



BILL LOCKYER
Treasurer
State of California

April 15, 2013

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Honorable Jim McDermott
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Honorable Danny Davis
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Honorable Kevin Brady
301 Cannon Office Building
Washington, DC 20515

Honorable Mike Thompson
231 Cannon Office
Washington, DC 20515

RE: Committee on Ways and Means Tax Reform Working Groups on Debt, Equity and Capital; Education and Family Benefits; and Energy

Dear Members of the Tax Reform Working Groups:

As you continue to work on comprehensive tax reform, I am writing to provide comments on the impact of certain tax proposals on state and local governments and middle-class families. I urge you to:

- 1. Maintain the federal exclusion of tax-exempt municipal bonds.** Tax-exempt bonds have been the primary financing mechanism for essential state and local infrastructure projects. The need to build and maintain our public infrastructure has never been more critical. The American Society of Civil Engineers recent report estimates that California needs to invest \$65 billion annually to maintain an adequate infrastructure system. A majority of the financing of public infrastructure comes from state and local governmental entities. Eliminating or reducing the tax exemption will greatly limit our ability to address our infrastructure needs, resulting in fewer projects, fewer jobs and deteriorating infrastructure.

Eliminating or capping the federal exclusion from income for municipal bond interest would increase the cost of financing infrastructure. Investors would demand higher yields to compensate for the lost exclusion resulting in higher borrowing costs. One estimate by Citigroup Municipal Strategists puts the tax risk premium at 30-40 basis points.

As states and local governments grapple with how to finance the growing and unmet infrastructure needs throughout the country, policymakers should encourage state and local financing for projects that create jobs and spur economic growth.

2. Expand the use of Private Activity Bonds (PABs) for renewable energy projects.

Private activity bonds present an opportunity to provide important assistance to clean energy investment by providing a longer-term and lower-cost financing for clean energy projects.

HR 3525 (Mike Thompson, CA) introduced in 2009 would amend the Internal Revenue Service Code to add additional categories of tax-exempt private activity bonds for renewable energy resource facilities, conservation and efficiency facilities and other greenhouse gas emission technologies.

Tax-exempt bond financing is a low cost method of financing a project or manufacturing facility with interest costs typically running a few percent less than commercial loans. Lower cost financing can encourage rapid deployment and help make desirable projects more feasible. Permitting renewable energy projects for tax-exempt bond financing will help to create jobs and economic growth.

3. Maintain the current tax treatment of qualified tuition programs, commonly known as 529 plans. As in all 529 plans, earnings in California's ScholarShare 529 accounts grow tax-deferred, and disbursements are federal and state tax-free when used for tuition and other qualified higher education expenses.

The benefits of 529 college savings plans go beyond tax advantages. State-sponsored programs encourage young adults to attend college. Research has shown children in families who save for college in a designated college account are six times more likely to attend college. In addition, students with ScholarShare accounts take on less student loan debt. Student loan debt is a growing problem. With the rise in tuition costs, saving for college is more important than ever. The percentage of students taking on student loans has increased by 70 percent from 2004 and 2012 with recent studies placing the average student loan debt at \$26,600.

California is doing its part to encourage savings by continuing to make improvements to ScholarShare, including lowering fees, offering more investment options and conducting aggressive outreach to make parents and students aware of the plan. The tax advantage provides the crucial incentive for parents and relatives to start a 529 account to save and plan for college.

I commend the House Ways and Means Committee on its transparent approach to tax reform by establishing working groups to review current law and solicit and compile feedback from stakeholders, practitioners, academics, the general public and elected representatives.

Thank you for your consideration and the opportunity to provide input in this very important process. Please do not hesitate to call me or my Legislative Director, Rohimah Moly, at (916) 653-4046 if I can be of assistance.

Sincerely,

BILL LOCKYER
California State Treasurer