AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

April 23, 2013

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

Senator 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 American Public Transportation Association (APTA) and its more than 1,500 member organizations, please accept our thoughts below on four critical tax reform matters which impact the public transportation industry and communities across our country.

(1) Parity Between Transit and Parking Fringe Benefits

We urge the members of the Finance Committee to support permanent tax parity for public transportation and parking fringe benefits. Current law provides equal tax treatment for transit riders and parking benefits, but that law expires at the end of this calendar year. Once the current law expires, transit tax benefits will revert to roughly half of the tax benefit for parking - unless Congressional action prevents this inequity. APTA believes that the tax code should treat both transportation modes equally, and not favor one mode over another.

Currently, 1.8 million people utilize transit tax benefits to help reduce their public transportation costs for commuting to and from work. Current law assists transit riders, employers (including many small businesses), and transit systems. By offering pre-tax transit benefits to employees, businesses realize savings from reduced payroll taxes. Transit tax benefits are also a valuable employee recruitment and retention tool. In addition, the use of public transportation reduces traffic congestion and harmful emissions, and transit capital investment stimulates economic development throughout the country.

(2) Extension of Federal Tax Credits for Alternative Fuels and Related Infrastructure

Second, we urge the members of the Finance Committee to support making permanent the existing federal tax credits for alternative fuels and related infrastructure. Small, medium, and large-sized transit agencies across the country benefit from these tax credits, especially, the $0.50 per gasoline gallon equivalent (GGE) tax credit offered to transit agencies fueling their vehicles with compressed (CNG) or liquefied (LNG) natural gas. These credits provide important offsets to transit agency fuel and operating costs, thereby supporting improved transportation services, as well as aiding in job retention. Making these tax credits permanent for the transit industry will reduce harmful emissions and move our country toward long-term energy security. Transit agencies use thousands of CNG/LNG-fueled vehicles to operate their systems safely and to efficiently carry millions to work, school, medical appointments, and other activities.

Public transportation agencies have invested millions of dollars in environmentally-friendly natural gas vehicles and related infrastructure and others will transition to modern, greener CNG/LNG fleets if this credit can be used to offset implementation costs associated with new fueling stations, pipeline connections / extensions, and building modifications. Uncertainty surrounding these tax credits has the potential to discourage future investment in CNG/LNG fleets and associated infrastructure.

(3) Municipal Bonds

Third, we urge members of the Finance Committee 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 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.

(4) Financial Stability for the Highway Trust Fund

Lastly, we strongly urge you to address the long-term financial stability of the Highway Trust Fund, thereby averting the 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 reduced the purchasing power of the current 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.

Sustained federal support for public transportation investment–through preserving the exemption on municipal bond interest and increasing 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.

Thank you for the opportunity to comment on these important tax issues. If you have questions, please have your staff contact Brian Tynan of APTA's Government Affairs Department at (202) 496-4897 or email btynan@apta.com.

Sincerely,

Michael P. Melaniphy
President & CEO

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