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Why House Panel Leaders Should Care About Munis

By Evan Fallor
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WASHINGTON – Rep. Randy Hultgren, R-Ill., warned House subcommittee leaders considering tax reform proposals on Thursday that a cap or elimination of tax exemption for municipal bonds could raise the cost of infrastructure projects in their own districts.

Hultgren made the remarks during the House Ways and Means Committee's tax policy subcommittee's hearing for members of Congress to discuss proposals for tax reform.

He told subcommittee chairman Rep. Charles Boustany, R-La., that bonds issued last year by St. Martin Parish in his state to build new schools and improve existing ones would have had an additional $1.2 million in issuance costs had the tax exemption of the bonds been capped.

He told Rep. Richard Neal, D-Mass, the top Democrat on the subcommittee, that a recent issuance by Springfield, Mass. to fund 22 separate projects, including a school renovation project and heating ventilation and air conditioning work at its city hall, would have cost taxpayers an additional $7 million.

"While serving in local government in Illinois I saw firsthand the benefits provided by this reliable option of financing community development," Hultgren said of municipal bonds. "Washington disagrees on how to strengthen our infrastructure but I believe decisions made by local communities handling local products and projects tend to be more efficient than from one size fits all policy from Washington D.C."

Hultgren also cited a 2013 study that found if tax exemption is capped or eliminated that it will be more costly to issue debt. He also cited an example from his own state. The Red Gate Bridge that spans the Red Fox River in St. Charles would have cost the city an additional $617,000 in interest costs without the tax exemption, he said.

Hultgren and Rep. Dutch Ruppersberger, D-Md., in March launched a bipartisan Municipal Finance Caucus made up of House members that works to protect the tax-exempt status of municipal debt.

The two Congressmen also sent a letter to House leaders last year urging them to reject any cap on or elimination of the tax exemption for municipal bonds. That letter had more than 120 signatures.

Boustany said he would take the collective panel's remarks into consideration.

House Ways and Means Committee chairman Rep. Kevin Brady, R-Texas, said it has been "years" since the committee held a member day hearing on tax code reform, and called the hearing an "important step" in creating opportunities for legislators to put forth tax ideas. Testimony was limited to members of Congress who have either introduced or co-sponsored tax legislation.

Brady, who chairs both the committee and the House Task Force on Tax Reform, has previously said tax reform should lower tax rates for families and businesses as well as eliminate special-interest carve-outs.

"We are deliberately and thoughtfully considering improvements to the tax code that will grow our economy and make the tax code fairer and simpler," Brady said Thursday. "The fact that over 30 members are sharing their ideas today is a testament to our new process – and to our return after so many years to regular order."

House Republicans in February announced the formation of the committee-led task force on tax reform that is to consider recommending limits to deductions, credits and exclusions, and will consider tax-exempt bond interest along with other tax preferences.

The tax policy subcommittee held its first hearing on tax reform on

March 22, where its members considered shifting from an income tax base to a consumption or cash-flow tax base.

Several tax reform plans would either limit or eliminate tax-exempt bond interest in order to help pay for lowering tax rates and broadening the tax base.

In his fiscal 2017 and previous budget requests, President Obama has proposed capping the value of tax-exempt interest at 28 percent. Former House Ways and Means Committee chair Dave Camp, R-Mich., floated an earlier tax reform plan that would have capped the value of tax-exemption at 25% and eliminated the tax exemption for both new private-activity bonds and new advance refundings. Hultgren argues that the elimination or cap on tax exemption would increase public borrowing costs and hamper state and local governments' ability to invest in themselves.

Neal called for a bipartisan effort to pass tax reform legislative proposals sooner rather than later.

"If legislation is not controversial, opposed by the administration, and introduced in a bipartisan and fiscally responsible manner, the committee should work expeditiously to get it approved," Neal said.

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