



April 8, 2013

The Honorable Max Baucus  
Chairman  
Senate Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Orrin Hatch  
Ranking Member  
Senate Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Hatch:

On behalf of the more than 1,500 member organizations of the American Public Transportation Association (APTA), I write to emphasize the importance of municipal bonds for communities seeking to finance investments in their public transportation systems. If Congress considers reforms to the tax code this year, in broad deficit reduction legislation or a more focused tax reform bill, we urge you to fully preserve the long-established provisions of federal law that ensure interest earned on municipal bonds is exempt from federal taxation. We ask that any effort to cap tax exemptions not include the exemption for interest on municipal bonds.

States and local governments have long relied on municipal bonds as a cost-effective way to attract private investment in public transportation projects. The interest exemption enables states and localities to pay lower interest rates on these bonds than if they issued taxable debt. Because interest income on the bonds is tax exempt, bond investors are willing to accept a lower interest rate on municipal bonds than they might otherwise accept on a taxable investment. Eliminating or capping this tax exemption would reduce the attractiveness of municipal debt for investors, and they would demand a higher interest rate on their investment. In turn, this would drive up borrowing costs for state and local governments issuing municipal bonds, in the form of higher interest rate costs and reduced debt capacity. Therefore, limiting the municipal bond interest exemption would hamper state and local financing for infrastructure investment during a period when federal funding for public transportation has fallen short of needs. Despite enactment of the two-year surface transportation bill, Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21), federal funding for public transportation has essentially been stagnant since 2009, and the dedicated revenues that support the Mass Transit Account of the Highway Trust Fund (HTF) will fall far short of what is needed to sustain surface transportation programs after fiscal year (FY) 2014. In this time of declining HTF revenues, the municipal bond interest exemption is an important form of federal support for state and local infrastructure investment that is not dependent upon the Highway Trust Fund.

If Congress considers tax reform legislation this year, we strongly urge you to address the long-term financial stability of the Highway Trust Fund, to avert dramatic cuts to surface transportation programs projected for FY 2015. A predictable, long-term Federal commitment to surface transportation investment is essential to the nation's economic growth and international competitiveness. At the federal level, inflation has

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reduced the purchasing power of fuel taxes, last raised in 1993, by more than 37 percent, while higher fuel economy standards and increased use of hybrid/electric vehicles are further eroding fuel tax revenues. General fund transfers that have sustained the Highway Trust Fund since FY 2008 increase the Federal deficit without curing the real problems of declining dedicated revenues and the resulting chronic underinvestment in infrastructure.

Sustained federal support for public transportation investment, through preservation of the exemption on municipal bond interest and an increase in dedicated revenues to the HTF, is an essential component of the federal government's role of fostering the efficiency and reliability of our interconnected, national transportation network.

We look forward to working with you and your committee as Congress addresses tax reform. We appreciate your consideration of APTA's views on these significant transportation investment issues. If you have questions, please contact APTA's Patricia Doersch at (202) 496-4810 or email [pdoersch@apta.com](mailto:pdoersch@apta.com).

Sincerely yours,



Michael P. Melaniphy  
President & CEO

MPM/tjj

cc: All Senate Finance Committee Members