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Tom Neubig 15/  
Office of Tax Analysis

Speech on Tax-Exempt Bonds Before the National  
Association of Counties

I spoke to a session of the National Association of Counties (NACO) on the Treasury tax reform proposal concerning tax-exempt bonds. Heather Ruth of the Public Securities Association also spoke.

Apparently, NACO had already endorsed a new policy statement before this session. Their policy statement was summarized to me as tax-exempt financing should be allowed in any of the following cases:

1. Where there are cost-effective private management or equity sharing contracts;
2. Where there is full faith and credit financing;
3. Where there are environmental mandates by the Federal or State government;
4. Where there is lack of affordable housing;
5. Where there is a need for health services for the indigent; and
6. Where there would be job creation through economic development.

NACO officials talk about cutting back on "abuses" and refer to eliminating tax-exempt financing for McDonald's, K-Mart's and Fortune 500 companies. Obviously, they strongly oppose our proposal for repealing private purpose tax-exempt financing. Their proposed resolution, I suspect, would actually increase the volume of private purpose tax-exempt bonds.

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Heather Ruth stated that PSA agreed with most of the Treasury objectives for fundamental tax reform, except the objective of economic neutrality. She stated that the tax system cannot be separated from social goals, and that all municipal bonds should be one of the exceptions. She argued against the proposal on the grounds that it would reverse the trend toward privatization and reduce flexibility of tools available to State and local officials to achieve economic development.

I repeated our request for specific examples of projects that they believe are public purpose bonds that would not meet the one percent threshold test.