



City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS

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Legislative File No: 2013-0129

TO: Mayor and City Council Members
FROM: Keith Sawdon, Finance Director, EXT 2535
DATE: April 8, 2013
SUBJECT: Preservation of the Municipal Tax Exemption

REQUEST:

We are requesting that City Council adopt the attached resolution showing its support for **Preserving the Tax Exempt Status on Municipal Debt.**

BACKGROUND:

As you know, the Federal Government has been struggling with how to reduce the federal deficit.

A recent proposal floated was the elimination of tax exemption for interest earned on municipal bonds. Like many cities, we use municipal debt to finance much-needed infrastructure construction. Advocates on both sides of the national political aisle argue that removing or limiting the tax exemption would increase the interest paid to the federal government and help reduce the federal deficit. But we need to look closer because I believe this argument has some flaws and will have a significant financial impact on taxpayers and water and sewer customers.

On the surface, it seems that the typical American would feel no pain if municipal bond tax exemptions went away. But a deeper look quickly shows that if the exemption were to end, every American would in fact pay more, for those essential services like roads, water and sewer and municipal facilities.

If the tax exemptions were to disappear, we, along with all cities, counties and states, would have to borrow money at higher interest rates. In our case, our current interest bill could increase by \$1.8 million (based on a 30% increase) if the coupons on our current debt are adjusted to a new taxable rate. As the more costly taxable debt replaces existing tax-exempt funding, our interest cost will increase by approximately 30% (the assumed tax exemption rate). This added cost could translate to increases in our tax bills or our water and sewer bills since the City's debt is paid for by the City's taxpayers or water and sewer customers. In effect, we will end up charging more and providing, at best, the same service, because infrastructure is required to provide local services and if the cost of financing that infrastructure raises, the cost of that service rises too.

RECOMMENDATION:

We recommend that City Council support and adopt the attached resolution which will be forwarded to our federal Representatives.
