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Why the 2020 Budget Debate Indicates More Challenges for Cities.

> *"The Budget devolves responsibility to State and local governments, which are better positioned to assess local community needs and address unique market challenges."* – The President's budget proposal for fiscal year 2020, explaining the proposed elimination of the Community Development Block Grant and HOME Investment Partnership programs for the third straight year.

The administration's budget proposal for FY20 begins with a message touting an "unprecedented", two-year economic boom that has, among other things, resulted in the creation of five million new jobs. For the administration, this means now is a good time for Congress to bring federal spending and debt "under control".

The president's budget proposes to bring spending and debt under control through drastic cuts to safety net programs, including food stamps, Medicaid and Medicare. The proposal also looks to eliminate programs that expand economic opportunity and mobility, including Community Development Block Grants, Economic Development Grants, Community Services Block Grants, Social Services Block Grants, 21st Century Community Learning Centers, and the Weatherization Assistance Program.

For cities, towns, and villages, the 35-day partial government shutdown was a disturbing period of uncertainty that spurred local leaders into action to minimize impacts on vulnerable residents. According to the Congressional Budget Office, the overall economy lost $11 billion during the shutdown. Individual cities have also calculated local economic losses and have adjusted budget and revenue projections accordingly.

The cost of emergency measures and economic losses associated with the shutdown exposed a growing number of fiscal headwinds that would make it difficult, if not impossible, for cities to make up for the cuts proposed by the administration. Among them:

- **Local tax revenue is slowing down.** NLC's 2018 City Fiscal Conditions survey indicates that local tax revenue growth is experiencing a year-over-year slowdown, with growth in service costs and other expenditures outpacing it. This suggests that many cities may be approaching the limits of their current period of fiscal expansion.
- **Federal funding for domestic discretionary programs is *already historically low.*** According to a report from the Center on Budget and Policy Priorities, funding for federal programs (other than Social Security and Medicare) is historically low as a percent of GDP – and it is projected to fall further. Funding for domestic discretionary programs, which includes grants to cities and towns, has been limited since 2011 by the Budget Control Act (BCA) that mandates sequestration if Congress is unable to reach pass higher spending caps.
- **States continue to preempt local authority.** NLC's report, City Rights in an Era of Preemption: A State-by-State Analysis, shows that 42 states have enacted tax and expenditure limitations on

local governments. State preemptions created additional uncertainty during the partial government shutdown and have created additional obstacles to raising revenue or spending at the local level to make up for significant losses at the federal level.

- **New Limits on the State and Local Tax Deduction.** The new $10,000 cap on state and local tax deductions, enacted under recent federal tax reform legislation, will hit nearly 11 million taxpayers nationwide this year, according to a report by the Treasury Department. Treasury estimates the cap will prevent those 11 million taxpayers from deducting $323 billion in state and local tax payments from their federal tax returns, which takes money out of local economies.
- **Advance Refunding Bonds Eliminated.** That same tax reform bill exposed that cities' fiscal vulnerabilities are larger than federal budget and appropriations decisions. The bill eliminated advance refunding municipal bonds, a valuable cost-saving tool for municipalities that allowed municipal debt to be refinanced at lower interest rates. Earlier iterations of the legislation even threatened private activity bonds, which put billions in municipal market savings at risk. NLC research shows that 61% of city finance officers think the loss of tax-exempt advance refunding bonds will negatively impact their city's ability to meet financial needs.

Add to these headwinds that municipal governments are generally required to balance their budgets and cannot resort to deficit spending of the sort that the federal government relies on, and it becomes clear how unprepared states and cities are for the kind of wholesale devolution of responsibilities proposed by the administration.

NLC is again tracking funding for city priorities throughout the federal budget and appropriations process at www.nlc.org/budget. A breakdown of proposed funding for individual programs is available at the link.

National League of Cities

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