Don't Mess With Our Bonds Coalition

March 26, 2015

The Honorable John Boehner
Speaker
United States House of Representatives
1011 Longworth House Office Building
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
United States House of Representatives
233 Cannon House Office Building
Washington, DC 20515

RE: Preservation of the Municipal Bond Tax Exemption

Dear Speaker Boehner and Minority Leader Pelosi:

On behalf of the organizations listed below we are writing to share our concerns about recurring proposals that seek to end the long-standing tax exempt status of municipal bond interest. The tax exemption has been a successful cornerstone of state and local infrastructure development for over 100 years, and has been used effectively to finance the vast majority of the nation's infrastructure. As Congress considers the fiscal year 2016 budget and potential tax reform efforts, we urge your support in maintaining the current tax-exempt status of municipal bonds.

For more than a century, municipal bonds have enjoyed tax-exempt status and have been the primary method by which state and local governments finance public capital improvements and infrastructure construction. These projects are engines of job creation and economic growth; and it is imperative that the financing tool used to finance such projects remain unchanged.

Over the last decade, tax-exempt municipal bonds have been used to finance over $3 trillion in critical infrastructure including the construction of schools, hospitals, airports, affordable housing, water and sewer facilities, public power utilities, roads and public transit. In 2013 alone, nearly 11,000 tax-exempt bonds were issued to finance more than $285 billion in infrastructure investments. 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.

Proposals to reduce or repeal the tax exemption would have a severely detrimental impact on national infrastructure development and the municipal bond market. Such proposals would clearly increase the borrowing costs of state and local governments and create 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 during the decade between 2002 and 2012, 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 borrowing 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.

Through this critical financing tool, state and local governments are able to save approximately two-percentage points on their borrowing costs to finance the vast majority of all public infrastructure in our nation, which translates into a substantial savings to local taxpayers. This is a critical point. Eliminating or limiting the exclusion of interest on municipal bonds will increase the costs borne by taxpayers for critical infrastructure projects. As bondholders demand higher interest rates to offset the taxes imposed on these bonds, borrowing costs will increase for state and local governments. These higher costs will be passed on to both businesses and individuals, and stifle job creation and economic growth.

Proposals to cap the exemption would also introduce uncertainty into the municipal market, causing investors to fear additional federal intervention in the market where none has existed for the past 102 years. Ultimately these investor concerns translate into demands for 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.

The municipal bond 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. We cannot afford to abandon the great success of this important financing instrument, especially as state and local governments continue to recover from the economic downturn.

Therefore as you consider the fiscal year 2016 budget, we urge you to make clear that any elimination or cap of the current tax-exempt deduction of municipal bond interest will not be included in any comprehensive tax reform effort. Thank you for your consideration of this important request. We look forward to working with you to preserve this irreplaceable financial tool.

Sincerely,

Airport Council International-North America
American Concrete Pavement Association
American Concrete Pressure Pipe Association
American Council of Engineering Companies
American Hospital Association
American Planning Association
American Public Gas Association
American Public Power Association
American Public Transportation Association
American Public Works Association
American Society of Civil Engineers
American Water Works Association
Associated General Contractors of America

Association of Metropolitan Water Agencies
California Association of Sanitation Agencies
Council of Infrastructure Financing Authorities
Distribution Contractors Association
Government Finance Officers Association
International Association of Fire Fighters
International City/County Management Association
International Economic Development Council
International Municipal Lawyers Association
International Public Management Association for Human Resources
Investment Company Institute
Large Public Power Council
Municipal Bonds for America
National Association of Bond Lawyers
National Association of Clean Water Agencies
National Association of College and University Business Officers
National Association of Counties
National Association of County and City Health Officials
National Association of County Community and Economic Development
National Association of Development Organizations
National Association of Health and Education Facilities Finance Authorities
National Association of Local Housing Finance Agencies
National Association of Municipal Advisors
National Association of Regional Councils
National Association of Resource Conservation and Development Councils
National Association of State Auditors Comptrollers and Treasurers
National Association of Towns and Townships
National Community Development Association
National Conference of State Legislatures
National Council of State Housing Agencies
National Council on Teacher Retirement
National League of Cities
National Utility Contractors Association
Tennessee Association of Utility Districts
The United States Conference of Mayors
Transmission Access Study Group
Water Environment Federation
Water Infrastructure Network