

July 23, 2013

The Honorable Max Baucus, Chairman
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Orrin Hatch, Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Hatch,

On behalf of the Bond Dealers of America, I am writing to express appreciation to you for opening a dialogue on tax reform considerations under a “blank slate” approach, and in that regard, I urge you and all Senators to defend the 100-year exemption of interest earned on municipal bonds.

The Bond Dealers of America (BDA) represents national, middle-market securities dealers and banks focused on the U.S. fixed income markets. From assisting school districts in structuring bond issuances that minimize interest costs, to financing new transit systems and critical sewer system improvements, bond dealers and the state and local governments they serve touch nearly every aspect of public life.

A full 75 percent of the total U.S. investment in infrastructure is accomplished with tax-exempt bonds issued by over 50,000 state and local governments. BDA members stand in lock step with state and local governments in the analysis that proposals to cap or eliminate the exemption will significantly increase borrowing costs. For example, a 28% cap as proposed by the White House would increase borrowing costs across the board by 70 basis points – as much as \$18 billion in 2012 alone. This would shift costs to state and local governments, leading to increases in local taxes, rates and fees, or the starvation of infrastructure investment. The cost shift would affect all citizens, regardless of income. Moreover, the very threat of taxing the exemption is harmful to municipal bond investors – the majority of whom are seniors who would suffer immediate losses to their investment portfolios under a retroactive cap or tax.

A federal and state partnership was a foundation of the original, 1913 federal tax code, which included an exemption for the interest on municipal bonds. The Bond Dealers of America encourages you to recognize the vital role that tax exempt municipal bonds play in providing cost-effective financing for capital projects, including roads, bridges, schools, affordable housing, community health and higher education facilities.

We look forward to a continuing dialogue in this process and appreciate your consideration. Feel free to contact me at 202-204-7901 if I can be of any assistance to you.

Sincerely,



Mike Nicholas
Chief Executive Officer