

**National Conference of State Legislatures
International City/County Management Association
National Association of Counties
National League of Cities
U.S. Conference of Mayors
Government Finance Officers Association
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
American Public Power Association
Council of Development Finance Agencies
Council of Infrastructure Financing Authorities
International Municipal Lawyers Association
Large Public Power Council
National Association of Health and Higher Education Facilities Authorities
National Association of Local Housing Finance Agencies
National Council of State Housing Agencies
National School Boards Association
Bond Dealers of America
Investment Company Institute
National Association of Bond Lawyers
National Association of Independent Public Finance Advisors
Securities Industry and Financial Markets Association**

September 6, 2011

The Honorable Jeb Hensarling
Co-Chair, Joint Select Committee on Deficit Reduction
U.S. House of Representatives
129 Cannon House Office Building
Washington, D.C. 20515-4305

Dear Congressman Hensarling:

The state and local government associations and other organizations representing participants involved in municipal finance listed above urge Congress' continuing support and commitment to federal tax-exempt bond financing and the critical role it plays in addressing national priorities.

Maintaining the tax-exemption on municipal bonds is essential to help our national economy grow, create jobs, and best serve the constituencies of each community. Three-quarters of the total United States investment in infrastructure is provided by state and local governments, and tax-exempt bonds are the primary financing tool that are used by over 50,000 state and local governments and authorities to accomplish these infrastructure goals. Our citizens, communities and public, private and non-profit sectors benefit in many ways from the issuance of tax-exempt bonds. For example, they are used to build and maintain schools which help develop an educated workforce. They are used to build our roads and airports, all of which are essential for supporting commerce. They help to address the country's water infrastructure, electric utility and affordable housing needs. Tax-exempt bonds also provide public safety infrastructure that ensures local and national security.

Governmental bonds have been issued since the mid-1800s, and the federal tax exemption was included in the country's first federal tax code. Through the tax-exemption, the federal government continues to provide critical support for the development and maintenance of essential facilities and services, which it cannot practically replicate by other means. Without the tax-exemption, state and local governments would pay more to raise capital, a cost that ultimately would be borne by taxpayers.

Additionally, the federal government should continue to honor reciprocal immunity, a basic tenet of American federalism. States do not tax the interest on U.S. Treasury securities, and the federal government should not tax interest on securities issued by states and local governments.

By accessing the tax-exempt bond market, states, municipalities and authorities of all sizes can directly meet the priorities set by their elected officials, and in many cases, determined by referenda from residents in those communities. Responsible decision-making at the level closest to the constituents is the essence of federalism, and we urge Congress to preserve this important financing tool.

We look forward to further discussing these issues with you and your staff.

Sincerely,

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