

RESOLUTION

PRESERVING AND ENHANCING THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

Opposing federal legislative and regulatory measures to repeal the exemption of municipal bond interest from Federal and applicable state income taxation and to curtail the use and attractiveness of tax-exempt bonds.

WHEREAS, Tax-exempt municipal bonds are the basic tool used by states and local governments to fund the capital project improvements necessary to provide utilities, roads and bridges, airports, health care, education, housing, environmental remediation programs, and other public services; and

WHEREAS, The ability to sell debt with interest exempt from federal income taxes has been a significant benefit to state and local government borrowers, directly reducing the tax burden that all citizens would otherwise have to shoulder to finance essential public services. The practical effect of this lower borrowing cost is a direct reduction of the tax burdens that citizens would otherwise have to shoulder to finance essential public services. The ability to provide interest rate savings to state and local taxpayers stands as a symbol of the partnership between the federal government and state and local governments; and

WHEREAS, Provisions to restrict even further state and local governments' ability to fund vital public infrastructure and services through tax-exempt financing would require these governments to raise taxes to offset increased financing costs, (increased personal income, property, sales, and other local taxes), and/or a reduction in essential services;

WHEREAS, Tax-exempt financing also grants state and local governments freedom from the uncertainties of the annual Congressional appropriations process in funding capital needs or any portion of their interest costs; and

WHEREAS, Provisions to discourage investment in tax-exempt bonds by individuals and corporations would reduce demand for state and local government debt and increase state and local borrowing costs; and

WHEREAS, Congress has enacted legislation, most notably in the late 1960s and in 1986 that placed severe restrictions on the use of tax-exempt bonds, and these laws continue to apply today. Additionally, many IRS regulations have been

adopted that cause enormous administrative, and thus costly, burdens to those entities issuing tax-exempt debt.

WHEREAS, The nation as a whole has a vital interest in maintaining adequate and safe public facilities to support a dynamic economy. Thus, the national interest is well served by keeping state and local government borrowing costs low, thereby providing an incentive for public investment in infrastructure; and

WHEREAS, Federal law should not further undermine the municipal securities marketplace, nor threaten the tax-exempt status of these investment instruments in any direct or indirect manner.

WHEREAS, Federal law could enhance the ability of state and local governments both to manage its debt obligations by allowing an additional advance refunding and to access the capital markets by: 1) increasing the tax code's bank deductibility limit from \$10 to \$30 million and indexing it to inflation thereafter; 2) expanding the 2% de minimis rule to allow more corporations to own muni bonds; 3) making permanent the legal authority allowing Federal Home Loan Banks to offer Letters of Credit for tax exempt bonds.

NOW THEREFORE BE IT RESOLVED, that the National Association of State Treasurers hereby opposes legislative and regulatory measures to repeal the exemption of municipal bond interest from Federal and applicable state income taxation, to curtail the use and attractiveness of tax-exempt bonds, and to discourage investment in tax-exempt bonds and opposes any federal legislation that diminishes the value or impairs the use of tax-exempt bonds.

BE IT FURTHER RESOLVED, that the National Association of State Treasurers supports federal initiatives to enhance the ability of state and local governments to finance vital public projects through tax exempt financing.

Approved this 20th Day of August, 2008 by
the National Association of State Treasurers

Hon. Lynn Jenkins
NAST President
Kansas State Treasurer