April XX, 2013

President Barack Obama
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

RE: Preservation of the Municipal Tax Exemption

Dear President Obama:

On behalf of the INSERT YOUR JURISDICITON, I am writing to share our concerns with provisions included in the White House’s FY 2014 budget proposal that seek to end the long-standing tax exempt status on municipal bond interest. The tax exemption has been a successful cornerstone of state and local infrastructure development for over 100 years, and is responsible for financing a majority of the nation’s infrastructure.

In INSERT YOUR JURISDICTION, the tax exemption on municipal bonds has contributed to the advancement and completion of a great number of critical infrastructure projects, including the $TOTAL COST OF PROJECT NAME OF PROJECT (FOR EXAMPLE – THE $400 MILLION DOWNTOWN WATER SYSTEM REPLACEMENT PROJECT). INCLUDE SEVERAL COMPELLING PROJECTS IF POSSIBLE, AND WHERE POSSIBLE, ALSO INDICATE/ESTIMATE THE NUMBER OF JOBS CREATED BY EACH. ALSO EXPLAIN THE STATE/REGIONAL/LOCAL NEED FOR THESE PROJECTS (WHY IS/WAS THE PROJECT NECESSARY? PROVIDE PERSUASIVE DATA TO SUPPORT THE NEED FOR THE PROJECT (FOR EXAMPLE – THE PROJECT ADDRESSES A CRITICAL STATE/REGIONAL/LOCAL NEED, SUCH AS PROVIDING CLEAN WATER, IMPROVING PUBLIC HEALTH, RELIEVING REGIONAL CONGESTION AND EXPANDING ECONOMIC DEVELOPMENT).

These kinds of projects could not be completed with the infrastructure financing replacement tools proposed by the White House, such as America Fast Forward bond program or its Build America Bonds predecessor, which rely on unpredictable federal funding mechanisms to return subsidies to investors. By contrast, the federal tax exemption maintains a long history of reliability for investors, ensuring dependable returns, and consistently meeting our nation’s infrastructure investment needs since the country’s income tax code was promulgated in 1913. Through the 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 severely detrimental impacts on national infrastructure development and the municipal bond market, raising costs for state and local borrowers and creating uncertainty for investors. For example, it is estimated that if the proposal to cap the exemption on municipal bonds at 28 percent had been in place over the last 10 years it would have cost
state and local governments an additional $173 billion in interest costs. Total repeal of the exemption over that time would have cost state and local governments over $495 billion in additional interest costs. 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.

Speaking specifically to the impacts on INSERT YOUR JURISDICTION, the White House’s proposal would INSERT THE IMPACT OF A FULL REPEAL OF THE MUNICIPAL TAX EXEMPTION AND THE PROPOSED 28% CAP ON THE EXEMPTION TO YOUR JURISDICTION (INCLUDE ESTIMATED INCREASES IN INTEREST COSTS, COSTS TO TAXPAYERS AS WELL AS QUANTITATIVE ESTIMATED IMPACTS OF SPECIFIC PROJECTS THAT WILL BE DELAYED OR CANCELLED SHOULD EITHER OF THESE PROPOSALS BE ENACTED).

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 100 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 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 when no other source exists to do so. We cannot afford to abandon the great success of this important financing instrument, especially as state and local governments continue to recover from the economic downturn.

Thank you for your consideration of this important request. I look forward to working with you to preserve this irreplaceable infrastructure financing resource.

Sincerely,

YOUR JURISDICTION

Cc: YOUR MEMBER(S) OF CONGRESS
    YOUR U.S. SENATORS