1400 K Street, Suite 400 • Sacramento, California 95814
Phone: 916.658.8200 Fax: 916.658.8240
www.cacities.org

December 6, 2012

The Honorable Kevin McCarthy
U.S. House of Representatives
326 Cannon House Office Building
Washington, DC 20515

RE: Maintaining the Tax-Exempt Status of Municipal Bonds

Dear Congressman McCarthy:

As Congress and the White House work to reach agreement on a federal deficit reduction plan to avert the pending sequester, I am writing on behalf of the League of California Cities (League) to urge you to maintain the tax exemption on municipal bonds, and oppose efforts to place a cap on the interest of bonds issued by state and local governments in any final fiscal cliff agreement. Moving forward with these proposals would have profoundly negative impacts on local infrastructure development in California.

State and local governmental bonds have been issued since the mid-1800s, and the federal tax exemption was included in the country's income tax code since its promulgation in 1913. 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. Three-quarters of the total U.S. investment in infrastructure is accomplished with tax-exempt bonds, which are issued by over 50,000 state and local governments and authorities representing a three trillion dollar industry.

Tax-exempt bonds are a critical, core resource of public finance, and are used to help build roads, bridges, sewers, dams, schools, hospitals, affordable housing across the country. Nearly 4 million miles of roadways, 500,000 bridges, 1,000 mass transit systems, 16,000 airports, 25,000 miles of intercoastal waterways, 70,000 dams, 900,000 miles of pipe in water systems and 15,000 waste water treatment plants have been finance through tax-exempt municipal bonds. Municipal bonds are also a safe and reliable investment option. Over 60 percent of tax-exempt bonds are held by individuals either directly or through mutual funds, with 50 percent of all tax-exempts owned by individuals with an adjusted gross income of under $200,000 annually. All grades of governmental tax-exempt bonds have proven to be safer investments than AAA corporate bonds.

Without the tax-exemption, state and local governments would pay more to raise capital, a cost that ultimately would be borne by taxpayers, through reduced infrastructure spending, decreased economic development, higher taxes or higher user fees. Proposals to reduce the tax benefit for municipal bond investors from 35 percent to 28 percent would also be similarly harmful to California cities. While the League agrees that reforms are necessary to reduce the federal deficit, eliminating the tax exemption on municipal bonds or reducing the tax benefit for investors in municipal securities will not achieve sufficient reductions, and will instead only further stagnate national economic growth.

Thank you for your attention to the concerns of California cities on this important economic development issue. Please let me know if you have any questions or need any additional information. You can also contact the League's Washington advocates, Eve O'Toole and Dustin McDonald, at (202) 419-2505 and (202) 419-2511 respectively. We look forward to continuing to work with you on California's important local priority issues.

Sincerely,

Dan Carrigg,
Legislative Director

Cc: The Honorable Max Baucus
The Honorable Orrin Hatch
The Honorable Dave Camp
The Honorable Sander Levin
Jeffrey Zients, Deputy Director for Management, Office of Management and Budget