State and Local Perspectives:
Working with a New Congress and Federal Government Administration

MODERATOR
Elizabeth K. Kellar
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SPEAKERS
David Parkhurst
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Chief Financial Officer, Cook County, IL
State and Local Fiscal Facts: 2017

State and Local Finances • Municipal Bonds • State and Local Pensions

Fiscal Condition of State and Local Governments

In the past few years, the fiscal conditions of state and local governments have stabilized, but improvements have been uneven. While challenges remain, officials have been taking steps to replenish rainy day funds and address long-term structural imbalances.

State Finances

For states, 2016 brought a moderate improvement in fiscal conditions, and general fund spending is on track to grow modestly in 2017 for the seventh consecutive year based on states’ enacted budgets. Fiscal improvement has been uneven across states due to numerous factors such as declining energy prices, differing tax and spending policies, regional economic disparities, and changes in population and demographics. States also face rising spending demands and long-term budget pressures in areas including healthcare, education, infrastructure, and pensions.

• Thirty-two states spent less in FY2016 than the pre-recession peak in 2008, in real dollar terms.
• Half of states reported FY2016 preliminary revenues fell short of original projections and 19 states enacted mid-year budget cuts, while 20 states had revenues come in above projections.
• States have replenished some spending for areas cut back during the recession, including K-12 and higher education, corrections, and transportation.
• Most states continue to strengthen their rainy day funds, with 29 states making deposits in fiscal 2016, and 25 states projecting increases for fiscal 2017.

City Finances

City fiscal conditions are strengthening, driven by better than anticipated revenue growth and solid performance of ending balances. A number of factors determine the revenue behavior, spending levels, and overall fiscal condition of cities. Among the factors most negatively influencing city conditions are increases in infrastructure demands and employee and retiree-related costs including pensions, healthcare, and wages. Positive factors include the value of the city tax base, health of the local economy, and in most cities, the drop in gas and oil prices.

• Property tax revenue has increased and is anticipated to continue to grow.
• Sales and income tax revenues continue to show positive rates of increase.

Issued By:

NGA • National Governors Association
NCSL • National Conference of State Legislatures
CSG • The Council of State Governments
NACo • National Association of Counties
NLC • National League of Cities
USCM • U.S. Conference of Mayors
ICMA • International City/County Management Association
NASBO • National Association of State Budget Officers
NASACT • National Association of State Auditors, Controllers and Treasurers
GFOA • Government Finance Officers Association
NASRA • National Association of State Retirement Administrators
JOIN US FOR AN INFRASTRUCTURE WEEK FLY-IN 2017 EVENT

HILL BRIEFING: STATE AND LOCAL GOVERNMENTS DRIVE AMERICA – A DISCUSSION FOR THE FUTURE OF INFRASTRUCTURE POLICY

Wednesday, May 17, 2017
Conversation Begins: 2:00 p.m. / Rayburn House Office Building / Room 2154 / Washington, D.C. 20515

Please join us for a discussion with:

- **Representative Jeff Denham** (R-CA)
  Chairman of the House Transportation and Infrastructure Committee, Subcommittee on Railroads, Pipelines, and Hazardous Material

- **Senator Amy Klobuchar** (D-MN)
  Senate Ranking Member of the Joint Economic Committee, Member of the Senate Commerce, Science and Transportation Committee

- **Representative Sam Graves** (R-MO)
  Chairman of the House Transportation and Infrastructure Committee, Subcommittee on Highways and Transit

- **Hon. Andrew McLean**
  Member of the Council of State Governments

- **Hon. Mike Cornell**
  Mayor, Oklahoma City, Oklahoma U.S. Conference of Mayors (President)

- **Hon. Peter McLaughlin**
  Commissioner, Hamilton County, Minnesota National Association of Counties (President)

- **Hon. Matt Zone**
  Councilmember, Cleveland, Ohio National League of Cities (President)

- **Hon. Curt Bramble**
  Utah State Senator, National Conference of State Legislatures

On behalf of the National Association of Counties (NACo), United States Conference of Mayors (USCM), National League of Cities (NLC), The Council of State Government (CSG), National Governors Association (NGA), International City/County Manager Association (ICMA) and National Conference of State Legislatures (NCSL), we are pleased to invite you to a briefing on Capitol Hill to highlight the role of state and local governments in building, maintaining, and improving America’s infrastructure.

Join state and local leaders for a robust conversation about the current and future state of infrastructure in America and how Congress can help support local infrastructure goals.
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May 22, 2017
Ivan Samstein
Chief Financial Officer, Cook County Government
Agenda

Affordable Care Act Versus the Affordable Health Care Act

Tax Reform

• Will Congress ever address “Main-street Fairness”

Saber rattling on “Sanctuary Cities”

Federal Budget and Infrastructure Funding

What Can We Do?
Affordable Care Act Versus the Affordable Health Care Act

Tax Reform

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Federal Budget and Infrastructure Funding

What Can We Do?
Uninsured in the US Pre and Post ACA

Impact of the ACA

UNINSURED IN IL

- Pre-ACA: 1,913,160
- Post-ACA: 640,076

UNINSURED IN COOK COUNTY

- Pre-ACA: 906,654
- Post-ACA: 262,000

*Approximately 5% of Illinois/Cook County residents remain uninsured post-ACA

Source: Illinois Department of Public Health, Heartland Alliance Social Impact Center, Enroll America
Cook County Health and Hospitals Payor Mix

% Insurance Status of CCHHS Patients

Uninsured/ self pay  Insured

CCHHS PAYOR MIX 2013-2015

SELF-PAY  MEDICAID  MEDICARE  COMMERCIAL

2013 2014 2015

Uninsured self pay  Insured

Government Finance Officers Association of the United States and Canada
Impact of ACA Repeal on People

- National uninsured rate projected to increase from 9% to 21%

- 30 million Americans, including 1 million Illinoisans lose coverage, and likely care
  - 624,000 in Medicaid Expansion in IL
  - 350,000 in Marketplace in IL

- Regression of preventive/primary care efforts

- Elimination of benefits like comprehensive behavioral health coverage, pre-existing condition inclusion, etc.

Source: Urban Institute, Illinois Health and Hospital Association
Impact of ACA on Local Taxation

CCHHS Tax Allocation

Op. Tax Allocation for DPH and Correctional
Op. Tax Allocation for Hospital and Ambulatory

Government Finance Officers Association of the United States and Canada
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What Can We Do?
What will Ultimately Come of Tax Reform

- Elimination of municipal bond tax exemption has been discussed
  - Would materially affect the borrowing costs for state and local governments

- Elimination of deductibility of state and local taxes
  - Impacts constituents significantly

- Revenue neutral, or exacerbating federal deficits?
  - If as currently being discussed by the administration tax reform leads to significant revenue loss, offsetting program cuts can ultimately be expected

- Impacts on affordable housing and other tax credit programs based on reduced value of low income tax credits due to lower corporate tax rates

- Note: General view that personal income tax reform will be more challenging than corporate tax reform
And what about “Main-street fairness”? Still no action as impact on sales tax revenue grows…

Source: US Census Bureau
Online and Non-Taxable Sales Activity Growth at Expense of Taxable

National Retail Sales - Losses Due To Online Sales & Other Exclusions

Source: US Census Bureau
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Federal Budget and Infrastructure Funding

What Can We Do?
Trump Administration Continues to Suggest Withholding Federally Funded Program Revenues

- This matter will ultimately be decided in court

- San Francisco filed an initial suit in a manner that covers all local jurisdictions that may be construed as a “Sanctuary City or County”

- Additional jurisdictions have filed subsequent suits
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Federal Budget and Infrastructure Funding

What Can We Do?
Infrastructure Funding

- No firm proposal on infrastructure funding has emerged

- Considerable discussion of “Public Private Partnerships” (“P3’s) and tax credits for equity investments in public infrastructure
  - Such a structure is only relevant for a limited number of projects that are supported by user fees
  - Appear to be mistaking financing for funding, a common mistake with Build-Finance-Operate P3’s
  - For much of the nation’s public infrastructure this will be of not assistance

- Critical that GFOA members and other groups continue to advocate for the role of traditional tax-exempt bond financing and federal funding of infrastructure needs to truly address the breadth of need around the nation

- Tweet images of bond-funded projects: #builtbybonds
Federal Budget

- Significant proposed cuts to a number of key federal programs that support local governments including CDBG

- A significant tax cut as proposed would exacerbate the federal deficit and place further pressure in coming years

- Local governments need to remain vigilant regarding the specific impacts to their budgets and programs that affect constituents of the proposals

- No one knows better what this impact is than the Finance Officer for the governmental body
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Federal Budget and Infrastructure Funding

What Can We Do?
Need to advocate and inform our elected representatives

- Critical to analyze the impact of various proposals on the services we provide to our constituents

- No one will understand better than the finance officer what the impacts are

- Work with colleagues in the program areas to make sure the financial impacts are translated to service impact

- Educate our elected principals and in turn have them make their concerns known to elected federal representatives
  - Consider adoption of resolutions by governing board

- If we do not educate policy makers about the impacts we can not expect them to know how decisions affect their constituents

- Work with communications office on use of social and other media
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May 23, 2017
Denver, Colorado
David Parkhurst, NGA General Counsel
Governors Speak on Health Reform

“It is critical that any changes to Medicaid and the private health insurance market reflect states’ experience as major health care purchasers, regulators, and administrators who will be responsible for carrying out new reforms.”

January 24, 2017 NGA Letter to House Leadership on Healthcare
States and Locals - Online Sales Tax Collection

“Given these changes in technology and consumer sophistication, it is unwise to delay any longer a reconsideration of the Court’s holding in Quill...The legal system should find an appropriate case for this Court to reexamine Quill and Bellas Hess.”

Governors Speak on Public Finance

3.1 Preamble
Governors support the preservation of public financing - notably tax-exempt financing ... By lending money through the purchase of state and locally issued bonds, investors help provide market validation for those projects.

3.2.1 State Authority over Financial Services
No federal law or regulation should preempt, limit, or interfere with the ability of the states granted under the U.S. Constitution or current federal laws to develop and operate their own revenue and tax systems.

3.2.2 Public Finance
Federal statutory and regulatory policies should not either increase issuance costs to states and local governments, directly or indirectly, or diminish retail and institutional market demand for bonds issued by states and local governments.
Contact

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Questions?