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Legislative Update on the Fight to Preserve Tax-Exempt Bonds

The Broadcast will Begin at 1:00pm EST

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- *Join us live for the August broadcast at the CDFA National Development Finance, August 6-9 in Washington, DC*

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Hello! Welcome to the webcast.

Erin Tehan

Manager, Legislative & Federal Affairs
Council of Development Finance Agencies
Columbus, OH

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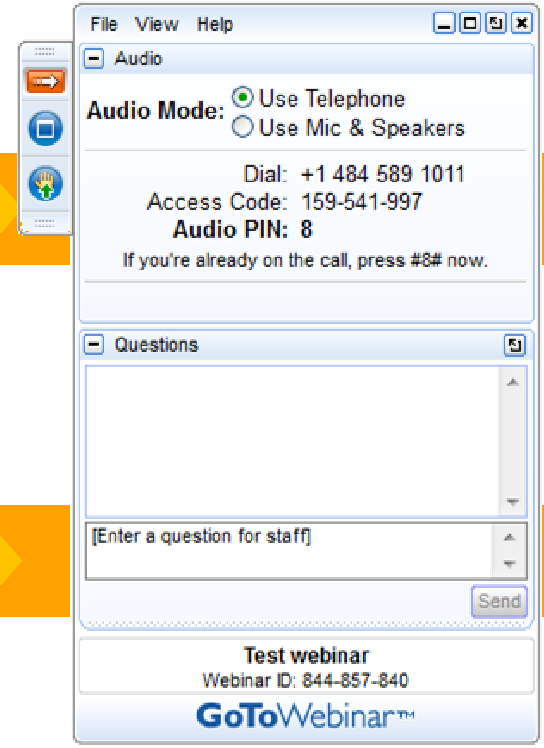

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Panelists

Rena Nakashima, *Moderator*
BNY Mellon

Eric Silva
Winston & Strawn

Susan Collet
Bond Dealers of America

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Government Finance Officers Association

Since 1906

Federal Tax Reform- Targeting Tax Exempt Bonds

Wednesday, November 19, 2013

Dustin McDonald
Director, Federal Liaison Center
Government Finance Officers Association

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Tax Exemption: Cost of Cap and Repeal

Independent studies estimate that:

- Capping the exemption at 28% would increase the cost to issuers by **70 basis points**
- Eliminating the exemption would cost issuers as much as **200 basis points**

Tax Exemption: Cost of Cap and Repeal

Interest costs with and without tax exemption

$ MIL

	current law	with 28-percent cap		with full repeal	
	ESTIMATED INTEREST COST WITH TAX EXEMPTION AS IS	ESTIMATED TOTAL INTEREST COST	COST INCREASE	ESTIMATED TOTAL INTEREST COST	COST INCREASE
2003	114,128.55	130,876.97	16,748.42	161,981.19	47,852.64
2004	96,239.27	110,820.97	14,581.71	137,901.29	41,662.02
2005	121,966.14	141,458.44	19,492.31	177,658.44	55,692.30
2006	118,248.09	137,017.62	18,769.54	171,875.34	53,627.25
2007	125,282.78	145,214.14	19,931.35	182,229.50	56,946.72
2008	140,294.09	161,012.63	20,718.54	199,489.91	59,195.82
2009	110,288.35	126,890.90	16,602.55	157,724.20	47,435.85
2010	91,207.92	105,952.85	14,744.93	133,336.29	42,128.37
2011	83,022.35	95,965.70	12,943.35	120,003.35	36,981.00
2012	100,111.45	118,949.63	18,838.18	153,934.81	53,823.36
TOTAL			**173,370.87**		**495,345.33**

SOURCE: SIFMA ESTIMATES BASED ON THOMSON REUTERS DATA USING THE REPORT'S ASSUMPTIONS

Tax Exemption: Cost of Cap and Repeal

November 14 NGA and CSG Report

Report took a forward look (next 10 years) at the cap and repeal proposals.

- **28% Cap Proposal**
  - Increase in state and local borrowing costs: $6.6 billion
  - Economic impact: Net loss of 78,000 jobs and $15 billion in real GDP
- **Repeal Proposal**
  - Increase in state and local borrowing costs: $33 billion
  - Economic impact: Net loss of 417,000 jobs and $71 billion in real GDP

Bill Daly

Director of Governmental Relations
National Association of Bond Lawyers
Washington, DC

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FEDERAL TAX REFORM:

Why Target Bonds?

William Daly, Director of Governmental Affairs, NABL

November 19, 2013

Why Go After Muni Bonds?

- 1. Need Revenue to Lower Tax Rates and Reduce Deficit.
- 2. Perception that Muni Bonds Primarily Benefit the Wealthy.
- 3. Economists Argue the Tax Exemption is “Inefficient”.

Need for Revenue

- Republicans generally argue tax reform should be revenue neutral.
- Goal of House Republicans is a tax code with a maximum rate of 25 percent for individuals and corporations.
- Joint Tax says that if rates are cut to those levels then, to keep tax reform revenue neutral, $5 trillion of loopholes and tax preferences would have to be eliminated.
- Senate Democratic budget calls for $1 trillion in revenue increases to eliminate sequester and reduce deficit.
- Joint Tax estimated repeal of exemption for newly-issued bonds would raise $125 billion over 10 years.
- 28 percent cap would raise $490 billion.

Top Tax Expenditures

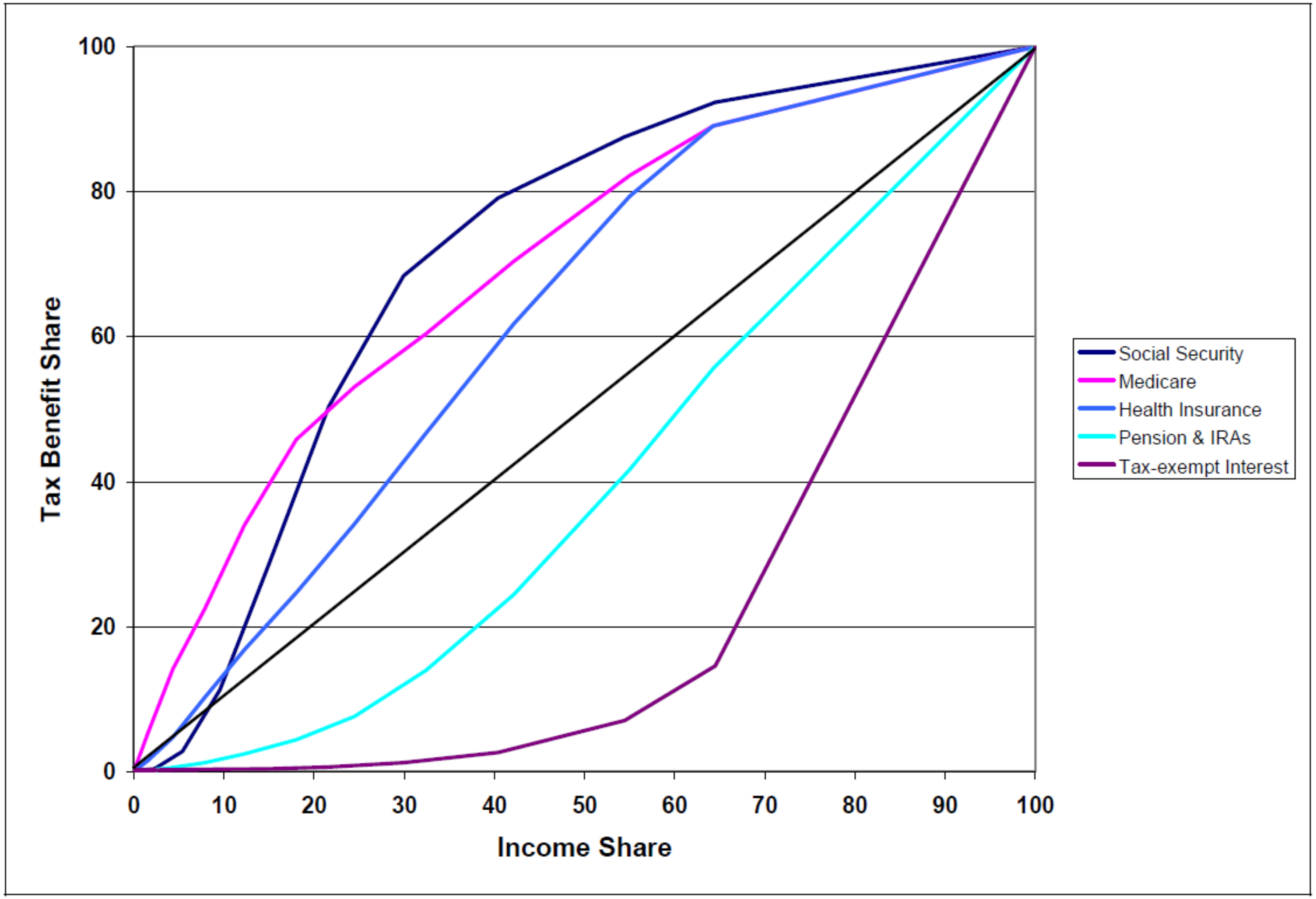
Source: Joint Committee on Taxation, 2012

Exclusion/deduction	2011-2015 (in billions)	2012 (in billions)
Exclusion of employer contributions for health care, health insurance premiums, and long-term insurance premiums	725.0	128.1
Net exclusion of pension contributions and earnings	718.3	122.6
Deduction for mortgage interest on owner-occupied residences	464.1	83.7
Reduced rates of tax on dividends and long-term capital gains	456.6	93.1
Exclusion of Medicare benefits	348.3	61.2
Earned income tax credit	294.1	59.7
Total exclusions of State and local bond interest	257.9	35.2
Exclusions of interest on public purpose State and local government bonds	177.6	23.1
501(c)(3) Bonds	30.3	3.9
Small Issue Bonds	2.0	0.3
Other private activity	48.0	7.9
Deduction of charitable contributions	242.6	39.6
Exclusion of capital gains at death	230.8	36.3
Deduction of nonbusiness State and local government income taxes, sales taxes, and property taxes	230.3	31.4
Exclusion of benefits provided under cafeteria plans	197.6	36.0

Tax Preferences Seen As Benefiting Wealthy Are Most at Risk

- No politician wants to support tax cuts for the wealthy paid for by the middle class.
- Said another way, both Republican and Democrats want to keep the distribution of tax burden the same as it is now.
- Cutting top rates will benefit the better off unless that benefit is offset by cutting tax preferences for the wealthy.
- The exemption for municipal bonds "scored" as the tax exclusion that most benefits the wealthy.

Figure B-2. Concentration Curves: Income Exclusions



Source: CRS analysis of 2006 IRS Statistics of Income Public Use File and 2007 Survey of Consumer Finances.

Economists Say Exemption Is “Inefficient”

- Economists say that the cost to the federal government is more than the benefit to state and local governments, with the difference going to investors.
- The estimate is that about 20 percent of the cost to the federal government does not make it to state and local governments.
- Proposals to eliminate the “inefficiency” all have problems:
  - Direct Grants
  - Investor Credit Bonds
  - Direct Pay Bonds (BABs)
- Inefficiency tolerated other places in the tax code.
- Inefficiency argument ignores reciprocity, federalism.

Susan Collet

Senior Vice President, Government Relations
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Actions to Defend the Municipal Bond Tax Exemption

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www.bdamerica.org

New York PIRG, 1977

Coalition Efforts

- Municipal Bonds for America unites issuers and financial services - www.munibondsforamerica.org
- Don’t Mess with Our Bonds issuers coalition
- Efforts by GFOA, USCM, NLC, and others collectively and separately
- Why coalition? $3.7 Trillion marketplace
- Lobbying, grassroots, education, testimony

Messages for Policymakers

- 100-year precedent – tax code foundation

(we are the "blank slate")

- Cost-shift/federally imposed local tax
- Competitiveness/starving infrastructure
- Perpetual tax risk for investors from a cap
- Problems with models like direct-pay
- Market impacts – near universal consensus
- White papers all agree – CDFA, NACO, USCM, NLC, AMWA, NAHEFFA, MBFA

Evidence of Support

- Terry-Neal House Resolution – 93 Cosponsors
- Ruppersberger/Hultgren Letter – 139 Signatures
- 14 Senators write White House Urging Them not to Cap or Eliminate tax-exempt bonds
- Individual Senators express support in “blank slate” exercise

The Municipal Bond Community Stands Ready

Since 2012, we have gained:

- Understanding that this isn't "low hanging fruit"
- Working relationships between multiple organizations
- Advocacy infrastructure
- Connection between "professional" lobbying and hearing from local elected officials "back home" for Members of Congress

Looking ahead, threats remain:

- Prospective cap
- Grand bargain/budget reconciliations/sequester replacement create conditions for consideration
- Tax exemption for PABs
- Replacement with direct pay/tax credit bonds?

Submit your questions to the panel now by using the GoToWebinar control panel.

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