American Public Gas Association
American Public Power Association
Council of Infrastructure Financing Authorities
Government Finance Officers Association
International City/County Management Association
International Municipal Lawyers Association
Large Public Power Council
National Association of Bond Lawyers
National Association of Counties
National Association of Independent Financial Advisors
National Association of Local Housing Finance Agencies
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National Conference of State Legislatures
National League of Cities
National School Boards Association
Securities Industry and Financial Markets Association
U.S. Conference of Mayors

October 24, 2012

Mr. Jeffrey Zients
Director
Office of Management and Budget
Eisenhower Executive Office Building
1650 Pennsylvania Avenue, NW
Washington, DC 20503

Mr. Gene Sperling
Director
National Economic Council
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Director Zients and Director Sperling:

On behalf of associations representing state and local governments and other associations who are part of the municipal securities marketplace, we urge the Office of Management and Budget (OMB) to affirm an exemption from sequestration for payments to issuers of direct payment bonds. According to a report issued by OMB on September 14, 2012, these payments will be cut under sequestration by 7.6%[1]. These include payments related to Build America Bonds, Qualified Zone Academy Bonds, Qualified School Construction Bonds, Recovery Zone Economic Development Bonds, Qualified Energy Conservation Bonds, and Clean Renewable Energy Bonds.

Unlike discretionary programs that are subject to appropriations, state and local governments undertook over $203 billion in critical, long-term infrastructure obligations through the issuance of direct subsidy bonds, with the understanding that federal payments related to these bonds would not be subject to the appropriation process but would be made at the percentage required by law until the bonds matured. These projects were planned, and the bonds sold in the marketplace, with issuers borrowing based on the law's stated and ongoing direct payment provision. A bond is a contract. Governments will be able to do little in many instances to unwind their commitment to buyers of their bonds, and in most cases they will still be obligated to pay investors the full interest rate on the bonds, even if the subsidy payments from the

[1] OMB Report Pursuant to the Sequestration Transparency Act of 2012; September, 2012.

federal government are decreased[2]. It is also important to note that to make these payments subject to sequester is to effectively increase the costs for individual projects and to potentially dampen future enthusiasm or commitment to these or similar programs.

We urge the Administration to provide an exception for direct subsidy bonds from sequestration similar to what is currently provided for individual refundable tax credits or other permanent appropriations. We believe that if Congress and the Administration had been in a position to consider this issue in regular order as opposed to the difficult context in which the Budget Control Act of 2011 was drafted, Congress would have realized that there was no intention to have direct subsidy payments to state and local governments subject to sequestration.

Thank you for your attention to this matter. We look forward to working with you to ensure that the municipal securities market continues to work well and benefits our communities both today and in the future.

Sincerely,

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U.S. Conference of Mayors, Larry Jones, 202-861-6709

[2] Many direct subsidy bonds have an extraordinary redemption right related to reductions in the federal subsidy, but in many cases it is unclear whether sequestration would trigger the ability to exercise this right, and if sequestration did trigger the right to redeem the bonds, in most cases the redemption price would make it economically prohibitive for the government to do so.