



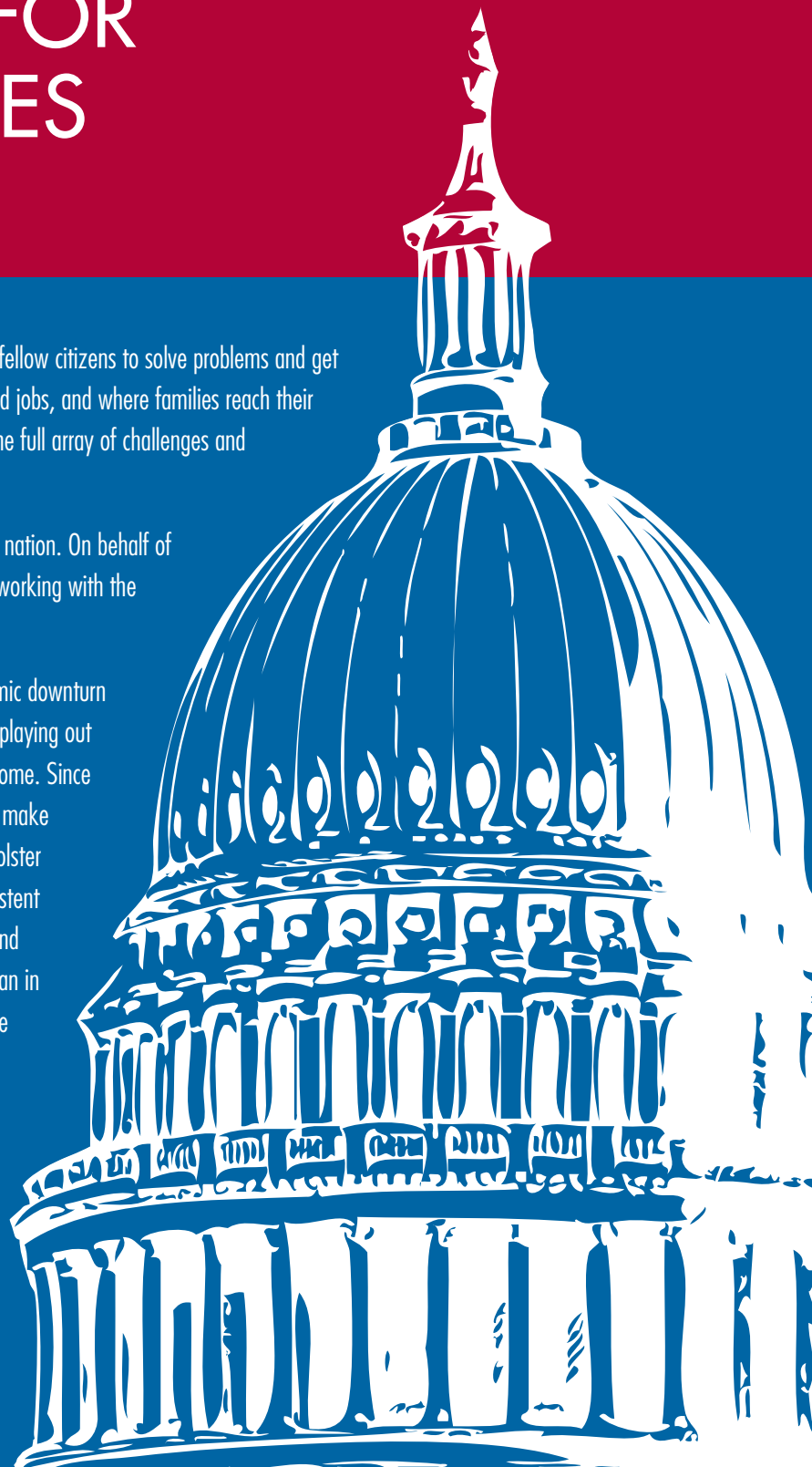
ADVOCATING FOR AMERICA'S CITIES AND TOWNS

America's hometowns are where we come together as neighbors and fellow citizens to solve problems and get things done. They are where we create new industries, businesses, and jobs, and where families reach their full potential. And they are where we get an early, firsthand view of the full array of challenges and opportunities facing our nation.

The future of America's hometowns is bound up with the future of our nation. On behalf of America's city leaders, the National League of Cities looks forward to working with the President and Congress this year to build a better future for all of us.

While the nation's economy may be recovering from the worst economic downturn since the Great Depression, the consequences of the recession will be playing out in America's cities and towns and in the lives of families for years to come. Since the onset of the economic downturn, city leaders have been forced to make tough choices in an effort to provide essential public services and to bolster their local economic engines while responding to large and often persistent budget shortfalls. With the nation's unemployment rate hovering around nine percent, more than eight million jobs lost since the recession began in late 2007, falling home prices, and the surging cost of oil, families are being forced to do the same.

As the President and Congress continue to grapple with a host of difficult national challenges, we call on them to partner with America's city leaders to create good jobs and to help cities preserve programs essential to quality of life in the short term.



FIX THE NATION'S BROKEN IMMIGRATION SYSTEM

NLC calls on the federal government to adopt a strong and consistent national immigration policy that balances national security needs with renewed efforts to grow the nation's workforce, stimulate economy recovery, and remain competitive in the 21st century global marketplace.

America's immigration system is failing our cities and our economic future. Local governments are caught in the middle of the national debate with no control over the regulation of immigration but with the responsibility for integrating immigrants into our communities and providing the services necessary for stable neighborhoods. Municipal leaders join with civic and business leaders to highlight the economic necessity of comprehensive immigration reform.

It is time for Congress to acknowledge the economic vitality that immigration brings to this nation and adopt a reform policy that supports secure borders and a path to citizenship for the millions of immigrants currently contributing to our local and national economies. Comprehensive reform will provide cities and towns with the support needed to integrate immigrants into their communities and allow them to make both cultural and economic contributions to the nation.

REQUEST FOR CONGRESS AND THE ADMINISTRATION

- Immigration is a powerful tool for innovation and economic growth throughout the nation's history; reform will grow the economy and allow the undocumented to participate fully in local economies.
- Without reform, local law enforcement must carry out federal responsibilities, which diverts scarce public resources and creates challenges to local public safety.
- Reform must include resources to assist local governments with financial and technical assistance to alleviate the local impact of new immigrants.
- It is imperative that Washington act now to pass comprehensive immigration reform.



IMMIGRATION REFORM FACTS AND FIGURES

- Passing the DREAM Act would add \$329 billion to the U.S. economy, create 1.4 million new jobs by 2030 and result in an additional \$5.6 billion in state and federal household income tax revenue (*Partnership for a New American Economy, Center for American Progress*)
- Immigrant business owners contribute more than \$775 billion dollars in revenue to our annual Gross Domestic Product and employ 1 out of every 10 American workers at privately-owned companies across the country. (*Partnership for a New American Economy*)
- Despite accounting for just 12.9 percent of the U.S. population, immigrants started 28 percent of all new U.S. businesses in 2011. (*Partnership for a New American Economy*)
- In the 25 largest metropolitan areas combined, foreign-born workers are responsible for 20 percent of economic output and make up 20 percent of the population. (*Keystone Research Center*)

END THE ONLINE SALES TAX "BREAK"

NLC calls on the federal government to enact the Marketplace Fairness Act to level the playing field between e-commerce and brick-and-mortar retailers by giving state and local governments the authority to collect sales taxes on remote sales.

While the Internet creates exciting new marketplaces, it also has put traditional retail outlets at an unfair disadvantage because of outdated and inequitable tax and regulatory environments. The Supreme Court's decision in *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992), left state and local governments unable to adequately enforce their existing sales tax laws on sales by out-of-state catalog and online sellers. The Court, however, explicitly stated that Congress had the constitutional authority to enact legislation overruling its decision. **Thus, if Congress acts upon its authority to regulate interstate commerce, state and local governments could collect taxes owed on Internet and mail order sales amounting to \$23 billion.**

In recent years, Main Street retailers have become local showcases for remote purchases by customers who believe they get a discount by not paying sales tax. On the contrary, these consumers are required to pay the applicable sales tax for their online purchases. While the brick-and-mortar retailer collects the sales tax at the time of

purchase in a store, right now the responsibility shifts to the Internet customer who is supposed to pay the sales tax when filing his or her annual state tax return. However, most taxpayers are not aware of this responsibility and state and localities do not have the resources to enforce payment. This puts Main Street retailers at a five to ten percent competitive price disadvantage to remote sellers. Congress should provide state and local governments the option to collect the sales tax already owed under current law.

REQUEST FOR CONGRESS AND THE ADMINISTRATION

- NLC calls on Congress and the Administration to give states and local governments the flexibility to collect the taxes owed to them on remote online purchases — not raising existing taxes or imposing new ones by enacting the Marketplace Fairness Act (S.336/H.R. 684).
- These sales taxes are already owed and that should be collected so they can support the delivery of basic services, like infrastructure and public safety, without increasing the federal deficit.

PROTECT MUNICIPAL BONDS

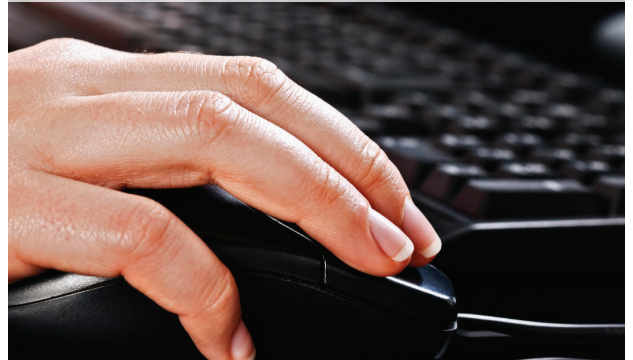
NLC calls on the federal government not to limit in any way the income tax exemption for municipal bonds.

As the Administration and Congress look for revenue to reduce the deficit and fund programs, the federal income tax exemption provided to interest paid on state and municipal bonds is under threat. In addition to increasing taxes, revenue can be raised by expanding what is subject to being taxed (broadening the base); in this case, interest paid on bonds issued by local governments currently not taxed would be included as income.

This exemption has been in place since the federal income tax was instituted in 1913. It is the primary financing mechanism for state and local infrastructure projects, with three-quarters of the infrastructure projects in the U.S. built by state and local governments, and with over \$3.7 trillion in outstanding tax-exempt bonds, issued by 30,000 separate government units. Local governments save an average of 25 percent to 30 percent on interest costs with tax-exempt municipal bonds as compared to taxable bonds. These savings arise because investors are willing to accept lower interest on tax-exempt bonds in conjunction with the tax benefit. If the federal income tax exemption is eliminated or limited, states and localities will pay more to finance projects, leading to less infrastructure investment, fewer jobs, and greater burdens on citizens who will have to pay higher taxes and fees.

ONLINE SALES TAX FACTS AND FIGURES

- Collecting sales taxes on online sales will generate \$23 billion for state and local governments that can be invested in job creation and economic recovery efforts.
- Main Street retailers in the 45 states with a sales tax are required by law to collect tax on virtually all of their sales. The same applies to online merchants selling to customers in their own states. With the rapid growth of the Internet, local stores are facing increasing competition from large out-of-state online sellers who easily undercut them on pricing because of low overhead and high volume.



MUNICIPAL BONDS FACTS AND FIGURES

- With the current tax exemption, cities can issue bonds with interest payments 2 percentage points lower than on taxable bonds.
- The tax exemption has been in place since the first federal income tax was implemented in 1913 and has financed trillions of dollars of public investment.
- Tax-exempt bond issuance has remained stable compared to GDP over the past 10 years, averaging around 14.8 percent, and has actually declined since the 1980s. Compared to other sector, municipal debt issuance has been the most stable and fiscally responsible.
- Local government financing needs for infrastructure are increasing, not decreasing. For instance, the American Society of Civil Engineers reports that \$2.2 trillion is required over the next five years to meet physical infrastructure needs.
- Over \$3.7 trillion in outstanding tax-exempt bonds have been issued by 30,000 separate governmental units.

The need for infrastructure investment—and the jobs that come with it—is acute. Much of this need must be met by states, counties, and cities. Tax-exempt municipal bonds are the primary tools and one of the most efficient ways for doing so.

REQUEST FOR CONGRESS AND THE ADMINISTRATION

- Preserve the tax exemption for bonds; it is not a special interest loophole.
- Tax-exempt bonds are how local governments finance infrastructure projects.
- Three-quarters of all public infrastructure projects in the U.S. are built by states and localities and paid for with tax-exempt bonds.
- If the tax exemption is eliminated or reduced, hometowns will pay more to finance projects, leading to fewer projects and jobs, or will have to raise taxes.

CORE PRINCIPLES

FUND FEDERAL MANDATES

When requiring state and local activity in a given area, the federal government should provide adequate funds to address the fiscal impact of those policies. Federal policies should not mandate new costs for local governments without considering the increased financial liabilities and including reimbursement mechanisms to minimize disproportionate responsibilities.

RESPECT LOCAL AUTHORITY

Activities such as franchising, zoning, issuing permits and licenses, and establishing local codes are fundamental responsibilities of local governments. Federal policies should respect these activities and not preempt local authority to protect the health, safety and welfare of local residents. Additionally, the federal government should defer to municipal authority regarding fundamental employment decisions and mandating specific working conditions.

PROMOTE THE INTERGOVERNMENTAL PARTNERSHIP

A well-functioning intergovernmental system offers significant opportunities for all levels of government to serve the nation's citizens more effectively. Federal grant programs, regulatory requirements, funding formulas and other practices should promote cooperation at the local and regional levels. The intergovernmental partnership must be strengthened to provide a framework for economic growth that also preserves important principles of freedom.