City of Biggs

Agenda Item Staff Report
City Council Meeting:
January 26, 2016

TO: Honorable Mayor and Members of the City Council
FROM: City Administrator
Subject: Support for preserving tax-exempt municipal bonds

Background:
Preserving tax-exempt financing remains a top federal legislative priority for NCPA, the American Public Power Association, and every other local government group. The National Association of State Treasurers (NAST) is spearheading the attached letter to congressional leaders outlining the importance of tax-exempt financing. NAST is seeking signatures from local elected officials, appointed public utility board members, and/or non-elected officials, to send a powerful political message. NCPA strongly supports this effort and encourages participation.

Recommendation:
Authorize Council Members and City Staff to support preserving tax-exempt financing.

March 2, 2016

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Sander M. Levin
Ranking Member
Committee on Ways and Means
United States House of Representatives
1106 Longworth House Office Building
Washington, DC 20515

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Brady, Ranking Member Levin, Chairman Hatch, and Ranking Member Wyden:

As leaders in state and municipal government, we are writing to stress the importance of maintaining the current tax exemption for municipal bonds. It has been estimated that at the combined state and local levels, we must spend $3.6 trillion by the year 2020 to meet our infrastructure needs, and the importance of building and maintaining our public infrastructure has never been more apparent.[1] Tax exemption of interest on municipal bonds was implemented more than 100 years ago at the dawn of the U.S. income tax system, and we strenuously oppose any reduction or elimination of this tax exemption. Any such change will inhibit our ability to make critical infrastructure investments. Proposals to change this commitment to tax-free municipal bonds would not only be costly for state and local taxpayers, but also result in fewer projects, fewer jobs and further deterioration of our infrastructure.

Three quarters of all public infrastructure projects in the United States are built by the states and local governmental entities and tax-exempt bonds are the primary financing mechanism for these essential projects. Municipal bonds have a very strong repayment record – much higher than corporate bonds – allowing state and local governments to borrow responsibly for capital projects, and providing a safe and reliable investment option for our citizens.

Tax-exempt municipal bonds finance highways, bridges, transit systems, airports, water and wastewater systems, schools, higher education facilities, and many other basic infrastructure projects. Tax-exempt bonds bring affordable capital to these projects, saving an average of 25 to 30 percent on interest costs compared to taxable bonds. In an age of constrained federal and state budgets, the ability to save billions of dollars on infrastructure financing is critical for state and

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[1] "Failure to Act, The Impact of Current Infrastructure Investment on America's Economic Future." Page 7, Report, American Society of Civil Engineers, January 15, 2013. http://www.asce.org/uploadedFiles/Infrastructure/Failure_to_Act/Failure_to_Act_Report.pdf

local governments and their taxpayers. If issuing affordable debt is no longer an option and unfunded projects begin to further mount, state and local governments will have to seek additional infrastructure support at the federal level through federal highway legislation and other sources.

Simply put, any change to the tax treatment of municipal bonds will have a serious impact on the cost to state and local governments of financing critical infrastructure projects. Yet proposals have been offered by both parties to limit the long-lived tax exemption for these bonds.

The cost savings state and local governments realize through tax-exempt municipal bonds occur because investors are willing to accept a lower rate of interest in exchange for that interest being exempt from taxation. If the tax-exemption is capped or eliminated investors will demand a higher interest rate on municipal bonds thereby increasing the cost to municipal issuers. As a result, municipalities will have to either curtail infrastructure projects or raise taxes on sales, property or income. Additionally, if changes to the tax treatment of these bonds are enacted, a tax risk premium will be built into interest rates demanded by future investors. The potential impact of the change is more than theoretical: in December of 2012 the municipal bond market experienced a spike in rates as investors recognized a cap on exemption was under consideration.[2]

We urge you to take into account the consequences that any change in the taxation of municipal bonds will have on the taxpayers in every state and reject any proposed changes to the tax deductibility of municipal bond interest.

Thank you for your consideration of our concerns.

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[2] Tax-Status Threat Fuels Worst Losses Since Whitney: Muni Credit. December 21, 2012 http://www.bloomberg.com/news/articles/2012-12-21/tax-status-threat-fuels-worst-losses-since-whitney-muni-credit