



TO: Senator Bob Peterson  
Chair of the Ohio Senate Ways and Means Committee

RE: Support for HCR 7 (Sprague) – Urging Congress to Retain Municipal Bond Tax Exemption

Dear Chair Peterson,

The above groups are writing today to urge your support and your committee's full vetting of HCR 7, which would urge Congress not to tax municipal bonds for the first time in U.S. history. Below, we lay out some information that may be helpful in your deliberations on the resolution.

**Definition of Municipal Bonds:** According to the U.S. Securities and Exchange Commission “municipal bonds are debt securities issued by states, cities, counties and other governmental entities to finance capital projects, such as building schools, highways or sewer systems, and to fund day-to-day obligations.” Although they are called “municipal” bonds, the definition includes any kind of local government bond issuance.

**Background:** Traditionally, municipal bonds have never been taxed because they have been building blocks of competitive, modern economies. These bonds can only be used to benefit the public, such as airports, water facilities, and public parks.

Roughly 75% of today's infrastructure was financed with help of municipal bonds. This includes: four million miles of road, 500,000 bridges, 16,000 airports, and 900,000 miles of pipe in water systems. Currently, the municipal bond market contains about \$3.7 trillion in investments.

*One particularly popular example in Ohio is the Ohio Turnpike and Infrastructure Commission municipal bond. Since 2013, the Commission has issued around a billion dollars in municipal bonds to engage in activities related to the Ohio Turnpike and various transportation projects—and may issue another half-billion in the future. All of these bonds have maintained outstanding bond ratings.*

**The Problem:** In 2014, President Barack Obama introduced a budget that had a cap on the tax deduction for municipal bonds at 28%. U.S. House Representative David Camp (R), who was Chair of the House Ways and Means Committee, introduced a proposal that would impose 10% taxation on municipal bonds.

Taxing municipal bonds will cause investors to demand higher return on bonds to make up for the change in tax treatment, increasing borrowing costs significantly for issuers of municipal bonds and increase the cost of essential infrastructure. This additional cost will be paid by every citizen through higher taxes, fees, and rates, or will cause essential projects to be sidelined altogether. According to Moody's Analytics :

- President Obama's proposal "increases state and local government borrowing costs by more than \$6.6 billion over the 10-year period beginning in 2014" and;
- Rep. Camp's proposal "increases municipal borrowing costs \$33 billion over next decade."

For your information, we have attached a copy the above-referenced report from the preeminent authority on this subject, Moody's Analytics. This report goes into great details as to the importance and fiscal impact of both President Obama's and Rep. Camp's proposals.

Thank you for your time and consideration.