



NATIONAL ASSOCIATION OF  
STATE TREASURERS

April 15, 2013

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**Secretariat**

The Council of

State Governments

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.<sup>1</sup> 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

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<sup>1</sup> "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](http://www.asce.org/uploadedFiles/Infrastructure/Failure_to_Act/Failure_to_Act_Report.pdf)

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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 led to the adoption of the 16<sup>th</sup> 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,



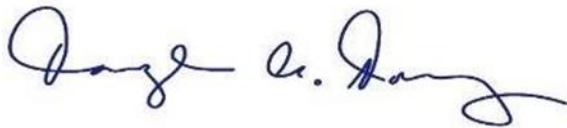
Manju S. Ganeriwala  
President, National Association of State Treasurers  
State Treasurer, Commonwealth of Virginia



Young Boozer  
Treasurer, State of Alabama



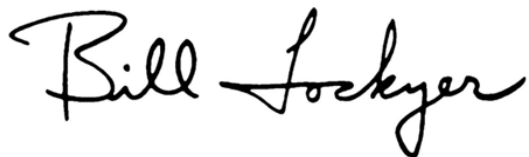
Angela Rodell  
Deputy Commissioner of Revenue,  
State of Alaska



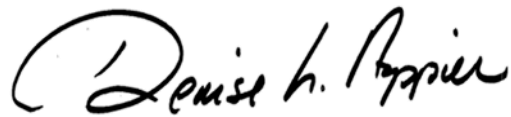
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Treasurer, State of Arizona



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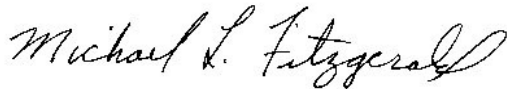
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Treasurer, State of Illinois



Richard Mourdock  
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Michael L. Fitzgerald  
Treasurer, State of Iowa



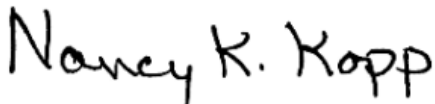
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Treasurer and Receiver General,  
Commonwealth of Massachusetts



Andy Dillon  
Treasurer, State of Michigan



Lynn Fitch  
Treasurer, State of Mississippi



Don Stenberg  
Treasurer, State of Nebraska



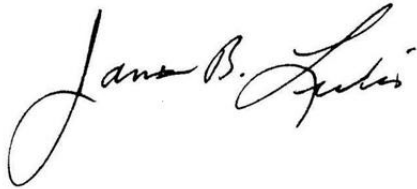
Kate Marshall  
Treasurer, State of Nevada



Catherine Provencher  
Treasurer, State of New Hampshire



Andrew Sidamon – Eristoff  
Treasurer, State of New Jersey



James B. Lewis  
Treasurer, State of New Mexico



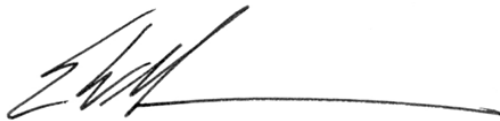
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Ken Miller  
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Ted Wheeler  
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Commonwealth of Pennsylvania



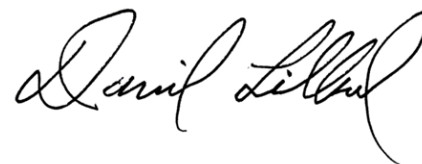
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Rich L. Sattgast  
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David Lillard, Jr.  
Treasurer, State of Tennessee



Susan Combs  
Comptroller of Public Accounts,  
State of Texas



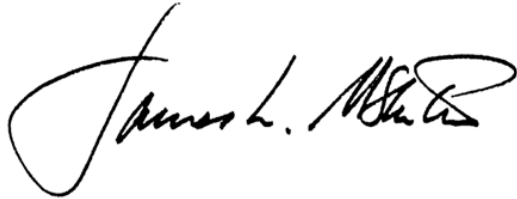
Richard Ellis  
Treasurer, State of Utah



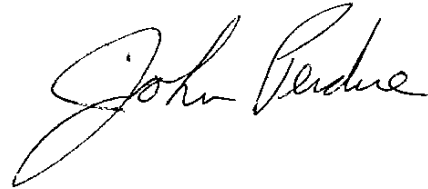
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Treasurer, State of Washington



John Perdue  
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Treasurer, State of Wisconsin



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