Hearing on Tax Tools to Help Local Governments

HEARING

BEFORE THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS

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COMMITTEE ON WAYS AND MEANS
Subcommittee on Select Revenue Measures
Hearing on Tax Tools to Help Local Governments
Thursday, March 11, 2021
Witness List

The Honorable Stephen K. Benjamin, Mayor, Columbia, South Carolina

Kevin Boyce, Franklin County Board of Commissioners, Chairman of the Finance, Pensions and Intergovernmental Affairs Steering Committee, National Association of Counties.

Elizabeth Reich, Chief Financial Officer, City of Dallas

Randy Howard, General Manager, Northern California Power Agency

Michael Hendrix, Director of State and Local Policy at Manhattan Institute

HOUSE COMMITTEE ON WAYS & MEANS
CHAIRMAN RICHARD E. NEAL

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SELECT REVENUE MEASURES

FOR IMMEDIATE RELEASE CONTACT: (202) 225-3625
March 4, 2021
No. SRM-1

Chairman Thompson Announces Select Revenue Measures Subcommittee Hearing on Tax Tools to Help Local Governments

House Ways and Means Select Revenue Measures Subcommittee Chairman Mike Thompson announced today that the Subcommittee will hold a hearing on "Tax Tools to Help Local Governments" on Thursday, March 11, 2021 at 2:00 p.m EST.

This hearing will take place remotely via Cisco WebEx video conferencing. Members of the public may view the hearing via live webcast available at www.waysandmeans.house.gov. The webcast will not be available until the hearing starts.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMdem.submission@mail.house.gov.

Please ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, by the close of business on Thursday, March 25, 2021.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

ACCOMMODATIONS:

The Committee seeks to make its events accessible to persons with disabilities. If you require special accommodations, please call (202) 225-3625 in advance of the event (four business days' notice is requested). Questions regarding special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories are available [here].

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Chairman Thompson. Good afternoon, and welcome to everyone. Thank you for joining us today. We are holding this hearing virtually, in compliance with the regulations for remote committee proceedings pursuant to House Resolution No. 8. This is the first official virtual hearing of the Select Revenues Measures Subcommittee in this Congress.

As with our previous hearings, I want members to know that I plan to continue our subcommittee's long tradition of collegiality and substantive debate, even as we are conducting our business from afar. As in the previous Congress, I will continue to work with the ranking member and his staff to ensure that the rights of all members are respected in this virtual format.

And so before we turn to today's important topic, I want to remind members of a few procedures to help you navigate this platform.

First, consistent with regulations, the committee will keep microphones muted to limit background noise. Members are responsible for unmuting themselves when they seek recognition or when recognized for their 5 minutes.

Second, members and witnesses must have their cameras on when they are present for the hearing. If you need to step away from the proceedings, please turn off your camera and your audio rather than logging out.

Third, we have members who are waiving on to the subcommittee for today's hearing, and I will recognize subcommittee members on a bipartisan basis in order of seniority, followed by off-subcommittee members in order of seniority, for your questions for our witnesses.

And, finally, in the event that I have technical difficulties or need to step away, Congresswoman Sewell will take over as chair until I return.

And with that, I will now turn to the topic of today's hearing.

As we pass the 1-year mark of this pandemic, we have a lot to be hopeful for. Millions of vaccine doses are being administered every day, and restaurants and other service-oriented business are slowly starting to welcome back their employees and their guests.

City and county governments have shouldered many of the unanticipated costs associated with the coronavirus pandemic. While their revenues have plummeted, the need for essential services has skyrocketed, and cities and States have delivered. But now, they face challenges keeping up with planned investments, no matter how cost effective they are.

A big investment in our Nation's infrastructure has been necessary for years, long before the pandemic struck. And while we are not out of the woods yet, we must now turn our attention to jump-starting the economy and getting everyone back to work.

We in the Federal Government have a unique opportunity. Substantial investments in our Nation's infrastructure will spur economic growth and uplift our workers and their families. For too long, our most utilized public goods have gone without much needed improvements, compromising both the safety and the security of our communities.

Last year, the House passed the Moving Forward Act, which included unprecedented investments in local infrastructure and clean energy, investments delivered through mechanisms developed by this very Subcommittee. We know that when we invest in our cities and our counties, we are investing in families and workers, all while putting our economy and our country on a path towards zero -- net-zero carbon emissions, making communities and roads safer, and addressing longstanding racial and economic disparities.

Some of the most useful mechanisms available to us within the Ways and Means Committee's jurisdiction exists in the municipal bond space. For example, the Moving Forward Act brought back tax-exempt advance refunding bonds to allow city and State governments to take advantage of low interest rates and free up needed resources.

Additionally, this legislation helps municipalities afford important infrastructure improvements by increasing the threshold for bank-qualified bonds, allowing smaller municipal bond insurers access to low-cost capital.

And last but not least, this legislation reinstates the Build America Bonds bigger and better than before to provide municipal insurers a powerful tool to finance additional infrastructure investments.

And as I previously mentioned, the Moving Forward Act includes the GREEN Act and historic investment in clean energy that I am proud to have worked on with all of the Democratic members of our committee. In addition to expanding tax incentives for clean energy development, we established a direct-pay provision which will allow tax-exempt organizations, such as local governments and public power entities, to access these credits in a way they previously could not.

The bill also includes incentives to make it easier for local agencies to afford zero-emission transportation options and energy-efficient buildings.

In this Congress, it is my hope that we can expand on the Moving Forward Act to meet the moment and tackle the infrastructure and climate change challenges facing our country and the world, all while creating jobs and spurring economic recovery. Our local government partners will be critical to both of those efforts.

And with that, I will recognize the ranking member, Mr. Smith of Nebraska, for the purposes of an opening statement.

Mr. Smith, you are recognized.

[The statement of Chairman Thompson follows:]

Mr. Smith. Thank you, Mr. Chairman. I appreciate the opportunity to have this discussion.

Certainly, thank you to our witnesses as well for sharing your insight.

The topic of the hearing, "Tax Tools to Help Local Governments," is obviously a very broad topic, and I do think there are areas where we can agree. We agree that we need to do more to invest in our infrastructure, fixing and maintaining what we have and building what we need.

However, our role in this space, I do have to say, is somewhat limited. And it is vital our colleagues on T&I and other authorizing committees make necessary reforms to permitting and other project rules to ensure we continue protecting our environment, while eliminating roadblocks which unnecessarily cost communities time and money.

Infrastructure is more than just our roads and bridges. It is rail, pipelines, and power lines to provide energy; the reach and capacity of broadband to serve every American; and the canals, tunnels, and ditches which move water to communities that need it, just to name a few.

We agree the Tax Code can be a valuable tool in supporting infrastructure. When we enacted the Tax Cuts and Jobs Act, we intentionally kept the tax exemption from municipal bonds in the Tax Code because we agree on their importance to helping communities meet their basic infrastructure needs.

While TCJA rolled back advance refunding of bonds, I would welcome a discussion of ways we could help States and localities reduce the burden of financing, including a smarter approach to advance refunding that avoids stacking of loans and trims the cost to the Federal taxpayer.

There is also bipartisan support for economic development provisions referenced by some of our witnesses, like the new markets tax credit, and for opportunity zones.

However, rather than merely extending those provisions, we believe we should first work to ensure those programs are working as intended.

Getting our economy back up and running should be a bipartisan goal and will create the most benefit to States and cities attempting to get their budgets in order. The national unemployment rate of 6.2 percent is still far too high, and we should be ensuring workers reconnecting with employers is a top priority as our economy continues to reopen.

I should also note that there are areas where we clearly do not agree, such as repealing the SALT cap. However, rather than focusing on longstanding policy disagreements, I would like to think of this hearing as an opportunity to focus on how we can better work together on areas where we may disagree.

First, I sincerely hope, Mr. Chairman, that this -- of you -- this hearing is the beginning of a bipartisan conversation on helping communities and building an economy that benefits all Americans. While today's witnesses ostensibly cover the spectrum of cities, counties, and local officials, they also represent larger urban and suburban communities with different needs than rural areas.

Columbia, South Carolina, for example, I believe, has a population of more than 130,000; Dallas has a population of 1.3 million; Franklin County, Ohio, has a population of 1.3 million; and in his testimony, Commissioner Boyce refers to a county in New York of 467,000, actually, as a small county. That might be small for New York, and I can appreciate that, but let me tell you, in my district alone, I have 75 counties just in the Third Congressional District of Nebraska, and none of them are even one-eighth the size of that small county in New York.

And, Mr. Chairman, I think we can make step two in this conversation actually a second hearing on tools to help local governments where we can provide smaller and rural communities, such as Lake County, California, or Red Cloud, Nebraska, Central Washington

State, or Central Illinois, a chance to make their real rural infrastructure and funding concerns heard. If you would like to actually have that hearing next week, I would be willing to work with you to expedite that, including with our members to even waive the 7-day rule.

Second, rather than rushing through another bipar- -- or another partisan package, I should say, let's have a constructive bipartisan conversation about our ideas and how to move forward. We stand ready to share our ideas about funding infrastructure, accessing alternative fuels and energy sources, and with the two most obvious ways to improve State and local revenues, returning to a strong pre-COVID economy and getting American families and small businesses back to work so they can again contribute as State and local taxpayers.

I sincerely hope we can work together on these issues, and I do yield back my time, Mr. Chairman. I look forward to further discussion. Thank you.

[The statement of Mr. Smith follows:]

Chairman Thompson. Thank you, Mr. Smith. And know that not only myself, but there are a number of members on our side of the aisle in the committee who have strong interest in our rural communities and represent some of those rural communities. So your willingness to work in a bipartisan manner with us on these issues is appreciated and will not go unnoticed. So I look forward to following up on this, so thank you very much.

Without objection, all members' opening statements will be made part of the record.

So let's move on to our great list of witnesses, notwithstanding the fact that some of them may live in larger areas. We have some great witnesses today, and I will introduce them and then we will hear from them.

The first two witnesses, I have got to tell you, I got a phone call on them today from our colleague, Congresswoman Beatty, who let me know that these were not only great people who had a lot of great information to share, but they were also both her personal friends. So thank you both for coming.

First, the Honorable Stephen Benjamin, the mayor of Columbia, South Carolina. Mayor Benjamin previously practiced law in Columbia where municipal finance and bond work, and was an executive at the Carolina Power & Light Company. He is a former president of the U.S. Conference of Mayors, executive chairman of Municipal Bonds for America, and co-chair of the Mayors for 100 Percent Clean Energy Campaign.

Next, Commissioner Kevin Boyce serves on the Franklin, Ohio, County Board of Commissioners, the former treasurer of the State of Ohio. He is also the chairman of the Finance, Pensions, and Intergovernmental Affairs Steering Committee of the National Association of Counties.

Elizabeth Reich is the chief financial officer for the city of Dallas. Prior to joining the city, Ms. Reich enjoyed a 16-year career with the Social Security Administration, including serving as its chief financial officer in 2015.

Randy Howard is the general manager of the Northern California Power Agency. Prior to his work at the NCPA, he served for 27 years at the Los Angeles Department of Water and Power. And I certainly hope that he gave up his loyalty to the Dodgers when he moved up to California.

Finally, Michael Hendrix is the director of State and Local Policy at the Manhattan Institute. Previously, he served as senior director for research and emerging issues at the U.S. Chamber of Commerce Foundation.

Now, each of your statements will be made part of the record in its entirety. I would ask that you summarize your testimony in 5 minutes or less, and to help you with the time, please keep an eye on the clock that should already be pinned to your screen. If you do go over your time, I will notify you with a tap of the gavel or some kind of noise that will be unmistakable.

So thank you again for being here, and we will start with Mayor Benjamin.

Mayor Benjamin, you are recognized for 5 minutes.

STATEMENT OF THE HONORABLE STEPHEN K. BENJAMIN, MAYOR, COLUMBIA, SOUTH CAROLINA

Mr. <u>Benjamin.</u> Thank you so much.

Good afternoon, everyone. Mr. Chairman, please give my regards to Chairwoman Beatty as well.

I am Steve Benjamin. I am the mayor of Columbia, South Carolina, and past president of the U.S. Conference of Mayors.

I want to start by saying thank you, Chairman Thompson, Ranking Member Smith, for holding this hearing. And it is good to see so many friends, Representative Sewell, friends of local government, some of you I know who served in this space, and also, of course, to see a friend and a son of South Carolina, Representative Rice. Thank you, Representative.

We appreciate the opportunity to share the concerns about the fiscal challenges facing local governments, what we have encountered during the past year in response to the COVID-19 pandemic, and how Federal tax policies can be improved to provide better support for our communities.

I would be remiss if I didn't also extend our sincere thanks to all of you for the passage of the American Rescue Plan. This is a great victory for the American people and for State and local governments. We know there was significant, overwhelming bipartisan support across the country. We hope that we will see, over the next several months, a great focus on passing the second part of the President's economic plan, the Build Back Better plan. All the challenges facing us have required a bold response, and we are thankful for your leadership.

I have, indeed, as the chairman indicated, submitted my full written testimony for the record. In the next very few minutes, I am going to briefly summarize some of our key concerns and recommendations.

Very first, we would urge Congress to enact Federal legislation that promotes green infrastructure. As mayors, we believe investing in the Nation's infrastructure can play a critical role in our Nation's economic recovery and putting people back to work. While investment is desperately needed to maintain, replace, and expand the Nation's infrastructure, we also see the need to green that infrastructure with an eye on building more resilient and lower carbon infrastructure options.

Secondly, we would call on you to invest more in transportation infrastructure. Federal underinvestment in airports, bridges, roads, ports, transit systems and other facilities have resulted in additional deterioration or delayed maintenance, which translates into huge losses for local taxpayers, which hurts, of course, our economic growth and makes some of our infrastructure unsafe.

Although many cities have taken bold steps to increase local government and regional commitments to transportation, we believe it is time now for the administration and Congress to invest more in these networks as well as partner with, incentivize, or reward cities for taking action.

We feel strongly about reinstating the tax exemption for advance refunding of municipal bonds. As you develop and consider an infrastructure recovery proposal, we encourage you obviously to maintain the tax-exempt status of municipal bonds and pass legislation that also reinstates the tax exemption for advance refunding of muni bonds.

According to a recent report, there were over 12,000 tax-exempt refunding issuances between 2007 and 2017, which generated over $18 billion in savings for local taxpayers and ratepayers. These savings obviously free up much needed capital for local governments to invest in critical infrastructure. Bipartisan legislation, we know, has been introduced in both Chambers to reinstate the exemption, and we urge all members to support it.

I also understand the subcommittee is looking at another round of Build America Bonds or something similar. I want to be very clear, we consider tax credit bonds and direct subsidy bonds to be an excellent complement to traditional tax-exempt municipal bonds. They will be a poor replacement but an excellent complement for many reasons that are mentioned in my full testimony.

We feel strongly that we should repeal the cap on SALT deductions. The $10,000 cap on Federal income tax deductions for State and local taxes, which went into effect following the Tax Cut and Jobs Act for 2017, has caused some challenges. Again, bipartisan legislation has been introduced to repeal the cap with, I believe, over 100 cosponsors. We urge the Members of Congress to immediately repeal the cap, which we believe subjects many of our citizens to double taxation and increases taxes on middle-class families.

We see there has been some movement on permanently extending the new market tax credits programs. We would urge Congress to permanently extend the program which stimulates economic growth and investment in low-income neighborhoods and rural communities, creates jobs and sustains healthy local economies.

Lastly, we would urge the reauthorization of the Energy Efficiency and Conservation Block Grant Program. It has been another important tool that helps provide direct funding, of course, for all cities with populations of 35,000 or more. Grants can be used to improve energy efficiency in all sectors of the local economy and provide for a wide variety of activities, allowing flexibility to fund projects and programs that best address local needs and, of course, with various needs for different types of size communities. Bipartisan legislation has been introduced, and we urge you to support it.

Mr. Chairman, that ends my summary. Thank you very much for the opportunity to testify on behalf of the Nation's mayors. I would be delighted at the appropriate time to answer any questions you and the other members may have. Thank you.

[The statement of Mr. Benjamin follows:]

Chairman Thompson. Thank you, Mayor Benjamin.

Mr. Boyce, you may proceed. You are recognized for 5 minutes.

STATEMENT OF THE HONORABLE KEVIN BOYCE, FRANKLIN COUNTY BOARD OF COMMISSIONERS, CHAIRMAN OF THE FINANCE, PENSIONS AND INTERGOVERNMENTAL AFFAIRS STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES

Mr. Boyce. Thank you, Mr. Chairman Thompson and Ranking Member Smith, for inviting me to testify today before the Ways and Means Select Revenue Measures Subcommittee. My name is Kevin Boyce, and I am president of the Franklin County, Ohio, Board of Commissioners.

As you so rightly stated, Representative Smith, Franklin County is Ohio's largest county at just a little over 1.3 million residents. But I am here today representing the National Association of Counties.

Since the onset of the coronavirus pandemic, counties have served on the front lines. We support over 1,900 local public health departments, nearly 1,000 hospitals and critical access clinics, more than 800 long-term care facilities, and 750 behavioral health centers. We are also responsible for emergency operation centers and 911 services, protective services for children, seniors, veterans and many others.

But I am here today to underscore the importance of including counties in the Federal discussions to strengthen our Nation's ongoing response to the COVID-19 pandemic and achieve our mutual goals of preserving the health and safety of our residents and communities, and most importantly, drive our economic economy recovery.

I would like to begin by expressing, on behalf of the over 3,000 counties across America, our appreciation for your work in the passage of the American Rescue Plan, which provides counties of all sizes resources needed to support our services.

As the pressing challenges and needs continue to outstrip our depleted local resources during this unprecedented national emergency, this bill recognizes counties' vast responsibility to care for our most vulnerable residents: our sick, our unemployed, elderly, and youth.

Each year, county governments annually invest $263 billion into our economy and employ 1.5 million health and public safety workers out of a total of 3.6 million individuals. In fact, every dollar in local government aid is at least $1 in GDP growth.

NACo research estimates that the COVID-19 pandemic could have a $202 billion budgetary impact on counties of all sizes through fiscal year 2021 from a large increase in COVID-related expenditures and lost county generated revenue.

While counties face record demand for essential services, we have shed jobs at a rate outpacing the rest of the economy. Even as the Nation's economy inches towards recovery, 1 in every 10 jobs yet to be recovered is from local governments. The American Rescue Plan advances us on the road to recovery, honors our frontline heroes, and equips us to help end the pandemic and drive the great recovery.

While the American Rescue Plan offers vital relief to local governments, there are additional tools that our Federal partners can leverage to further help local governments address budgetary challenges, stagnant revenue pools, and unfunded State and Federal mandates.

Beyond delivering essential public health and human services, as you know, counties also provide critical infrastructure and services to support and to care for our citizens. For example, municipal bonds and other Federal financing tools are a key source for funding for counties, which will help us combat the COVID-19 pandemic.

But I am here today on behalf of America's counties to offer you the following recommendations as our Federal partners.

First, continue to protect the tax-exempt status of municipal bonds. Tax-exempt municipal bonds have been a fundamental feature of the United States Tax Code since 1913, and remain a primary method of States and local governments to fund public infrastructure projects, including our roads, bridges, schools, hospitals, water and much, much more. Any changes to their tax-exempt status would drive up cost of financing these critical infrastructures for both counties and taxpayers.

Second, restore the tax exemption of advance refunding. As counties continue to experience the detrimental financial impacts of addressing the health and economic emergencies, restoring our ability to advance refund tax-exempt municipal bonds would lower borrowing cost and optimize our stewardship of taxpayer resources. Further reinstating advance tax refunding of municipal bonds would improve our State and local's ability to invest in critical infrastructure projects.

Third, fully restore the State and local tax deduction. I think Mayor Benjamin talked about that, so I will skip that one.

And, fourth, support counties by increasing the bank-qualified limit from $10 million to $30 million. I know Mayor Benjamin mentioned that as well.

Fifth, provide a permanent fix for our Highway Trust Fund. In order to plan and execute both large- and small-scale transportation infrastructure projects that are critical to moving countless amounts of people and goods across the Nation, a permanent fix for our Highway Trust Fund is needed.

Moving forward, counties support coordinating a strong Federal, State, and local framework that ensures Federal resources are invested appropriately with strategic focus of the COVID-19 pandemic.

Mr. Chairman, thank you so much for giving me the opportunity to testify today.

And at this time, I take any questions the committee may have.

[The statement of Mr. Boyce follows:]

Chairman Thompson. Commissioner, thank you very much for your testimony.

Ms. Reich, you are recognized for 5 minutes.

STATEMENT OF ELIZABETH REICH, CHIEF FINANCIAL OFFICER, CITY OF DALLAS

Ms. Reich. Thank you.

Chairman Thompson, Ranking Member Smith, distinguished members of the committee, thank you for holding today's hearing on tax tools to help local governments. My name is Elizabeth Reich. I am the chief financial officer for the city of Dallas, Texas. My remarks today represent both Dallas and over 21,000 members of the Government Finance Officers Association. GFOA is dedicated to the professional management of governmental financial resources, including issues related to issuing tax-exempt bonds.

Our system of federalism requires a strong Federal, State, and local partnership to achieve our shared goals. A prime example of that Federal partnership is the tax-exempt municipal bond. I am here today to urge Congress to not only protect this vital tool, but also to consider adopting provisions to further enhance its effectiveness.

Providing infrastructure in our communities is a national priority, and it is a shared goal for State and local governments. And over time, the tax-exempt bonds issued by State and local governments and nonprofit entities have financed over three-quarters of the Nation's infrastructure.

The city of Dallas has financed streets and transportation, flood protection and storm drainage, parks, libraries, police facilities, cultural arts facilities, and other critical projects. The Federal tax exemption reduces the cost of issuing municipal bonds, but it is the combination of local control and local responsibility that makes municipal bonds work.

Voters throughout the country overwhelmingly support tax-exempt municipal bonds through bond referenda. In Texas, voters must directly approve all general obligation bonds, and Dallas has a process in place that maximizes community input as we develop bond propositions.

In Dallas, voters have authorized $3.6 billion in general obligation bonds for public projects over the last 16 years. For over a century, this local tool has worked to our mutual advantage in enhancing livable communities. Congress' efforts to protect the tax exemption are important and needed.

In recent years, we especially applaud the efforts of the bipartisan House Municipal Finance Caucus, including several members of this committee. The support for tax-exempt municipal bonds is bipartisan, bicameral, and very strong, but we still need additional Federal policy assistance to move the infrastructure needle at the State and local levels significantly.

In the next legislative package addressing infrastructure, we urge Congress to include the following.

First, we ask you to restore the advance refunding of tax-exempt bonds. Restoring the ability to advance refund tax-exempt municipal bonds would free up billions of dollars that governments and nonprofits could spend on other immediate projects.

As the mayor mentioned, GFOA research shows that between 2007 and 2017, there were over 12,000 tax-exempt refundings nationwide, generating over $18 billion in savings for tax and ratepayers. Restoring tax-exempt advance refunding would be of immense help for planning and budgeting purposes for the city of Dallas and other communities, especially now as we navigate the COVID-19 pandemic.

Second, we ask you to increase access to capital for small borrowers. For many thousands of small issuers and governmental and nonprofit borrowers, increasing the bank-qualified borrowing limit from $10 million to $30 million and having it apply at the borrower level would provide access to low-cost capital.

Bank-qualified bond issuers save between 25 and 40 basis points on average. This is substantial savings for our Nation's smaller governments, which can be used to maintain and improve valuable community services and finance other much needed capital improvement projects.

Third, we ask you to restore and expand the use of direct-pay bonds with specific attention to protecting the subsidy from sequestration. In prior years, Congress authorized governments to issue taxable direct subsidy bonds. We appreciate the committee's attention to sequestration provisions in H.R. 2 in the 116th Congress.

In the past, sequestration ate into subsidies for Build America Bonds, creating midyear budget difficulties for many cities, including Dallas. Your continued attention to definitive protections from sequestration is necessary when considering the restoration of direct subsidy bonds.

On behalf of GFOA members across the country, I want to emphasize that together with traditional tax-exempt bonds, direct subsidy bonds would create an investment option available to global investors while financing local projects that enhance our communities.

My comments today are reflective of an appreciation of the Federal Government to honor a commitment to local decision-making for local infrastructure. Municipal bonds make that happen.

Thank you for your consideration of these important initiatives and for holding the hearing today.

[The statement of Ms. Reich follows:]

Chairman Thompson. Thank you, Ms. Reich. Appreciate your testimony.

Mr. Howard, you are recognized for 5 minutes.

STATEMENT OF RANDY HOWARD, GENERAL MANAGER, NORTHERN CALIFORNIA POWER AGENCY

Mr. Howard. Good afternoon, Chairman Thompson, Ranking Member Smith, and members of the subcommittee. I am testifying today on behalf of Northern California Power Agency and the American Public Power Association.

Thank you for this opportunity to discuss the operational and economic effects that Federal tax policy can have on NCPA specifically and publicly-owned electric utilities generally. We appreciate you and your fellow committee members from both sides of the aisle for the work you have done tackling the issues I will discuss today.

NCPA consists of 16 community-owned electric utility members representing about 700,000 utility customers. These utilities are large and small, rural and urban. Through the creation of NCPA, they have banded together to build and deliver a variety of diverse and clean generation resources to their customers.

The American Public Power Association represents the Nation's more than 2,000 not-for-profit community-owned electric power utilities. APPA serves more than 49 million Americans. Our business is to keep the lights on 24 hours a day, 365 days a year, with the least impact to the environment and as affordable to our customers as possible.

We continue to see increasing challenges to these critical operating principles. To address these challenges, we believe energy-related Federal tax incentives should be made more broadly and equitably available to governmental entities. We also believe that the

Tax Code's treatment of tax-exempt municipal bonds could be improved to make it more efficient. Combined, these changes are critical to any Build Back Better initiative.

On bonds, I would echo the comments of my fellow panelists in support of a bond modernization agenda, including reinstating tax-exempt advance refunding bonds, increasing a smaller issuer exception, and restoring and expanding the use of direct-pay bonds, including protecting direct payment bonds from budget sequestration.

We are also glad to see bipartisan interest from the subcommittee in improving energy tax incentives. As explained by the Joint Committee on Taxation, the investment tax credits and production tax credits for energy projects are effectively Federal expenditures. However, because these expenditures are administered through the Tax Code, tax-exempt entities, including public power utilities, can only indirectly benefit.

Generally, we do so by entering into long-term power purchase agreements with taxable entities that can claim these tax credits where we cannot. The transaction costs and the complexity of power purchase agreements can be quite high. Additionally, only a portion of the value of this tax credit is generally passed on to the purchaser, thus muting the incentive benefits to tens of millions of consumers.

Finally, as community-owned utilities, we often prefer to own and operate our own resources to assure there is a future cost certainty and the energy supply reliability. So, nearly 30 percent of all electric power customers are served by tax-exempt entities. The goal these utilities have in building stronger and more resilient electric grids, while reducing emissions, is equally shared across the entire electric utility sector.

However, the Nation cannot equitably nor efficiently get to more diverse and emission-free grids with incentives that discriminate against 30 percent of this Nation's electric utilities and their consumers. The GREEN Act tackles this issue by making energy tax credits refundable. This would give public power utilities and other State and local entities and others with little or no tax liability comparable incentives to make these investments. We strongly support this approach. Making the PTC and the ITC refundable will avoid complex and costly alternatives.

Moreover, encouraging cities and towns to build and own their generation means local projects under local control with local jobs. For example, NCPA's member, the community of Healdsburg, recently completed the largest floating solar project in the country at its water treatment facility. However, it had to use this power purchase agreement allowing a third-party lease on its ponds and operational access to this critical community infrastructure to get access.

This innovative project, though, will provide 8 percent of the community's power needs. It will be a key component of the local grid resiliency needed in this high wildfire-prone community. With a comparable incentive, the city of Healdsburg would have developed and owned this project directly.

Lastly, a key challenge for tax-based energy incentives is spreading their benefit equitably. Enacting a refundable tax credit for energy investments as envisioned in the GREEN Act is a critical step to building back better. Ensuring that the benefits of clean, renewable energy are equally accessible to public power communities as our systems support the local, State, and national calls for clean energy at the same time ensures equitable access for Federal energy incentives and the goals of the GREEN Act.

In conclusion, I would like to again thank the members of the subcommittee for their work and support of comparable tax incentives and bond modernization, and would be happy to answer any questions you might have. Thank you.

[The statement of Mr. Howard follows:]

Chairman Thompson. Thank you very much, Mr. Howard.

Mr. Hendrix, you are recognized for 5 minutes.

STATEMENT OF MICHAEL HENDRIX, DIRECTOR OF STATE AND LOCAL POLICY AT MANHATTAN INSTITUTE

Mr. Hendrix. Chairman Thompson, Ranking Member Smith, members of the subcommittee, thank you for inviting me to participate in today's hearing. I am Michael Hendrix, director of State and Local Policy at the Manhattan Institute. And along with my colleagues, we seek to advance freedom and opportunity across America's communities.

My key message today is this: Congress should focus on targeted support to fight the pandemic of COVID-19 and its direct impact on budgets, while helping State and local governments to rebuild and get their economies back on track. Rather than papering over long-term budget problems or underinvesting in public health, we should prioritize what our infrastructure and our communities actually need and do so transparently and wisely.

It is absolutely true that COVID-19 has devastated the lives and livelihoods of many Americans, and their communities have not been spared this fiscal pain. States and localities at first faced large budgetary shortfalls as their economies locked down and public health costs soared. Indeed, many places would still be facing this fiscal plight were it not for the Federal Government's unprecedented levels of aid, resilient consumer spending, and strong employment.

While America's real GDP fell in 2020, State and local tax receipts actually more or less increased once -- when you add in Federal aid revenues, actually grew. And as costs from fighting the pandemic also grew and layoffs loomed, Congress rightly stepped up to help.

Yet even without Federal aid, some 21 States saw their tax receipts grow over the past year. As the Associated Press reported earlier this year, California is, again, swimming in money, and that is a quote. Of course, not every State has avoided seeing red. In total, some 26 States saw their tax revenues decline in the first 10 months of 2020, and our cities and counties also represent the equally mixed picture.

But one thing we know is true, Federal aid to States and localities rose an astonishing 42 percent over the past year. State and local governments collected more revenue in 2020 than at any point in American history. This Federal support was crisis aid and not a bailout, just funding to crush the virus and to safely reopen the economy, help Americans in need, and get us back on track. We should continue that kind of focus.

Where many places need help now is in investing in their future and the infrastructure and growth of communities across America. Federal grants to State and local governments have, in fact, already increased enormously over the past 20 years, but mostly due to Medicare. Going back even further to the 1980s, Federal grants for States and localities have de-emphasized dollars to build public highways or support communities.

So there are three opportunities, I believe, for how Federal Governments -- at least three opportunities for how they can help States and localities gain their resources and revenue they need to invest. First, in rebuilding America's infrastructure; second, in restoring this country's distressed communities; and third, in encouraging better transparency and accountability.

We should allow innovative approaches to State and local financing, as well as lower tax bills. But Federal lawmakers should be quick -- should be careful to avoid quick fixes and ensure that these measures don't result in needless waste, complication, or micromanagement. The most important role for the Federal Government should be in cutting red tape around infrastructure so that we can fix what is broken and fix it fast, while avoiding throwing good money after bad projects.

The private funding and wherewithal is there to achieve many of these aims. It should be Washington's job to get out of the way. With interest rates at historic lows, it should be -- the private market has been eager to get back in the game and to support State and local bond issuances and favorable terms, all without the need for overly generous Federal subsidies.

For most States and localities, if they need to invest in infrastructure, the private sector is generally ready to help finance it, so we should look for smart ways for them to help get access to these dollars. So too for restoring America's communities. Opportunity zones represent vital support for helping distressed communities grow nationwide, and we can support their growth by developing strong impact in reporting measures. Congress can help on that front.

States and localities should also be required to be more transparent when issuing municipal bonds. At present, jurisdictions do not have to disclose information to investors when they sell these securities. Transparency allows investors in the public to better hold government accountable and the public sector to have greater encouragement for fiscal responsibility.

These are, again, just a few of the examples of how lawmakers can provide sensible, targeted support to America's States and localities. As Americans, we should care greatly about the health of our local budgets, especially now during this pandemic. That is why we should remain focused on curbing this virus and safely reopening the economy, and in so doing, our smart and successful cities can lead the way back.

Thank you very much.

[The statement of Mr. Hendrix follows:]

Chairman Thompson. Thank you very much for your testimony.

And, without objection, each member will now be recognized for 5 minutes to question our witnesses. We will not observe the Gibbons rule in this remote setting, and will instead go in order of seniority, switching between majority and minority members. Members are reminded to unmute yourselves when you are recognized for your 5 minutes.

And I am going to ask one really quick question and then I am going to give up the rest of my time, because I know, with the early votes today, there is people trying to get on airplanes.

But, Mr. Howard, I would like to ask you a question. I have had unprecedented natural disasters in the way of fires in my district over the course of the last 5 years, and this has been a very real human and economic loss caused by these fires, and it is of particular interest to me. And fires can have devastating impacts on the provision of power to our communities as well. Mr. Howard, do you have any suggestions or recommendations on tax policies that can help make our local communities more resilient to disruption?

Mr. Howard. Mr. Chair, I do. And as you might well know, NCPA has been impacted the last 5 years. Our employees have been displaced from their homes. Five of my employees lost everything in the fires in Middletown. So, we have the geothermal power plants up there as well, and we are continuing to build to be stronger, hardening our system, being more resilient.

What the city of Healdsburg was doing is trying to be more resilient, having local generation within its immediate community instead of relying on transmission lines that come from a long distance and being impacted and shut off because of fire risk or actual fires underneath those transmission lines. I think more of our communities are going to have to invest directly in those communities for some of the resiliency that is necessary to keep the fire department operational, the police department operational, and the hospitals and healthcare facilities.

As we know, just north, in Ukiah, Ukiah is looking at opportunities where they might be able to partner in a biomass plant with the local lumber mill in order to have some resiliency in that community, and that mill has excess wood waste. I would like to see that biomass be added to one of the provisions here that could be eligible, because I think it is critical for those of us on the West Coast or in the West that are dealing with these wildfires. We have to get this dead wood waste out of our forest. We need to find useful purposes, and using it for biomass provides that purpose, but also can add resiliency to some of these communities most impacted by these wildfires.

Chairman Thompson. Thank you very much. It is very costly to clean up all of the material that is out across both, not just the public lands, but the private lands. As you know, it was private lands where our fires were started, and there needs to be a lot of incentive provided to get those things cleaned up.

Mr. Smith, I am going to yield to you for questions for 5 minutes.

Mr. Smith. Okay. Thank you very much.

And, again, I want to thank our witnesses here today. Obviously, I raised my concerns about perhaps a rural perspective. Let me say that America functions, I think, well because of local government. And I proudly acknowledge that I served on city council a few years back. The total population of the whole city council, not just my ward, but the whole city population, was 8,000, and there are a lot of communities like that across America.

I was on a call earlier today. I heard from a farmer, a wheat farmer. I think he hails from a county maybe 6,000 or 7,000 total population for the county. In Nebraska, that might even be considered by some to be a medium-size county. They get a lot smaller than that actually. But he raised a concern today with the President's executive order, the 30-by-30 executive order about so-called protecting 30 percent of the land and 30 percent of America's oceans.

I am just wondering, Commissioner Boyce, or certainly our mayor here, Mayor Benjamin, have your organizations -- did the President consult with your organizations before he signed this executive order? And have your organizations analyzed the impact of what it would be like for acres and acres and acres of property to quit paying property tax in many cases? I think that is a financial and a fiscal issue that certainly merits significant discussion. Did the President weigh in with your organizations before he signed that executive order?

Commissioner Boyce?

Mr. Boyce. Thank you for that question, Ranking Member Smith. You know, I am not aware of the President communicating with NACo directly. However, I will say this, in my 5 years being related to NACo, what I do know is that there has been, particularly in the last several months, a very good open door of communication with the White House and our counties.

In Franklin County, I know for sure, my Congresswoman happens to be Congresswoman Beatty, who is chair of the CBC, I feel like we have had even more extensive access to some of the policy conversations coming out of Washington of lately. And so I don't know the answer for sure. I do know, generally speaking, there has been a very good range of communication.

Mr. Smith. Okay. I appreciate that. I would encourage you to do an analysis of what a project like the President is wanting to mandate, through executive order, incidentally.

Mayor Benjamin, I guess, acres of open space probably doesn't apply as much to your organization, but I would think that removing property from the tax rolls -- would removing property from the tax roles impact your budget?

Mr. Benjamin. They always like property on the tax roles, and I will submit that, although the last 11 years, we haven't raised property taxes on our taxpayers here in Columbia.

This obviously is more of a county issue, and certainly a district as expansive as yours is, Representative Smith, I understand the concerns here. I will tell you, we do have robust communication with the administration. It is something that has been incredibly strong over the last several months, and I will make sure you get a written answer back to your question.

I will say, the issue of -- obviously around protecting our natural resources and biodiversity is something that is important to us. We felt that, as watching the question in this world come together that we are discussing right now, we saw in 2015 a 1,000-year flood where 11 trillion gallons of water poured down in the Carolinas. We saw billions of dollars worth of damage, lost 19 precious lives, 45 dams popped, and put us into an amazingly challenging situation, which we then turned around and unanimously, a bipartisan vote of our council unanimously authorized the very first stand-alone storm water green bond in the country utilizing the municipal --

Mr. Smith. Yeah, I get that. Yeah, right. I think it is important to be good stewards of our environment. I think we are called to do that. I happen to think that that is probably better done, as many things are, at the local level, because I do trust our local officials. And protection of natural resources doesn't just need to come through from the Federal Government.

But, Mr. Hendrix, in your testimony, you talked about the transparency in municipal bonds. Would you like to further elaborate on that?

Mr. Hendrix. Thank you very much, Representative Smith. Yes, I do believe that allowing more transparency for our communities will actually help them raise the necessary funds that they need to invest in infrastructure, invest in their future. Right now, there are limits on how much transparency we can have in municipal bond issuances. That is a measure that Congress can take up and help fix. The SEC can't hold localities to the same sort of standards they do to the private sector. Ensuring that kind of transparency and accountability will not only be good for our communities, it will be good for taxpayers as well.

Chairman Thompson. Okay. Thank you. The gentleman's time has expired.

Ms. DelBene, you are recognized for 5 minutes.

Ms. DelBene. Thank you, Mr. Chairman, for holding this important hearing. And thanks to all of our witnesses for joining us today.

As we turn our focus to look at recovery in building back better, helping our local governments who have shouldered so much of the burden in this pandemic, really is front of mind, and investing in infrastructure will be key to recovery from the pandemic.

And this committee has worked hard to ensure that infrastructure extends beyond bridges, roads, and transportation, to include things like affordable housing production and preservation, expanding broadband access, because these play important roles within our infrastructure and our recovery efforts. So I look forward to hearing from our witnesses on how Federal tax tools can stimulate local economies and help our communities recover.

Mr. Boyce, you mentioned in your testimony that King County, which is part of the region that I represent in Washington State, maxed out its CARES Act reserve funds and had $12 million a month in extra costs to help the community through the pandemic.

As you know, our State relies heavily on sales tax revenue, which, as you noted in your written testimony, dropped $31 million between March and August of 2020. I wondered if you could speak to what those budget cuts would look like in a typical county and what you would have to do if your county faced circumstances like that.

Mr. Boyce. Thank you for that question. I mean, where do I start? I mean, you know, from services that allow for parks and recreation services, which always seem to be on our first chopping block, to health and human services. You know, one of the areas that we have had to dig in to reserve funding for is -- for the pandemic is eviction and rent subsidy support, and those funds have been depleted, which meant we have to pull from other areas, which mean we have to cut other areas. So it is really a domino effect and can start anywhere and end who knows where.

And to give an example, in Franklin County, yes, our sales tax have dropped, we also received property tax, which we delayed the collection of the payment to help give relief, and that in itself caused us to have to cut in a number of areas that range from external services that people get in a court system to services that people get in our children's services, in aging systems. And so it is felt everywhere when that happens.

Ms. DelBene. And so definitely that increase in cost impacts the local economy throughout your region too or throughout a region where we see this impact, correct?

Mr. Boyce. Without a question. I mean, you know, one of the things that we are grappling with right now, quite frankly, is that sort of lag impact. And, you know, when we were dealing with taxes -- when we are dealing with our tax revenue today, we are really -- it is really a measure of what happened 3 months ago.

And so just like a few months ago, now we are in a different phase of the pandemic where we are seeing all of the economy begin to reconcile from small cities in our county to larger cities in our county, and that is where our communication becomes critical, but more importantly, where the resources that come from our Federal partners becomes critical in ensuring that we can minimize the blow as the economy begins to contract.

RPTR DEAN

EDTR ZAMORA

[3:00 p.m.]

Ms. DelBene. Thank you. Also Mr. Howard, thank you for being here today. Could you talk a bit about how reinstating tax exempt advance refunding bonds helps public power utilities respond to the increased demand in our communities and how this would have been beneficial in response to the challenges that have been faced during the pandemic?

Mr. Howard. Yes. Thank you for the question. So many of our utilities have seen a loss of electric load, as you would imagine, as businesses have closed down, but they have also seen substantial delinquencies on their bills. So we have one community, an agricultural community, the city of Lodi, and they are seeing about 15 percent delinquency from the ratepayers. And a lot of farming communities are in a similar position with consumers not paying their electric bill, and it is impacting the entire utility as well as the city services.

If we would have had advance refunding available to us -- they are part of a large hydroelectric project between Yosemite Valley and Lake Tahoe. And right now, that project, if we could advance refund, we would have brought about $18 million in savings to those member utilities, including Lodi. And that would have been a direct benefit to offset some of these impacts that they are seeing by not being able to collect from their ratepayers.

Ms. DelBene. Thank you. Thanks for sharing that information with us.

And I yield back, Mr. Chairman.

Chairman Thompson. Thank you, Ms. DelBene.

Mr. Rice, you are recognized for 5 minutes.

Mr. Rice. Thank you, Mr. Chairman.

I wanted to speak to Mayor Benjamin for a minute. Mayor Benjamin, you said in your testimony that the American Rescue Plan is a great victory for Americans. But, you know, what we are doing here is we are borrowing $5,500 for every man, woman, and child in the country. That is what $1.9 trillion is. We are borrowing $5,500 for every man and woman and child in the country and giving them back $1,400 of it. Of the remaining $4,100 that we are having the Federal Government allocate around, over a $1,000 of it goes to State and local refunds or to shore up State and local governments.

Now, in the prior versions of the rescue bills that we have done, the CARES Act and another one in December, there were moneys for State and local governments. And a bunch of that remains unspent, particularly in South Carolina. So there is still money out there. And also, as Mr. Hendrix pointed out, many States have surpluses there.

But one thing that particularly bothers me about the American Rescue Plan is that, as opposed to the other bills, which base the allocation among States by population, they change the allocation plan in this rescue plan to factor in unemployment, which favors States that have shut down and keep -- and remain shut down, therefore have higher unemployment rates. So, for example, California has about -- I am looking at the numbers here in December, had a 9 percent unemployment rate, whereas South Carolina had about a 5 or 6 percent unemployment rate. So the result of that is, by changing the formula, our folks across the aisle, this vote didn't get one single Republican vote. In fact, one Democrat voted against it.

South Carolina loses about 1.4 -- $1.04 billion, which is about -- what -- about $225 per man, woman, and child in the State that we lose as a result of that change in the formula. And California is the biggest winner, they get an extra $5.4 billion. Of course, as we know, Speaker Pelosi is from California.

So I just wanted you to comment on that allocation and how you feel about that, because it bothered me greatly.

Mr. Benjamin. Sure. That was a lot to respond to. I will try to do my very best to respond to a number of those statements.

This is the policy of the U.S. Conference of Mayors. We feel strongly we have had an opportunity to influence obviously the American Rescue Plan. The allegations that you reference that went to State and cities, particularly those that went directly to States and cities, only hit about, I guess, maybe the 36, 38 largest cities in the State. The only county here -- no cities, I might add -- only county --

Mr. Rice. I just want you to comment -- please comment on the alteration of allocation that results in South Carolina losing $1.04 billion and California getting $5.4 billion more, where they have an economic surplus and yet they are getting $5.4 billion more.

Mr. Benjamin. Mr. Rice, I think there is probably any number of calculations that you can look at that some folks might say that South Carolina does better than it should or not. I can't speak directly to that. I will say this --

Mr. Rice. Okay. I have to go to --

Mr. Benjamin. Mr. Rice --

Mr. Rice. I only have a very limited period of time.

Mr. Benjamin. Mr. Rice, the resources --

Mr. Rice. I am sorry.

Mr. Boyce --

Mr. Benjamin. -- in South Carolina --

Mr. Rice. -- in Ohio they use the same alteration of the calculation. Ohio State opened, they have a 4 percent unemployment rate. They were the biggest loser --

Mr. Benjamin. Mr. Rice, do you have a question? I would be happy --

Mr. Rice. -- under this new allocation.

So, Mr. Boyce, can you comment on whether or not you feel like it is fair that California, because they --

Mr. Benjamin. Mr. Rice --

Mr. Rice. -- that they get 5. -- and they have a surplus, that they get $5.4 billion more dollars and that Ohio, in fact, loses $834 billion --

Mr. Benjamin. Do you have a question, Mr. Rice?

Mr. Rice. I am sorry, Mayor Benjamin, this is my time and I only have a very limited time.

Mr. Benjamin. You asked a question and I am trying to give you an answer.

Mr. Rice. I gave you an opportunity.

Mr. Boyce --

Mr. Benjamin. No, you didn't, sir.

Mr. Rice. -- can you please respond to that?

Mr. Benjamin. No, you didn't. With all due respect. I am not sure I heard the question, sir, but that is all right.

Mr. Rice. I was asking Mr. Boyce.

Chairman Thompson. Hey, Tom?

I think Mr. Rice is asking someone else a question right now.

Mr. Benjamin. Okay. Well, thank you very much, Mr. Rice, for the statement.

Mr. Rice. Mr. Boyce, could you please comment on this revised allocation that results in Ohio losing $834 billion and California getting an extra 5.4 -- excuse me, $834 million and California getting an extra $5.4 billion?

Mr. Boyce. Thank you for the question, Mr. Rice. The only thing that I can comment on is that, you know, Ohio being a smaller State, much smaller State than California. I know that the counties that I have been working very closely with, which is quite a lot of them, have all been very grateful for the resources that we are receiving. At every level it matches the needs that we have in our community. And so --

Mr. Rice. Okay. Okay.

Chairman Thompson. The gentleman's time has expired.

Ms. Sanchez, you are recognized for 5 minutes.

We will go to Ms. Moore.

Ms. Moore, you are recognized for 5 minutes.

Ms. Moore. Thank you so much, Mr. Chairman. And I learn so much every time we have these hearings and so I appreciate you and Mr. Smith for convening us today.

I have more questions than I do time, so bear with me. I guess maybe I would start with Mr. Howard. And I understand that you have worked for various Tribes across the United States on power purchase agreements. I have a bill promoting sustainable energy projects for the Tribal Communities Act, which I am proud to say is included in our GREEN Act, to make energy-related tax credits fully refundable.

So can you just share with us briefly how the monetization of these tax benefits for renewable energy production is going to help Tribes construct renewable energy projects on their land as compared to where they are now?

Mr. Howard. Yes, thank you for the question. I have been involved is in several renewable projects on Tribal lands, some of that in relation to shutting down some coal plants and trying to work with the Tribes that were impacted with a loss of jobs and revenue. These direct benefits would allow the Tribes and the purchaser, if it is a utility such as ours, to directly develop these projects and take advantage of the tax credits without bringing in third parties. The projects I was involved in all had to bring in third parties to take advantage of the tax credits. And, again, we were unable to get much of that benefit ourselves or with the Tribal entities. So with these changes, we will be able to directly access, and I think you are going to see more projects and better projects proposed and utilized.

Ms. Moore. All right. Thank you.

Listen, we have -- I have really -- ever since we repealed the advance -- the tax-exempt municipal bonds advance funding, I have been just really dogmatic about restoring these benefits, and I notice that these are being used very aggressively in Texas. So I really want to ask the question, my State is sort of worried about incurring debt, but how has Texas been able to use the advance repayment of taxable bonds to benefit Dallas? And why do you think that that is a good option? And what would you share with my community about the sustainability and the efficacy of this strategy?

Ms. Reich. Well, thank you for the question and thank you for your support. What I want to share first is that from 2007 to 2017, the city of Dallas issued nine tax-exempt bond issues for the purpose of advanced refunding, and that generated $147.4 million in savings for city taxpayers. That is a significant amount of money. Since the repeal, of course, we have not been able to do that. We work with our financial advisers all of the time looking at our debt portfolio to make the right decisions, just like you all would at home with your mortgage if you thought about refinancing. We are looking at that, because we want to keep taxes low for our residents and we want to be able to implement the projects.

When COVID hit, I will tell you, we delayed implementation of our 2017 voter-authorized bond program just a little bit, but I would like to get back to that. If I am able to do advance refundings again, the first thing I am going do is speed up that bond program again, and get those projects implemented. We always have a slew of projects on tap, ready to go. There is a lot of need in our city for infrastructure. And we would be looking to put any additional resources identified toward that. So if we can lower our borrowing costs, we are going to put that money to work, creating jobs in the community. And I think that is what communities across the country do.

Ms. Moore. Thank you.

I don't know whether I have much time left, but I would like to yield to the gentleman who wanted to answer Mr. Rice's question. I think it was an important question and I would like him to answer.

Chairman Thompson. You have got 30 seconds, Mayor.

Mr. Benjamin. Thank you, Representative. We actually ask questions and demand answers down here. We are not used to taking shots like that. I will defer the time, but we appreciate it, and we appreciate this opportunity to bring a bipartisan message from U.S. mayors to you all at the Capitol.

Chairman Thompson. Thank you, Mayor.

Ms. Moore. Thank you. I yield back.

Chairman Thompson. Thank you, Ms. Moore.

I request unanimous consent that a statement from the Navajo Tribal Utility Authority be included in the record.

And, without objection, that will be the order.

[The information follows:]
https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Thompson%20-%20NTUA%203.9.21%20Ltr.%20to%20Chairman%20Thompson.pdf

******** COMMITTEE INSERT ********

Chairman Thompson. Mr. Arrington, you are recognized for 5 minutes.

Mr. Arrington. Thank you, Mr. Chairman. And thanks to the witnesses for your time and your feedback.

And howdy to my friend from Dallas, Ms. Reich. Is that how you say it, or Reich?

Ms. Reich. It is Reich like the name Rachel if you were to shorten it.

Mr. Arrington. Ms. Reich, I am concerned about the $2 trillion. I am going to touch light to it. It is -- nobody on the dais here, virtually, nobody in Congress, that I have met, is not willing to help their fellow Americans where there are still needs, at the local level, statewide, family, individual. The problem we all have is that there is $1 trillion still being spent that is allocated, but unspent now. And, for example, with schools, you have got $60 billion that was unspent. You have got $130 billion that has now been allocated, and most of which will not be spent until next year. It just seems so unbelievably irresponsible.

And then you get this disparity that Mr. Rice was referring to where States like our State, where we have lost money, not a whole lot, but billions of dollars. California is cash flush in 2020, but they are going to get $40-plus billion in State support. It just doesn't feel right.

And so let me ask you, Ms. Reich, are they opening schools up in Dallas, Texas?

Ms. Reich. Yes, our school district actually has been open. We have many school districts in the city of Dallas, but the Dallas Independent School District is the largest. And they have been open for classes, as well as having virtual learning for quite some time.

Mr. Arrington. Do you think it is fair to give money to schools who have been held hostage, in my opinion, by teachers' unions and they haven't opened the doors to their students who are struggling? By the way, puts a lot of strain on dual-income families, working people. Do you think we ought to just give that money equally to the schools who have been closed as much as we are giving it to those teachers who have been leaning into this deal, managing the risks, but loving on those kids by opening their doors? Do you think we ought to --

Because, to me, in terms of local support, you have got to go straight to the family and the support of the family. And I think the school opening or not opening, I think, is at the heart of that. Do you think there is a fairness issue there?

Ms. Reich. Well, I think one of the things that is important for me is to emphasize that local communities make decisions that are best for them. In the city of Dallas, we have fully expended all --

Mr. Arrington. I am sorry to cut you off and I don't mean to be rude, but I know they each get to make their own decisions, but should we as a Federal Government be compensating schools who have closed their doors like we do those who have opened their doors? Why would we reward that? Why wouldn't we incentivize and reward the behavior that is going to be best for our kids and the families that support it?

Ms. Reich. I think no matter what we do, and there are going to be people who are going to talk about this on every side of the issue. The important thing is that we are supporting our schools. And whatever decision that they make, the funding that they need to implement those decisions is critically important so we don't leave our children behind. So, you know, I don't run the school district in the city of Dallas, it is an independent school district. And I would be happy to talk with you after this hearing to provide you with more information.

Mr. Arrington. I appreciate that, but we are leaving a bunch behind and we are creating moral hazard, which means, you know, we are rewarding bad behavior. And I think that extends from irresponsible decisions at a local level with school districts and cities alike. So I wish we could have at least -- and it was too much money as it was, but put the right policies to incentivize the right behavior. But thank you for your response.

I think it is ironic, Mr. Hendrix, that we are talking about helping local governments, that is the title of this hearing, when we are absolutely flat out broke as a Nation. And we are talking about how to help local governments. So help me understand what we can do to make sure that the Federal Government is appropriately involved in incentivizing and stimulating growth and growing local economies without continuing to exacerbate our debt and our being broke and insolvent essentially.

And thank you, Mr. Chairman.

Chairman Thompson. The gentleman's time has expired.

Consistent with committee practice, we are going to move to a 2-to-1 questioning ratio, and we will begin with Mr. Beyer.

Mr. Beyer, you are recognized for 5 minutes.

Mr. Beyer. Thank you, Mr. Chairman very much. And to my good friend from Texas, I was in business for a long time. Your [inaudible] when your [inaudible] your assets, and that is not where the United States is. We have enormous assets which we just haven't monetized.

Moving on, I want to thank you, Mr. Chairman, for having this with Congressman Smith. It really doubled down on the need for advance refunding. It is probably the number one thing that comes up from my local governments. But I would also like to state that when we look at the Build America Bonds, the direct pay which were in H.R. 2 that we did last summer, I would like to ask maybe Ms. Reich from Dallas about whether we would be able to use those for water projects, sewer water, storm water in the older cities, which is incredibly relevant for many of the cities here in Virginia. I think we only get $300 million just in the little city of Alexandria.

Ms. Reich. Thank you for the question. You know, my bottom line is that Build America Bonds can complement traditional municipal bonds but they not replace them.

What happens with these direct-pay bonds is that we are able to attract different investors. And so they may not have a tax liability and thus wouldn't benefit from a tax-exempt issuance, but they are able to buy a Build America Bond, for example, and that keeps our costs low because of the subsidy.

So as we are trying to recover from COVID, the more investors we can attract to invest in local infrastructure, whatever it may be, the better that is. And so I will reiterate again, I would love to have direct-pay bonds as an option and a subsidy bonds as an option but just as another tool in the toolkit.

Mr. Beyer. Great, thank you.

And, Mayor Benjamin, you know, decarbonizing the transportation sector is essential. It is the largest single source of greenhouse gases. And in the GREEN Act, we have 10 percent manufacturing credit for commercial zero-emission vehicles -- buses, trucks. Manufacturing credit, because since you guys are tax exempt, a tax credit doesn't do much help.

What progress are you making to electrify the fleet that you use? And how will this tax credit help you?

Mr. Benjamin. Sure. I will tell you, I know that a number of folks are excited about this move forward. I mean, we have to actually participate. And it was exciting to see in January that we decided to join the rest of the world once again in the Paris accord to recognizing the role that we all have to play in reducing our carbon footprint. We will be leading and we are looking forward. This idea obviously that we are distinct bodies separate and that the Federal Government, the State government, and the local government that we are at some point at odds is fallacy, whether we are talking about muni bonds, we are talking about -- some might say the original American public-private partnerships, the capital markets in cities and local governments and ratepayers working together.

Our commitment to reducing our carbon footprint and us leading as a city of sacrosanct to us moving forward as a country, we have made a commitment that by 2036, joined with Republican and Democratic climate mayors from all across the country, that we will indeed be green here. It requires aggressive investment and the repatriation of tax dollars coming back to citizens, our common constituents in cities and towns. And that is something that we always make very clear when we come to Washington, D.C., that we are not asking for money that has all flowed from Washington like it is manna from heaven. We are talking about taxpayer and ratepayer dollars coming back to citizens so they can be deployed in a unique way in which cities, counties, and other political subdivisions need to do in their respective areas, some very urban and dense, some suburban, and some rural. But we have made that commitment to aggressively reducing our carbon footprint through electrification, a number of other sources, other green energy sources. Here in Columbia, South Carolina, we have committed to that.

Mr. Beyer. Thank you, Mayor Benjamin.

And in the little time I have left, I would just like to tell my friend, Mr. Rice, that I appreciate the dilemma we have from a policy standpoint deciding how to divvy up money. And that it still seems a responsible thing to look at, not just population, but also where people are hurting the most, where the unemployment is highest. I do appreciate the fairness argument, and that is something that we need to continue to work together on, to have something that everyone feels is fair. But I do think, as we have talked about a lot of [inaudible] stabilizers and everything else, it has always been trying to get the resources to the people that need it the most.

And, with that, Mr. Chairman, I yield back.

Chairman Thompson. Thank you, Mr. Beyer.

Ms. Sanchez, you are recognized for 5 minutes.

Ms. Sanchez. Thank you, Mr. Chairman. And thank you to all of our witnesses.

As we try to pick up the pieces from last year, we finally see light at the end of the tunnel. Thanks to the American Rescue Plan, help is on the way. And the aid that we are sending to local governments means a great deal, specifically to the cities that I represent, because they were left out of the direct aid in the CARES Act. And these funds are going to allow them to provide basic services while our community gets back on our feet. But we are not going to snap back automatically to where things were prepandemic. I mean, we are looking at our infrastructure, which is another year older, and that means more problems, quite frankly, that need to be fixed.

In southern California, you know, we have tried to do what we can, and we voted ourselves tax increases over and over again to keep up with our region's infrastructure needs, and that solution is, you know, not really fair or sustainable. And now that revenues have declined so sharply, it is not even possible any longer.

There are several issues that really impact the cities that I represent. One of them is PFAS, you know, that is a forever chemical. Those are very expensive to filtrate out of water. And public utilities are struggling to make the investments that they need in order to filter out that contamination without shocking ratepayers. And as if that weren't bad enough, you know, I have grown up in southern California, and we have always had to deal with air pollution. As a child, I remember days that we were not allowed to go outside and play because the air was so thick and smoggy that you could almost touch it.

When the stay-at-home orders started last March, we saw air quality improvement in southern California that was just phenomenal because our highways were empty. And we almost got this, you know, hope that clean air could, you know, maybe be the new normal. But then we saw extreme heat and the wildfires, which gave us the worst smog that we have had in California in decades. But we had, you know, that tiny glimpse of the kind of future that children in my community deserve to grow up in, quite frankly.

But the lesson that we learned from that is that that can only be our future if we create that future ourselves. You know, the cities I represent, they want to see clean air and clean water be a consistent reality, but we have to be able to focus in on the specific tools that will help them do that.

So I am going to begin first with Mr. Howard. I know that you have a wealth of experience working with southern California public utilities. Can you elaborate on some of the most important bond tools for small utilities that need to make major investments, for example, like filtering contaminants out of our water?

Mr. Howard. I can speak primarily to the electrical, but obviously working for Los Angeles Department of Water and Power, I had a lot of experience on the water side as well, and we spent a tremendous amount of money. And as you pointed out, it is a very, very expensive process for especially a smaller utility to meet the water quality standards. So you are going to be looking at issuing bonds that have a very long duration to try to minimize the cost, because the amount of throughput is not going to be as high, especially in a small area.

The other way that we work together is our local communities come together, the localities, and try to do a big project together. And that is an entity like where I work today where many utilities come together to try to do bigger projects to reduce the cost. So the bonds are very important. The Build America Bonds were very important. We used them in L.A., I have used them here.

The sequestration, though, reduced a lot of those benefits that we thought we were getting when we initially issued those bonds. So dealing with the sequestration is going to be very important for us to feel comfortable utilizing that tool going forward.

Advance refunding, as pointed out, borrowing costs right now are extremely low, and if we can reduce some of our interest rates and fixing our cash flow issues and reduce some of our ongoing costs, it is going to free up those dollars to do these additional projects. So I think there is a lot of opportunity.

The GREEN Act, and what incentives it would provide for the transportation sector. As you know, in California, we have very, very aggressive electrification goals, and I think that would go a long way for many of us in transitioning our vehicle fleets.

Ms. Sanchez. Great. Thank you. I know that my time is limited, so I am just going to pause at my questions and I will ask our witnesses to just respond in writing.

Mayor Benjamin, I have been working for years to try to secure resources to rebuild the Del Amo Boulevard Bridge in my district. And one of the complications of that project is that it spans jurisdictions of several cities with varying populations and financial resources. It also connects two counties. So in writing, I would ask you to please expand on the importance of the revitalized Build America Bonds and bank-qualified bonds for projects like that.

And I thank the chairman. And I yield back.

Chairman Thompson. I thank the gentlelady.

Mr. Hern, you are recognized for 5 minutes.

Mr. Hern. Thank you, Mr. Chairman.

And for a full year, Americans have been suffering, and we all know this. And coronavirus has played a role, but the long-term pain is the result of government mandates to shut down businesses, close schools, and prevent people from living their lives freely. Our focus for a year has been to crush the virus. And soon after, we added a goal of reopening the economy. It has now been 12 months and many communities are just as desolate as they were last March.

State successes vary, which is why a one-size-fits-all approach won't work. Targeted and timely relief is absolutely a necessity. We have had a year to tailor this aid to those who genuinely need it. And time and time again, my friends across the aisle have chosen to throw money at our problems instead.

Oklahoma remains one of the top States in vaccine distribution. We have free COVID testing available in all 77 counties. Not many people realize this, but Oklahoma was the first State to fully reopen last June, which immediately put 100,000 Oklahomans back to work. We now have one of the lowest unemployment rates in the region and a budget surplus of $1.6 billion. Clearly, States' leadership plays an important role in the recoveries.

Our States are critical to the resurgence of the American economy. Like Oklahoma, many States are running budget surpluses, even in California, where much of the State is still under stay-at-home orders. As a result of astronomical Federal aid, California had a $1 billion surplus, so large that Governor Newsom is distributing stimulus checks to Californians from the State Treasury. If our States are experiencing massive surpluses after receiving so much Federal assistance, what are we sending them assistance for?

The Pelosi payoff legislation gives an unnecessary $362 billion to State and local governments. Most of these State and local governments don't need the extra help. They haven't been able to spend all the money they have already. This money would be much better spent on vaccine distribution and school reopening. We have spent $360 billion, $53 billion of which hasn't even been used yet.

While America's real GDP fell in 2020, State and local tax receipts are up due to strong gains and personal income and property tax. When you add in Federal aid and State and local governments, revenue actually grew by 10 percent. It is unclear if the intent of this hearing is to perpetuate this type of spending on States who have self-inflicted a budget damage at hand or if this hearing is about lifting the infamous SALT cap to reward high tax States and their wealthy citizens. Either way, I think it is better use of our time to talk about well thought out policy proposals to help States revenue restore local communities.

Mr. Hendrix, in your testimony, you highlight the opportunities for States to raise revenue and restore America's communities that are rebuilding infrastructure. You also recommend States focus on maintaining current projects before throwing good money after bad. A study by the Lincoln Institute found that investing in maintenance pays off considerably, with 25 to 40 percent economic rate of return, potentially more in some cases.

Ten years ago, I served for 5-1/2 years on the Oklahoma Turnpike Authority as the finance committee chair. And during my time on that committee, I saw firsthand the challenges have -- the States have in raising money and prioritizing the maintenance of existing infrastructure. Can you talk about what innovative approaches States can take to finance and fund infrastructure and what incentives should be in place to encourage the maintenance of those programs?

Mr. Hendrix. Thank you for that question. I think the number one priority with infrastructure is to fix it first and fix it fast. There are some basic principles. One is ensuring State flexibility. Washington doesn't know what every State needs. They all have unique and disparate needs, and top-down mandates and lengthy requirements are just not good for us to be able to respond to the actual needs that do exist it for infrastructure.

The second is we need to address the long-term sustainability of how States and localities are able to fund their basic infrastructure.

And third, we need to be able to streamline the project delivery process. That is incredibly vital. Projects take far too long and are far too costly.

But to the point, and part of the discussion that we are having today is ensuring that we can replace Federal funds with private capital where it exists. And right now, interest rates are at historic lows. Giving States the flexibility to tap into those private funds and not just throwing more Federal dollars after it when private capital is willing to step up, I think is important.

The final one is, look, if we can get roads or other projects to pay for themselves, we should be able to do that. That is the kind of market-oriented, innovative approach that many States are taking and that we should be able to support.

Chairman Thompson. I think you are muted.

Mr. Hern. Mr. Chairman, I yield back.

Chairman Thompson. Okay. I thank the gentleman. And, Mr. Hern, the topic of today's hearings is tax tools to help local government.

We will next hear from Ms. Plaskett. You are recognized for 5 minutes.

Ms. Plaskett. Thank you so much, Mr. Chairman. I want to thank the witnesses for being with us and being a part of this discussion, which is so incredibly important on how we use tax tools to facilitate economic growth and community [inaudible] sorry.

I wanted to talk with you all a little bit about Build America Bonds. You know, there was a Build America Bond program established in 2009 under the era of funding, which expired in December 31 of 2010. There was $200 billion of investment done in a short period of time. Certainly, you know, people were concerned about some abuse within that program, but overall, it really assisted cities, assisted municipalities in really driving some growth. Certainly, that was replacing some of what would have been through tax-exempt bond markets. But there were some an additional projects that were financed that would not have otherwise been financed. And most, not all of it, was done at a lower cost and more efficiently.

You do have direct investment, whether it is from user fees or otherwise, but this program was an example where private investor involvement can make scarce resources stretch as far as it can. It brought in investors that don't participate in tax-exempt markets because they may not have much use for tax-exempt income, like pension funds, endowments, or foreign investors. Creating that competition, opening up the market to all those investors, arguably, made the market more efficient and made it lower cost for insurers and for U.S. Treasury -- for the issuers. I am sorry. There was a lower subsidy that needed to be paid. There was also competition created between the tax-exempt market and the taxable bond options, and that made both options more efficient.

Is there any interest from you all in reviving that type of program, the Build America Bonds program? And if there is, what changes would you bring to it?

And in particular, for those of you who have experience in underserved communities, one of things that we noted in Build America Bonds in some of the these other tax-exempt programs were that they were not driving investment into areas that did not already have developers there. That what were the additional incentives that may be needed to drive investment into areas where Americans may need it most?

And I will mute myself and listen to your responses. Thank you very much.

Mr. Benjamin. I would be happy to start and be brief for others to respond. It is good to see you, Congresswoman.

You will find that there is a great deal of support, whether it be Build America Bonds under direct-pay bonds or there was a reference to other private -- public-private partnerships for institutional investors who want to be in this space. And there is amongst America's mayors a great amount of support on both sides of the aisle for any number of tools that give us more opportunities to seek the right type of public investment that can then yield private sector investment. You create the right environment with the public sector investment and to watch it grow, and to be able to be very strategic, as you mentioned, in some areas that need it the most, we will be supportive.

We would be happy to submit some very specific ideas to you from the U.S. Conference of Mayors as it relates to Build America Bonds. We do support Build America

Bonds. We see it, again, as a complement to traditional tax-exempt financing, not a replacement, but very supportive of BABs, and, of course, of the long-term commitment that Congress has to also have to fund [inaudible] the long-term. That was a challenge we faced a few years ago. But you will find a great deal of support across the aisle among America's mayors for BABs.

Ms. Plaskett. Thank you.

Mr. Boyce. Can I take a stab at that question as well?

Ms. Plaskett. Mr. Boyce, I saw you nodding your head while I was speaking so, yes, please.

Mr. Boyce. Thank you so much, Congresswoman. Let me just start with the Build America Bonds, or BABs. First of all, let me say that I am a practicing investment banker away from politics. I hold a series 52 and a series 63 public finance investment banking license. Build America Bonds are a tremendous tool and resource for local governments and communities to access.

What I would do differently is the sequestration element of it. You know, what Build America -- the problem with Build America Bonds was when the economy changed and those bonds were essentially called, that put a lot of stress on local governments who were already stressed. And so I think from an investor standpoint and from an issuer standpoint, the elimination of the sequestration issue is a piece that would make it stronger.

The second suggestion I would recommend is to look at what used to be called Qualified Energy Conservation Bonds, which were a direct subsidy bond that a lot of municipalities, universities, local governments used to deploy resources on deferred maintenance projects.

Chairman Thompson. Thank you. The gentlelady's time has expired.

Ms. Sewell, you are recognized for 5 minutes to inquire.

Ms. Sewell. Thank you, Mr. Chairman. And I want to thank all of our witnesses.

Over the past year, we have seen the COVID pandemic harm the health and economic stability of so many of our communities. And our local governments and its employees have really been on the front lines bearing much of the brunt of it.

Now as we work to end the pandemic and restore our economy, we must give our counties and our municipalities the tools to really build back better. And I believe in utilizing all the tools in the toolkit. As a former bond lawyer, I have often known how important it is that we maintain the tax-exempt market, but also have the full array of tools in the toolkit to deal with all types of circumstances. In fact, I believe that we need to use all the tools for revitalizing our infrastructure, not just our roads and bridges, but our water and sewer, our broadband, housing, economic development projects.

That is why I have been fighting for the restoration of the advance refunding for tax-exempt municipal bonds that so many of our speakers today so eloquently explained why being able to take advantage of low interest rates in this environment would only give more money in the pockets of our local governments in order to better do those services, public project and capital projects, as well as infrastructure projects that are so needed.

I have been leading the charge on a bill to raise the cap on the amount of bank-qualified debt that local governments, especially small issuers, can really utilize and nonprofits can utilize offering significantly lower costs and more favorable terms. And, of course, I have been a strong advocate for restoring the sequestration proof direct-pay bonds to build on the previous success of the Build America Bonds.

One of the questions that Representative Plaskett asked, how can Build America Bonds help underserved communities. I think that the fact that we in the House Ways and Means Committee really gave us an opportunity to increase the cap from 35 percent to 42 percent will give more leeway and advantage. We did that under H.R. 2. And I look forward to working with making sure that we do something similar in the next package.

I am excited to share that I plan to introduce a comprehensive legislation in the coming weeks to expand these tools. These policies will not only make it easier for our local governments to invest in critically important infrastructure, but it will also give communities like mine, especially in the rural parts of my district. And I understand Representative Smith and I often have worked together on rural America. And I think that one of those tools in the toolkit that we haven't talked about today as much was brought up by you, Mayor Benjamin, in your remarks and that is making permanent the new market tax credits, which is a program that specifically has been around since 2003. And the program has generated over $42 billion nationwide in direct investments, which leverage nearly $80 billion of capital investments for revitalization projects that are in underserved communities specifically.

Can you talk a little bit about new market tax credits and why it is important for us to make those permanent?

Mr. Benjamin. $42 billion, as you mentioned, is a massive number. If you can have more tools in order to stimulate and invest in economic growth in both low-income neighborhoods, urban neighborhoods, but also in rural communities that might lack access to the patient capital that you need to support and grow businesses and create jobs, sustain healthy and local economy, then that is what you want. You need money that is willing to come, be patient, and then [inaudible] RRI and the tools worked. It has worked very effectively.

Ms. Sewell. Absolutely.

Mr. Benjamin. And it is adored by folks on all sides. So we totally support your leadership in this space, Congresswoman, and hope that you will be able to find broad bipartisan support.

Ms. Sewell. Absolutely.

My last question goes to you, Ms. Reich. If you would talk a little bit about the need for smaller issuers to have bank-qualified bonds and why that is another important part of the toolkit. I know that I represent Alabama's Black Belt and it is a rural, underserved community. And by increasing the cap from $10 million to $30 million, that would go a long way to help incentivize more investments in those types of issuers.

Ms. Reich. Absolutely. I would love to do that. It is a proven tool for small issuers where banks will purchase that tax-exempt debt. And in looking at data in Alabama, from 2008 to 2018, the primary uses for the bank-qualified debt were primary and secondary education, followed by water and sewer facilities, and general purpose. And that tends to be, you know, the largest uses across the country. So that is what our communities are doing with it.

Ms. Sewell. Thank you so much. And thank you, Mr. Chairman.

Chairman Thompson. Thank you.

Mr. Estes, you are recognized for 5 minutes to inquire.

Mr. Estes. Thank you, Mr. Chairman. And thank you to our witnesses for their testimony.

You know, our yearlong health crisis, as marked by extreme shutdowns and economic hardships, created new problems and challenges for families, communities, and small businesses across Kansas. However, due to timely and targeted Federal assistance and the reliance of American workers and businesses, we are turning the corner on this unprecedented pandemic.

A year ago today, I testified before the Rules Committee on the second COVID-19 package. I was proud that Congress was able to come together and pass five bipartisan COVID relief packages. However, I am dismayed today that we passed a $1.9 trillion partisan package that has more payoffs and bailouts than real COVID relief.

This bill that was passed yesterday had only 9 percent of the legislation going towards fighting COVID health issues. States like my own are experiencing revenue goals. This February, Kansas collected $7.6 million more in tax revenue than February of 2020. Revenues are up 14.2 percent over this same -- last fiscal year.

As mentioned earlier, California is up as well. And actually, on average, all States are up. You know, in 2020 fiscal year -- or calendar year, Kansas collected $13.5 million more in taxes than in 2019. So, you know, in addition to this, Kansas received significant assistance from Congress, like other States. So there is really no revenue gap to close at the State level.

So we are seeing this bailout come at the wrong time, when cases are dropping, hospitalizations are down, more and more Americans are receiving the vaccine, thanks to Operation Warp Speed. And with so many States outperforming revenue projections and safely considering reopening, the cry for bailout seems to be the wrong time.

Prior to coming to Congress, I served as county treasurer and State treasurer. So I certainly understand bonding needs and programs that help support these local needs. In fact, I personally signed thousands of municipal bonds when I served as State treasurer. And COVID-19 has added healthcare costs, most of which, if not all, have been paid for in terms of funding that has been provided by the Federal dollars in CARES and the other four provisions.

One of the things I don't want to do is force Kansas taxpayers to pay for failed policies in some other States. Right now, what we need to do is focus on how do we get -- moving forward, get the economy open. And the best thing we can do is defeat the virus and reopen schools and rebuild the economy.

Mr. Hendrix, I do have a question. You mention in your testimony that most States have already dug out of the projected budgetary shortfalls. In your view, do States and local governments need more funding with no accountability?

Mr. Hendrix. The reality is that if you are an essential worker hoping for a vaccine and for that vaccine process to be sped up, this bill does not help you. Just 1 percent of the relief bill that was just passed is actually going toward vaccines. If you are a parent with a child who can't go to school in person, this bill also doesn't help you. It does not make schools reopen in any way. And especially if you are a State that has managed to safely reopen their economy, leaving Kansas unemployment rates right now are at 3.5 percent, you are punished for doing that. And other States, Nebraska, 3 percent unemployment rate. Those places that are getting workers back to work are punished.

And meanwhile, States like California that are enjoying massive surpluses, cutting stimulus checks to their own citizens, they are the ones that get the most money. And meanwhile, even in Illinois, which is going practically bankrupt, the Governor now doesn't even have to lift a finger to fix their pension crisis. This is not a rightly targeted bill. This is a poorly targeted bill that isn't actually addressing what we need, which is vaccinate the population, safely reopen so we can get on with our lives.

Mr. Estes. That is right. I would like to see businesses get reopened so that our local governments can collect sales tax and the business will be able to pay their property tax bills and move forward from there.

Mr. Chairman, I would like to yield the balance of my time to Mr. Rice.

Chairman Thompson. Mr. Rice is recognized.

Mr. Rice. Mayor Benjamin, I only have 40 seconds, but I just wanted to ask you this other question. You said we needed to restore the SALT production, which 50 percent of it goes to people who earn more in the top 1 percent of earners, and 90 percent of it goes to people who are in the top 10 percent earners. Do you really think South Carolinians should be subsidizing property taxes for millionaires and billionaires? You really think that -- it goes primarily to New York and California. Do you really think that is right?

Mr. Benjamin. Well, I only have 14 seconds, so I will say this: Mr. Rice, most of the ideas that we have put before you on behalf of America's mayors are strongly supported by both Republican and Democratic mayors. And most of these are not things that cost the Federal Government any money. We are asking for, as many of you like to say, for the Federal Government to get out of the way and allow us to support strong investment by the private sector in our communities that helps people who have been hurting all their lifetime.

Thank you.

Chairman Thompson. The gentleman's time has expired.

Mr. Kildee, you are recognized for 5 minutes.

Mr. Kildee. Thank you, Chairman Thompson, for recognizing me and for allowing me to sit in on this subcommittee hearing. It is an important discussion. It is one that I appreciate. I do wish more of the time had been focused on the specific issues around the needs of municipal governments and financing tools and text tools that would be helpful to them.

I just have a few questions. If I could start with Ms. Reich. I just think it is really important that folks understand the issues around advance refunding and why it is important. And I know the answer to the question, but I wondered if you could put in your words exactly who pays for the fact that advance refunding as a tax-exempt opportunity for local governments is not available. Who actually pays for the fact that communities are not able to refinance using tax-exempt debt?

Ms. Reich. Well, ultimately, it is our residents and taxpayers who pay. They pay a higher cost of issuance when I could have refinanced at a lower cost. So I would love to be able to save money for them.

Mr. Kildee. So this is a case of us having Federal policy relating to municipal debt that costs the residents of communities more than it would if they were able to finance through tax-exempt debt. It is really important, I think, that we boil it down to that, because very often in this conversation, the implication is that somehow the holders of these securities, of these bonds, are the beneficiaries, when the market is smart enough to price tax exempt and taxable debt accordingly. So either we pay a high rate because we can't refinance or we pay a higher rate because we have to issue taxable debt to refinance. It is something that we ought to take care of and we ought to do now.

I wonder if, Mr. Boyce, if you might address this question. And, by the way, I spent a good deal of time in your area working on land bank development. That was my old job. I spent a good deal of time in Franklin County. But I wonder if you could focus specifically on property taxes. This issue relates to revenue loss. You know, much of the support that we are supplying through this relief bill is intended to offset revenue loss. I think it is really important that we understand that when it comes to property taxation, it is a lagging asset. And so the revenue losses that we are going to see in the outyears as a result of acceleration of changes in the real estate market; acceleration of the changes, for example, around how office buildings will look and be priced; acceleration around not just big box but other asset types of retail, will have an effect, but those effects will come in the outyears. Would you address that?

Mr. Boyce. Well, thank you for the question. I think you just did. I mean, I think that is exactly how we are looking at it with property tax. You know, drive down American city USA, whatever, and you can just see where movie theaters and strip malls and mini retail and hospitality-oriented businesses have shuttered their doors and may not ever reopen. But, ultimately, someone still owns that facility and someone still has to pay property tax.

What we have done in Franklin County is delayed property tax, and so not only do we have the normal lag of property tax collection, but now we have added an additional burden because we have delayed the collection of those property taxes, which will further deepen that lag so that the impact of the property tax loss will even be longer. You know, it was a finger in the dike to just stop the water from leaking out. But the fact of the matter is, long term, we will have to reconcile those impacts of property taxes.

Mr. Kildee. It is a very good point. It actually raises another issue, that is, for those States that allow governments, especially governments that operate on relatively thin margins that don't have the deep reserves, those States that allow governments to issue short-term tax anticipation notes, like delinquent tax anticipation notes. Strangely, under Federal law, delinquent tax anticipation notes are taxable. This is a government function. It is a government borrowing for resources that are yet to be delivered in order to meet cash flow needs. And it seems to me that is another area we should address.

And then this question of the disruption in the real estate market and its tax implications for communities can be offset in part by us thinking really carefully about how we find new uses for these land assets. And it is one of the reasons that I am promoting an idea that I have been involved with for a very long time, and that is development of land bank and redevelopment tools that allow communities to engage the private market to find productive use for these properties, get them back on the tax rolls perhaps in a form that is different than what they were originally intended for.

I know I have exceeded my time.

Chairman Thompson. The gentleman's time has expired.

I want to thank all of the members who have participated in today's hearing.

I want to thank our witnesses for joining us today and thank them for the expertise they brought to the committee regarding tax tools to help local governments. I know you didn't come to debate whether or not different pieces of legislation passed by this Congress were appropriate. I appreciate your patience.

Please be advised that members have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

Again, witnesses, thank you very much.

With that, this subcommittee stands adjourned.

[Whereupon, at 3:55 p.m., the committee was adjourned.]

Questions for the Record

Adrian Smith

Linda Sanchez

Gwen Moore

Responses

Kevin Boyce

Elizabeth Reich

Stephen Benjamin

Michael Hendrix

Public Submissions for the Record

Securities Industry and Financial Markets Association

Fiscal Equity Center