



December 20, 2012

The Honorable John Boehner
U.S. House of Representatives
Washington, DC 20515

The Honorable Harry Reid
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
United States Senate
Washington, DC 20510

Dear Mr. Speaker and Majority and Minority Leaders,

The Municipal Bonds for America (MBFA) coalition is devoted to preserving the tax exempt status of interest on municipal bonds. The coalition is led by state and local government officials who rely upon affordable borrowing through municipal bonds, and unites those officials with municipal market professionals who act as a network to support the efficient and time-tested flow of capital to local communities for public works. We are writing to warn of the negative consequence of limiting the value of the tax exemption on municipal bonds and to urge you to ensure it does not become part of any deal to address the fiscal cliff.

Any proposal to limit the value of the municipal tax exemption, such as the 28% cap originally proposed in the President's FY 2012 budget, will immediately and fundamentally alter the function of what has been a healthy and efficient tax exempt municipal bond market. The threat of such a cap has, in recent days, been a factor in causing municipal bonds to become more expensive from the perspective of state and local government issuers, with yields rising sharply. The municipal AAA ten-year benchmark yield has risen from 1.48% on December 7 to 1.82% on December 18, for an increase of 34 basis points. Markets are reacting in part to a the perception that Congress will tax a portion of interest on new and currently held municipal bonds, and that such a tax may become larger in the future. Should the cap become a reality, the result will be a significant increase in borrowing costs for state and local governments – an increase far exceeding 34 basis points, and which may even exceed the amount of revenue raised by the tax itself. Further, smaller issuers -- communities who use tax exempt bonds to finance schools and maintain roads and public buildings -- would be disproportionately affected as the tax exemption is more critical to their ability to access capital markets than for large issuers.

State and local governments are currently at a very fragile crossroads. Measures that increase local borrowing costs will continue to cause the financial markets to react negatively, and possibly in a manner last seen in bonds markets during the late 2008 fiscal crisis. The result will be to shift a significant cost burden to local governments and the taxpayers they serve. It is imperative that Congress protect the ability of state and local governments to access cost-effective capital through the use of time-tested tax-exempt municipal bonds. The MBFA membership stands ready to help you analyze the merits of proposals that will affect tax-exempt bonds in the wake of the fiscal crisis. Feel free to contact John Murphy at 202-367-1257 or jmurphy@nalhfa.org with questions, and we appreciate your consideration.

Regards,

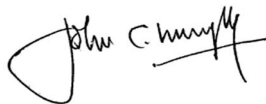
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