



PUBLIC POLICY STATEMENT

Taxable Tax Credit Bonds and Other Federally Subsidized Bonds (1977 and 2010)

Background. The Government Finance Officers Association (GFOA) has a long standing policy to ensure the integrity of the municipal bond market. This includes our work to defend and strengthen the present system of exempting the interest on municipal bonds, the attributes of which are contained in our policy in 1969 which required:

1. Preserving federalism by protecting state and local governments from Federal intervention.
2. Maintaining freedom from Federal controls of policy decisions which are properly the sole responsibility of state and local governments.
3. Ensuring low borrowing costs without which financial or economic stresses would become more aggravated by requiring increased property, sales and other local taxes, and a reduction in essential services.
4. Maintaining the freedom from the uncertainties of the recurrent annual federal appropriation process to obtain state and municipal capital needs or any portion of their interest costs.
5. Protecting access to viable capital markets of a government's own choice without reliance on a dominant Federal financial institution.
6. Expediting borrowing, free of the delay of Federal clearances which can make governments miss their optimum market timing and can force them into increased capital costs as construction costs continue to rise.

While GFOA believes that these attributes continue to apply, we recognize that other debt instruments, such as taxable tax credit bonds and tax credit bonds where the issuer rather than the investor receives the federal subsidy, are part of today's market and provide another tool for governments to use in order to access the capital markets.

GFOA Policy. As Congress looks to create, enhance, extend or revise tax credit or other federally subsidized bond programs, and as regulations are promulgated, the Government Finance Officers Association will work with Congress and the Treasury Department to minimize the administrative burdens and maximize the cost reduction benefits of these programs for state and local governments. However, the GFOA opposes any actions by Congress or the Treasury that would cause harm to, substitute for, or crowd out the tax-exempt bond market.

Furthermore, Congress should avoid imposing ancillary federal government policy objectives on state and local governments through the tax code in order to qualify for tax-advantaged treatment.

GFOA supports the IRS's efforts to ensure that issuers of tax exempt bonds and taxable bonds comply with the applicable tax law requirements. It is important that the guidance and procedures are developed with public comment and an emphasis on transparency. Further, these procedures should take into account the procedural differences between taxable bonds, where the IRS may be able to directly penalize the issuer of the bonds, and tax exempt bonds, where the investor is the taxpayer. In its efforts, the IRS should strive for comparable procedures and penalties in its audit program for tax exempt and taxable bonds.

Finally, the GFOA membership reiterates that nothing in this policy conflicts with GFOA's overarching policy that tax exempt bonds should remain the primary vehicle for state and local governments to access the capital markets in order to meet their financing needs.

Recommended for membership approval by the GFOA's Executive Board, March 5, 2010.