable housing, and warned of the fiscal crisis that a mortgage meltdown would cause – which of course came true in the September of 2008.

More recently, Menino joined with New York City Mayor Michael R. Bloomberg to form the Mayors Against Illegal Guns coalition that now has over 800 members. And, he helped establish and serves as Chair of the new U.S. Conference of Mayors Food Policy Task Force.

As widely reported, Menino has been recovering from a series of health challenges. In commenting on his decision not to run, Menino said, “I am back to a mayor schedule, but not a Menino schedule. And I miss that. I miss hitting every event, ribbon cutting, new homeowner dinner, school play, and chance meeting. Spending so much time in the neighborhoods gives me energy. Being with our residents builds our trust. It may not be the only way to lead Boston, but it’s the only way for me.”

On the news of the decision, President Barack Obama said, “Boston is the vibrant, welcoming, and world-class city it is today because of Tom Menino. For more than two decades, Mayor Menino has served the city and every one of its residents with extraordinary leadership, vision, and compassion. His efforts to revitalize neighborhoods, schools, and businesses, better integrate police officers into their communities and reduce gun violence, reach out to the homeless and marginalized, and engage young people in the life of their city has charted Boston on a course for a better future. No two people wear their hearts on their sleeve for the City of Boston and its people as openly as Tom and Angela Menino. And as they depart City Hall next year, Boston will be a better place to live, work and raise a family because of the Meninos’ proud service to the city they love.”

Conference of Mayors CEO and Executive Director Tom Cochran said, “Mayor Tom Menino is an innovator who never waited for change, he made the change happen. On issues such as housing policy, gun safety, new urban mechanics, and the promotion of a healthy local food economy, the great city of Boston, our U.S. Conference of Mayors, and the nation are much better off because of Mayor Menino.”
U.S. Communities Supplier Provides Creative Solutions for Public Food Storage Issues

By Kathryn Weyland

Harford County (MD) Public Schools Purchasing Supervisor Jeff LaPorta had a problem that was freezing out all of his attempts at a solution. The school district owns a large warehouse as part of its Food and Nutrition program; within the warehouse is a huge 60-foot x 60-foot by 25-foot high freezer. The problem was that it had no shelving or racks.

As a temporary solution, the district stored supplies on pallets, which were then stacked on top of each other. They found out quickly that this solution was not particularly efficient, and it even became hazardous, as the weight and height of the items being stored caused the stacks to start leaning.

LaPorta’s department was asked to order racks, and they investigated suppliers. “We found we could buy racks anywhere, but we couldn’t find any supplier that would install them,” he explained of their quandary. The project dragged on for more than a year.

Then, Applied Industrial Technologies became a supplier partner through the U.S. Communities cooperative purchasing program. Applied is one of the largest industrial distributors in North America with approximately 500 facilities, 4,900 employee-associates, nine strategic distribution centers, and more than 40 specialty repair and rebuild shops. The key, as cities know, is finding a partner that can provide solutions, not just product.

When LaPorta heard the presentation, he realized Applied could help with his freezer rack project. “I called my U.S. Communities Program Manager, who quickly put me in touch with the correct person at Applied. The Applied representative came to visit me, and also brought the person who would be in charge of the installation. They knew the right questions to ask. After assessing our needs and taking the measurements, they promptly sent us a quote based on U.S. Communities’ contracted pricing,” explained LaPorta.

“By virtue of the fact that it was a contracted price and I didn’t have to do a bid, it was a done deal. And here’s the interesting thing: I asked them to send me an itemized quote that separated the products from the installation, and it turned out the cost of the shelves – three rows, three stacks high – was actually less than the other companies we’d received quotes from! The installation cost was also very reasonable,” he added.

When future projects arise, LaPorta plans to again rely on Applied Industrial Technologies. “I was perfectly satisfied – I would highly recommend them – and U.S. Communities,” added LaPorta.

“There are two things that are great about using U.S. Communities. The contracts available through U.S. Communities have already been competitively bid by U.S. Communities and the various products and services offered to local governments, contact Jeannie Fanning with the Conference of Mayors at 240-393-9672 or send e-mail to jfanning@usmayors.org, or contact Jeff Bean at 202-446-8140 or send e-mail to jbean@usmayors.org. Cities may also register on the website www.uscommunities.org.
Dear Mayor,

We are pleased to invite you to the 2013 World Cultural Economic Forum (WCEF), an annual convening of the world’s mayors that highlights the role of culture as an economic and social force that drives the creation of vibrant cities. The WCEF convenes leaders from cities around the world to shape the international discussion on culture as an effective tool to spur innovation and to provide a platform to exchange ideas and share successes.

The WCEF runs during the second week of the New Orleans Jazz & Heritage Festival and hotel space can be very difficult to secure. We encourage you register and reserve hotel accommodations in our room block at the Roosevelt Hotel.

Attached is the WCEF registration form. You can REGISTER ONLINE, please visit the WCEF website: at http://usmayors.org/WCEFNewOrleans2013 or fax the attached form to the Conference of Mayors meetings department at: 1-202-467-4276. IMPORTANT: Room reservations must be made by calling The Roosevelt Hotel directly. The DEADLINE to register for the meeting and obtain accommodations at the hotel is Tuesday, April 16. There is no registration fee.

There are a number of exciting plenary sessions and social events planned for WCEF participants such as:

- A session on the world’s largest light sculpture illuminating the San Francisco Bridge featuring discussions on the artist’s vision behind the project, the impact on the city and the technology and sustainability goals.
- There will be a presentation by Brazilian mayors about their plans to host the 2014 FIFA World Cup and 2016 Summer Olympics. This discussion will cover topics including transportation, security, branding/marketing and legacy around the sporting events.
- Listen to leaders discuss creative place making and how leaders can utilize public art in urban planning, learn how the Mayor of Liverpool (UK) is spearheading a cultural renaissance in his city.
- On Thursday evening, we have a special WCEF invitation-only reception and showcase highlighting New Orleans’ food and renowned and Grammy nominated musicians at the newly restored Joy theatre.
- On Friday, you will learn little known facts and the history of the world famous New Orleans Jazz & Heritage Festival, one of the greatest examples of New Orleans cultural economy at work. Come experience 12 stages of soul-stirring music, featuring over
World Cultural Economic Forum
May 1-3, 2013 • New Orleans
AGENDA

Wednesday, May 1
10:00 AM to 6:00 PM
Registration
1:30 PM to 3:30 PM
Tour of New Orleans Cultural & Creative Industries
(OPTIONAL), Pre-registration required
6:00 PM to 8:00 PM
Welcome Reception

Thursday, May 2
Roosevelt Hotel
8:00 AM to 5:00 PM
Registration
7:30 AM to 8:30 AM
Breakfast Buffet
8:30 AM to 11:30 AM
Opening Ceremony of the World Cultural Economic Forum
11:30 AM
Official Photo Opportunity for WCEF Participants/Press Conference
12:00 PM to 1:15 PM
Luncheon

1:30 PM to 4:30 PM
Plenary Session
3:00 PM to 4:30 PM
Hosting Large International Sporting Events
7:00 PM to 10:00 PM
New Orleans: Live from the Joy! at Joy Theatre, 1200 Canal Street

Friday, May
8:30 AM to 9:30 AM
Jazz Breakfast Buffet
9:30 AM to 10:30 AM
Briefing on the New Orleans Jazz & Heritage Festival presented by Shell
11:00 AM to 7:00 PM
Visit the New Orleans Jazz & Heritage Festival - Louisiana Fairgrounds

Saturday, May 4
11:00 AM to 7:00 PM
Visit the New Orleans Jazz & Heritage Festival (Optional)

WCEF
from page 18

60 musicians, WCEF participants are given special VIP access to experience food from chefs and restaurants around Louisiana, as well as cultural exhibitions of the many components of New Orleans’ international heritage.

I would be honored to welcome you to New Orleans in May. For more information, contact Jocelyn Bogen jbogen@usmayors.org or 202-861-6727.

Sincerely,
Tom Cochran, CEO and Executive Director

WORLD CULTURAL ECONOMIC FORUM
May 2 - 4, 2012
New Orleans
Program: The Westin Philadelphia

Mayors and Innovation Staff:
Join us for the Mayors Innovation Summit

Wednesday, May 22

12:00 p.m. - 6:00 p.m.
Registration

3:00 p.m. - 5:30 p.m.
Innovating for Democracy
Bloomberg Philanthropies Mayors Challenge
Piloting Innovation: Investing in the City of the Future

Thursday, May 23

7:00 a.m. - 5:00 p.m.
Registration

8:00 a.m. - 9:00 a.m.
Breakfast

9:00 a.m. - 10:45 a.m.
Innovation Summit Welcome
Seeding Civic Engagement with Technology

10:45 a.m. - 11:00 a.m.
Coffee and Conversations

10:45 a.m. - 11:00 a.m.
Press Conference

11:00 a.m. - 12:00 p.m.
Opening the Government: Creating Data Democracies for the Public Good

12:00 p.m. - 1:00 p.m.
Lunch

1:00 p.m. - 2:00 p.m.
The New Infrastructure: The Economy of Investing in Broadband

2:00 p.m. - 2:15 p.m.
Coffee and Conversations

2:15 p.m. - 3:15 p.m.
Building the Team: Marshaling the Urban Forces of Innovation

3:30 p.m. - 5:00 p.m.
Tour of the Navy Yard

Friday, May 24

8:00 a.m. - 12:00 p.m.
Registration

8:30 a.m. - 9:30 a.m.
Networking Breakfast

9:30 a.m. - 10:30 a.m.
Breaking Through the Barriers to Spur Innovation

10:30 a.m. - 10:45 a.m.
Coffee and Conversations

10:45 a.m. - 12:00 p.m.
Next Steps: Where Do We Go From Here?

12:00 a.m. - 1:30 p.m.
Closing Lunch

More Information: Julie Fesenmaier, Center for Competitive Government, Fox School of Business, Temple University juliefes@temple.edu | 215-204-7040

Mayors and staff may register online at
usmayors.org/InnovationSummit
By Jeannie Fanning

The U.S. Conference of Mayors announced last fall its new Conference of Mayors Retirement Programs with Great-West Financial®. This new program brings for the first time widespread fee savings and transparency to cities and municipal entities of all sizes in the 457(b) deferred compensation market, coupled with a best-in-class plan design.

Because of this overhaul, the program was nominated for Plan Sponsor Magazine’s prestigious Plan Sponsor of the Year Award. The program came in as a finalist in the Public Defined Contribution category.

Conference of Mayors CEO and Executive Director Tom Cochran explained: “We knew this program would cause a ripple effect through the marketplace, and we are honored that Plan Sponsor has recognized this effort just five months into the program.”

While other 457(b) programs have begun to follow the program’s example by dropping fees and adding new resources to help municipalities meet their fiduciary duties, the program acts as a benchmark for current best practices.

These best practices include:

• **No Administrative Fees for Plans with $500,000 or More in Total Assets** – An employee paying administrative fees of 0.65 percent to 0.95 percent pays an extra $50,000 to $70,000 over a 30-year savings period.1

• **Fee Transparency** – It is critically important for administrators and participants to understand exactly how their fees relate to the service and support they receive. Great-West Financial is ranked second among the industry’s top 20 record keepers/administrators on fee transparency, according to DALBAR’s November 2012 Perspective on Fee Transparency whitepaper.

• **Performance** – The program offers a rich lineup of investment options with the performance potential to improve employees’ retirement readiness. The variety of innovative solutions will allow employees to create diversified portfolios for potentially better performance. The Conference of Mayors monitors the program to ensure it remains by all accounts “best in class.”

• **Education** – Employee education is a high priority and offers a multi-channel, behavior-based approach to education that fits the needs of a wide range of employees with different learning styles.

• **Fiduciary Support** – The program offers plan sponsor training about fiduciary matters and legislative updates both in person and by Web. The program also includes the offering of plan documents, investment policy statements, outsourcing services, and a new fiduciary warranty provided by Great-West Financial.

• **Service** – The program is committed to streamlining the workload of the city or municipality, including the sharing of plan administration, retirement plan best practices, and support in addressing fiduciary responsibilities at no cost.

The U.S. Conference of Mayors Retirement Programs can be reached at 202-302-6944.

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1 These fee estimates are based on a 30-year savings period, a beginning balance of $20,000, contributions of $100 every month, and an eight percent annual rate of return with reinvestment of all earning and no withdrawals.

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USCM Fiduciary Corner – Roth Accounts - April 2013

Question: I know that 457(b) plans can offer Roth accounts and I’ve heard something about in-plan Roth rollovers. What do we need to do to add Roth accounts to our plan?

Answer: By way of background, The Small Business Jobs Act of 2010 (SBJA) contained two provisions affecting Roth accounts within retirement plans. First, governmental §457(b) eligible deferred compensation plans could be amended to allow participants to make Roth contributions beginning in 2011. Second, plans could also allow participants who have severed service to rollover all or any portion of their pre-tax account balance into a Roth account within the employer’s 457(b) plan.

Third, there is a new provision that was included in the American Taxpayer Relief Act (ATRA), which would significantly increase the ability of plan participants to convert their pre-tax accounts to after-tax Roth dollars. Under this new rule, plans may allow participants to make in-plan Roth rollovers while they are still employed even though they are not eligible to take a distribution.

First Step: Only plans that allow participants to make regular Roth contributions can offer in-plan Roth rollovers. Thus, the first step is to amend your plan document to allow regular Roth contributions. Consult your plan document provider to assist you.

Roth Contribution Rules. If the plan allows, employees may designate some or all of their elective deferrals as after-tax Roth contributions rather than traditional, pre-tax elective contributions. Roth deferrals are included in the employee’s gross income when contributed and are subject to all applicable wage-withholding requirements. Employees can contribute to both a Roth account and a traditional, pre-tax account in the same year in any proportion they choose. However, the combined amount contributed to all Roth and pre-tax accounts in the plan in any one year for any individual is limited under Code §457(e)(15). The limit is $17,500 plus an additional $5,500 in catch-up contributions in 2013 if the employee is age 50 or older at the end of the year. The special 457 catch-up limit in 2013 is $17,500 for a total of $35,000.

In-Plan Roth Conversions under SBJA: It is important to understand that there are now two in-plan Roth conversions rules. The SBJA allowed in-plan Roth rollovers for participants who have severed service effective in 2011. The IRS issued Notice 2010-84 with respect to those in-plan Roth rollovers so the rules are clear. If you do not currently allow Roth contributions, you may amend the plan to offer both the Roth contributions and in-plan Roth conversions of pre-tax amounts that are eligible for distribution.

In-Plan Roth Conversions under ARTA: These in-service, in-plan Roth conversions only became effective in January 2013 and, in our opinion, require guidance from the IRS and Treasury prior to implementation. A number of plan sponsors have adopted Roth contributions only at this time and are waiting to amend their plans to include these new in-service Roth rollovers after the receipt of upcoming IRS guidance. This greatly simplifies employee communications and allows participants to gain a good basic understanding of Roth contributions prior to being introduced to in-plan Roth conversions.

IRS Guidance: Several industry groups have sent specific questions to IRS and Treasury seeking clarification on a number of issues with respect to the new in-plan Roth conversions. We are monitoring IRS deliberations and will update you via this column as soon as guidance is released. In the interim, please do not hesitate to contact us if you have any questions with respect to your 457(b) plan.

If you have a question for fiduciary expert Marilyn Collister, send e-mail to fiduciary@usmayors.org, or contact Jeannie Fanning with the Conference of Mayors at 202-302-6944.
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