CSAC

1100 K Street
Suite 101
Sacramento
California
95814

Telephone
916.327-7500

Facsimile
916.441.5507

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The Honorable Kevin Brady
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
House Committee on Ways and Means
1106 Longworth House Office Building
Washington, DC 20515

The Honorable Orrin Hatch
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairmen Brady and Hatch and Ranking Members Neal and Wyden:

On behalf of the California State Association of Counties (CSAC), I am writing to urge your consideration of the following critically important issues as you prepare to conference a final tax reform package.

State and Local Tax Deduction

CSAC strongly urges you to fully preserve the State and Local Tax (SALT) deduction. The deduction, which has been in place since 1913, provides counties with some measure of autonomy over their own tax systems and also incentivizes local investment in long-term infrastructure projects and various county services, including local law enforcement and emergency response.

As you know, both the House and Senate bills would *eliminate* the deduction for income and sales taxes and would *cap* the deduction for property taxes at $10,000. Because California has the highest top income-tax rate in the nation – along with one of the lowest personal property tax rates – the loss of the SALT deduction would be particularly detrimental to taxpayers in our state. In fact, the average deduction for state and local income taxes alone is nearly $16,000 per return, while state and local property taxes average less than $6,000 per return. Furthermore, 79 percent of the California taxpayers who received a benefit from the state and local income tax deduction were families earning less than $200,000 in annual household income.

CSAC is concerned that eliminating the income tax deduction and capping the property tax deduction would increase the tax burden on middle-class families in California and hurt our local economies. The association supports provisions of the Lance-Gottheimer amendment, which would fully reinstate the SALT deduction.

Tax Exempt Bonds

CSAC strongly urges you to maintain the current tax exemption for qualified Private Activity Bonds (PABs) and Advance Refunding Bonds, which taken together account for roughly half of the municipal bond market. PABs are widely used to attract private investment for projects that provide a public benefit and contribute to the economy. Over the past decade, approximately 36 percent of PABs in California have been used to finance affordable housing developments for low-income families and seniors, 40 percent has gone to fund hospital construction, and the remaining 14 percent has been used to build schools.

Under current law, investors are not required to pay federal income tax on interest earned from qualified PABs. The effect of this tax exemption is that local governments receive a lower interest rate on their borrowing than they would if the interest was taxable. This helps facilitate the development of projects that may not otherwise be feasible if financed at market rates. The House bill would *eliminate* the exemption on newly issued bonds. The Senate bill, as well as the Lance-Gottheimer amendment, would preserve this important tool.

Advance refunding bonds, on the other hand, allow counties to refinance their outstanding bonds to take advantage of better terms and rates, which ultimately results in substantial savings to taxpayers. Under current law, counties are able to engage in a tax-exempt advance refunding once over the life of the bond. However, both the House and Senate tax measures would eliminate this exemption. While these changes to the municipal bond market would generate savings at the federal level, CSAC is concerned that it would do so at the expense of local governments and infrastructure development.

Wildfire Tax Deduction

CSAC urges you to reject provisions in both bills that would discriminate against victims of wildfires, earthquakes, floods, and other natural disasters. Under current law, individuals and businesses can claim casualty losses on personal property as itemized deductions. The House bill would eliminate the deduction for personal losses from wildfires and other natural disasters, but would preserve the benefit for victims of recent hurricanes. The Senate version, on the other hand, would only retain the deduction when the president declares a national disaster.

In northern California, a number of counties are struggling to recover from the most devastating wildfires in state history, which resulted in 44 deaths and destroyed nearly 9,000 homes and buildings. It will take years for some of the counties impacted by the fires to fully rebuild. Additionally, several counties in southern California are battling a series of wildfires that have already destroyed dozens of homes and which have charred thousands of acres. It is essential that the residents of our state who have been impacted by these devastating events have the ability to deduct their losses from their taxable income.

<u>ACA Individual Mandate</u>

CSAC strongly opposes provisions of the Senate bill that would repeal the *Affordable Care Act* (ACA) requirement that individuals purchase health insurance coverage. In the absence of the individual mandate, it is likely that a percentage of the population – particularly those that are younger and healthier – will choose to go without insurance. Those left in the insurance pool would generally be older and sicker, which would essentially force premiums to rise more than they otherwise would.

As you know, the Congressional Budget Office (CBO) estimates that repealing the mandate would increase average premiums on the individual market by approximately 10 percent. CBO also projects that an additional 13 million people would go without health insurance. In California, where counties are the provider of last result, any increase in the uninsured population would further strain county resources.

Thank you for your consideration of these important issues. Should you have any questions regarding our position or would like additional information, please contact Hasan Sarsour, CSAC Federal Representative, Waterman and Associates at (202) 898-1444.

Sincerely,

Matthew L. Cate

Matt Cate
CSAC Executive Director

cc: California Congressional Delegation
Members of the Conference Committee