METROPARKS TACOMA

Friday, March 15, 2013

The Honorable Jim McDermott
Vice Chair
Debt, Equity and Capital Tax Reform Working Group

Dear Representative McDermott:

I am writing to encourage you and your tax reform working group to leave intact the current laws regarding municipal bond tax exempt interest. The current tax exemption for interest earned by entities and individuals on municipal bond investments provides a key tool for local governments to access low interest capital, thereby benefitting all tax payers.

As the Chief Financial Officer for a local parks and recreation district with a service area that includes the City of Tacoma and surrounding areas, I rely on our ability to sell low interest bonds to finance a wide range of projects to improve our parks and facilities, such as sports fields, playgrounds and community centers. These projects provide facilities that serve a district population in excess of 200,000, with more than 3 million people using our parks and facilities annually. Our facilities serve all income levels, improve quality of live, and stimulate the local economy through spending. Since 2006, we have issued approximately $85 million in bonds, and tax exempt interest rates will save taxpayers more than $20 million over the life of the bonds. If our borrowing costs increase, we will be forced to cut back on the amount of bonds we can issue, thereby decreasing the local benefits. Examples of some of our projects financed with tax exempt bonds include a community center, playgrounds, spray grounds, baseball and soccer fields, trails, and docks and boat ramps. Without tax exempt financing, many of these projects would not have been completed.

By providing an incentive to purchase municipal bonds, the current law increases the demand for bonds and lowers the interest rate that municipalities pay on those bonds. This leads to two significant benefits:

1. Local government can borrow more and invest more dollars in capital projects, ultimately benefitting the local community that they serve and providing more construction related jobs and spending to improve the local economy.
2. Local government spends less on interest costs on the bonds, meaning more dollars can be used to provide services to taxpayers or lower taxes for the local taxpayers.

On the surface, removing the municipal bond interest tax exemption may appear to be a fairly innocuous method to increase tax revenue, since municipal bond investors are often higher income individuals and institutions. However, when one follows the chain of consequences, the investors will not be the ones paying the price. The

4702 S. 19th Street, Tacoma WA 98405-1175
Phone: 253.305.1000 • Fax: 253.305.1098 • www.MetroParksTacoma.org

investors will either switch investments to higher yielding alternatives, or demand higher interest returns from the municipal bonds to offset the tax liability. In other words, one of two things will happen:

1. Demand for municipal bonds will decrease, limiting local governments' ability to raise capital that helps serve constituents and improves the local economy; or
2. In order to create demand, local governments will have to pay higher interest on the bonds, thereby decreasing the amount of debt that can be issued to benefit local taxpayers, or increasing interest payments, which in turn means higher taxes or decreases the amount spent on services to taxpayers.

If the interest exemption is removed, these two scenarios illustrate the negative consequences beyond the hoped for increase in federal tax revenue. Regardless of which of the two scenarios actually happens, in the end it is the local taxpayer that will be harmed. Does it really make sense to enact fiscal policy that may increase federal revenue, but in the end will do more harm to local taxpayers at all income levels?

For all of the above reasons, I urge you to keep the current municipal bond interest tax exemption intact.

Sincerely,

Brett Freshwaters

Brett Freshwaters
Chief Financial Officer