BDA Bond Dealers of America

1909 K Street NW • Suite 510
Washington, DC 20006
202.204.7900
www.bdamerica.org

March 3, 2016

VIA ELECTRONIC & U.S. MAIL

The Honorable Kevin Brady
Chairman, House Ways & Means Committee
1106 Longworth House Office Building
Washington, DC 20515

Dear Chairman Brady:

The Bond Dealers of America (BDA) is the only Washington, DC-based association representing the interests of middle-market securities dealers and banks focused on the United States fixed income markets. We write to urge you and the Committee to retain current law as it applies to the tax-exemption for municipal bonds in order to preserve the most effective financing method for our nation's critical infrastructure.

For over 100 years, tax-exempt municipal bonds have been used by state and local governments to finance infrastructure and community improvement projects including schools, hospitals, roads, highways, bridges, subways, seaports and marine terminals, water and wastewater facilities, multi-family housing, libraries and town halls, electric power and natural gas equipment for city-owned utilities, and other public projects. Infrastructure financed by municipal bonds makes possible nearly every aspect of daily life and are a critical component in building and maintaining a strong economy for every citizen and company in this country.

Limiting or eliminating the tax-exemption for municipal bonds would significantly increase costs to state and local governments and lead to decreased investment in infrastructure. In recent years, both Congress and the Administration have put forth proposals to cap the value of the tax-exemption tied to municipal bonds. These proposals could increase borrowing costs for state and local governments which, in turn, would increase infrastructure costs by 15-20 percent. Such a dramatic increase could leave issuers with few choices other than to raise taxes, utility rates, and user fees or to direct less capital toward public infrastructure. None of these options is desirable to any state or local government or to taxpayers and businesses at a time when the country is seeking ways to jump-start the economy—an economy that places a heavy reliance on well-functioning, up-to-date infrastructure.

An abundance of caution should also be placed on the negative consequences to investors and the municipal market from proposals to alter the tax treatment of municipal bonds. Taxing a previously untaxed security would destroy investor confidence and create volatility and uncertainty in the historically stable municipal bond market. Federal legislative proposals to restrict the tax exemption that have been released (or rumored to exist) in the last two Congresses have sent tremors through the municipal markets. The perceived risk to the tax exemption led some investors to seek higher yields on municipal bonds and to pull much-needed capital and liquidity out of the municipal markets. This, in turn, forces municipal governments to pay significantly higher issuance costs—and the continuing domino effect forces some governments to reduce or abandon infrastructure projects they can no longer afford.

Finally, proposals to reduce the value of the tax-exemption would have its greatest negative impact on investors. Elderly Americans (those over age 65) own three-fifths of outstanding municipal bonds, which provide a stable, fixed income to retirees. Moreover, roughly one-half of municipal bond interest is paid to households with annual income of less than $250,000. Capping the value of the tax exemption would reduce the value of outstanding municipal bonds by roughly $200 billion with the market erosion falling most heavily on middle-income investors—some of whom may have their entire retirement portfolios invested in municipal bonds.

Mr. Chairman, as the Committee continues its examination and deliberations on ways to reform our federal tax code, we strongly urge you to look beyond the words and calculations in the tax code to the real world implications of proposals to change current laws governing the tax-exempt status of municipal bonds. A key step in rebuilding our economy is providing cost-effective financing for our nation's infrastructure. Tax-exempt municipal bonds are the only proven mechanism to accomplish this task. The current law tax-exemption for municipal bonds must be preserved.

Sincerely,

Michael Nicholas
Chief Executive Officer
Bond Dealers of America

BDA Officers and Directors

John Fechter, Chair
Wells Fargo Advisors
St. Louis, MO

Brian Brennan, Vice Chair
KeyBanc Capital Markets
Cleveland, OH

Tom Dannenberg, Treasurer
Hutchinson, Shockey, Erley & Co.
Chicago, IL

Lana Calton
Hilltop Securities, Inc.
Dallas, TX

Angelique David
B.C. Ziegler & Company
Chicago, IL

Steve Genyk
Janney Montgomery Scott
Philadelphia, PA

William Heinzerling
Stifel, Nicolaus & Company
New York, NY

Keith Kolb
Robert W. Baird
Milwaukee, WI

Sean Ladley
Wells Fargo Securities
Charlotte, NC

Tom Lanctot
William Blair & Company
Chicago, IL

Linda Matkowski
City Securities Corporation
Indianapolis, IN

John Rolander
Fifth Third Securities, Inc.
Cincinnati, OH

Calvin Sullivan
Raymond James & Company
Memphis, TN

Don Winton
Crews & Associates
Little Rock, AR

Guy Yandel
George K. Baum
Denver, CO

Larry Bowden
Stephens Inc.
Little Rock, AR

Cindy Higgins
Comerica Securities
Detroit, MI

Jay Hiniker
Cronin & Company, Inc.
Minneapolis, MN

Noe Hinojosa
Estrada Hinojosa
Dallas, TX

Michael Marz
Hilltop Securities, Inc.
Dallas, TX

Brad Winges
Piper Jaffray
Minneapolis, MN