**WRITTEN STATEMENT FOR THE RECORD**

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**ON BEHALF OF THE NATIONAL ASSOCIATION OF COUNTIES**

**HEARING TITLED, "TAX TOOLS TO HELP LOCAL GOVERNMENTS"**
**BEFORE THE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON SELECT REVENUE MEASURES**
**UNITED STATES HOUSE OF REPRESENTATIVES**

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Chairman Thompson, Ranking Member Smith and members of the Committee, thank you for the opportunity to testify today on the impact that COVID-19 has had on county governments, and the necessary tools needed to help support federal, state and local recovery.

My name is Kevin Boyce and I serve as a county commissioner in Franklin County, Ohio. Franklin County is home to 1.3 million residents, and we provide a wide range of services to our constituents, including public safety, emergency services, solid waste removal, veterans services, human services and child welfare programs, and more. While we are strong partners with our state and the federal government, we predominantly rely on local property taxes to develop a healthy, safe and vibrant community.

In fact, counties are highly diverse, not only in my state of Ohio, but across the nation, and vary immensely in natural resources, social and political systems, cultural, economic and structural circumstances, public health and environmental responsibilities. Of the nation's 3,069 counties, approximately 70 percent are considered "rural," with populations of less than 50,000, and 50 percent of these counties have populations below 25,000. At the same time, there are more than 120 major urban counties, which collectively provide essential services – including education and public safety – to more than 130 million people every day.

Collectively, counties own 45 percent of America's roads, nearly 40 percent of bridges, 960 hospitals, more than 2,500 jails, more than 650 nursing homes and a third of the nation's airports. We also own and maintain a wide variety of public safety infrastructure and we are the first responders when a disaster hits or an emergency occurs.

America's counties are also on the front lines in the fight against COVID-19, with vast responsibilities to care for our most vulnerable residents – our sick, unemployed, elderly, and youth. Across the nation, county governments 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.

Additionally, county governments are responsible for emergency operations centers and 911 services, court and jail management, public safety and emergency response, protective services for children, seniors and veterans, and the "last of the first responders" with coroners and medical examiners, among many other essential public services.

We are tremendously thankful for the passage of the American Rescue Plan Act, because while we appreciate federal efforts made thus far, counties and our residents continue to experience devastating health and economic impacts as we remain on the frontlines of the ongoing coronavirus pandemic. America's counties agree on the following principles:

- **As pressing challenges and needs continue to outstrip our depleted local resources during this unprecedented national emergency, counties of all sizes need immediate access to direct federal fiscal relief, which is why we strongly supported the American Rescue Plan Act's passage earlier this week.**

- **The American Rescue Plan is offering vital relief in the form of direct fiscal aid to local governments. However, there are additional tools that our federal partners can leverage to further help local governments address local budget challenges, stagnant revenue pools and unfunded state and federal mandates.**

- **Given our unique position to support our nation's recovery, counties support coordinating a stronger federal-state-local framework that ensures federal resources are invested appropriately, with a strategic focus on COVID-19 impacts and future community resiliency.**

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In every way, counties are on the front lines of the nation's pandemic response. We provide many essential services, especially for our most vulnerable residents, and support small businesses that are the lifeblood of our communities and our economy.

Along with supporting our nation's residents and economy, counties play a critical role as intergovernmental partners in the implementation of COVID-19 vaccination programs. A number of the elements the federal government has identified as crucial to the execution of vaccine deployment are county owned or operated — including emergency management agencies, local health departments, hospitals and health systems, community health centers, rural health clinics and long-term care facilities.

While the CARES Act was an important first step, the federal aid appropriated to state and local governments is simply not enough to support our intergovernmental efforts to preserve the health and safety of our residents. One of the most significant missed opportunities of the CARES Act was that it did not provide funding to offset the drastic revenue shortfalls that county governments are experiencing across the country, nor did it provide any direct relief to local governments with populations under 500,000. **In fact, only five percent of the nation's counties were eligible to receive direct aid, and far too many counties never received any, or very limited, direct federal resources from the Coronavirus Relief Fund.** This is why we strongly support and are thankful for the Passage of the American Rescue Plan, which will correct the deficiencies from the CARES Act and give rescue aid to every county in America.

The detrimental fiscal impact of COVID-19 extends far beyond urban counties. Counties with populations below 500,000 are also taking major hits to our budgets. <u>NACo research estimates that the COVID-19 pandemic could have a $202 billion budgetary impact</u> on counties of all sizes through fiscal year 2021.

**As of November 2020, states have spent or earmarked 97 percent and county governments have spent or earmarked 88 percent of CARES Act funds on average, while the demands on state and local government services continue beyond the life of the existing funds.** Every dollar of direct aid to counties will be spent at the local level to support our nation's most vulnerable residents, sustain local workforces and bolster economic output.

For example, King County, Wash. maxed out its reserve funds, cash flowing $12 million a month in extra costs, to help protect residents' health and well-being. County sales tax revenue, which supports much-needed programs like mental health services, dropped by $31 million between March and August 2020. These unforeseen costs have forced the county to eliminate 400 positions, making it more difficult to respond to community needs, especially for the most vulnerable residents.

In smaller counties like Onondaga County, N.Y., which did not receive any federal Coronavirus Relief Funds, they have cut $84 million from their budget for the new fiscal year, despite increased demand for services related to COVID-19, including supporting a distressed hospital. The financial impact has also resulted in 500 fewer county government jobs than the previous year.

Although counties are investing CARES Act dollars in both fiscally responsible and innovative ways, COVID-19 response costs are outpacing local revenues across the nation, leaving communities short on services, programs and jobs. A recent NACo survey of county governments found that 75 percent of respondents indicated that their county government's financial health has been impacted negatively by COVID-19. Beyond fiscal health, 74 percent of these respondents believe their county government will face significant challenges in providing needed services to residents.

Many counties have been forced to cut budgets and are on track to continue to cut budgets. Reduced state and local government spending in the wake of the Great Recession inhibited economic growth for nearly six years (22 out of the 26 quarters between 2008 and mid-2014), resulting in a $650 billion lower GDP by the end of 2015 (3.5 percent lower). Not only will county austerity measures reduce economic growth, but they will also impact our ability to provide residents with critical county services including public safety, social services, child protective services, mental health, homelessness, jail diversion, reentry and more. When a local government service is cut, that service often remains cut, hurting residents and communities in perpetuity.

Beyond the fiscal impact and increased costs due to COVID-19, local governments continue to experience staggering unemployment rates. **Nearly a year into the pandemic, local government employment still remains over 1 million jobs short of its level last February 2020.** In fact, according to the February Situation report from the U.S. Bureau of Labor Statistics, the sector lost another 44,000 jobs this past month. For five consecutive months now, local government employment has changed very little, **indicating that local governments are by no means on the road to recovery,** but remain stagnant and struggling. With over 10 million Americans still unemployed, one in ten jobs yet to be recovered is a local government job.

After a year of this crisis, far too many counties have received no, or very limited, direct federal fiscal relief. And unfortunately, the pressing challenges and needs continue to outstrip our depleted local resources during this unprecedented national emergency.

Now, with the American Rescue Plan, counties will now be able to strengthen our communities by investing in small businesses and nonprofits, vaccine distribution, public health and safety, human services, especially for those suffering from domestic violence, mental illnesses and substance use disorders, and much-needed infrastructure, including broadband.

**The American Rescue Plan is offering vital relief in the form of direct fiscal aid to local governments. However, there are additional tools that our federal partners can leverage to further help local governments address local budget challenges, stagnant revenue pools and unfunded state and federal mandates.**

Beyond delivering essential public health and human services, counties also provide critical infrastructure and services to support, respond to, and care for our citizens. Many non-profit hospital systems and nursing homes throughout the country are coming under extreme pressure due to capacity issues and medical supply shortages, as they rely on a number of critical financing tools. Local governments are also facing large, unexpected funding needs for emergency preparedness, public health infrastructure, and staff overtime during this crisis.

Municipal bonds and other federal financing tools are a key source of funding for counties, and the current dislocation in the market will make it impossible for us to raise new funding to cover the costs of combatting the COVID- 19 pandemic, and vastly increase the cost of current funding to the extent floating rates must be reset in the near term. Without strong federal support, county governments will be forced to take actions that will exacerbate the current economic contraction.

Therefore, America's counties offer the following recommendations to our federal partners to ensure county governments are able to rebuild the economy and strengthen our communities:

- **Restore the Tax-Exemption for Advance Refunding Bonds:** Before January 1, 2018, municipal issuers were able to issue single tax-exempt advance refunding bonds prior to 90 days before call. This critical tool allowed state and local governments to effectively refinance their outstanding debt in order to take advantage of more favorable interest rate environments or covenant terms. Advance refunding bonds frequently provided issuers with the flexibility to lower debt servicing charges that would otherwise be a fixed cost. The Government Finance Officers Association (GFOA) found that between 2007 and 2017, there were over 12,000 tax-exempt advance refunding issuances nationwide which generated over $18 billion in savings for tax and ratepayers over the ten-year period. Prior to their elimination in the Tax Cuts and Jobs Act (TCJA) (P.L. 115-97), advance refunding bonds made up approximately 27 percent of issues in 2016. Restoring this tax exemption would require an act of Congress, but it would prove to be one of the most effective actions to provide state and local governments with more financial flexibility to weather downturns and increase infrastructure investment.

- **Fully restore the State and Local Tax (SALT) deduction:** The SALT deduction has been a bedrock principle since the first three-page federal income tax in 1913, and the deduction supports local school funding, home ownership, lower middle-income taxes, tailored social services, infrastructure development and local job creation efforts. By capping SALT deductibility, Congress shifted the intergovernmental balance of taxation and limited state and local control of tax systems. Eliminating the $10,000 cap on SALT deductions would improve counties' ability to deliver essential public services, such as emergency response, public health services and infrastructure development.

- **Support Small Issuers:** Counties urge Congress to include a temporary extension and permanent restoration of proven financing tools utilized by state and local governments, schools, hospitals, airports, special districts and other public sector entities to provide efficient and low-cost financing for critical investments in infrastructure that will move the country forward. Specifically, we urge you to increase the bank-qualified borrowing limit from $10 million to $30 million, and apply the limit at the borrower level, which would ensure that small local governments could provide access to capital for immediate infrastructure.

- **Enhance the resiliency of local infrastructure:** While counties own more of America's public roads and bridges than any other public entity, we recognize that the nation's transportation system depends on infrastructure that is owned and operated by all levels of government. Returning our nation's transportation and infrastructure assets to states of good repair and beginning to *build back better* is a tall task and a responsibility too large and complex for any single level of government to undertake alone. To advance our shared infrastructure goals, we firmly believe that increased financing opportunities cannot come in lieu of direct funding streams. For many areas of the country, the use of innovative financing mechanisms and attracting private capital is simply not possible.

As such, counties believe the most critical action this committee can undertake to advance our nation's infrastructure is to provide a permanent fix for the Highway Trust Fund (HTF). Counties depend on the long-term certainty and solvency of the HTF to deliver critical infrastructure projects for our many residents and urge Congress to enact a meaningful solution that will counteract the fund's looming insolvency. HTF revenue sources that better account for all users of the road will be critical as transportation technologies that are not reliant on motor fuel continue to be increasingly integrated into the national network.

In addition to direct funding, many counties also utilize federal financing tools to build or repair local infrastructure, including the Transportation Infrastructure Finance and Innovation Act (TIFIA), qualified tax credit bonds, infrastructure banks and public-private partnerships. As such, we recommend lawmakers strengthen and increase these opportunities that help counties leverage federal financing for capital projects.

- **Support Resilient Energy Systems:** Counties encourage American agriculture to provide at least 25 percent of the total energy, including wind and solar, consumed in the United States by 2025 while continuing to produce abundant, safe, and affordable food and fiber. Biomass fuels are paramount not only to the reduction of pollution in counties throughout the nation, but they also serve as revenue generators for many farmers that are struggling with low prices for their crops and increased costs of production. While we support tax incentives to increase usage and reliance on renewable energy sources, we oppose mandates that will result in undue fiscal hardship on rural users.

  We support federal incentives to promote nationwide energy conservation efforts. To facilitate decentralized energy conservation activities, the federal government should seek input from local government on implementation and continue to adequately fund all conservation and fuel assistance programs. We support incentives to research and develop renewable energy technologies, including wind, solar, geothermal, biomass, electricity from landfill gas, and other forms of waste-to-energy which will achieve the objective of clean and safe forms of energy. Lastly, we support incentives to research and develop energy storage technology.

  Lastly, local governments support tax incentives, rebates and promotions to increase the purchase of lower pollution vehicles by private businesses and all levels of government. Federal policy must be established to ensure the availability of a refueling infrastructure and of competitively priced, reliable alternative fuel and alternative fuel vehicles, and such policy should consider its impact on gas tax revenues and the HTF before requiring conversion of motor vehicles.

**Therefore, given our unique position to support our nation's recovery, counties support coordinating a stronger federal-state-local framework that ensures federal resources are invested appropriately, with a strategic focus on COVID-19 impacts and future community resiliency.**

County leaders are serious, prudent stewards of public dollars. We remain very concerned about mounting federal debt. Yet, we also understand that we must overcome this devastating pandemic together, now, so we can make the smart investments needed to pursue a brighter, more resilient future for all our residents and communities. As Henry Kissinger asserted, "The historic challenge for leaders is to manage the crisis while building the future."

Counties are uniquely positioned to support U.S. job growth, GDP expansion and economic recovery. Each year, county governments annually invest $263 billion into the economy and employ 1.5 million health and public safety workers, out of a total of 3.6 million individuals.

Over the last year, counties have saved small businesses and served residents who are being left behind in the COVID-19 economic through strategic investments of CARES Act dollars. Local government investments like this, and many others, will drive COVID-19 recovery with GDP and U.S. job growth, help retain the county workforce as one of the nation's largest employers, and restore local economies through vital infrastructure, health, safety and resiliency investments. **Every dollar in local government aid is at least a dollar in GDP growth.**

As important ground-level partners in our nation's intergovernmental system, county leaders are not looking for an unlimited federal handout. We support coordinating a stronger federal-state-local framework that ensures federal resources are invested appropriately, with a strategic focus on COVID-19 impacts and future community resiliency. We embrace robust public accountability and transparency standards, and we welcome the opportunity to discuss any necessary safeguards.

## Conclusion

Chairman Thompson, Ranking Member Smith, and members of the Committee, thank you again for inviting me to testify here today.

With additional federal aid and resources, counties across American will be able to strengthen our communities by investing in small businesses and nonprofits, vaccine distribution, public health and much-needed infrastructure.

We appreciate the bipartisan efforts that have been brought forward to ease the burden of this unprecedented global health pandemic. As you consider further federal relief, we hope that you will give us the tools we need to preserve the health and safety of our residents and local communities.