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Soon after taking office, President Trump signed an Executive Order to cut federal funding from so-called sanctuary jurisdictions. Earlier this week, Attorney General Jeff Sessions said that approximately 200 localities have refused to honor federal requests to turn over undocumented immigrants and threatened to cut police money and claw back previous Justice Department grants. While it's still unclear the exact amount of funds that may be withheld from sanctuary cities, due to legal precedent and politics, it is clear that this is a growing negative credit risk for some of the larger local issuers, and yet another reason we remain underweight the local sector.

The term 'sanctuary city' generally has no legal definition, although it is generally understood to mean any government jurisdiction (city, county, etc.) that is welcoming to undocumented immigrants and has laws or policies that limit the cooperation of local law enforcement with federal immigration officials. According to Immigration and Customs Enforcement Data there are 300 jurisdictions that could be characterized as sanctuary regions given policy or immigration enforcement practices. As you can see in the list below, many of the largest cities in the U.S. are sanctuary governments and have reaffirmed their sanctuary status since the election.

Cities that reaffirmed their sanctuary status

| | | | |
|---------------|-----------------|------------------|-------------------|
| Appleton, WI | Detroit, MI | New York, NY | San Francisco, CA |
| Ashland, OR | Evanston, IL | Newark, NJ | Santa Fe, NM |
| Aurora, CO | Hartford, CT | Newton, MA | Seattle, WA |
| Austin, TX | Jersey City, NJ | Oakland, CA | Somerville, MA |
| Berkeley, CA | Los Angeles, CA | Philadelphia, PA | St. Paul, MN |
| Boston, MA | Madison, WI | Phoenix, AZ | Syracuse, NY |
| Cambridge, MA | Minneapolis, MN | Portland, OR | Takoma Park, MD |
| Chicago, IL | Nashville, TN | Providence, RI | Tucson, AZ |
| Denver, CO | New Haven, CT | Richmond, CA | Washington, DC |

Cities that have no plans to change policies

| | | | |
|---------------|----------------|-----------------|-----------------|
| Aberdeen, WA | Las Vegas, NV | New Orleans, LA | Springfield, OR |
| Baltimore, MD | Long Beach, CA | Northampton, MA | |
| Fresno, CA | Mesa, AZ | Princeton, NJ | |

Cities that formally declared sanctuary status since election

| | | | |
|---------------|----------------|----------------|--------------|
| Santa Ana, CA | Burlington, VT | Montpelier, VT | Winooski, VT |
|---------------|----------------|----------------|--------------|

Over \$27bn in annual federal grants and direct payments flowed into America's 106 larger sanctuary cities in FY2016, according to the organization American Transparency. On average, these cities receive approximately 9.6% of their revenues from federal grants. While highly unlikely the cities would lose all of their funding, any revenue cuts would have a negative impact on these cities, which are still in recovery mode from the recession and are also dealing with significant and growing pension and entitlement expenditures. There will also likely be legal costs associated with defending sanctuary status and fighting the executive order. The city of San Francisco has already filed a federal lawsuit against the Trump administration arguing that the executive order violates states rights' provisions of the Constitution. The threat of losing some federal funding has had a few reverse their sanctuary policy: Miami-Dade County voted to end its status last month and Texas passed a statewide bill to ban sanctuary cities in January.

Federal General Government Grant Funding By City

| City | State | Federal Funding in SMMS | Federal Funding Per Capita | % of Governmental Funds Revenue |
|---------------|-------|-------------------------|----------------------------|---------------------------------|
| New York | NY | \$7,665 | \$896 | 9.4% |
| Los Angeles | CA | \$347 | \$87 | 5.0% |
| Chicago | IL | \$765 | \$281 | 12.3% |
| Philadelphia | PA | \$247 | \$158 | 4.1% |
| Phoenix | AZ | \$222 | \$142 | 10.7% |
| San Diego | CA | \$77 | \$55 | 4.1% |
| Dallas | TX | \$225 | \$173 | 13.6% |
| San Jose | CA | \$48 | \$46 | 3.3% |
| Austin | TX | \$46 | \$49 | 4.3% |
| San Francisco | CA | \$428 | \$495 | 8.0% |
| Columbus | OH | \$243 | \$285 | 18.6% |
| Fort Worth | TX | \$81 | \$97 | 9.1% |
| Charlotte | NC | \$47 | \$57 | 5.3% |
| Seattle | WA | \$98 | \$143 | 5.4% |
| Denver | CO | \$257 | \$376 | 13.9% |
| Detroit | MI | \$106 | \$157 | 8.1% |
| Washington | DC | \$2,113 | \$3,144 | 18.2% |
| Boston | MA | \$904 | \$1,356 | 27.6% |
| Nashville | TN | \$190 | \$290 | 8.6% |
| Portland | OR | \$23 | \$36 | 1.9% |

Source: Openthebooks and Loop Capital Markets

Ultimately, the federal courts will likely rule on the constitutionality of the President's 'sanctuary cities' order. Until then, the increased policy and fiscal uncertainty surrounding sanctuary cities and federal grants is likely to lead to greater negative headline risk and possible underperformance of the local sector. We continue to favor revenue bonds over local GOs because of the local sector's high political risk, growing unfunded pension liabilities, and tight credit spreads.

The assertions in this perspective are Seix Investment Advisors' opinion.

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