Bond Case Briefs

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National Association of Counties: President's FY14 Budget Targets Key County Priorities.

Click here to see NACo's presentation on the president's FY14 Budget.
http://www.naco.org/legislation/Documents/NACo-Presentation_FY14-Presidents-Budget.pdf

Click here to see a detailed table comparing the proposed FY 14 and actual FY 13 budgets:

http://www.naco.org/newsroom/countynews/Current%20Issue/4-22-2013/Pages/Crunching-budget-numbers-proposedFY14-vs-actualFY13.aspx

President Obama's $3.6 trillion budget for FY14 includes proposals that would, if adopted by Congress, make big changes to the way counties do business across the country.

It recommends measures to achieve $25 billion in savings in FY14 through eliminating and consolidating programs, and cutting spending in others. It proposes reducing discretionary spending through the annual appropriations process from 8.3 percent of Gross Domestic Product (GDP) in FY12 to 7.3 percent in FY14 and 4.9 percent by FY23. It lays out a plan to cut the deficit by $1.8 trillion over the next 10 years, bringing it below 2 percent of GDP by 2023; when combined with the sequester, it would cut the deficit by $4.5 trillion.

The budget's highlights – or lowlights – for counties include:

Cap on Municipal Bonds – It's Back

As in last year's proposal, the president's FY14 budget would impose a 28 percent cap on the value of certain tax benefits, including tax-exempt interest. This would have the effect of partially taxing otherwise tax-exempt municipal bond interest and would apply to taxpayers in the 33 to 39.6 percent tax brackets. As proposed, the cap would apply to both newly issued and outstanding bonds beginning in 2014.

NACo will continue to oppose this and any other proposals to change the tax-exempt status of municipal bonds, which would raise borrowing costs and undermine an essential financing tool for county governments.

As an alternative approach to infrastructure investment, the president proposes establishing the America Fast Forward (AFF) Bond program. Similar to the Build America Bonds program that expired at the end of 2010, the AFF program would provide state and local governments that issue conventional taxable bonds with a subsidy payment equivalent to 28 percent of the interest on the bonds. The AFF bonds could be used for purposes currently eligible for tax-exempt bonds starting in 2014.

If AFF bonds are issued in 2014 and 2015 for school construction and new capital projects for 501(c)(3) nonprofit educational entities, issuers would receive a 50 percent subsidy payment. The AFF proposal does not address reduced subsidy payments due to sequestration, which is currently confronting Build America Bond issuers.

Community Development Block Grant – On the Chopping Block

The Department of Housing and Urban Development (HUD) budget proposes cutting Community Development Block Grant (CDBG) formula grants by $280 million, from $3.07 billion in FY13 to $2.79 billion under the president's FY14 proposal. This is 37 percent below FY10, 17 percent below FY11 and 28 percent below FY12. It does, however, propose retaining the 20 percent for administrative costs. Additionally the budget proposes statutory changes to establish a minimum grant threshold for CDBG and eliminates the community-grandfathering provision for entitlement communities.

Who Needs SCAAP?

The Department of Justice budget proposes eliminating funding for the State Criminal Alien Assistance Program (SCAAP). In FY13, SCAAP provided $220 million (pre-sequestration) to help offset costs incurred by counties for jailing undocumented immigrants.

Public Lands County Payments Targeted for Reauthorization

The president's FY14 budget for the Department of the Interior proposes legislation to extend mandatory funding for the Payment in Lieu of Taxes (PILT) program at $410 million, an increase of $8.8 million from the FY13 level. The budget also proposes an independent public evaluation of PILT to review the program, in both concept and practice, with the goal of developing options to put the program on a sustainable long-term funding path.

The U.S. Department of Agriculture (USDA) budget proposes a five-year reauthorization of the Secure Rural Schools and Community Self-Determination Act (SRS), starting in FY13, with mandatory funding. The FY14 payment is proposed at $278 million, a reduction of $68 million from FY12 levels. The USDA Forest Service has recently announced that funds already distributed under the most recent SRS extension or payments based on revenue generated in FY12 are subject to the FY13 sequester, and the agency will be requesting repayment of $17.9 million in SRS and "25 percent fund" payments that have already been disbursed. The National Governors Association, NACo and more than 50 members of Congress are pushing back against the White House Office of Management and Budget (OMB) and USDA over the legal authority of applying the sequestration cuts to FY12 SRS payments.

Water Loans Levels Drop Some More

The Environmental Protection Agency (EPA) receives $8.15 billion under the president's FY14 budget numbers. This is a decrease of $348.1 million over FY13.

In what's becoming a bad habit, the Clean Water State Revolving Funds (CWSRF) and Drinking Water State Revolving Funds (DWSRF) continue to decrease under the proposal. For FY14, the budget proposes $1.1 billion for CWSRF and $817 million for DWSRF. This is a decrease of $300 million and $56 million for each program, respectively. SRF programs provide water grants to eligible communities based on state water priority projects.

In the proposal, EPA stressed its increased focus on funding small, underserved communities for SRF funds.

Medicaid Mostly Spared

As predictable controversies swirl around the president's proposals to slow the growth of Social Security and Medicare, cuts to Medicaid appear to be off the table. The budget documents for the Department of Health and Human Services (HHS) emphasize a commitment to implementing the Affordable Care Act (ACA) fully in 2014, including the expansion of Medicaid to non-elderly, childless adults with incomes below 133 percent of the federal poverty level. Keeping Medicaid stable may reassure skeptical states that the Medicaid expansion is not a "bait and switch."

The budget does propose a few modest legislative proposals to trim the program, which would result in just over $22 million in savings. These include extending the ACA's cuts to Medicaid disproportionate hospital share (DSH) payments into FY13. This is now a routine adjustment that prevents DSH payments from jumping back to pre-ACA levels at the end of the 10-year budget window, yielding a few billion dollars compared to current law.

The budget also asks Congress to delay the DSH cuts scheduled for 2014 to help states and county hospitals adjust to ACA implementation. The proposal calls for spreading the cuts out over 2016 and 2017 to maintain budget neutrality.

Transportation on Track

The budget proposes a total of $76.6 billion in discretionary and mandatory funding for U.S. Department of Transportation (DOT), an increase of 5.5 percent or $4 billion above FY12. Highway funding is consistent with the authorization levels contained in MAP-21 (the federal surface transportation act) with a $40.1 billion obligation level. Transit funding reflects the $10.9 billion authorization level contained in MAP-21: $8.59 billion for formula grants and $1.98 billion for capital grants.

The budget also proposes a new $50 billion "fix-it-first" initiative for immediate transportation investments, including $40 billion to improve existing infrastructure assets most in need of repair, $10 billion to help spur states and local innovation in infrastructure development and leveraging state, local, tribal and private funds, and a $2 billion competitive grant program that targets investment in roads, railways and runways. This is the fourth time the Administration has made a similar proposal.

Rural Business Programs Consolidated; Water-Wastewater Grants Chopped

The president's budget increases overall budget authority for USDA Rural Development by 10 percent to $2.28 billion above the FY13 level. This increase returns the agency to a funding level slightly higher than the pre-sequester FY12 enacted level. However, most of the increase went to Salaries and Expenses ($58 million or 10 percent) and Rental Assistance Grants ($177 million or 21 percent), while Water and Waste Disposal Grants ($93 million or 23 percent) and Single Family Housing Direct Loans ($40 million or 80 percent) were targeted for major cuts.

The deep cut in the Water and Waste Disposal Grants will make rural water projects cost-prohibitive for some rural communities, and the shift towards a reliance on direct loans is unsustainable in the long run as interest rates will eventually rise, which will dramatically decrease the water infrastructure loan financing available through USDA.

The most significant rural development policy shift is the proposal to consolidate six of the agency's rural business programs into the Rural Business and Cooperative Grant Program, funded at $55 million. This shift would eliminate the Rural Business Opportunity Grants, Rural Business Enterprise Grants and Rural Microenterprise Investment Program, which are three programs that counties and their public and nonprofit partners use in their economic development efforts.

The new program will provide the benefit of one streamlined application, a focus on regional priorities and $20 million in additional overall funding. However, NACo is concerned about public sector grantees being lumped into a program that will now directly serve individual producers, cooperatives, nonprofits and rural businesses as well through the authorities of the Rural Cooperative Development Grants, Grants to Assist Minority Producers and the Rural Community Development Initiative.

The budget no longer includes the Regional Innovation Initiative proposal, which NACo supports, and instead promises to concentrate on regional priorities through the new consolidated business program. NACo opposes the proposal to eliminate the Water-Wastewater and Community Facilities Guaranteed Loan Programs, High Cost Energy Grants and Economic Impact Initiative Grants.