

# Local Government's Vital Role in National Economic Recovery

Presented to the Presidential Transition Team by:



As Congress and the Administration prepare to take action on a new national economic recovery package, local governments are poised to play a vital role in the implementation of a practical plan that will help America's hometowns and families by stimulating the economy, creating good jobs for our residents, and providing meaningful, long-lasting benefits to our communities.

We strongly believe that a MainStreet stimulus package should provide funds for investment in our nation's infrastructure, provide support to individuals, and ensure that local and state governments have access to financial markets. This paper presents our recommendations for the practical implementation of these three objectives.

## Infrastructure Investment

### Fast Facts:

- Local governments own and maintain 75% of the over 4 million miles of public roads, about 50% of the nation's almost 600,000 bridges, and manage 90% of the transit systems in the U.S.<sup>1</sup>
- The basic responsibility for building and maintaining water infrastructure is and always has been local, and more than 98% of the nation's investment in water infrastructure has been at the local level.<sup>2</sup>
- 87% of the nation's airports are owned and operated by local governing authorities.<sup>3</sup>
- Virtually all public schools are owned and operated by local governments.
- Local governments play a major role in building the infrastructure for communication technologies.

Federal investment in the nation's infrastructure should focus on *both* new and deferred maintenance projects that are "ready-to-go" (i.e. under contract and out the door in 120 days). Projects include but are not limited to: airports, housing, highways, roads, sidewalks, bike paths, bridges, transit, clean water, sewer, communications technology, schools, as areas of investment. Additional benefits can be realized by providing funds to retrofit existing buildings to improve energy efficiency, purchase environmentally friendly vehicles for local government use, and convert electrical grids to smart grid technology.

Because the majority of America's infrastructure is built and maintained by cities and counties, we believe that the **quickest, most effective way** to achieve the intended results of a federal stimulus package is to send federal funds **directly** to local governments via a fair and recognized distribution formula. Such systems have

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<sup>1</sup> The American Public Works Association, <http://www.apwa.net/Documents/safetea-lu/Facts%20about%20America's%20Transportation%20System.pdf> (December 2008).

<sup>2</sup> The American Water Works Association, *A National Agenda for Drinking Water*, <http://www.awwa.org/files/GovtPublicAffairs/PDF/Transition.pdf> (December 2008).

<sup>3</sup> Airports Council International- North America, [http://www.aci-na.org/index/airportsyou\\_ownership](http://www.aci-na.org/index/airportsyou_ownership) (December 2008).

effectively been used to quickly distribute funds and provide local officials the flexibility to make decisions that are relevant to their communities.

The benefits of a direct distribution to local governments include:

- **Speed.** Stimulus funds could be delivered directly into the hands of the owners of the majority of the nation's infrastructure quickly, reducing the traditional time lags that accompany federal or state grants. Time lags in implementation are the primary impediment to effective fiscal stimulus. Getting the money to local governments quickly meets the urgent need to bolster the economy as soon as possible.
- **Simplicity.** Targeting the formula to only fund "ready-to-go" infrastructure investments would reduce the complexity of the method for distributing federal dollars.
- **Flexibility.** Allowing local governments to use the funds for infrastructure spending while providing the most discretion in how to achieve it - based upon their local needs - would be most effective.
- **Accountability.** The inherent transparency of local government and the Single Audit Act allows the federal government to ensure that local governments spend the funds appropriately.

### **Support to Individuals**

We recommend that an economic recovery package provide funds to local and state governments to support individuals through the following programs:

- **Job Training:** Increase funding through the Workforce Investment Act for local and state workforce training programs. Appropriate the \$125 million in funding already authorized in the Green Jobs Act (H.R. 2847) to establish national and state job training programs to help address job shortages while promoting growth in green industries.
- **Public Employment:** Provide local governments with funds to temporarily employ newly trained green workers over a period of 1-3 years. This would include workers in the following fields: energy auditing; construction or retrofitting of municipal and county buildings and public housing to improve energy efficiency; and conversion of existing public vehicles to an energy efficient fleet.
- **Unemployment Insurance Extension:** The expansion of benefits will provide much needed assistance to the estimated 1.1 million Americans who will exhaust their unemployment insurance by the end of calendar year 2008.

- **Medicaid:** Provide a temporary increase to the increase to the Federal Medical Assistance Percentage (FMAP) for Medicaid matching funds while requiring that a portion of the FMAP be passed through to local governments contributing to the state share of Medicaid. Such relief should ensure the "pass through" applies to Intergovernmental Transfers (IGTs), Certified Public Expenditures (CPEs) and Medicaid disproportionate share hospital (DSH) payments.
- **Food stamps:** Temporarily increase food stamp benefits to immediately assist those in need.

### **Access to Financial Markets**

Much of local infrastructure is financed by the issuance of municipal bonds and because local revenues are collected at different intervals throughout the year, local governments often depend on short-term credit to float between revenue streams. To ensure that local and state governments have access to capital markets, we recommend that Congress and the Administration:

- Instruct the Treasury Department and/or Federal Reserve to directly purchase municipal bonds and short-term notes.
- Raise the bank-qualified debt limit from \$10 million to \$30 million, which will allow small issuers to place their issuance directly with banks.
- Extend Treasury and Federal Reserve authority under the Economic Stabilization and Recovery Plan to ensure that state and local governments have access to the capital markets.
- Require rating agencies to use comparable ratings for all securities. Doing so would better reflect the financial soundness of municipal bonds and lead to lower borrowing costs.