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Special Focus: Fiscal Federalism is Threatened by Tax Reform's Attack on State and Local Governments.

Executive Summary: As we discussed last month, both the House and Senate shocked state and local governments with provisions that either increase their costs of functioning, reduce financial flexibility or increase the cost of financing important projects. The implications for Fiscal Federalism are profoundly negative.

Starting with advance refundings alone, two things are true: First, that there IS a cost to state and local governments associated with the elimination of the advanced refunding option. Any bond market option has a value associated with it. Eliminate the option and you are taking that option value away from state and local issuers. Second, the estimated benefit of the elimination of advanced refundings of roughly $17 billion over 10 years is undoubtedly wildly overstated. These overstatements are so often the case in tax bills, so why should this time be different?

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This Special Focus is brought to you by Court Street Group and Neighborly Insights.

by George Friedlander

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