September 6, 2011

The Honorable Jeb Hensarling
Co-Chair, Joint Select Committee on Deficit Reduction
U.S. House of Representatives
129 Cannon House Office Building
Washington, D.C. 20515-4305

Dear Congressman Hensarling:

The state and local government associations and other organizations representing participants involved in municipal finance listed above urge Congress’ continuing support and commitment to federal tax-exempt bond financing and the critical role it plays in addressing national priorities.

Maintaining the tax-exemption on municipal bonds is essential to help our national economy grow, create jobs, and best serve the constituencies of each community. 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 accomplish these infrastructure goals. Our citizens, communities and public, private and non-profit sectors benefit in many ways from the issuance of tax-exempt bonds. For example, they are used to build and maintain schools which help develop an educated workforce. They are used to build our roads and airports, all of which are essential for supporting commerce. They help to address the country’s water infrastructure, electric utility and affordable housing needs. Tax-exempt bonds also provide public safety infrastructure that ensures local and national security.
Governmental bonds have been issued since the mid-1800s, and the federal tax exemption was included in the country’s first federal tax code. Through the tax-exemption, the federal government continues to provide critical support for the development and maintenance of essential facilities and services, which it cannot practically replicate by other means. Without the tax-exemption, state and local governments would pay more to raise capital, a cost that ultimately would be borne by taxpayers.

Additionally, the federal government should continue to honor reciprocal immunity, a basic tenet of American federalism. States do not tax the interest on U.S. Treasury securities, and the federal government should not tax interest on securities issued by states and local governments.

By accessing the tax-exempt bond market, states, municipalities and authorities of all sizes can directly meet the priorities set by their elected officials, and in many cases, determined by referenda from residents in those communities. Responsible decision-making at the level closest to the constituents is the essence of federalism, and we urge Congress to preserve this important financing tool.

We look forward to further discussing these issues with you and your staff.

Sincerely,

National Conference of State Legislatures, Michael Bird, 202-624-5400
International City/County Management Association, Elizabeth Kellar, 202-289-4262
National Association of Counties, Michael Belarimo, 202-942-4254
National League of Cities, Lars Etzkorn, 202-626-3173
U.S. Conference of Mayors, Larry Jones, 202-861-6709
Government Finance Officers Association, Susan Gaffney, 202-393-8468
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451
National Association of State Treasurers, Kevin Johnson, 202-624-8592
American Public Power Association, Amy Hille, 202-467-2929
Council of Development Finance Agencies, Toby Rittner, 614-224-1300
Council of Infrastructure Financing Authorities, Rick Farrell, 202-547-1866
International Municipal Lawyers Association, Chuck Thompson, 202-742-1016
Large Public Power Council, Noreen Roche-Carter, 916-732-6509
National Association of Health & Higher Education Facilities Authorities, Chuck Samuels, 202-434-7311
National Association of Local Housing Finance Agencies, John Murphy, 202-367-1197
National Council of State Housing Agencies, Garth Riemen, 202-624-7710
National School Boards Association, Deborah Rigsby, 703-838-6208
Bond Dealers of America, William Daly, 202-204-7902
Investment Company Institute, Heather Traeger, 202-326-5800
National Association of Bond Lawyers, Victoria Rostow, 202-503-3300
National Association of Independent Public Finance Advisors, Colette Irwin-Knott, 317-465-1504
Securities Industry and Financial Markets Association, Michael Decker, 202-962-7430