

**American Hospital Association
Council of Development Finance Agencies
Government Finance Officers Association
International City/County Management Association
National Association of Bond Lawyers
National Association of College and University Business Officers
National Association of Counties
National Association of Health and Educational Facilities Authorities
National Association of State Auditors, Comptrollers and Treasurers
National League of Cities
Regional Bond Dealers Association
Securities Industry and Financial Markets Association
U.S. Conference of Mayors**

May 7, 2010

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Charles Grassley
Ranking Minority Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

RE: Critical Need to Extend ARRA's Bank Qualified Provisions, IRC Section 265

Dear Chairman Baucus and Senator Grassley:

As you work with the House of Representatives to complete the small business jobs bill (H.R. 4849) and a new extenders package (H.R. 4213), we respectfully urge you to include an extension of the bank qualified debt provision that was included in the American Recovery and Reinvestment Act (ARRA). It is important to note that Senators Bingaman and Crapo are likely to introduce legislation next week on this important program, and the organizations listed above strongly support their initiatives to maintain the bank qualified debt provision beyond 2010. If it is not included in upcoming tax legislation, many small communities and authorities, as well as many small 501(c)(3) borrowers, will be denied access to capital and local services will be adversely affected.

As you know, the provision that was included in ARRA increased the bank qualified debt limit to \$30 million from \$10 million until Dec. 31, 2010. This is the first increase in the BQ debt limit since 1986 and was greatly needed. Bank qualified debt allows small governments and authorities to directly place their debt with banks, mostly community banks, which are then able to deduct a percentage of the carrying costs for purchasing these bonds. This allows small governments to pay lower borrowing costs for their debt, sometimes as much as 0.5 percentage points lower, and it has had a significant and direct stimulative effect on jobs and needed infrastructure improvements for thousands of communities across the country.

The success of this program is clear – the BQ market more than doubled between 2008 and 2009 from \$15 billion to \$33 billion, with billions of dollars of savings to state and local governments. For example, in Montana, the amount of BQ issuance went from \$65 million in 2008 to \$91 million in 2009. In Iowa, the level of BQ issuance was \$1 billion in 2009, compared to \$706 million in 2008.

Last year's legislation also contained a critical provision in which the \$30 million can be applied to the borrower rather than the issuer, thereby allowing many state and local government bond issuing authorities to provide access to bank qualified debt to small governments and nonprofit schools, colleges and health facilities.

We know that you are acutely aware of the continuing fiscal difficulties for states, localities, and the economy as a whole. Therefore, we urge you to include the BQ provisions in the tax and jobs legislation that Congress is currently debating.

Sincerely,

American Hospital Association, Mike Rock, 202-626-2325

Council of Development Finance Agencies, Toby Rittner, 216-920-3072

Government Finance Officers Association, Susan Gaffney, 202-393-8468

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National Association of Bond Lawyers, Victoria P. Rostow, 202-682-1498

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National Association of Health and Educational Facilities Authorities, Chuck Samuels, 202-434-7311

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National League of Cities, Lars Etzkorn, 202-626-3173

Regional Bond Dealers Association, Bill Daly, 202-509-9670

Securities Industry and Financial Markets Association, Michael Decker or Leslie Norwood, 202-962-7430

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