



MEMORANDUM

To: Mayor and City Councilors

From: Rich Olson, City Manager

Date: May 6, 2013

Re: Consideration – Adoption of Resolution Supporting the Preservation of Affordable Financing through Tax-Exempt Bonds

BACKGROUND:

One of the primary tools that local units of government use to finance improvements is tax-exempt bonds. One of the provisions under consideration by Congress is to eliminate tax-exempt bonds completely. The City of Elizabeth City rarely enters into the debt market. However, the North Carolina Eastern Municipal Power Agency (NCEMPA) uses both tax-exempt debt and taxable debt to finance improvements at the power plants we jointly own with Progress Energy.

It is anticipated that the NCEMPA will issue \$112 million in debt in 2014 for capital construction. The interest rate spread between taxable and tax-exempt bonds is generally about 100 basis points.

ANALYSIS:

Attached you will find a resolution informing our Congressional delegation of the City's opposition to the elimination of or the placing of limits on federal tax exempt bond interest.

STAFF RECOMMENDATION:

By motion, adopt the attached resolution and instruct the City Clerk to forward a copy to the members of our Congressional delegation.

RCO/vdw

Resolution
Supporting the Preservation of Affordable Financing
Through Tax-Exempt Financing

WHEREAS, municipal bonds are the means by which state and local governments and school districts finance critical infrastructure, including roads, bridges, hospitals, schools and utility systems; and

WHEREAS, under current law, the owners of municipal bonds are not required to pay federal income tax on the interest income they receive from the bonds; and

WHEREAS, the federal tax exemption provides a significant difference between public sector and private sector debt financing; and

WHEREAS, municipalities benefit from this tax exemption through substantial savings on the interest cost of borrowed money; and

WHEREAS, the benefit of lower capital costs attributable to tax-exempt financing are passed on to citizens through reduced rates and greater local investments; and

WHEREAS, periodically Congress and the President have proposed legislation to tax or alter the federal tax exemption of interest on municipal bonds.

NOW, THEREFORE, BE IT RESOLVED, that the City of Elizabeth City, North Carolina opposes any and all efforts to eliminate or limit the federal tax exemption on interest earned from municipal bonds.

ADOPTED, this the 13th day of May, 2013.

Joseph W. Peel
Mayor

Dianne S. Pierce-Tamplen, MMC
City Clerk