National Governors Association
The United States Conference of Mayors
National Association of State Treasurers
National Association of Counties
National League of Cities
International City/County Management Association
Council of State Governments
International Municipal Lawyers Association
National Association of State Auditors, Comptrollers and Treasurers
American Public Power Association
National Association of Local Housing Finance Authorities
National Association of Health & Educational Facilities Finance Authorities
American Hospital Association
Council of Infrastructure Financing Authorities
Airports Council International - North America
Large Public Power Council
National Association of Towns and Townships
American Public Transportation Association
American Public Works Association
American Water Works Association
International Public Management Association for Human Resources
National Association for County Community and Economic Development
National Association of Regional Councils
National Community Development Association
National Association of Bond Lawyers
Government Finance Officers Association

The Honorable Orrin Hatch
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

July 17, 2017

Dear Chairman Hatch and Ranking Member Wyden:

On behalf of the national organizations listed above that represent state and local elected and appointed officials and related public sector entities, we understand the need for tax reform and recognize that the current Internal Revenue Code, which has not seen a major overhaul in over three decades, should reflect a 21st Century economy and the needs of our constituents.

We appreciate the opportunity to submit the following comments to the Senate Finance Committee as it begins its work on reforming the Internal Revenue Code. Our comments focus on two primary areas: (1) the importance of the federal tax exemption of municipal bonds to promote job creation and improve the nation's infrastructure; and, (2) the need for state and local governments to retain the authority to set their own tax policy.

Maintain the Federal Exclusion for Municipal Bond Interest

As the Administration and Congress seek ways to increase infrastructure investments, we would note an incredibly powerful tool already in hand – tax-exempt municipal bonds.

Tax-exempt municipal bonds have financed more than $2 trillion in new infrastructure investments over the past ten years and are on a path to finance another $2 trillion in the next ten years. They are the best way to implement the infrastructure needs of each community effectively, as the decision to issue bonds for various projects is determined and approved by state and local public officials, or by the citizens themselves through bond referenda.

Tax-exempt municipal bonds have been used to finance improvements to and construction of: roads, highways, and bridges; public transportation; seaports and marine terminals; airports; water and wastewater facilities; elementary schools, high schools, and colleges and universities; acute care hospitals; single- and multi-family housing; libraries; parks; town halls; electric power and natural gas facilities; and other public projects.

Municipal bonds are used by states and local governments, governmental issuing authorities, and nonprofit organizations to satisfy a variety of critical infrastructure needs. Investors understand municipal bonds and are comfortable with them. Nearly 75 percent of all public infrastructure funding is derived from tax-exempt bonds. State and local governments save, on average, approximately two percentage points on their borrowing to finance investment in public infrastructure, which translates into substantial savings to local taxpayers and more dollars directed to further public purposes and to build additional infrastructure. These public infrastructure investments remove barriers to commerce and make our communities more livable.

For these reasons, we urge Congress to reject any proposals that would remove the exclusion of the interest earned on municipal bonds from federal income. Eliminating or even capping this exclusion increases costs to state and local governments and, ultimately, to taxpayers. It may also make some public projects cost prohibitive, which could reduce jobs and affect U.S. competitiveness.

Additionally, as Congress evaluates corporate tax reform, please note that any actions to further limit incentives for banks and corporations to purchase municipal bonds could harm taxpayers, not solely the targeted private sector entities, because demand for municipal bonds is the underpinning of a healthy market. In 1986, Congress limited the incentives for banks and corporations to purchase municipal bonds, which shrunk the corporate investor base for municipal securities, and increasing rates for those bonds. If this base is further eroded, other investors will demand more yield, which will increase the cost of borrowing to states and local governments, and curtail the attractiveness of municipal securities. This would slow progress toward the goal of improving our nation's infrastructure.

On a related note, we offer two long-standing recommendations to help increase national infrastructure investment. First, modifying the two-percent de minimis rule would allow financial institutions to hold up to 2 percent of their assets in tax-exempt obligations issued without full reduction of their attributable interest expense deductions, which would help spur demand for of tax-exempt bonds. Second, an increase in the bank qualified debt limit from $10 million to $30 million and indexing it for inflation would help increase infrastructure investment, particularly in smaller and more rural jurisdictions. Additionally, this cap should be applied to the borrower, not the issuer, in the case of conduit borrowings. Bank qualified bond issuers save between 25 and 40 basis points on an average. On an average 15-year, $3.89 million bank qualified debt financing, an issuer could expect to save between $146,000 and $233,000. This is a substantial savings for our nation's smaller governments and nonprofits and can be used to maintain and improve valuable community services and finance other much-needed capital improvement projects.

Preserve Local Authority to Govern and Protect the State and Local Tax Deduction (SALT)

Eliminating or capping federal deductibility for state and local property, sales and income taxes would represent double taxation because those taxes are mandatory payments for all taxpayers.

It would adversely impact almost 30 percent of taxpayers, including individuals in every state and individual earners at every income level. In 2014, the most recent year for which data is available, 43 million tax units representing well over 100 million Americans deducted state and local taxes. Additionally, more than 50 percent of the total amount of the SALT deduction went to taxpayers with adjusted gross incomes (AGI) under $200,000.

Deductibility of state and local taxes has contributed to the stability of state and local tax revenues that are essential for providing public services. The Internal Revenue Code recognizes that state and local government tax structures are interconnected, yet independent. As state and local governments must balance their budgets, any change that disrupts the stability of their tax structure could only harm their ability to provide programs and services. The deductibility of taxes levied by state and local governments supports their efforts to set tax rates at levels that efficiently match the service demands of their residents across a range of incomes and needs.

We appreciate the opportunity to submit these comments and welcome the chance to work with you to develop a comprehensive framework for tax reform. A strong and supportive federal-state-local partnership is critical for effectively delivering core governmental services to our citizens.

If you have questions, please feel free to contact any of our associations' legislative representatives.

Sincerely,

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