

March 8, 2013

The Honorable Patty Murray
Chairman, Senate Budget Committee
624 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Jeff Sessions
Ranking Member, Senate Budget Committee
624 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Paul Ryan
Chairman, House Budget Committee
207 Cannon House Office Building
Washington, DC 20515

The Honorable Chris Van Hollen
Ranking Member, House Budget Committee
B71 Cannon House Office Building
Washington, DC 20515

Dear Senators and Representatives:

As the House and Senate Budget Committees work to develop their FY 2014 budget resolutions, the state and local government associations and other organizations representing participants involved in municipal finance listed below urge Congress' continuing support and commitment to maintaining the federal tax-exemption on municipal bonds and the critical role it plays in addressing national infrastructure priorities. Maintaining the tax-exemption on municipal bond interest is essential to help our national economy grow, create jobs and best serve the constituencies of each community.

The federal tax exemption on municipal bonds was included in the country's income tax code in 1913. Through the tax-exemption, the federal government continues to provide critical support for the federal, state and local partnership that develops and maintains essential infrastructure, which it cannot practically replicate by other means. Three-quarters of the total United States investment in infrastructure is provided by state and local governments, and tax-exempt bonds are the primary financing tool that are used by over 50,000 state and local governments and authorities to satisfy these infrastructure needs. On average, state and local governments issue nearly 10,000 bonds a year totaling \$300 billion. This has allowed state and local governments to finance more than \$1.65 trillion in infrastructure investment over the last decade through the tax exempt market.

Our citizens, communities and public, private and non-profit sectors benefit in many ways from the issuance of these bonds, as they are used to build and maintain schools to support an educated workforce, and to build our roads, public transportation systems and airports, all of which are essential for supporting commerce. They also help to address the country's water infrastructure, public utilities, health care and affordable housing needs, as well as provide public safety infrastructure that ensures local and national security. These financings are approved by elected bodies at the state and local levels or by the voters themselves for specific long-term projects, not to support general government functions, such as maintaining employees or keeping the lights on.

As the federal government continues to develop policies to reduce the deficit, several proposals have been offered that would replace, limit, or eliminate the tax exempt status of municipal bonds. To support these proposals it has been suggested that those who truly benefit from the municipal tax exemption are wealthy investors. These claims mischaracterize municipal investors and the true beneficiaries of municipal bonds, who are –

- state and local governments who need the support of investors to finance critical infrastructure;
- taxpayers across the country who depend on this infrastructure for reliable transportation systems, schools, public health facilities, energy, clean water and affordable housing;

- the federal government, who gets quite a bargain on their partnership with state and local government to provide the nation's infrastructure through the exemption; and
- investors who buy bonds for many reasons, including the safe nature of these financial products.

With regard to the identity of municipal investors, 2010 IRS data indicates that 57 percent of tax exempt income is reported by earners over the age of 65. These are individuals who are largely on fixed incomes, expecting the secure return on investment that municipal bonds provide. Municipal bonds are the second safest investment, aside from U.S. Treasuries, with state and local governments having nearly a zero default rate. 2010 IRS data also indicates that 52 percent of all bond interest paid to individuals went to those with incomes of less than \$250,000. Finally, it is worth noting that 72.4 percent of the total outstanding muni debt is held by individual investors, either directly or through mutual funds and money market funds (Source - 2010 Thomson Reuters). These are people who want to support the long-term infrastructure needs of their communities through a direct investment that cannot be replaced by any source, including the federal, state or local governments.

Proposals to reduce or repeal the tax exemption would have severely detrimental impacts on national infrastructure development and the municipal market, raising costs for state and local borrowers and creating uncertainty for investors. For example, it is estimated that if the proposal to cap the exemption on municipal bonds at 28 percent had been in place over the last 10 years it would have cost state and local governments an additional \$173 billion in interest costs. Total repeal of the exemption over that time would have cost state and local governments over \$495 billion in additional interest costs. Given the severe budget constraints that state and local governments have faced since the national financial crisis of 2008, it is very likely that many of the infrastructure projects funded through tax exempt bonds would not have been possible.

Proposals to cap or repeal the exemption would also have introduced uncertainty into the municipal market, causing investors to fear additional federal intervention in the market where none has existed for the past 100 years. Ultimately these investor concerns translate into demands of higher yields from and increased costs to state and local governments. If these entities are unable to satisfy investor yield demands, then either needed infrastructure projects will not move forward or the costs of these projects will be passed on directly to state and local tax and rate payers. Meanwhile other proposals to replace tax exempt bonds with tax credit or direct subsidy bonds have also gained some attention, but it is important to note that these proposals would also create uncertainty and instability in the market, and more importantly, the costs of issuance for a majority of governments, especially smaller governments, would rise should such proposals be enacted. These costs would then be passed along to taxpayers.

The municipal tax exemption has a long history of success, having been maintained through two world wars and the Great Depression, as well as the recent Great Recession, and it continues to finance the majority of our nation's infrastructure needs for state and local governments of all sizes when no other source exists to do so. We cannot afford to abandon the great success of this important instrument now.

Sincerely,

International City/County Management Association
National Association of Counties
National League of Cities
Government Finance Officers Association
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
American Public Gas Association

American Public Power Association
American Public Works Association
Council of Infrastructure Financing Authorities
International Municipal Lawyers Association
Large Public Power Council
National Association of Clean Water Agencies
National Association of Health & Higher Education Facilities Finance Authorities
National Association of Local Housing Finance Agencies
National Council of State Housing Agencies