Monday, April 5, 2010

Sen. Chuck Grassley, ranking member of the Committee on Finance, with jurisdiction over tax policy, made the following comment in response to report from the Treasury Department in support of Build America Bonds.

“The thin 11-page report from President Obama’s Treasury Department released on Friday fails to mention that, according to Thomson-Reuters data, California and New York did 16 of the 17 largest Build America Bonds deals. Taxpayers from the rest of the country are bailing out California and New York under the Build America Bonds program, which offers state aid in the form of fat checks from the Treasury Department just for issuing Build America Bonds. California and New York get a better deal from the program than states with better credit ratings, because the program simply pays 35 percent of the non-taxpaying entity’s interest costs, regardless of how high their interest rate goes. Of course state and local governments are going to ‘save’ money under the Build America Bonds program — they’re being sent checks from the American taxpayers that they don’t need to pay back. Also, some analysts are pointing out that municipal debt could be the next debt crisis, so it’s fair to ask whether federal policy should encourage increased municipal debt that could contribute to a meltdown.

“This report confirms that large Wall Street investment banks continue to receive higher underwriting fees on Build America Bonds deals than they receive for tax-exempt bond deals. Also, the report is simply factually incorrect. It states that a 28 percent subsidy rate for Build America Bonds is revenue-neutral for the federal government. However, the nonpartisan Congressional Budget Office’s analysis of President Obama’s fiscal year 2011 budget stated that a 28 percent subsidy rate for Build America Bonds will cost American taxpayers an additional $8 billion over 10 years. The large Wall Street investment banks aren’t satisfied with a 28 percent subsidy rate and have stated publicly that they want more. Fortunately for the Wall Street banks, but unfortunately for American taxpayers, the House gave in to the Wall Street banks’ demands and recently passed a bill providing for a subsidy rate as high as 33 percent. Instead of looking out for just California, New York and Wall Street banks, I’m looking out for the

American taxpayers who are going to be stuck with the tab.”