NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

STATEMENT OF

REPRESENTATIVE DAN FLYNN, TEXAS

REPRESENTATIVE JAY KAUFMAN, MASSACHUSETTS

CO-CHAIRS, BUDGETS AND REVENUE COMMITTEE

ON BEHALF OF THE

NATIONAL CONFERENCE OF STATE LEGISLATURES

REGARDING

"Tax reform: What It Means for State and Local Tax and Fiscal Policy"

TO THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

MAY 9, 2012

Chairman Baucus, Ranking Member Hatch and members of the Finance Committee, we submit the following statement on tax exempt financing on behalf of the National Conference of State Legislatures and respectfully request that you enter it into the official record. This statement is in addition to an April 25, 2012, submission by four of our colleagues on the Marketplace Fairness Act (S. 1832) also on behalf of NCSL.

We are pleased to have this opportunity to inform you of the concerns state legislators have regarding our experience with and the future of tax-exempt financing. As you undertake reforming the federal tax code either as a singular activity or in concert with deficit reduction efforts, we urge you to carefully consider the effect any changes you propose would have on state revenue authority and the states' abilities to fund a wide array of public works' activities.

The federal tax code provides several preferential tax treatments for bonds issued by state and local governments for capital project purposes primarily. Among these treatments is the interest deduction for tax-exempt bonds, a provision that dates back to the inception of the federal tax code. Among all of the tax treatments available for state and local government infrastructure projects, the interest deduction is the most beneficial and most productive mechanism for providing, maintaining and protecting investments in essential facilities. It also provides the federal government significant leverage over vital infrastructure and capital facilities that we believe is not matched by other funding or revenue means.

State experience with preferential treatment of interest on municipal bonds offers many additional positive factors that should be considered in future deliberations. The overwhelming proportion of use of municipal bonds is infrastructure investment, not operating or other expenses. Most of these investments are carried out with electorate approval. They meet identified public needs. They produce debt service obligations that states meet readily. Municipal bonds are exceptional economic development and job creating/maintaining tools. They help to address what many reports have identified as pressing and unmet infrastructure and capital investment gaps.

We are well aware of other tools available for infrastructure development, notably private activity bonds, tax credit/direct subsidy bonds and federal grants in limited instances. None of these individually or collectively serves as an effective substitute for tax-exempt bonds. All of them can serve complementary purposes to tax-exempt financing depending upon circumstances.

NCSL believes that comprehensive, broad federal deficit reduction is needed. We believe that states should contribute proportionately to any deficit reduction strategy as long as the federal deficit is not exported to states through new mandates, cost shifts or unbalanced modifications to entitlement and mandatory programs. We also believe there are compelling reasons for protecting low-income programs from deficit reduction efforts and for subsidizing vigorous economic investments, particularly public works projects carried out through tax-exempt financing.

The linkages between federal and state tax systems and related policies are many. They are often overlooked or ignored. For example, we have reviewed numerous deficit reduction reports, the bulk of which virtually fail to recognize or to pinpoint these linkages. The actions you take will have consequences for states and state authority. We are hopeful these actions will have positive consequences. We are pleased you have conducted this hearing and look forward to participating directly in a collaborative effort to reform the federal tax code and to provide effective tools for building and maintaining infrastructure.