April 14, 2016

The Honorable Paul Ryan
US House of Representatives
1233 Longworth House Office Building
Washington, D.C. 20515

The Honorable Mitch McConnell
United States Senate
317 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Nancy Pelosi
US House of Representatives
233 Cannon House Office Building
Washington, D.C. 20515

The Honorable Harry Reid
United States Senate
422 Hart Senate Office Building
Washington, D.C. 20510

Dear Speaker Ryan, Majority Leader McConnell, Democratic Leader Pelosi and Minority Leader Reid,

State and local governments have a keen interest in federal legislative efforts to bring fiscal reforms to Puerto Rico. For example, an essential component of any federal fiscal reform package to aid Puerto Rico must be that such a plan is specific to the territory and does not contain provisions that could be construed as having application to U.S. state and local governments. We will aggressively work to oppose federal legislation that contains such extraneous provisions, including the P*ublic Employee Pension Transparency Act* (PEPTA). Such legislative provisions would needlessly expand the scope beyond Puerto Rico, impose unnecessary and undue regulatory burdens on U.S. state and local governments and threaten the federal tax exemption on municipal bond interest.

State and local governments of all sizes access the tax-exempt bond market to provide essential infrastructure. Through the tax-exemption, the federalist system of reciprocal immunity continues to provide critical support for the federal, state and local partnership to develop and maintain essential infrastructure. State and local governments provide three-quarters of the total investment in infrastructure in the United States[1], and tax-exempt bonds are the primary financing tool used by state and local governments and authorities nationwide to satisfy these infrastructure needs. State and local governments issue approximately 11,600 bonds a year totaling roughly $300 billion on average. This has allowed state and local governments to finance more than $3.5 trillion in infrastructure investment over the last decade through the capital markets.

We support legislative efforts tailored specifically to Puerto Rico that will establish an orderly process to immediately initiate steps to restore fiscal order to the island and maintain critical services to the citizens of Puerto Rico. Such a process is preferable to a less orderly plan that pits Puerto Rico against its creditors in lengthy negotiations while government services to the citizens of Puerto Rico deteriorate and a humanitarian crisis ensues. The latter of which could expose U.S. state and local governments to unyielding and inaccurate speculation about the likelihood of their defaulting on their debt obligations, and drive news media and federal policy makers to draw false comparisons between Puerto Rico, which is a U.S. territory, and mainland state and local governments.

[1] Public Spending on Transportation and Water Infrastructure, 1956 to 2014: Congressional Budget Office, 2015

This kind of conjecture ignores that fact that bankruptcy, while headline-grabbing, is rare and is not an option for most localities. State and local governments recognize that the general obligation pledge is widely relied upon by municipal entities across the country to access the capital markets, and place significant value on upholding this pledge. Historically, municipal bonds have had a significantly lower average cumulative default rates than global corporates overall and by like rating category.

For example, between 1970 and 2013, the average 10-year default rate for Moody's Aaa-rated municipal bonds was zero compared to a 0.49 percent default rate for Moody's Aaa-rate corporate bonds.[2] Furthermore, over the last five years, during which state and local governments struggled to recover from the Great Recession, rated state and local GO defaults were remarkably low at 0.005 percent.[3] In the double-A rating category to which the majority of municipal ratings were assigned, average cumulative default rates are much lower for municipals than for corporates with the same double-A symbol.[4] There has been only one state that has defaulted on its debt in the past century, and in that case bondholders ultimately were paid in full.

Thank you for your consideration of these comments.

Sincerely,

Matthew D. Chase, Executive Director
National Association of Counties

Clarence Anthony, Executive Director
National League of Cities

Tom Cochran, CEO and Executive Director
U.S. Conference of Mayors

Jeffrey L. Esser, Executive Director/CEO
Government Finance Officers Association

Robert J. O'Neill, Executive Director
International City/County Management Association

Cc: Chairman Rob Bishop, House Natural Resources Committee
Chairman Chuck Grassley, Senate Judiciary Committee
Ranking Member Raul Grijalva, House Natural Resources Committee
Ranking Member Patrick Leahy, Senate Judiciary Committee

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[2] Moody's Investor Service - US Municipal Bond Defaults and Recoveries, 1970-2013, May 7, 2014.

[3] Municipal Market Analytics (MMA).

[4] Moody's Investor Service, https://www.moodys.com/research/Moodys-Municipal-bond-defaults-remain-low-in-number-but-new--PR_298814