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Denise L. Nappier: Tax-exempt bonds crucial for future

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Thirty years ago, the I-95 Mianus River Bridge in Greenwich collapsed. Three people died in the tragedy. Today, Connecticut's transportation infrastructure, including bridges, is aging and needs significant investment for repair and improvement. The state expects to need to fund approximately $3 billion to meet this critical need over the next five years.

A time-tested way to raise the money for these much-needed infrastructure repairs is the issuance of tax-exempt municipal bonds. This funding mechanism, however, is in jeopardy, despite its great benefit to governments and investors alike. Congress is considering plans to either cap the tax exemption or eliminate it altogether. As treasurer of the state of Connecticut, I oppose these efforts.

Changing the tax treatment of interest on state and local bonds is an unfortunate idea, particularly at a time when more capital investment is needed for our aging infrastructure and government budgets are strained by a slow economic recovery. The net effect of this change would be a further drain on our economic recovery.

Connecticut saves roughly 25 to 30 percent on interest costs by using tax-exempt municipal bonds -- rather than taxable bonds -- to pay for public construction projects like schools, roads and bridges. These lower interest rates will save Connecticut taxpayers and businesses as much as $1.9 billion over the next 10 years.

Investors reap important rewards as well: Tax-exempt municipal bonds offer individuals the opportunity to invest in securities that are exempt from federal and state income taxes, and have become attractive vehicles for savings for retirement, college and other personal expenses. More than 60 percent of municipal bonds are owned by individuals, either directly or through mutual funds. Suddenly, their investments could be subject to taxation, unfairly penalizing them.

The tax-exempt bond market has worked effectively for decades. It's not a mere loophole -- the tax exemption was part of the agreement reached between the states and federal government that led to adoption of the 16th Amendment allowing federal income taxes.

As the debate continues on how best to address our pressing federal budget deficit, let's keep in mind that decisions made in Washington have serious repercussions. The preservation of this tax exemption is so important that treasurers across the country have joined me in urging Congress on this issue: The bipartisan National Association of State Treasurers (NAST) has called on our colleagues in Washington to reject capping or eliminating the tax exemption for municipal bonds. Any attempt to balance the federal budget on the backs of states and localities is simply passing the buck, and it will surely stifle economic growth and negatively impact an attractive option for investors.

Denise L. Nappier is Connecticut state treasurer.