

City of Palo Alto
Office of the Mayor and City Council

March 25, 2013

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

The Honorable Sander Levin
Ranking Member, Committee on Ways and Means
U.S. House of Representatives
1106 Longworth House Office Building
Washington, DC 20515

Re: Tax Exempt Municipal Bonds

Dear Mr. Chairman and Ranking Member:

On behalf of the residents of the City of Palo Alto, California, I would like to thank you for holding the recent hearing entitled "Tax Reform and Tax Provisions Affecting State and Local Governments." The City of Palo Alto is very concerned about proposals to cap or eliminate the tax exempt status of municipal bonds.

The City of Palo Alto utilizes tax-exempt municipal bonds to finance public infrastructure that generates jobs and promotes economic growth in our community. Recent examples include the issuance of \$76 million in General Obligations Bonds for new libraries and a community center. Without tax exempt status and using taxable bonds, the City would have incurred an additional \$30 million in interest expense over a 30 year period. Over the past decade, state and local governments across the country have financed over \$1.65 trillion in public improvements, utilizing these bonds for schools, hospitals, transit and infrastructure for water, roads, and public power.

Proposals to limit or eliminate tax deduction for municipal bonds will increase the cost of borrowing for state and local governments. Last year's proposal by the Administration to cap the deduction at 28 percent would have increased bond financing costs by 70 basis points (.7 percent), requiring issuers to pay more in interest in order to attract the same investors. Such a cap would result in an additional \$55 million in interest costs to the City of Palo Alto over a 30 year period for replacing obsolescent police, fire and wastewater treatment facilities. Eliminating the tax exemption would increase bond interest rates by two percent, dramatically increasing the cost of public infrastructure and facilities.

While the federal government forgoes \$32 billion annually in lost tax receipts because of the exemption of municipal bonds, much of that loss would be transferred to state and local governments in increased borrowing costs without the exemption. Additionally, many projects (totaling \$179 billion in 2012) would become more expensive, delayed, or not built without tax-exempt municipal bonds. Capping or eliminating the tax-exemption for municipal bonds restricts economic development and impedes job growth.

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The investment that the federal government can make in public infrastructure and facilities is constrained by federal debt and deficits. At a time when state and local governments are required to bare much if not all the cost for infrastructure improvement, it is unfortunate and ironic that leaders in Washington would propose to curtail the most effective means for financing those improvements.

By curtailing the tax exemption for municipal bonds, the federal government will be undermining a significant challenge it faces: the rehabilitation and replacement of the nation's eroding infrastructure. In 2009, four years ago, the American Society of Civil Engineers (ASCE) estimated the U.S. needed an additional \$1.2 trillion of infrastructure spending over the next 5 years. The Engineers assigned a report card grade of "D" to the condition of the nation's infrastructure. Similarly, local jurisdictions such as Palo Alto face a plethora of needs such as replacing gas and water mains, public safety facilities, bridges, and antiquated buildings.

Tax exempt municipal bonds are an effective means of attracting private investment to public projects. The tax-exemption for these bonds has existed since federal income tax was promulgated 100 years ago. We strongly oppose any changes made to the tax exempt status of municipal bonds and would encourage you reject any such proposals in a future tax package the committee may consider. Thank you for your attention to this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Gregory Scharff", with a long horizontal flourish extending to the right.

H. Gregory Scharff

Cc: The Honorable Anna Eshoo
The Honorable Dianne Feinstein
The Honorable Barbara Boxer
Palo Alto City Council
James Keene, City Manager