What's Up at NLC and with Congress?

State League Counsel and Municipal Attorneys Association Department Meeting

IMLA 2012 Annual Conference

October 20, 2012
3:00 pm – 5:00 pm
Meeting Room 410 – 4th Floor
William C. Mathewson, Chair
General Counsel
Michigan Municipal League
Ann Arbor, Michigan

Attachments

1. June 15, 2012 – Comments filed on behalf of 21 State Municipal League in the Advance Notice of Proposed Rulemaking Determination of Governmental Plan Status

2. July 23, 2012 – News Release: Announcement of Formation of Build America Mutual Assurance Company

3. October 2012 - Presentation for International Municipal Lawyers Association: The Relationship Between Efforts to Reduce the Federal Deficit and Cities

Attachment 1

DLA PIPER

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Washington, DC 20004
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June 15, 2012

VIA ELECTRONIC MAIL AND
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www.regulations.gov
IRS-REG-157714-06

CC:PA:LPD:PR (REG-157714-06)
Room 5203
Internal Revenue Service
P.O. Box 7604
Ben Franklin Station
Washington D.C. 20044

Re: Advance Notice of Proposed Rulemaking
Determination of Governmental Plan Status

Dear Sir or Madam:

This letter provides comments on the above-referenced advance notice of proposed rulemaking published on November 8, 2011 (the "ANPRM"). We submit this letter on behalf of 21 State municipal leagues (each, a "State Municipal League" or "League"). In addition, we respectfully request the opportunity to speak at the public hearing on the ANPRM on July 9, 2012. An outline of topics, which tracks the written comments in this letter, is included at the end of this letter.

Description of State Municipal Leagues

State Municipal Leagues are intergovernmental organizations comprised of member cities and towns within the State. State Municipal Leagues were formed and operate to improve the operations of their municipal government members and promote the general welfare of the citizens of those municipalities by facilitating and coordinating research and programs that (i) advance the efficient and effective operation of member municipalities, (ii) promote governmental efficiency and effective governance, and (iii) coordinate and effect advocacy and communications with the legislative, administrative and judicial branches of State and Federal government on issues affecting the League's members.

Each State Municipal League is governed by a board of directors consisting primarily of elected and senior officials of the municipal members of the League. Each League's activities are largely funded by contributions, dues and fees paid by the various member municipalities, which are paid by the municipalities with taxpayer funds (including fees paid by the municipalities to separately incorporated insurance or bonding programs managed by the Leagues that then pay those fees to the League), or from State or Federal sources (grants). No part of the net assets of any State Municipal League inures to the benefit of any private individual.

Most of these Leagues have received a Section 115 determination letter from the Internal Revenue Service (the "Service") and/or have received confirmation of their status as an instrumentality of government from State agencies (such as taxing authorities) or the State attorney general. In addition, in many cases, State or local law enables or recognizes the existence and purpose of the League or authorizes municipal membership in the League and payment of dues. Some State statutes specifically identify their Leagues as instrumentalities of government and authorize them to act in that capacity.

Summary of Comments

The following is a brief outline of the comments we discuss below:

1. The factors should be modified to recognize that an intergovernmental entity performs functions on behalf of several political subdivisions consistent with prior IRS rulings.

2. The factors that require State or local government control and funding should be modified to take into account the unique characteristics of intergovernmental entities.

3. The rules should include safe harbors for intergovernmental entities based on Federal, State or local recognition of their governmental status.

4. The distinction between major and minor factors should be eliminated and the rules should provide that an entity is a governmental instrumentality if any of the final enumerated factors are met.

5. The rules should include a de minimis rule consistent with existing practice.

6. The rules should include a reasonable transition rule and allow for grandfathering of current arrangements.

7. Governmental plan determinations under the rules should be binding on the Department of Labor.

Introduction

Although the Federal government has a substantial and legitimate interest in administering the Internal Revenue Code provisions governing retirement plans, to respect notions of federalism and comity, those interests need to be balanced with the interests of State and local governments and their need to operate and provide services to their citizens. Although the ANPRM reflects a substantial amount of work and analysis, the proposed rules must be revised to recognize the nature and importance of intergovernmental entities established and maintained by State and local governments and to avoid significant negative consequences for State and local pension systems and employees of entities that were previously determined to be State or local government instrumentalities. In many cases, these intergovernmental entities have relied on prior Service rulings and determinations that have made it possible for them to establish or participate in governmental retirement plans.

Executive Order 13132 requires that in formulating regulations that have "substantial direct effects on the States" the Federal agencies must be guided by certain fundamental federalism principles. Among those principles are that the Federal government should be deferential to the States in matters of State and local governance, and policies of the Federal government should "recognize the responsibility of – and should encourage opportunities for – individuals, families, neighborhoods, local governments, and private associations to achieve their personal, social, and economic objectives through cooperative effort."

Contrary to the statement in the preamble to the ANPRM, the Leagues respectfully submit that the proposed rules *would* have a substantial direct effect on the States in matters of State and local governance. If the proposed rules are not significantly revised, they would call into question prior State and local governmental determinations of entities' governmental status and years of reliance on those determinations, disrupt decades of coordination and collaboration of local governments through intergovernmental entities such as the State Municipal Leagues whose employees may participate in State and local pension systems, and unnecessarily jeopardize the State and local pension systems. The ANPRM raises significant issues of both federalism and comity especially as they relate to intergovernmental entitles such as the Leagues.

Comments

We offer the following specific comments for your consideration:

1. Modify the factors to recognize that an intergovernmental entity performs functions on behalf of several political subdivisions consistent with prior IRS rulings.

The Service considered the following factors in Revenue Ruling 57-128 to determine whether an association was a government instrumentality: (1) whether the entity is used for a governmental purpose and performs a governmental function; (2) whether performance of its function is *on behalf of one or more States or political subdivisions*; (3) whether there are any private interests involved, or whether the States or political subdivisions involved have the powers and interests of an owner; (4) whether control and supervision of the organization is vested in *public authority or authorities*; (5) if express or implied statutory or other authority is necessary for the creation and/or use of such an instrumentality, and whether such authority exists; and (6) the degree of financial autonomy and the source of the entity's operating expenses. In Revenue Ruling 57-128, after applying these factors, the Service concluded that an association organized and operated by insurance officials in several States to promote uniformity in insurance legislation, to disseminate information to insurance supervisory officials, and to protect the interests of insurance policyholders, and which derived its income principally from State contributions and amounts assessed by the State against the insurance companies, was an instrumentality of the States.

The intergovernmental purpose, activities, control, governance, and funding of the State Municipal Leagues are very similar to those of the association described in Revenue Ruling 57-128. In order to promote efficiency and effective use of taxpayer resources, intergovernmental entities such as the Leagues are formed and operated to perform their functions on behalf of several political subdivisions; this concept was recognized by Revenue Ruling 57-128 but is not reflected in the ANPRM factors. Revenue Ruling 57-128 specifically recognizes that an intergovernmental entity can perform functions on behalf of multiple governmental entities or authorities in the second factor, which considers whether performance of the entity's function is on behalf of one or more States or political subdivisions, and the fourth factor, which recognizes that control and supervision may be vested in one or more public authorities. To reflect that intergovernmental instrumentalities that may be used by several State or local governments include entities that perform functions on behalf of several governmental bodies, such as the insurance association and the Leagues, the factors in the proposed rules should include factors similar to the second and fourth factors in Revenue Ruling 57-128.

2. Modify the factors that require State or local government control and funding to take into account the unique characteristics of intergovernmental entities.

The current major and minor factors in the proposed rules include State or local government control over an entity's board or operations. However, the proposed rules provide no definition of "control" for this purpose and they do not recognize that "control" may be exercised by more than a single governmental entity in the case of an intergovernmental entity. No one state or local entity has the authority to appoint an intergovernmental entity's board or control its operations. The fourth factor in

Revenue Ruling 57-128 recognizes that control or supervision may be vested in more than one public authority. To recognize the unique governance of intergovernmental entities consistent with prior rulings, therefore, State or local government control over an entity's board should include the case where officials of the member governmental entities, in their official capacities, are charged with the responsibility of furthering the governmental functions of the entity and use and disposition of its assets.

Similarly, to recognize the unique character of intergovernmental entities which derive a substantial portion of their funding from monies paid by the various member municipalities with taxpayer funds or from State or Federal sources (grants), the factor in the proposed rule that considers whether an entity is directly funded through tax revenues or other public sources should be revised to clarify that this factor includes payment of funds from one or more governmental bodies that are derived from government revenues.

3. Add safe harbors for intergovernmental entities based on Federal, State or local recognition of their governmental status.

The consequences of an incorrect determination of governmental status based on an uncertain facts and circumstances analysis would be severe for intergovernmental entities, State and local government pension systems, and their employees. Implementation of a Federal rule that does not provide clear, definitive guidance for intergovernmental entities also raises fundamental federalism and comity concerns. Therefore, safe harbors that add certainty based on prior Federal determinations of tax status as a governmental entity and/or respect for State and local government determinations of an intergovernmental entity's governmental status should be added to the rule so that if they are met, the intergovernmental entity would automatically be considered a governmental instrumentality for purposes of the governmental plan rules.

For example, if an intergovernmental entity has received a Section 115 determination letter or other tax exemption letter from the Service confirming its status as an instrumentality of government, this determination should control for purposes of the governmental plan rules. In addition, if State or local law enables or recognizes the existence or governmental purpose of the intergovernmental entity, or a State agency, attorney general, court of competent jurisdiction, or local governments determine that the entity is an instrumentality of government for any purpose, including for purposes of tax exemptions or participation in public retirement plans, the entity should automatically be considered an instrumentality of government for governmental plan purposes.

These safe harbors are reasonable because they represent official determinations of an entity's governmental status for important fiscal and governance purposes. Consistent with notions of federalism and comity, recognition by State and local governments of the governmental status of intergovernmental entities should be determinative of the status for purposes of the governmental plan rules. These safe harbors would provide certainty, uniformity, and respect for principles of federalism and comity.

If these types of determinations of governmental status are not added as a safe harbor, they should be added as additional factors, any one or more of which would result in a determination that an intergovernmental entity is governmental. Specifically, the additional factors would be (i) if an intergovernmental entity has received a Section 115 determination letter or other tax exemption letter from the Service confirming its status as an instrumentality of government, or (ii) if State or local law enables or recognizes the existence or governmental purpose of the intergovernmental entity or a State agency, attorney general or local government determines that the entity is an instrumentality of government for any purpose, including for purposes of tax exemptions or participation in public retirement plans.

4. Eliminate the distinction between major and minor factors and provide that an entity is a governmental instrumentality if any of the final enumerated factors are met.

The proposed rules list major and minor factors to consider when determining an entity's governmental status. However, the rules do not provide any way to determine whether one factor is more significant than another, if any one may be satisfied or all must be satisfied, or if the list is exclusive or merely exemplary. This level of uncertainty does not produce the reliability and predictability that is required or that is consistent with traditional notions of federalism and comity when one level of government is promulgating rules that will have a direct and substantial impact on other levels of government. The distinction between major and minor factors should be eliminated. If any one of the final enumerated factors is met, the entity should be presumed to be an instrumentality of government unless and until a subsequent and prospective determination is made by the Service.

5. Add a de minimis rule consistent with existing practice.

As noted in the ANPRM, the proposed rules do not include special rules addressing existing practices under which a small number of private employees may participate in a governmental plan (the so-called "de minimis rule"). As a result, if no de minimis provision is included in the final rules, the tax-qualification of State and local systems' governmental plans would be jeopardized and participants would be penalized if any employer participating in the system is determined to be a non-governmental employer. A reasonable de minimis rule should be included in the proposed rules. It should state that the inclusion of a de minimis number of employees of an intergovernmental entity in a public pension plan will not result in the disqualification of the plan for tax purposes. Failure to add a de minimis rule could result in significant and adverse income tax consequences to employees and participants that would be beyond their control.

6. Add a reasonable transition rule and allow for grandfathering of current arrangements.

Given that any change from the status quo will require time to adjust and revise plans and will affect employee populations, adequate lead time and generous transition relief should be provided. Because the legislative process can be slow, adequate time would be needed for any State or local designation of the entity as an instrumentality of government. A minimum five-year period should be allowed for State or local designation of an intergovernmental entity as an instrumentality of government either for purposes of participating in a State or local governmental plan or establishing and maintaining its own governmental plans. During the transition period, the entity would have the opportunity to establish its status as a governmental instrumentality consistent with the factors stated in the rules, in which case there would be no negative tax consequences to the entity, participants, or the government benefit plans in which the employees participate.

Many intergovernmental entities obtained a Section 115 determination letter from the Service recognizing the entity's tax-exempt status as a political subdivision, governmental instrumentality, or entity that performs an essential government function, and they reasonably relied on that determination to create or participate in governmental plans. Other intergovernmental entities relied on similar Federal or State determinations of their governmental status. Therefore, plans maintained by those organizations should be permitted to continue in effect and/or cover the affected participants as grandfathered plans and participants (with continued service towards vesting and retirement eligibility) without regard to future plan modifications. Likewise, intergovernmental entities that maintained plans complying with the non-governmental rules should be grandfathered. New rules should only apply to new employers formed or wishing to join or create a governmental plan after the effective date of final regulations.

The rules should not require a spin-off of assets and liabilities to a separate non-governmental plan in any case. A separate standalone defined benefit pension plan would be too costly and complex for an intergovernmental entity to administer.

7. Governmental plan determinations under the rules should be binding on the Department of Labor.

If a plan is determined to be a governmental plan under the regulations, this determination should be binding on the Department of Labor. This would generally require that any rulemaking encompass not only the provisions of the Internal Revenue Code but also the parallel provisions of ERISA so that participants and beneficiaries could not assert that an entity that qualified under Service rules nevertheless could have liability for failure to comply with the non-governmental provisions of ERISA.

OUTLINE

The following is an outline of the topics we plan to discuss and the time we plan to devote to each topic during our testimony at the public hearing on the ANPRM on July 9, 2012:

1. The factors should be modified to recognize that an intergovernmental entity performs functions on behalf of several political subdivisions consistent with prior IRS rulings. (2.5 minutes)

2. The factors that require State or local government control and funding should be modified to take into account the unique characteristics of intergovernmental entities. (2.5 minutes)

3. The rules should include safe harbors for intergovernmental entities based on Federal, State or local recognition of their governmental status. (2 minutes)

4. The distinction between major and minor factors should be eliminated and the rules should provide that an entity is a governmental instrumentality if any of the final enumerated factors are met. (1 minute)

5. The rules should include a de minimis rule consistent with existing practice. (1 minute)

6. The rules should include a reasonable transition rule and allow for grandfathering of current arrangements. (30 seconds)

7. Governmental plan determinations under the rules should be binding on the Department of Labor. (30 seconds)

* * *

Thank you for your time and attention to these comments on the ANPRM.

Sincerely,

Mark Muedeking
Partner

Julia T. Kovacs
Partner

Attachment 2

NEWS RELEASE:

Announcement of Formation of Build America Mutual Assurance Company

THE FIRST MUTUAL BOND INSURER EXCLUSIVELY SERVING

THE U.S. MUNICIPAL MARKET

New York, July 23, 2012 -- Build America Mutual Assurance Company ("BAM") today launched the financial guaranty industry's first mutual bond insurer. Rated AA/Stable by Standard & Poor's Ratings Services (S&P) and regulated by the New York State Department of Financial Services, BAM is chartered to serve the U.S. municipal market. BAM's doors are open for business, and it is actively considering transactions. BAM expects to write its first policy in September.

BAM is led by co-founders Robert P. Cochran, Managing Director and Chairman of the Board, and Seán W. McCarthy, Managing Director and Chief Executive Officer, both veterans of the bond insurance industry. Mr. Cochran co-founded Financial Security Assurance (FSA) in 1985 and was Chief Executive Officer from 1990 to 2009. Mr. McCarthy was President and Chief Operating Officer of FSA and subsequently held the same position at Assured Guaranty, following its acquisition of FSA.

As a mutual bond insurer, BAM is 100% owned by its policyholders, the municipal issuers using BAM's insurance to lower their cost of funding. "BAM is a new and improved insurer of U.S. municipal bonds that delivers substantial interest cost savings to municipal bond issuers and durable protection against loss for their bondholders," said the Co-Founders. "Based on our mutual structure, BAM will employ significantly lower risk leverage against capital and claims-paying resources than the traditional bond insurance model. As a result, BAM expects to maintain substantially greater capital resources than historically required for AAA ratings. BAM has built a strong foundation for ratings stability and robust claims-paying ability through a wide range of potential adverse circumstances.

"We are also pleased to announce that BAM is sponsored by the National League of Cities. We believe this to be a strong endorsement of the value we can add to the municipal market and tangible proof of the demand for bond insurance, particularly at the retail level."

"BAM's model as a mutual is attractive to cities as it allows them to receive additional benefits as the program grows," said Donald J. Borut, Executive Director, National League of Cities. "Also, BAM's board members bring extensive experience in local government management and a thorough understanding of the economics and processes of local government. Their experience will provide insightful guidance and ensures that BAM's focus remains on serving our nation's local governments. BAM's insurance will help cities gain access to new capital, at lower cost to make significant improvements in our local communities."

BAM differs from traditional financial guaranty insurers

BAM's unique corporate structure distinguishes it from traditional, legacy financial guarantors in three primary ways:

--BAM's underwriting guidelines and credit policies permit BAM to insure only U.S. essential public purpose municipal issuers of fixed rate, fully amortizing debt. Further, BAM starts with a clean balance sheet, and it has no exposure to the asset classes that caused losses for bond insurers during the recent financial crisis;

--BAM's mutual model generates capital growth to support growth in the insured portfolio. This eliminates the need to "go public" to raise capital, to drive earnings growth to satisfy equity markets, or to engage in mission creep by taking on risks outside of the core municipal market;

--In addition to its own strong capital base, BAM will have the benefit of collateralized first-loss reinsurance protection for losses up to the first 15% of par on each policy written.

BAM has strong capitalization and low leverage

BAM will be sizably capitalized on Day 1, with half a billion dollars in initial funding (plus $100 million pledged in the collateral trusts), and BAM's capital will grow as its insured portfolio grows. Each municipal issuer that purchases insurance from BAM will become a "member" of BAM. The payment for a BAM policy includes a risk premium and a member surplus contribution to BAM, which will fund the growth of BAM's claims-paying resources. BAM's claims-paying resources are further strengthened by first loss reinsurance protection up to 15% of each insured issue, which is collateralized and held in trusts. The combination of BAM's low risk business, low single risk limits and strong capital resources results in low operating leverage on an absolute and risk-adjusted basis.

BAM provides policyholders with interest cost savings and other financial benefits

In addition to interest cost savings, BAM members have the right to 1) participate in future dividends on member surplus contributions, subject to regulatory approval; 2) to pay only a 10-year risk premium up front at closing and annual premiums after 10 years if bonds are not refunded; and 3) to re-utilize the member surplus contribution for the life of any refunding issue. Each of these elements of BAM membership is unique and will lower the long-term cost of public borrowing.

To ensure issuer representation in governance and policy making, BAM's Board of Directors includes three external directors with extensive public finance experience and expertise: The Honorable Richard Ravitch, former Lieutenant Governor of the State of New York and currently Co-Chair of the New York Budget Crisis Task Force; The Honorable Edward G. Rendell, former two-term Governor of Pennsylvania and Mayor of Philadelphia; and Robert A. Vanosky, former Head of the Public Finance Division of RBC Dain Rausher Incorporated.

BAM offers the public finance market unprecedented transparency

In order to allow issuers and investors in BAM-insured bonds to monitor our financial strength, each quarter BAM will disclose claims-paying resources, leverage ratios, capital ratios and material information on its insured portfolio.

Additionally, to increase liquidity and transparency for BAM-insured bonds, BAM will publish obligor disclosure briefs on every bond issuer insured. These briefs are easily accessible by CUSIP, obligor, state and sector on BAM's website. This information is also meant to assist broker-dealers in meeting disclosure rules for secondary market transactions.

BAM starts out with a deep bench of experienced managers

Joining Co-Founders Mr. Cochran and Mr. McCarthy are a senior team of highly experienced financial guaranty and municipal market professionals:

Scott C. Richbourg, BAM's Head of Public Finance, formerly Executive Director and Manager of the Southern Group for Public Finance at Morgan Stanley and, before that, Managing Director of Public Finance at FSA;

Elizabeth "Beth" Keys, BAM's Chief Financial Officer (CFO), joining from Guy Carpenter, where she was Vice President and CFO;

Alex Makowski, General Counsel, joining from Assured Guaranty and formerly FSA, where he was a Managing Director;

Suzanne Finnegan, Chief Underwriting Officer, formerly Executive Vice President at Wells Fargo Bank, N.A., where she was the Senior Credit Officer overseeing credit transactions in the Government Banking segment;

Elizabeth "Betsy" Hill, Head of Surveillance, joining from FSA in a similar position;

Laura Levenstein, Chief Risk Officer, and formerly Senior Managing Director for Global Public, Project and Infrastructure Finance at Moody's Investors Service;

David McIntyre, Chief Technology Officer and formerly Managing Director, Global Head of Development Standards and Control at BlackRock**,** Inc.; and

Betsy Castenir, Head of Corporate Communications, and formerly Managing Director of Corporate Communications at FSA and later Assured.

Key Facts

Rating	AA/Stable from Standard & Poor's Ratings Services
Insured Portfolio	U.S. essential public purpose municipal issuers (municipal entities qualifying under Section 115 of the Internal Revenue Code)
Claims-Paying Resources	$600 million on Day 1, growing over time from member surplus contributions from municipal issuers and additions to the collateral trusts securing first loss reinsurance
First Loss Protection	15% first loss reinsurance on the par amount of each policy, secured by high quality collateral held in trusts
Single Risk Limits	20% of BAM qualified statutory capital for A or higher-rated bonds; 15% for BBB
Operating Leverage	BAM starts today with no exposure against its capital. As municipal bond insurance exposure grows, BAM's surplus and claims-paying resources will grow. Target operating leverage over the long term is 50-60:1.

About BAM

Domiciled in New York, Build America Mutual Assurance Company is a mutual, monoline bond insurer of essential public purpose U.S. municipal bonds. As a mutual, the Company is 100% owned by its policyholders, the municipal issuers using BAM's insurance to lower their cost of borrowing. BAM is rated AA/ Stable by S&P and regulated by the New York State Department of Financial Services. BAM is also a member of the National Association of Mutual Insurance Companies. BAM's website address is www.buildamerica.com.

For further information, please contact:

Betsy Castenir, Head of Corporate Communications, 212-257-6148

Attachment 3

NATIONAL LEAGUE of CITIES

The Relationship Between Efforts to Reduce the Federal Deficit and Cities

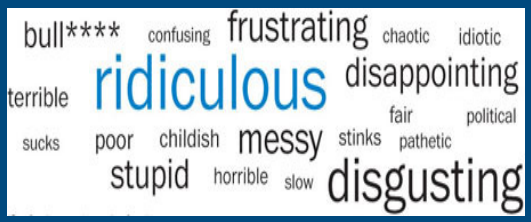
International Municipal Lawyers Association
October 2012

Helping Cities Leaders Build Better Communities

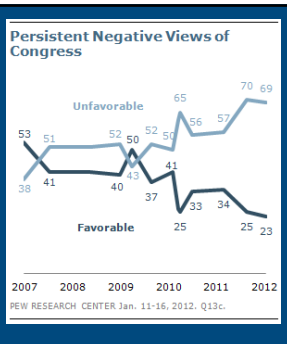
Today's Topics

- The Climate In Washington
- The Looming Fiscal Crisis
- Plans to Reduce the Federal Deficit
- What's At Stake for Cities in the Debate and the Lame Duck Session
- Questions and Answers

Words Used to Describe Congress:

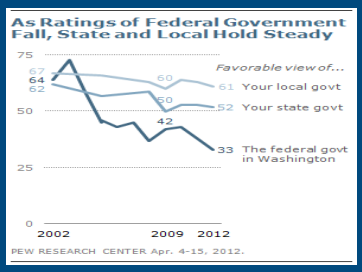


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The Looming Fiscal Crisis

- In 2010, federal spending was 24 percent of GDP, the highest level since WWII.
- In 2010, tax revenues were at 15 percent of GDP, the lowest level since 1950.
- The gap between spending and revenue – the budget deficit – was just under nine percent of GDP.
- Since 2001, the federal debt has risen from 33 percent of GDP to 62 percent of GDP in 2010.

Source: Report of the National Commission on Financial Responsibility and Reform, 2010;

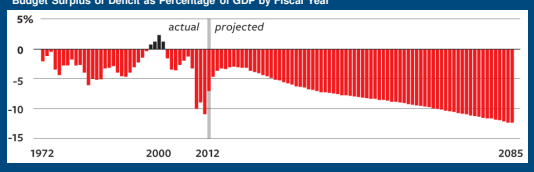
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An Ever-Widening Budget Gap

The Deficit Has Grown to Unsustainable Levels

Budget Surplus or Deficit as Percentage of GDP by Fiscal Year*



Source: Congressional Budget Office Historical Budget Data (1972-99); Office of Management and Budget, Fiscal 2012 Budget (2000-85).

*Projection includes expiration of Bush tax cuts.

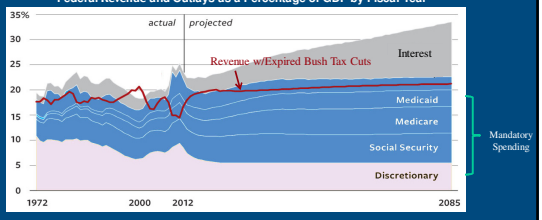
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Why the Gap Has Widened

Mandatory Spending Is Outpacing Revenues

Federal Revenue and Outlays as a Percentage of GDP by Fiscal Year



Source: Congressional Budget Office Historical Budget Data (1972-99); Office of Management and Budget, Fiscal 2012 Budget (2000-85).

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Efforts to Reduce the Deficit

- Bowles-Simpson Plan (not adopted)
- Budget Control Act:
  - Super Committee (failed to reach agreement)
  - Automatic Spending Cuts (set to take effect January 2013)
- Ryan Budget Proposal
- President Obama's Budget Proposal

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The Economic Downturn and Cities

For the sixth straight year city revenues continue to fall as financial pressures such as infrastructure, health care and pension costs combine with cuts in state and federal aid to weigh heavily on cities' bottom lines.

Cities are making personnel cuts, delaying or canceling infrastructure projects and cutting local services.

2013 will continue to present challenges to city budgets due to stagnant housing markets, high unemployment, and looming federal budget cuts.

Source: 2012 NLC City Fiscal Conditions Report

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Spending Cuts Have Hit Cities Already

Federal Program	FY 2010	FY 2012	Percent Change
Job Training	$ 3.8 billion	$ 2.6 billion	- 31.6%
Highways	$ 41.8 billion	$ 41.1 billion	- 1.70%
CDBG	$ 4 billion	$ 2.9 billion	- 27.5%
COPS	$ 791 million	$ 166 million	- 79.0%
Clean Water SRF	$ 2.1 billion	$ 1.5 billion	- 28.6%
Drinking Water SRF	$ .4 billion	$ 919 million	- 34.4%

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The Automatic Spending Cuts

Sequestration Arose From the Ashes

If Congress by 2013 does not reduce the deficit by $1.2 trillion through 2021, automatic spending cuts (sequestration) will kick in.

If Sequestration Is Enforced	
Budget	Cuts 2013 to 2021
Defense	$493.2B
Non-Defense	$493.2B
Interest	$216B
TOTAL	$1.2T

"I don't think either party likes what they see coming. I could easily imagine a bipartisan effort during the lame-duck session to dodge the first year of the sequester and come up with enough mandatory savings."

Douglas Holtz-Eakin, former director of the Congressional Budget Office

Source: National Journal, Mar 15, 2012, "Hard Promises," Nancy Cook; GAO Report, 2005; Center for Budget and Policy Priorities, 2011.

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Automatic Spending Cuts Will Do Harm:

- Reduce the nation's GDP by $215 billion;
- Decrease personal earnings of the workforce by $109.4 billion;
- Cost the U.S. economy (and cities) 2.14 million jobs;
- Reduce GDP growth in 2013 by two – thirds; and
- Increase unemployment by as much as 1.5 percentage points raising the current national rate above 9 percent.

Source: The Economic Impact of the Budget Control Act of 2011 on DOD and Non-DOD Agencies, Stephen S. Fuller, Ph.D., Dwight Schar Faculty Chair and University Professor, Director, Center of Regional Analysis, George Mason University, Arlington, Virginia with Chmura Economics & Analytics Richmond, Virginia, July 2012

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The City Position on Deficit Reduction

- Any deficit reduction plan should balance spending cuts with revenue enhancements.
- Spending cuts should not come from domestic discretionary programs alone - all options should be considered.
- The interest exemption on municipal bonds should be maintained – they are not a tax loophole.
- Any structural changes in programs should include a transition period for cities to come into compliance.

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The Agenda for the Lame Duck Session

- Extend tax cuts or not?
- Stop or delay the automatic spending cuts from going into effect?
- Allow the collection of sales taxes owed on internet sales?
- Increase the debt ceiling?

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Today's Topics

- The Climate In Washington
- The Looming Fiscal Crisis
- Plans to Reduce the Federal Deficit
- What's At Stake for Cities in the Debate and the Lame Duck Session
- Questions and Answers

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