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