

# Don't Mess With Our Bonds Coalition Letter

March 29, 2017

The Honorable Paul Ryan  
Speaker  
United States House of Representatives  
H-232 U.S. Capitol  
Washington, DC 20515

The Honorable Nancy Pelosi  
Minority Leader  
United States House of Representatives  
H-204 U.S. Capitol  
Washington, DC 20515

The Honorable Kevin E. Brady  
Chairman  
House Ways and Means Committee  
1102 Longworth HOB  
Washington, DC 20515

The Honorable Richard E. Neal  
Ranking Member  
House Ways and Means Committee  
341 Cannon HOB  
Washington, DC 20515

## **RE: Preservation of the Municipal Bond Tax Exemption**

Dear Congressional Leaders:

As you and other leaders in Congress meet to discuss tax reform, the organizations listed below write to express our strong support for tax-exempt municipal bonds. This financing tool 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. We strongly urge you to maintain the 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.

Over the last decade, tax-exempt municipal bonds have been used to finance critical infrastructure including the construction of schools, hospitals, airports, affordable housing, water and sewer facilities, public power and gas utilities, roads and public transit. In 2016 alone, the volume of municipal bonds issued reached \$445 billion, which surpassed the previous high set in 2010 of \$433 billion. Between 2007 and 2016, state and local governments invested \$3.8 trillion in infrastructure through tax-exempt municipal bonds. Through this 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, between 2000 and 2014 the federal exemption saved state and local governments an estimated \$714 billion in additional interest expenses. In 2015 alone, the federal exemption saved state and local

governments an estimated \$8 billion in additional interest expenses. 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.

Eliminating or limiting the federal tax exemption 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 104 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.

Again, we urge you to maintain the tax-exempt status of municipal bonds. Thank you for your consideration and we look forward to working with you to preserve this irreplaceable infrastructure financing tool.

Sincerely,

The United States Conference of Mayors  
National Association of Counties  
National League of Cities  
National Conference of State Legislatures  
Council of State Governments  
International City/County Management Association  
National Association of Towns and Townships  
Government Finance Officers Association  
Airports 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  
Association of Metropolitan Water Agencies  
Council of Infrastructure Financing Authorities  
Council of State Community Development Agencies

Distribution Contractors Association  
Food and Water Watch  
International Association of Fire Fighters  
International Economic Development Council  
International Municipal Lawyers Association  
International Public Management Association for Human Resources  
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 County and City Health Officials  
National Association of County Community and Economic Development  
National Association of Development Organizations  
National Association of Health and Educational Facilities Finance Authorities  
National Association of Local Housing Financing Agencies  
National Association of Municipal Advisors  
National Association of Resource Conservation and Development Councils  
National Association of State Auditors Comptrollers and Treasurers  
National Community Development Association  
National Council on Teacher Retirement  
National Council of State Housing Agencies  
National Utility Contractors Association  
Plastics Pipe Institute  
Tennessee Association of Utility Districts  
The Associated General Contractors of America  
The Investment Company Institute  
Transmission Access Study Group  
Water Environment Federation  
Water Infrastructure Network