Bond Case Briefs

Municipal Finance Law Since 1971

What Obama's 2016 Budget Means for States and Localities.

President Barack Obama's record $4 trillion proposed budget would provide boons to states and localities in a host of areas, from infrastructure to education, but the White House's spending plan again includes cuts or limits to popular programs such as community development block grants.

After calling for an end to "mindless austerity," Obama released a proposal Monday that would end spending caps on discretionary spending, which are yearly appropriations encompassing nearly every government function, with particular impact for state governments in areas such as education, transportation, veteran's benefits and natural resource protection. That, combined with a host of new initiatives, would likely mean an influx of state-level spending, but there are some notable cuts or limits.

Some of those have appeared in Obama's budgets for years, and the Republican-controlled Congress will balk at much of the plan's spending and tax changes. That means the final product will look far different, if the two branches of government can come to an agreement at all — a rarity in the Obama era. The budget is for the new federal fiscal year starting Oct. 1.

While the president anticipates the annual budget deficit will dip to $474 billion in 2016 and $463 billion in 2017, it would begin to pick up again, reaching $687 billion by 2025. But as a percentage of the overall economy, that would be lower than current levels of 3.2 percent. The overall national debt — the accumulation of annual deficits — would gradually decrease to 73.3 percent of the overall economy because of changes to health care and other areas, the president argued. The budget never reaches balance, which will prompt further criticism from Congressional Republicans.

Much of the items that will get the most attention focus on new tax credits for middle-class families along with new tax increases for some businesses and higher earners. But there's also much that will directly affect states and cities. The White House budget estimates that federal grants to state and local governments will total $652 billion in 2016, representing a 13 percent increase from 2014.

That's in part possible because the budget assumes the end of spending caps imposed by the 2011 deficit-reduction deal known as sequestration. Under that deal, spending would have inched up by 1 percent, or $2 billion, from the 2015 fiscal year. The president's budget lifts spending in 2016 by $28 billion, or nearly 3 percent, to $1.17 trillion. The White House budget estimates that sticking with the current caps next year "would mean the lowest real funding level for research since 2002 — other than when sequestration was in full effect in 2013 — and the lowest real per-pupil funding levels for education since 2000, a major disinvestment in exactly the areas where investment is needed to support growth."

Under the new plan, the federal government would spend a total of $333 billion more than originally allotted for discretionary funds over the next decade.

The increased caps for non-discretionary spending — things like yearly social programs such as Medicare — may also be a relief for states that been essentially been operating on the assumption that federal appropriations for their programs won't change. Although the president's budget is

unlikely to pass as is, a lift on spending caps could end up increasing funding levels for certain grant programs, such as education programs. However, much will depend on decisions in future spending legislation that spells out program appropriations in detail to know the actual impacts.

Here's a rundown of specific areas the budget would boost — and specific areas it would cut.

Infrastructure

The president's budget includes $478 billion over six years paid for with new taxes on companies that incorporate abroad to avoid higher taxes in the U.S.

The administration called for more transportation spending than it has in past years, even though Congress has been deadlocked on long-term transportation spending for years. Since the last long-term surface transportation law expired in September 2009, Congress has passed 32 short-term fixes to keep transportation money coming to the states.

The major culprit has been the declining buying power of federal fuel taxes. The federal gasoline tax, for example, has been 18.4 cents-per-gallon since 1993. The current extension expires in May. There is bipartisan interest in passing another long-term law like the one the president proposed, but talks have always stopped when it comes to finding a way to pay for the new spending.

The fact that Obama's budget identifies a specific mechanism for paying for the new spending proposal is a "good place to start in a discussion with Congress," said Lloyd Brown, a spokesman for the American Association of State Highway and Transportation Officials (AASHTO).

"There seems to be more conversation and discussion going on right now than maybe we've had in the past, but I think that's also indicative of this looming situation," with the expiration of the current spending bill in May, Brown said.

In addition, the budget proposal includes new initiatives to spur private investment through a national infrastructure bank, new financing and bonds, such as tax-exempt Qualified Public Infrastructure Bonds, which are specifically geared toward helping states and localities attract new sources of capital. Packaged together, the incentives for private investment are expected to cost relatively little in 2016 — just $181 million — but will jump to $433 million the following year and $1.7 trillion by 2025.

New matching programs

The president included an already extensively previewed idea to make two years of community college free for qualified students in participating states. The budget provides $60 billion over 10 years, which would pay for three quarters of tuition, with states picking up the rest.

The budget also includes about $2 billion over three years to encourage states to reimburse workers for taking leave for specific family or medical reasons. Three states (California, Rhode Island and New Jersey) already have family leave programs, which allow workers to pay monthly premiums into an insurance fund that they can tap if they have to leave work for an extended period of time. The federal budget would cover half the benefits costs for up to five states, in addition to another $35 million in technical assistance for states already in the process of setting up paid-leave programs.

Health, education, police and research

The president's budget includes more than $100 million in new spending to try reduce opioid abuse through direct spending in states for strengthening drug monitoring programs, expanding access to

treatment and broadening the use of drugs that counteract overdoses.

In addition, the budget seeks to reverse cuts made to early childhood education that resulted in about 60,000 children losing spots in the federal Head State and Early Head Start programs.

Likewise, the budget would partially undo cuts to federal support of community policing. Hiring grants for the Office of Community Oriented Policing Services (COPS) have declined in recent years, from about $240 million in 2010 down to $108 million this year. Obama is calling for $182 million in 2016.

Lastly, the president bemoaned the effects of sequestration on research and development, which he argues has reached its lowest level in a decade. The president's budget would boost funding by nearly six percent over 2015, particularly in the areas of medical research.

Proposed cuts

Perhaps the most notable area that's routinely targeted for cuts is the community development block grant.

Among dozens of proposed cuts, the Obama administration called for $200 million less for the Community Development Block Grant program. That will surely draw criticism from the national associations that represent cities and counties, which have fought to keep the program funded at $3 billion a year.

The grants go to roughly 1,200 units of state and municipal government across the country to pay for a wide range of local needs, such as water infrastructure, affordable housing and meal programs for seniors. While the grant program saw a brief funding surge when Obama first took office, the long-term trend has been less money over time. Total federal disbursements already declined by about 30 percent between 2004 and 2014.

Another area sure to draw the ire of local policymakers is the tax-exempt status of municipal bonds, another perennial target of the White House. The Budget would limit the value of most tax deductions and exclusions to 28 cents on the dollar on higher-income earners, which would likely raise rates for governments. Currently, interest earned on municipal bonds is not taxed — a benefit to bondholders that allows governments to finance their bonds at a lower interest rate and save money. Governmental associations estimate that total borrowing costs for cities, counties and states could increase by more than 50 percent if municipal bonds' tax-exempt status was repealed entirely.

Eliminating or limiting the bonds' tax-free status has been discussed for years as a way to gain more federal revenue, but so far efforts have been unsuccessful. Taxing municipal bonds would add billions of dollars of new revenue to the national government — as much as $40 billion.

It's those two changes in particular that drew the concern of groups advocating for state and local governments. The National Association of Counties, for one, said it appreciates the new infrastructure spending options, but they don't outweigh the potential loss of others. "Counties need more financing options, not fewer," said Executive Director Matthew Chase. "One infrastructure financing tool cannot cancel another."

Other cuts include:

- $67 million from school districts included in the Impact Aid program, which makes up for a lack of property tax revenue in schools on or near federal land such as military bases.
- About $260 million from a variety of public health programs, including a program called Racial and

Ethnic Approaches to Community Health, which focuses specifically on health disparities among minority populations.

- $450 million from the Grants-in-Aid for Airports program, which guarantees funding for large airpots. The federal government argues those hubs are better able to make up the money with fees, rather than smaller airports that need the money more.
- $185 million from the State Criminal Alien Assistance Program, which helps offset the costs of jailing unauthorized immigrants for states and localities.

GOVERNING.COM

BY LIZ FARMER, CHRIS KARDISH, J.B. WOGAN, DANIEL C. VOCK | FEBRUARY 2, 2015

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com