

Florida League of Cities

ALERT

FAST
Federal
Action Strike Team

TO: Key Officials
FLC Board of Directors
Members, Federal Action Strike Team
Directors, Local and Regional Leagues

FROM: John Charles Thomas, Director
Policy and Political Affairs

DATE: January 29, 2009

RE: Federal Economic Stimulus Plan Update

Last night, the U.S. House passed H.R. 1, the American Recovery and Reinvestment Act on a party line vote of 244-188. No Republicans voted for the bill and 11 Democrats voted against it.

As we mentioned last week, this \$819 billion proposal includes about \$523.5 billion in spending and \$275 billion in tax cuts, plus other provisions that round out the total. Last week's alert focused on the spending proposals and this week will highlight key points on tax cuts and recovery efforts.

Specifically, the bill will:

- **Repeal three percent (3%) withholding on government contractors.** For payments made after December 31, 2010, current law requires withholding at a three percent rate on certain payments to persons providing property or services made by Federal, State, and local governments. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services (those with less than \$100 million in annual expenditures for property or services are exempt). Numerous government entities and taxpayers have raised concerns about the application of this provision. The bill would repeal this provision. This proposal is estimated to cost \$10.946 billion over 10 years.

Bond Provisions

H.R. 598 proposes to:

- Increase the small issuer exception (bank qualified bonds) from \$10 to \$30 for 2 years.
- Allow banks to purchase all types of bonds up to 2% of their holdings, and deduct 80% of the carrying costs for 2 years.
- Allow 501(c)3 financing authorities the option to apply the small issuer exception at the borrower rather than the issuer level, with certain restrictions.
- Eliminate the Alternative Minimum Tax (AMT) penalty on governmental and private activity bonds for two years.
- Expand and extend the Qualified Zone Academy Bonds Program (tax credit bonds).
- Expand and extend the Clean Renewable Energy Bonds Program (tax credit bonds).
- Create a taxable bond option program for governmental bonds. Issuer chooses to issue a taxable or tax exempt bond for a project. If a taxable bond is issued the issuer will receive direct funds from the federal government totaling 35% of the interest paid. A possible credit to the investor may be included (this seems unclear in the legislative language).
- Create a new program of tax exempt bonds and tax credit bonds for “recovery zones” in states and large cities/counties. The allocation method is based on the number of unemployed individuals in that jurisdiction. A recover zone is an area that has high unemployment, foreclosed property or poverty. The taxable bond option comes with a 55% reimbursement rate.

Accountability and Transparency

With such a large amount of taxpayer dollars being used to fund this legislation, there is a need for accountability and transparency like never before. The Obama Administration has made it very clear that there is no place for abuse or fraud in government especially in these dire times. The appropriation of funds will be overseen by the newly created Recovery Act Accountability and Transparency Board. This board will review management of recovery dollars and provide early warning of any problems. To add to the amount of accountability and transparency, there will be no Congressional earmarks in the package.

Specifically, the Recovery Act Accountability and Transparency Board will have direct oversight over how funds are spent, all announcements of contracts and grant competitions and formula grant allocations must be posted on a special website created by the President. Public notification of funding must include a description of the investment funded, the purpose, the total cost and why the activity should be funded with recovery dollars. Governors, mayors or others making funding decisions must personally certify that the investment has been fully vetted and is an appropriate use of taxpayer dollars. This will also be placed on the recovery website. All projects will be audited and for projects that don't meet certain standards, the funding will be rescinded.

Exclusions:

The bill provides that no funds can be used for casinos, aquariums, zoos, golf courses or swimming pools.

Transportation Allocations

Below is a funding breakdown for transportation related programs:

Highways and Bridges - \$30 billion

- 55% of the funds, or \$16 billion will go to state DOTs to use at their discretion.
- 45% or \$13.138 billion will be further subdivided in a way that emulates the surface transportation program

The transportation funding will be distributed based on formula funding so Florida's share of the \$30 billion highway funding is estimated to be about \$1.4 billion. Of the 45% for the Surface Transportation Program, Florida should get the following:

- \$65 million – Transportation Enhancements (bicycle paths and facilities)
- 62% of funds suballocated by population to MPOs
 - \$292 million – to areas greater than 200,000 population (MPOs)
 - \$52 million – to areas between 5,000 and 199,000
 - \$24,000 – to areas under 5,000
- \$222,000 – left to state discretion

Of the 55% for state DOT discretion, Florida should get about \$804,000.

Florida Infrastructure Formula Funding:

- Highways: \$1,461,783,079
- Transit Capital - \$285,430,373
- Fixed Guideway Modernization: \$36,863,622
- Clean Water SRF: \$195,942,087

Total Infrastructure Investment: \$1,980,019,161

The Senate will take up its bill next week. We will continue to keep you posted as information becomes available.