National Association of State
**Auditors, Comptrollers
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Senator Dean Heller
Co-Chair, Committee on Finance
Tax Reform Working Group on
Community Development and Infrastructure
United States Senate
Washington, DC 20510

Senator Michael Bennet
Co-Chair, Committee on Finance
Tax Reform Working Group on
Community Development and Infrastructure
United States Senate
Washington, DC 20510

VIA ELECTRONIC MAIL: CommunityDevelopment@finance.senate.gov

Dear Co-Chairs Heller and Bennet:

On behalf of state finance officials nationwide, we are writing to relay our strong support for retention of the municipal bond tax exemption. As you continue discussions on options for tax reform, we ask that you carefully consider the real and tangible benefits that the tax exemption for municipal bonds affords our governments and its citizens, and reject options that would erode the ability of our governments to grow the national economy, create needed jobs and efficiently serve the public.

As finance officials of the states, our members are engaged in a variety of programs to manage taxpayer dollars and finance public infrastructure in the most efficient and effective manner possible. Tax exempt municipal bonds are one such vehicle that allows our governments to successfully finance important and needed public projects. Such projects include the construction and maintenance of schools, streets, highways, hospitals, bridges, low-income housing, water and sewer systems, ports, airports and other public works.

Presumably you have heard about individual investors who use municipal bonds as a safe investment vehicle. Yet news outlets report very little about how governments are able to effectively utilize municipal bonds to provide important public infrastructure.

The exemption of tax on municipal bonds has existed since the Sixteenth Amendment to the Constitution in 1913, which developed the structure for our federal tax system. This exemption allows states and municipalities to finance public projects at a lower finance rate than borrowing on the open market. Lower financing rates mean savings for local taxpayers while offering interest free of federal tax, and in many cases state tax, for investors. We strongly believe that this financing vehicle is one that is efficient, low-cost and that assists in creating essential jobs; it should be recognized for its importance for building and maintaining the infrastructure in our country.

Over the past several years, there have been several proposals to eliminate or minimize the tax exemption for municipal bonds, from all out repeal of the exemption as suggested by the Simpson Bowles Commission to a cap on the deduction as proposed by President Obama. Any repeal or limitation of the tax exemption, however, would drive up the costs of building infrastructure, which in turn could cause state and local governments to scale back or eliminate important public projects that both serve citizens and provide much needed jobs for our citizens. If investors see less of a tax break, they will demand higher interest to make up for the loss or move their funds to other investments where they would receive favorable tax treatment. Such changes will result in higher borrowing costs for governments. Alternatively, state and local governments may increase other taxes and fees or cut services to compensate for increased borrowing costs, which ultimately would be borne by local taxpayers.

Tax exempt financing is a shining example of how federal, state and local governments can work together to provide citizens and their communities with the tools necessary to support a robust and healthy economy. Between 2003 and 2013, states, counties and other localities invested $4.2 trillion in infrastructure through long-term tax-exempt municipal bonds.[1]

According to a publication of the National League of Cities, the National Association of Counties, and the US Conference of Mayors, during the last decade:“$514 billion of primary and secondary schools were built with financing from tax exempt bonds; nearly $288 billion of financing went to general acute care hospitals; nearly $258 billion to water and sewer facilities; nearly $178 billion to roads, highways, and streets; nearly $147 billion to public power projects; and $105.6 billion to mass transit. In 2012 alone, more than 6,600 tax-exempt municipal bonds financed over $179 billion worth of infrastructure projects.”[2]

It is more important than ever that we maintain aging roads and bridges and undertake public works projects that will keep our country on pace with economic expansion. Any change that would chill investment in our nation’s infrastructure and impede a state’s ability to maintain safe roads and provide a suitable venue to educate our children further compromises the capacity of our nation to weather economic crisis and prepare future generations for the challenges that lie ahead. We are certain that as you look at comprehensive tax reform, you will find that maintaining the tax exemption for municipal bonds is an essential tool to maintaining and replacing aging critical infrastructure that will be essential for our future economic vitality.

We appreciate this opportunity to share our views and welcome a continued dialog. Should you have any questions or desire further information please feel free to contact our representative in Washington, Cornelia Chebinou, at (202) 624-5451.

William G. Holland
President, NASACT
Auditor General, Illinois

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1 “Facts You Should Know: State and Local Municipal Bankruptcy, Municipal Bonds and State and Local Bankruptcy, Fact Sheet 2015,” http://www.nasact.org/files/News_and_Publications/White_Papers_Reports/2015_02_Fact_Sheet.pdf

2 “Protecting Bonds to Save Infrastructure and Jobs 2013,” US Conference of Mayors, National League of Cities, National Association of Counties, http://www.naco.org/research/Documents/Protecting-Bonds-to-Save-Infrastructure-and-Jobs-2013.pdf