Municipal Bonds for America

April 2, 2014

The Honorable Barack Obama
President of the United States
The White House
Washington, DC 20500

Dear President Obama:

We are writing on behalf of the Municipal Bonds for America coalition, which unites local elected officials and municipal bond professionals, to express concern with the provision in your proposed FY 2015 Budget that would cap the value of the municipal bond exclusion at 28% - effectively levying a tax on all municipal bond interest for the first time in history and upending the most effective and time-tested tool for investing in public infrastructure. As you know from numerous conversations with governors, mayors, school administrators, and other state and local leaders, municipal bonds are used by communities across the country to build everything from schools and airports to water facilities and affordable housing. Indeed, municipal bonds fund the building blocks of a competitive, modern American economy and there is no viable alternative that can effectively replace the $3.7 trillion municipal bond market.

Your budget identifies education and economy-growing infrastructure investments as top priorities. We agree wholeheartedly – and these are the exact things we use municipal bonds to do every day at a state and local level. These are also the priorities that will be directly impacted if the 28% cap provision is implemented. Through over 100 years of tax law, the federal government has recognized that taxing state and local government financing would have a detrimental effect on state sovereignty and the construction and maintenance the nation's infrastructure.

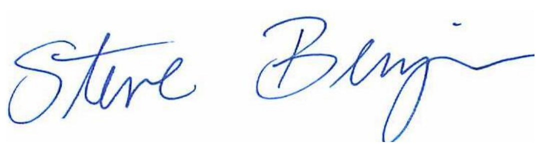
Investments in new and existing structures flow through the entire economy, creating jobs and increasing overall economic value. However, projections show that instituting the 28% cap would reduce investment that would annually support over 310,000 jobs. Compounding that concern, while the 28% cap proposal may be intended to limit the tax benefit for higher-income earners, it will in effect be a tax on all Americans. Because investors will demand a higher return on bonds to make up for the change in tax treatment, this proposal would increase borrowing costs by up to 70 basis points for issuers of municipal bonds and increase the cost of essential infrastructure by up to 20%. This additional cost will be paid by every citizen through higher taxes, fees, and rates, or in many cases, cause important projects to be sidelined altogether.

Taxing all municipal bonds for the first time in history would be counterproductive to the cause of job creation, income equality and American competitiveness, ultimately discouraging investments in infrastructure and increasing costs that will be borne disproportionately by low or fixed income households who can least afford it.

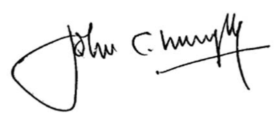
Given what is at stake, we urge you to remove this proposal from your FY 2015 budget and support preserving current law treatment of municipal bonds. We look forward to working with your administration on this important issue. Feel free to contact John Murphy at 202-367-1257 or jmurphy@nalhfa.org with questions and visit www.munibondsforamerica.org for more information and a complete list of 30 supporting organizations across the county. We appreciate your consideration.

Sincerely,

Executive Committee of the Municipal Bonds for America Coalition:



Steve Benjamin, MBFA Chairman
Mayor, City of Columbia, South Carolina



John Murphy
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