CITY OF LINCOLN NEBRASKA | Lincoln Public Schools | Lincoln Electric System

April 2, 2013

The Honorable Dave Camp
U.S. House of Representatives
Chairman, Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

RE: Hearing on Tax Reform and Tax Provisions Affecting State and Local Governments

Dear Representative Camp and Members of the Committee on Ways and Means:

We appreciate the opportunity to submit a statement for the record of the March 19, 2013 Committee "Hearing on Tax Reform and Tax Provisions Affecting State and Local Governments." The City of Lincoln, Lincoln Public Schools and the Lincoln Electric System respectfully request that this joint statement be included in the hearing record.

Municipal bonds are the most important tool local governments, schools and public power utilities use to finance new infrastructure and to maintain and upgrade existing infrastructure. Nearly three-quarters of core infrastructure investments, representing trillions of dollars, are financed with tax-exempt municipal bonds. Stability of the municipal bond market provides issuers of all sizes ready and timely access to capital while the exclusion of bond interest from federal income tax reduces state and local borrowing costs overall. The beneficiaries are tax payers who ultimately pay less to fund these necessary infrastructure projects. Without the tax exemption on municipal bonds, it is estimated that the average cost of borrowing could be increased from 70 to 200 basis points (0.7% - 2.0%).

Over the last ten years, more than $1.65 trillion of infrastructure projects nationwide have been financed with tax-exempt bonds. In Nebraska alone, there have been $16.5 billion in infrastructure projects financed with tax-exempt bonds. These projects have helped Nebraska's economy remain strong through the recession by investing in necessary new infrastructure, replacing/repairing aging infrastructure, providing jobs, and keeping our unemployment rate near the lowest in the country. Currently, the new Pinnacle Bank Arena and associated infrastructure is being financed with $300 million of tax-exempt bonds. This project is creating hundreds of jobs that are helping to grow both Lincoln's and Nebraska's economies. Lincoln provides an excellent illustration of how investment in infrastructure can vitalize a local economy.

There have been suggestions that propose a partial tax or "cap" on tax exempt interest from these bonds or a replacement of tax-exempt bonds with "direct payment" bonds. A cap that would limit tax-exempt interest deduction to the 28% tax bracket would have the effect of imposing a surtax on bond interest. Recent analysis shows that such a proposal would increase borrowing costs by 32 percent to 35 percent. Of additional concern is discussion that the proposal should be applied retroactively to $3.7 trillion of existing bonds. Not only would this be unfair to the existing bond holders, but we believe it would cause instability in the municipal bond market. We believe these ideas represent short-term budget-focused thinking that ignores the long-term consequences of increasing costs to build infrastructure. Taxing municipal bonds upends a more than 100-year U.S. Supreme Court established-precedent of the reciprocal immunity principle whereby local and state governments do not tax federal bonds, bills and notes and, in return, there is a federal tax exemption for interest on municipal bonds.

We appreciate the opportunity to provide the Committee on Ways and Means with our thoughts on the importance of tax-exempt financing and we urge the Committee to resist any attempts to reduce or eliminate the federal tax exemption for interest payments on municipal bonds. It is imperative that we preserve this important economic tool for state and local governments.

Sincerely,

By: *S/Chris Beutler*
Chris Beutler
Mayor
City of Lincoln

By: *S/Kevin G. Wailes*
Kevin G. Wailes
Administrator & CEO
Lincoln Electric System

By: *S/Dr. Steve Joel*
Dr. Steve Joel
Superintendent
Lincoln Public Schools