**The Muni World Needs to Fight to Keep Tax-Exempt Bonds Tax-Exempt**

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The municipal finance community needs to pull together and make sure that policymakers in Washington understand just how state and local governments finance their needs. Otherwise, we will be facing serious difficulties.

The latest challenge — and example of lack of understanding — comes from the National Commission on Fiscal Responsibility and Reform, otherwise known as the President’s Deficit Reduction Commission. The commission has put forward an “illustrative” tax-reform plan that would end tax-exempt municipal finance.

But that’s not the only challenge. Earlier this year, Sen. Ron Wyden, D-Ore., introduced a tax-reform bill that also would end tax-exempt bonds. And other proponents of reforming the tax code talk ambiguously about broadening the tax base — which has in the past meant ending tax-exempt finance, among other things.

The commission’s lack of understanding, and the resulting contradictions in their plan, is apparent. One of its goals, in addition to reducing the deficit, is to increase investment in infrastructure. Yet they call for upending the way that infrastructure has been financed in this country without offering any replacement.

Infrastructure in the United States is overwhelmingly financed by state and local governments using tax-exempt bonds. Ending tax-exempt financing will increase the cost of that infrastructure. It will mean that less, not more, will be done.

Financing infrastructure is already a challenge. The American Society of Civil Engineers gave U.S. infrastructure an overall grade of “D” last year. Some truly critical infrastructure — drinking water, wastewater and roads — got a D-minus.

The ASCE estimates it will take $2.2 trillion over five years to bring existing infrastructure up to good condition, but less than $1 trillion is expected to be spent by all levels of government — federal, state and local. Ending the tax-exemption for municipal finance will cost state and local governments hundreds of billions of dollars over five years, threatening even the inadequate level of infrastructure investment we now expect.

The commission does make a small bow toward such critical investments by proposing a 15-cent-per-gallon increase in the gas tax to finance transportation infrastructure. But those are literally pennies compared to the cuts that state and local governments will face from proposals the commission has put forth.

What it proposes is essentially to take hundreds of billions of the federal government’s deficit and push it onto states and municipalities. By law, unlike Washington, they have to balance their budgets. They will either have to reduce their costs by borrowing less or making other cuts, or they will have to raise taxes.

The commission’s recommendations demonstrate a lack of understanding of the system that finances the country’s most basic needs. This is a serious problem. The municipal finance community — issuers, underwriters and bond lawyers — need to work together to be sure that as deficit-reduction and tax-reform proposals are discussed, the conversation is based on facts and a clear understanding of reality.

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