NATIONAL ASSOCIATION OF
STATE TREASURERS



**Headquarters**
2760 Research Park Dr
PO Box 11910
Lexington, KY 40578-1910
P (859) 244-8175
F (859) 244-8053

**Office of Federal Relations**
444 N Capitol St, NW, Ste 401
Washington, DC 20001-1557
P (202) 624-8592
F (202) 624-8677

E-mail: nast@csg.org
www.nast.org

**Secretariat**
The Council of
State Governments

April 15, 2013

The Honorable Dave Camp
Chairman
Ways and Means Committee
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

The Honorable Sander Levin
Ranking Member
Ways and Means Committee
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Camp and Ranking Member Levin:

As members of the National Association of State Treasurers (NAST), we are writing to impress upon you the importance of maintaining the current tax exemption for municipal bond interest. For more than 100 years, tax-exempt bonds have been the primary financing mechanism for essential state and local infrastructure projects. The need to build and maintain our public infrastructure has never been more acute. Three quarters of all public infrastructure projects in the United States are built by the states and local governmental entities. Eliminating or reducing the tax exemption will greatly limit our ability to address these needs, resulting in fewer projects, fewer jobs and deteriorating infrastructure.

Tax-exempt municipal bonds are the primary tool that state and local governments use to finance highways, bridges, transit systems, airports, water and wastewater systems, schools, higher education facilities, and many other projects. According to the American Society of Civil Engineers, the nation should spend $2.749 trillion by the year 2020 to meet our currently anticipated critical infrastructure needs.[1] Much of the responsibility for addressing these needs rests with states, counties, and cities. Tax-exempt municipal bonds provide a mechanism for bringing private capital to those public projects, while 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 essential.

The cost savings that state and local governments realize through tax-exempt municipal bonds occurs because investors are willing to accept a lower rate of interest in exchange for that interest being exempt from taxation. Eliminating the tax exemption will cause states and localities to pay higher borrowing costs. As a result, municipalities will be forced to either

[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

curtail infrastructure projects or raise taxes on sales, property or income. Any increase in taxes will likely fall heavily on the middle class.

Capping the tax exemption at 28% will also have a disruptive effect on the bond market. Applying the cap retroactively will immediately reduce the value of bonds held by investors, and reduce the expected return on their investment. Additionally, a tax risk premium will be built into interest rates demanded by future investors. One estimate by Citigroup Municipal Strategists puts the tax risk premium at 30-40 basis points. The potential impact of the change is more than theoretical: in December of 2012 the bond market experienced dramatic price upticks as investors recognized a cap was under consideration. For these reasons, we urge you to consider the consequences any change in the taxation of municipal bonds will have on the taxpayers in every state.

The tax-exempt bond market has worked effectively for decades. The tax exemption was part of the agreement reached between the states and federal government that le~~a~~d to the adoption of the 16th Amendment allowing federal income taxes. Municipal bonds have a very strong repayment record – much higher than corporate bonds – allowing the state and local governments to borrow responsibly for capital projects, and providing a safe and reliable investment for our citizens. Bond issuance has remained stable as compared to GDP for the past ten years. More than 60 percent of municipal bonds are owned by individuals, either directly or through mutual funds. States and localities need tax-exempt bonds to continue to attract this private investment to help build our schools, roads and other public facilities.

Please find attached NAST's resolution outlining the association's position on this issue. NAST opposes legislative and regulatory measures that seek to repeal the exemption of municipal bond interest from federal and applicable state income taxation. It also opposes efforts to curtail the use and attractiveness of tax-exempt bonds or to discourage investment in tax-exempt bonds, and opposes any federal legislation that diminishes the value or impairs the use of tax-exempt bonds.

Thank you for your consideration.

Sincerely,

Manju Ganeriwala

Manju S. Ganeriwala
President, National Association of State Treasurers
State Treasurer, Commonwealth of Virginia

Young Boozer
Treasurer, State of Alabama

Angela Rodell
Deputy Commissioner of Revenue,
State of Alaska

Doug Ducey
Treasurer, State of Arizona

Martha Shoffner
Treasurer, State of Arkansas

Bill Lockyer
Treasurer, State of California

Denise L. Nappier
Treasurer, State of Connecticut

Chip Flowers
Treasurer, State of Delaware

Jeff Atwater
Chief Financial Officer, State of Florida

Steve McCoy
Treasurer, State of Georgia

Ron G. Crane
Treasurer, State of Idaho

Dan Rutherford
Treasurer, State of Illinois

Michael L. Fitzgerald
Treasurer, State of Iowa

John Kennedy
Treasurer, State of Louisiana

Nancy K. Kopp
Treasurer, State of Maryland

Andy Dillon
Treasurer, State of Michigan

Don Stenberg
Treasurer, State of Nebraska

Richard Mourdock
Treasurer of State, State of Indiana

Todd Hollenbach
Treasurer, Commonwealth of Kentucky

Neria Douglass
Treasurer, State of Maine

Steven Grossman
Treasurer and Receiver General,
Commonwealth of Massachusetts

Lynn Fitch
Treasurer, State of Mississippi

Kate Marshall
Treasurer, State of Nevada

Catherine Provencher
Treasurer, State of New Hampshire

Andrew Sidamon – Eristoff
Treasurer, State of New Jersey

James B. Lewis
Treasurer, State of New Mexico

Janet Cowell
Treasurer, State of North Carolina

Kelly L. Schmidt
Treasurer, State of North Dakota

Ken Miller
Treasurer, State of Oklahoma

Ted Wheeler
Treasurer, State of Oregon

Robert M. McCord
Treasurer,
Commonwealth of Pennsylvania

Gina Raimondo
General Treasurer, State of Rhode Island

Curtis Loftis
Treasurer, State of South Carolina

Rich L. Sattgast
Treasurer, State of South Dakota

David Lillard, Jr.
Treasurer, State of Tennessee

Susan Combs
Comptroller of Public Accounts,
State of Texas

Richard Ellis
Treasurer, State of Utah

Elizabeth Pearce
Treasurer, State of Vermont

Manju S. Ganeriwala
Treasurer, Commonwealth of Virginia

James L. McIntire
Treasurer, State of Washington

John Perdue
Treasurer, State of West Virginia

Kurt W. Schuller
Treasurer, State of Wisconsin

Mark Gordon
Treasurer, State of Wyoming