

February 17, 2015

RE: Analysis of Presidents FY 2016 Budget Proposal

Dear Mayor:

In his \$4 trillion Federal budget proposal, President Obama once again proposed to cap the tax exemption on municipal bonds, a proposal that the New Jersey League of Municipalities strongly opposes due to the important role that municipal bonds play in local infrastructure investment. In addition, the president proposed to eliminate the tax exemption altogether if the municipal bonds are used to finance sports facilities.

The following budget proposal analysis was prepared by the Federal relations staff of the National League of Cities.

Infrastructure

In the area of transportation infrastructure, the President's proposal calls for an ambitious, long-term plan to fund surface transportation programs at \$478 billion over six years. This would mean nearly doubling the funding available for roads, bridges and transit in the next fiscal year to \$95 billion, compared to \$50 billion in the current year. The increase would be partially paid for through repatriation of taxable corporate profits. The President also calls for more than doubling the funding for the popular TIGER (Transportation Investment Generating Economic Recovery) grant program from \$500 million to \$1.25 billion.

Regarding water infrastructure, as communities across the country continue to struggle with aging structures and increasingly costly and unfunded environmental mandates, the need to invest in our nation's water supply systems has never been greater. The President has requested \$2.3 billion for upgrading our nation's water infrastructure, with \$1.116 billion for the Clean Water State Revolving Loan Fund (SRF) and \$1.186 billion for the Drinking Water SRF. This total represents a \$54 million decrease over FY15.

The President also included \$5 million for the new Water Infrastructure Finance and Innovation Authority (WIFIA) program, which was authorized in the recent Water Resources Reform and Development Act. As a pilot program, WIFIA will support loans and loan guarantees for large water and wastewater infrastructure projects.

Infrastructure Financing

The President's budget also proposes the creation of new financing vehicles to support infrastructure investments in local communities. The Qualified Public Infrastructure Bonds ("QPIBs") could be used to finance publicly owned facilities including airports, highway facilities, water facilities, sewer facilities, solid waste facilities, or surface freight transfer facilities, among others. Unlike traditional private activity bonds, QPIBs would not be subject to volume caps at the federal or state level, and interest on QPIBs would not be subject to the Alternative Minimum Tax (current PABs are subject to AMT).

Modeled after the Build America Bond program enacted as part of the American Recovery and Reinvestment Act of 2009, America Fast Forward Bonds ("AFFBs") are a taxable direct-subsidy

bond that would be structured with a 28% federal interest subsidy. Eligible uses would include original financing for governmental capital projects, current refundings and short-term working capital financings. AFFBs are designed to provide state and local governments with a complement to tax-exempt bonds that would broaden the universe of municipal investors and deliver savings to issuers under certain market conditions.

Despite adding these new infrastructure financing mechanisms, the proposal would limit the tax exemption for municipal bonds, which we will continue to oppose.

Public Safety

The President's proposal for the Department of Justice includes an increase of \$154 million in funding for law enforcement and crime prevention programs, with a substantial portion of that increase going to support local policing efforts. In the wake of Ferguson, the President's proposal includes new resources intended to build and sustain trust between law enforcement and the people they serve.

An increase of nearly \$70 million to \$249 million in the COPS Hiring program is also being requested and includes funding for two new programs. \$20 million is being requested for the new Community Policing Development (CPD) Program, which will permit the COPS Office to expand and conduct additional applied research and demonstration as well as micro-grant projects that promote changes in American law enforcement consistent with the Department's priority goals. This funding would also be used to enable the COPS Office to establish a new Community-Oriented Policing Management Education and Development Program. Five million dollars would be set aside for incentive grants to improve diversity in law enforcement. The President's budget also includes a new program funded at \$30 million to be used by local police departments for the purchase of body cameras.

Housing and Community Development

In the area of housing and community development, the President proposed an overall \$4 billion increase in funding for the U.S. Department of Housing and Urban Development. The majority of the increase would go to funding for housing vouchers to assist low-income families and, significantly, to restore housing vouchers that were lost as a result of budget cuts in recent years. In total, more than 80% of the HUD budget is allocated to housing voucher rental assistance programs; this is a percentage that continues to grow larger each year as the inflationary costs of maintaining existing vouchers continue to rise. Another significant boost of \$300 million would go to funding for homeless assistance and, in particular, housing assistance for homeless veterans.

That good news comes at the expense of the popular Community Development Block Grant Program, which benefits over 7,000 communities each year. Under the President's budget, funding for the Community Development Block Grant Program would decrease by \$200 million, from \$3 to \$2.8 billion. The President's budget would reverse an annual trend of cuts for the Home Investment Partnership Program by proposing that funding be restored to \$1 billion up from \$900 million allocated in FY 2015.

Climate Resiliency

With extreme weather events and wildfires costing the federal government over \$300 billion

over the last 10 years, the need to address climate change featured prominently in the President's proposal. While the President acknowledges that no particular event can be tied directly to climate change, the costs to the federal budget as a result of these natural disasters have "been increasing and can be expected to continue to increase as the impact of climate change intensifies."

From pre-disaster mitigation planning to an incentive fund for states that go above and beyond requirements under the President's Clean Power Plan to reduce greenhouse gas emissions from existing power plants, the president's budget proposal for climate mitigation, adaptation and resilience spending cuts across multiple agencies. More importantly, many of the proposals represent actions the president is taking to implement the recommendations of the President's State and Local Task Force on Climate Preparedness and Resilience.

Of particular importance to local governments, the President proposes \$20 million to fund a new U.S. Department of Energy Local Energy Program (similar to the existing State Energy Program) that would support local action on planning and implementation of energy efficiency and renewable energy programs. Of the \$20 million, \$16 million is designated for competitive grants and \$4 million for technical assistance.

Also on the energy front, the Weatherization Assistance Program received a nearly \$224 million request, an increase of over \$34 million from FY15, and the Low Income Home Energy Assistance Program received a request of \$3.4 billion, representing level funding over FY15.

Health, Education, and Workforce

The President has proposed significant increases in funding on a wide range of human services programs important to cities. These include significant increases to workforce development (\$150 million over current funding) and Title I education (\$1 billion increase), as well as the Public Health Service (\$700 million increase) and Head Start (\$1.5 billion increase) programs.

In addition, the President's budget includes \$1.3 billion to support a new program to provide "preschool for all" so that every child has access to early education, and maintains funding at \$1.15 billion for the 21st Century Learning Centers program, which helps ensure that children have access to quality afterschool services.

Emergency Management

While controversy over the President's use of executive action to reform the nation's immigration system continues to delay FY2015 funding for the Department of Homeland Security, the President's proposal for FY2016 includes \$41.2 billion for DHS to carry out its five primary missions: prevent terrorism and enhance security, secure and manage our borders, enforce and administer our immigration laws, safeguard and secure cyberspace, and strengthen national preparedness and resilience.

Despite our opposition, however, the President once again proposed to consolidate state and local grant programs currently under the jurisdiction of the Federal Emergency Management Agency into a single National Preparedness Grant Program funded at slightly over \$1 billion. The NPGP proposal would convert the current suite of state and local homeland security grant

programs, including the State Homeland Security Grant Program, the Urban Areas Security Initiative Grant Program, the Transportation Security Grant Program, and the Infrastructure Security Grant Program, into a single state-administered competitive grant program in which funding decisions would be based on state and multi-state threat assessments *without clear local involvement*.

To learn more about the National League of Cities' perspective on the budget proposal, you are invited to participate in NLC's:

March 5: Webinar on NLC 2015 Advocacy Priorities, President's Budget

[Register now](#) to reserve your space for NLC's free webinar on NLC's federal advocacy for 2015. Find out what NLC's top legislative advocacy priorities are for the 114th Congress, how you can help advocate for those priorities, and get an update on the President's FY 2016 budget proposal. Don't miss this chance to get up to speed on NLC's federal advocacy and get answers to your pressing advocacy questions. Register today.

Very truly yours,

William G. Dressel, Jr.
Executive Director