

September 29, 2017

RE: WEEKLY UPDATE

- I. State Issue—Interest Arbitration
- II. Federal Issue— Federal Tax Reforms Threatens Infrastructure Investments and Homeowners
- III. Also of Interest

Dear Mayor:

For this week’s recap, we focus only on two major issues. First, we focus on the need to extend the 2% interest arbitration cap, which was bolstered this week by the release of data which further demonstrated the success of the cap and the need to extend it beyond its December 31 sunset. Second, we call your attention to the possibility that Federal Income Tax reform could jeopardize two provisions of the Tax Code that are vital to New Jersey taxpayers and New Jersey municipalities, the exemption from federal income tax of interest earned on municipal bonds and the state and local tax (SALT) deduction.

I. State Issue---Governor’s Appointees to the Interest Arbitration Task Force 2017 Report

On September 28, the 2017 Report of the Governor’s appointees to the Police and Fire Public Interest Arbitration Impact Task Force was released. The report was issued, following the Task Force’s September 25 meeting, where the eight- member committee was deadlocked on adopting the report and delivering it to the Governor and Legislature.

All four of the Governor’s appointees supported the adoption and release, while all four legislative appointees were against the adoption and release. The Governor’s appointees decided that the “information was too important to keep from the public” and released the report.

This most recent report continues to again demonstrate what the [previous](#) Interest Arbitration Task Force reports found; that the “amendments have had a profound effect on limiting interest arbitration to a procedure of last resort, leaving it to the parties to settle labor contracts through direct negotiation and within budgetary constraints.”

In addition, the underlying data continues to show that Interest Arbitration cap works and has not adversely impacted crime rates or recruitment of public safety personnel. In fact, the report also found that while the rates of the police and fire salary increases have slowed, New Jersey firefighters’ average salaries remain the highest in the nation while police officers’ salaries are the second highest in the nation. For more please see our [blog post](#).

Click here for the report.

[And click here for the copy of the report tabs, which includes significant and relevant data.](#)

We urge you to pass a resolution (pdf) urging the State Legislature and Governor to extend the 2% cap on Police and Fire Arbitration Contract Awards for an additional five years, at which time the Legislature will have hard data to examine and then make a final decision as to whether this law should be made permanent.

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II. Federal Issue-- Federal Tax Reforms Threatens Infrastructure Investments and Homeowners

On Wednesday, the White House, the Senate Majority Leader, the Speaker of the House and the Chairs of the respective House and Senate tax-writing Committees released the “Unified Framework for Fixing Our Broken Tax Code” (the Framework).

As you may recall, in our [August 4 Weekly Update](#) we alerted you to the possibility that Federal Income Tax reform could jeopardize two provisions of the Tax Code that are vital to New Jersey taxpayers and New Jersey municipalities. Those are the exemption from taxation of interest earned on municipal bonds (First highlighted, this year, in our [February 3 Weekly Update](#).), and the state and local tax (SALT) deduction. (Most recently discussed in our [September 15 Weekly Update](#).)

This nine- page document provided some details that were missing from the Administration’s earlier one-page statement of principles. (See our [April 28 Weekly Update](#) for information on that.) It makes no specific mention, however, of the future of the municipal bond and the SALT provisions. Instead, it directs the House and Senate tax-writing committees (the House Ways and Means Committee and the Senate Finance Committee) to ‘develop legislation through a transparent and inclusive committee process,’ which would (among other things) close ‘special interest tax breaks and loopholes.’

The Framework calls for fewer tax brackets and significantly increased standard deductions, specifically allowing itemized deductions for only mortgage interest and charitable giving. Some budget analysts estimate that the tax cuts included in the Framework could decrease government tax revenue by more than \$5 trillion, over 10 years. The elimination of many, yet to be specified, itemized deductions will be needed to offset some of that loss, and to ease the impact that it would have on the deficit and on continued funding for vital federal programs and services.

The tax code is incredibly complex and every one of its provisions was enacted for a reason. While some of those reasons may no longer serve the public’s interest, others remain fair and effective tools that promote the general welfare and serve legitimate public interests.

For more than a century, the federal income tax exemption of the interest earned on municipal bonds has kept the cost of issuance down. It has encouraged bond buyers to invest in our public infrastructure, at a discount to those taxpayers. Loss of that advantage would force municipalities and states to increase rates of return, in order to compete with other investment opportunities. That, in turn, would increase a local government's costs, which would, ultimately, be shouldered by our property taxpaying residents and businesses.

[At our Annual Conference, last November in Atlantic City, the members of the League unanimously endorsed a resolution calling on Congress to preserve this vital tool.](#)

The state and local tax deduction was one of six deductions in the original tax code in 1913. The principle that no government should tax another strike at the heart of federalism, and any reversal would be an overreach by the federal government. This preemption would result in a double taxation and increase the constraints of local budgets due to a lack of revenue.

A [Draft Resolution on SALT Deductibility](#) is posted on our website, for your consideration.

Any reform effort that includes cutting these vital tools is short-sighted and would undermine the ability to meet the needs of the citizens' local officials are sworn to serve.

Please contact Senators Menendez and Booker and your Congresswoman or Congressman and urge them to protect these vital provisions.

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III. Also of Interest

Ready for the 2017 Annual League Conference? There is an app for that! Starting October 4th you can download the official conference app. Create your personal schedule before you go to Atlantic City. Don't miss important sessions, speakers or exhibits. All the Annual Conference information is at your fingertips in a highly searchable format.

Download day is October 4. Visit your app store to download.

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Sincerely,

Michael J. Darcy, CAE
Executive Director

