16 of 208 DOCUMENTS

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SPENDING: Vote for Deficit-Cutting Report Falls Short

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WASHINGTON - The president's deficit reduction commission Friday voted 11 to 7, failing to get a supermajority to move forward with its report.

The report would end tax-exempt interest for all new municipal bonds as part of a comprehensive effort to reform the federal tax code, cut discretionary spending, contain health care costs, and reform the Social Security system.

While a majority of the members of the National Commission on Fiscal Responsibility and Reform voted for the 65-page report, perhaps more importantly two key lawmakers - Senate Finance Committeechairman Max Baucus, D-Mont. and incoming House and Ways Committee chairman Dave Camp, R-Mich. - did not. Baucus was particularly concerned about the report's proposal for Congress to raise the gas tax by 15 cents per gallon by 2015 and dedicate the revenues to fully fund the Transportation Trust Fund, warning it would unfairly hurt rural residents.

The commission, which needed 14 votes to move forward with the report, was led by Democrat Erskine Bowles, former chief of staff to President Bill Clinton, and former Republican Sen.Alan Simpson from Wyoming.

The report included the idea of doing away with the tax-exempt status of new munis in an "illustrative proposal" for several sweeping tax-law changes, but did not elaborate further. The commission said the federal tax code is "broken," "riddled with countless tax expenditures, which are simply spending by any other name," and "must be reformed."

Meanwhile, staff at Brookings Institution clarified that the report released by the Bipartisan Policy Center's debt reduction task force in November would maintain the tax-exemption of interest for public-purpose state and local bonds. However, it would end the practice by Jan. 1, 2012, for newly issued private-activity bonds such as single-family housing bonds, hospital bonds, and small-issue industrial development bonds.

That report, called Restoring America's Future, was written by a task force led by Alice Rivlin, a senior fellow at Brookings Institution, as well as Pete Domenici, a senior fellow at the BPC. Rivlin helped found the Congressional Budget office and formerly headed the Office of Management and Budget and was vice chair of the Federal Reserve Board. Domenici was former Republican chairman of the Senate Budget Committee.

The Peter G. Peterson Foundation on Friday released a side-by-side comparison of recent fiscal plans.Besides the ones from the president's commission and BPC tax force,they included a plan by Bill Galston from Brookings and Maya MacGuineas from the New America Foundation; a proposal by the Economic Policy Institute, Demos and the Century Foundation; and a proposal by the Cato Institute. The summary does not mention municipal bonds.

In any case, municipal issuers and other market participants have warned that they will vigorously fight any proposals to eliminate or curb tax-exempt status of municipal bonds.

One market participant pointed to the so-called Anthony Commission report that was issued more than 20 years ago and said its defense of tax-exempt financing still holds. Entitled "Preserving the Federal-State-Local

Partnership: The Role of Tax-Exempt Financing Written," the report was written by a group led by former Rep. Beryl Anthony Jr., D-Ark., a member of the House Ways and Means Committee.

It found that tax-exempt debt had helped state and local governments reduce their borrowing costs by 20% to 50% and played a critical role in financing much-needed infrastructure improvements throughout the nation.

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