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Mayors' Resolution Defends Tax-Exempt Bonds.

WASHINGTON – The U.S. Conference of Mayors adopted a resolution against limiting tax-exempt bonds this weekend.

The tax-exempt bond resolution adopted at the mayors' annual meeting in San Francisco supports the idea that state and local entities would suffer under proposals from Congress and the Obama administration to cap, limit or eliminate tax-exempt municipal bonds.

Obama proposed capping the value of muni exemption at 28% in his fiscal 2016 budget. Opponents of the limitation, which has been an ongoing debate for several years, say the move would drive up borrowing costs to the issuers and deflate infrastructure and job development.

The mayors' resolution says tax-exempt bonds keep local taxation levels down and allow small issuers to participate in the bond market. It also argues that the ability to issue tax-exempt bonds frees state and local governments from exclusively relying on federal money, which the resolution says has been "stagnant at best and in many cases declined precipitously" over the past decade.

"In an era of increasing federal mandates and federal budget austerity, capping, limiting or eliminating tax-exempt bonds would essentially signal a divestment in infrastructure," the resolution says.

Michael Decker, managing director and co-head of the Securities Industry and Financial Markets Association's muni division, expressed support for the resolution, saying a congressional move toward tax reform could be a "serious threat."

"We, like the U.S. Conference of Mayors believe it is a vital component of financing infrastructure in the country and we agree wholeheartedly with their view that we should work against any movement to curtail or eliminate the tax-exemption," Decker said.

Bond Dealers of America CEO Mike Nicholas also said he supports the resolution, which "recognizes that tax-exempt bonds have been vital to local communities in financing critical infrastructure and community investment projects while keeping financing costs low for taxpayers."

The mayors did not adopt another resolution that would have addressed "excessive cost impacts on municipalities" from municipal financial service providers.

That resolution's text enumerated concerns that some municipalities fall prey to poor advice from service professionals and suffer from fee-based models that can create a situation where the providers profit as municipalities suffer from certain types of deals.

"This model creates perverse incentives in certain cases for financial service providers to aggressively work against the best interests of municipalities and taxpayers," the resolution said.

It proposed remedying the issues by having municipalities network to establish an industry standard for financial service providers and maintain communication to make sure the providers "comply with said guidelines and consent to be rigorously monitored for compliance."

Decker said the resolution was not very constructive. He added that if the Conference of Mayors wanted to take a more formal position, SIFMA would like to work with it.

THE BOND BUYER

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