NEW RELEASE

FOR RELEASE: June 17, 2013
CONTACT: Jim Philipps, 202.942.4220

New NACo research paper, profiles of 45 counties and 50 states and the District of Columbia are available at: www.naco.org/muni-bonds

Municipal Bonds Build America

New NACo study shows proposal to change tax status harms counties, taxpayers

WASHINGTON, D.C. – As Congress and the Administration contemplate reforming the U.S. tax code, the National Association of Counties (NACo) has released important new research which shows that changing the tax-exempt status of municipal bond interest is costly and risky to American investors, local taxpayers and counties.

“Municipal Bonds Build America: A County Perspective on Changing the Tax-exempt Status of Municipal Bond Interest” www.naco.org/muni-bonds estimates the cost of the repeal or a proposed 28 percent cap on the benefit of tax-exempt municipal bond interest for counties and for all municipal bond issuers.

Municipal bonds are critical to counties because they use the low-risk, cost-effective financing tool for the construction of schools, hospitals, roads, water and wastewater facilities and other public works projects – not to pay salaries or other county obligations. Counties are major owners of the nation’s critical infrastructure systems, including 45 percent of the nation’s roads and more than 200,000 bridges.

According to NACo President Chris Rodgers, commissioner, Douglas County, Neb., counties are gravely concerned about the Obama Administration’s FY 2014 budget proposal which reiterates a modified 2011 proposal of a 28 percent cap on the benefit accruing to investors in tax-exempt municipal bonds.

The NACo study of the municipal bond market and of the 2012 estimated impact of changes to the tax-exempt status of municipal bond interest on the 3,069 county governments shows that:

- **Counties, states and other localities build and maintain America’s infrastructure.** Between 2003 and 2012 counties, states and other localities invested $3.2 trillion in infrastructure through tax-exempt municipal bonds, 2.5 times more than the federal investment.

- **Any change would severely impact counties’ ability to invest in infrastructure and deliver services to their residents.** Counties invest more than $52.3 billion annually in public works projects. In 2012 alone, county interest costs would have increased by $9 billion if municipal bonds were taxable over the last 15 years and by about $3.2 billion with a 28 percent cap. This would...
needlessly place at risk locally-planned, approved and funded projects and affect local taxpayers.

- **American investors and taxpayers will be hurt by taxing municipal bonds.** American households hold almost three-quarters of the municipal bond market mainly for retirement plan diversification and as a way to invest in their communities. A cap or repeal of the tax-exempt status of municipal bond interest would deeply affect Americans' retirement portfolios and county taxpayers by making municipal bond investments more costly and less attractive.

“Congress and the administration should look elsewhere to find additional sources of federal revenue as part of comprehensive tax reform,” Rodgers said. “Tax-exempt municipal bonds are used by counties and other municipal bond issuers almost entirely to build infrastructure which is a unique feature on the bond market.”

NACo First Vice President Linda Langston, supervisor, Linn County, Iowa, said taxing municipal bond interest is not a new idea, but still a bad idea.

“The tax exemption for municipal bond interest has been in law since the federal income tax was imposed 100 years ago,” Langston said. “The exemption survived the Great Depression and World War II when the federal government was seeking additional revenue. Even then, the exemption was left intact. We just do not believe that governments should tax each other.”

Municipal bonds are a proven, decentralized investment tool that maintains the decision-making for infrastructure with state and local government leaders in partnership with their residents. The bonds have helped build America’s public infrastructure for more than 200 years.

“Municipal bonds are a social compact between a county and its residents in building a county's future,” said Emilia Istrate, NACo research director and the author of the report. “County leaders select and approve the infrastructure projects to be financed with municipal bonds. County citizens often vote on the debt-financed projects, invest in them by purchasing municipal bonds, and back the county bonds with their taxes.”

Counties of all sizes were surveyed, ranging from large counties such as Philadelphia, San Francisco and Suffolk County/Boston (all consolidated city/county governments), to smaller counties such as Athens County, Ohio, Roscommon County, Mich. and Saunders County, Neb.

For more information contact Jim Philipps at 202.942.4220 or jphilipps@naco.org.

###

The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo provides essential services to the nation’s 3,069 counties. NACo advances issues with a unified voice before the federal government, improves the public’s understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. For more information about NACo, visit [www.naco.org](http://www.naco.org).