



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
March 20, 2013**

TO: Mayor and City Council
FROM: Alan Shear, Assistant City Manager
SUBJECT: Resolution in Support of Protecting Tax-Exempt Municipal Bonds
DATE: March 14, 2013

RECOMMENDATION:

Adopt a Resolution of the Martinez City Council Authorizing the Mayor to execute a letter of support for protection of tax-exempt municipal bonds.

BACKGROUND:

The United States Congress is considering action to diminish or eliminate the tax exempt status of municipal bond interest. Since the federal income tax was instituted in 1913, interest earned from municipal bonds issued by state and local governments have been exempt from federal taxation.

Several state and national organizations representing the interests of local government, including the National League of Cities (NLC), the League of California Cities (LCC), and the Government Finance Officers Association (GFOA) have called on the federal government not to eliminate or otherwise limit this exemption and are encouraging their memberships to contact their respective Congress Members in opposition to this notion and in support of protecting municipal bonds.

DISCUSSION:

Municipal bonds are a low-cost and efficient way for local government agencies to finance critical capital projects. The city has utilized tax-exempt financing for the City Hall refurbishment after the 1989 earthquake, the Measure H \$30 million voter approved park bond (which the City has only used \$25 million), and several water infrastructure projects. Future needs likely will be financed through municipal bond issues due to the lack of available resources for such large projects. One in particular will be the remaining \$5 million on the Measure H park bond.

A joint report issued by the NLC, U.S. Conference of Mayors, and the National Association of Counties highlights over the past 10 years that state and local governments have financed over \$1.65 trillion in infrastructure improvements using tax-exempt bonds. According to the NLC, local governments save an average of 25-30 percent on interest costs with tax-exempt municipal bonds compared to taxable bonds. Investors are willing to accept lower interest rates on these bonds due to the tax benefit. If this exemption is eliminated or diminished, local agencies will pay more to finance projects.

Tax-exempt bonds provide a critical resource in the tool box of decision-makers at the local level, where citizens and elected officials can best determine where the needs are greatest and where investments will generate the maximum benefits to the community. The support letter for consideration is based on a letter previously sent by the League of California Cities.

FISCAL IMPACT:

State and local governments would pay more to raise capital for future projects. In Martinez that could affect any future debt related to the wastewater treatment facility, the remaining \$5 million park bond or any other infrastructure needs that may arise.

ACTION:

Approve the resolution and letter of support as recommended by staff.

Attachments:

- Resolution
- Letter of Support

APPROVED BY:


City Manager

RESOLUTION NO. -13

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARTINEZ
AUTHORIZING THE MAYOR TO EXECUTE A LETTER OF SUPPORT FOR THE
PROTECTION OF TAX-EXEMPT MUNICIPAL BONDS

WHEREAS, a fundamental principal of tax-exempt financing is the ability of local governments to determine the services needed in their respective communities and to raise capital to provide the required infrastructure free from federal tax on bonds used; and

WHEREAS, the exclusion of interest on state and local obligations from federal gross income is an important financing tool in a time where building and rebuilding infrastructure is required to meet federal and state mandates, community growth, and is critical to our state and local economies; and

WHEREAS, without it, the City may not have been able to construct several capital projects, such as the library, aquatic center, several major park renovations and extensive improvements to the water system infrastructure, without imposing additional costs on the community; and

WHEREAS, the City of Martinez, California opposes efforts by Congress and the Administration to eliminate or limit the use of tax-exempt bonds by state and local governments or to change the ability of investors to claim the exemption.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Martinez, hereby authorize the Mayor to execute a letter of support to be sent to our Congressional Representatives, Senator Barbara Boxer, Senator Diane Feinstein, and Representative Mike Thompson, as well as a copy of the Resolution in the protection of tax-exempt financing as a critical tool in ensuring the safety and well-being of our community.

* * * * *

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution duly adopted by the City Council of the City of Martinez at a Regular Meeting of said Council held on the 20th day of March, 2013, by the following vote:

AYES:

NOES:

ABSENT:

RICHARD G. HERNANDEZ, CITY CLERK
CITY OF MARTINEZ



City of Martinez

525 Henrietta Street, Martinez, CA 94553-2394

(925) 372-3505
FAX (925) 229-5012

March 21, 2013

The Honorable Mike Thompson
U.S. House of Representatives
231 Cannon Office Building
Washington, DC 20515

Dear Representative Thompson:

I am writing on behalf of the City Council and the citizens of the City of Martinez, to urge your support for maintaining the federal tax exemption on municipal bond interest. The tax exemption has been a cornerstone of state and local infrastructure development for over 100 years, and is responsible for financing a majority of the nation's infrastructure.

Tax-exempt bonds are a critical, core resource of public finance and have been used extensively by our small city. Without it, we may not have been able to construct several capital projects, such as our library, aquatic center, several major park renovations and extensive improvements to our water system infrastructure, without imposing additional costs on our community.

The federal tax exemption on municipal bonds was included when the country's income tax code was promulgated in 1913. Through the tax-exemption, the federal government continues to provide critical support for the federal, state and local partnership that develops and maintains essential infrastructure, which it cannot practically replicate by other means. On average, state and local governments issue nearly 10,000 bonds a year totaling \$300 billion. This has allowed state and local governments to finance more than \$1.65 trillion in infrastructure investment over the last decade through the tax exempt market.

Without the tax-exemption, state and local governments would pay more to raise capital, a cost ultimately would be borne by taxpayers, through reduced infrastructure spending, decreased economic development, higher taxes on our General Obligation Bonds and higher user fees on our Water Bonds, due to increase costs.

The municipal tax exemption has a long history of success, having been maintained through two world wars and the Great Depression, as well as the recent Great Recession, and it continues to finance the majority of our nation's infrastructure needs for state and local governments of all sizes when no other source exists to do so. We cannot afford to abandon the great success of this important financing instrument, especially as state and local governments continue to recover from the economic downturn.

Honorable Mike Thompson
March 21, 2013
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We appreciate your consideration on this important issue and trust that our interests are well represented by you. Please do not hesitate to contact me if you or your staff would like additional information or would like to discuss this matter in greater detail.

Sincerely,

Rob Schroder
Mayor



City of Martinez

525 Henrietta Street, Martinez, CA 94553-2394

(925) 372-3505
FAX (925) 229-5012

March 21, 2013

The Honorable Dianne Feinstein
The United States Senate
331 Hart Senate Office Building
Washington, DC 20515

Dear Senator Feinstein:

I am writing on behalf of the City Council and the citizens of the City of Martinez, to urge your support for maintaining the federal tax exemption on municipal bond interest. The tax exemption has been a cornerstone of state and local infrastructure development for over 100 years, and is responsible for financing a majority of the nation's infrastructure.

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United States Senate
112 Hart Senate Office Building
Washington, DC 20515

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ROB SCHRODER, MAYOR

Honorable Barbara Boxer
March 21, 2013
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Sincerely,

Rob Schroder
Mayor