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Dear Members of the California Congressional Delegation:

As Congress considers options for comprehensive tax reform, the California State Association of Counties (CSAC) urges you to preserve the tax exemption for municipal bond interest, as well as the state and local tax (SALT) deduction. These essential and longstanding components of the tax code support vital investments in transportation, water, housing, and other public works projects.

Municipal bonds are the single most important tool for financing public capital improvements and critical infrastructure projects such as roads, bridges, schools and hospitals. Under current law, investors are not required to pay federal income tax on interest earned from most bonds issued by state and local governments. The effect of this tax exemption is that local governments receive a lower interest rate on their borrowing than they would if their interest was taxable to investors. Over the past decade, municipal bonds have helped local governments finance more than $3.8 trillion worth of projects nationwide. Last year alone, over $445 billion in municipal bonds were issued to fund projects across the country.

Any proposal to cap, or even eliminate, the exemption on municipal bond interest would, if enacted, result in higher borrowing costs for local governments. At a time when infrastructure demands are great, increasing the cost of financing could have serious impacts on state and local economies. Furthermore, as the nation's largest issuer of municipal bonds, California would be disproportionately impacted by any such changes.

Another priority for counties in tax reform is protecting the SALT deduction, which allows taxpayers to deduct state and local taxes from their federal taxable income. This benefit, which has been in place since 1913, provides counties with some measure of autonomy over their own tax systems and also incentivizes local investment in long-term infrastructure projects and various county services.

Similar to the tax exemption for municipal bonds, the loss of the SALT deduction would be particularly detrimental to California, where more than 6 million households claimed the deduction in 2015. It should also be noted that nearly 83 percent of those who benefit from this deduction in the state are families earning less than $200,000 in annual household income. CSAC is concerned that eliminating this deduction would increase the tax burden on middle-class families and hurt our local economies.

Again, CSAC urges you to reject any proposal that would alter the tax-exempt status of municipal bonds and the deductibility of state and local taxes. Any such change would have ramifications for both California taxpayers and local governments. If you have any questions or need additional information, please contact Hasan Sarsour, CSAC Federal Representative, Waterman and Associates at (202) 898-1444.

Sincerely,

Matthew L. Cate

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