

**National Association of Counties
National League of Cities
Government Finance Officers Association**

May 10, 2006

Dear Member of the United States House of Representatives:

I am writing to urge you to oppose the conference report on H.R. 4297, the Tax Increase Prevention and Reconciliation Act of 2005.

The conference report imposes a new \$7 billion tax on government contractors that would certainly be subject to constitutional scrutiny. Although state and local governments would be required to withhold the tax, private companies would not. This would put counties and cities at a severe competitive disadvantage to the private sector in purchasing goods and services. This egregious provision did not appear in either the House or Senate versions of this legislation before it was included in the final conference report.

Provisions of the bill also represent a “double whammy” for many local taxpayers who live in rural areas or are served by a small government jurisdiction, increasing their local taxes while eliminating the opportunity for many of them to deduct those taxes on their federal income tax return. Specifically, the new restrictions on pooled bond financings contained in the conference report will increase the cost of capital for many small and rural local governments. **The pooled bond financing restriction will raise \$417 million for the federal government by taking it out of the coffers of counties, cities and towns.** Local governments will have to borrow at higher cost, passing that increased cost on to local taxpayers. I have attached a sampling of letters that highlight the concerns of states and statewide organizations of counties and cities about this provision.

Finally, the conference report would eliminate the option for local taxpayers to deduct sales taxes in lieu of income taxes. Not only does this discriminate against taxpayers in the eight states without an income tax, it will also increase taxes for many taxpayers who live in a state that does have an income tax. Many smaller governments that would be affected by the restriction on pooled bond financings are in states that do not have an income tax, so their taxpayers would experience a “double whammy”.

Adopting this conference report without an agreement to strike the discriminatory tax on government contractors as well as restore the sales tax deduction and repeal the restrictions on pooled bond financings will erode the ability of local governments to serve the public in an efficient and cost-effective manner.

I appreciate your prompt attention to this matter. If you have any questions about our position, please contact Alysoun McLaughlin with the National Association of Counties (202-942-4254/amclaughlin@naco.org), Alex Ponder with the National League of Cities

(202-626-3028/ponder@nlc.org) or Susan Gaffney with the Government Finance Officers Association (202-393-8020/sgaffney@gfoa.org).

Sincerely,

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