

# 2021 POLICY BRIEF



## Support the LOCAL Infrastructure Act to Restore Tax-Exempt Status of Advance Refunding Bonds

### **ACTION NEEDED:**

Urge your Members of Congress to support the LOCAL Infrastructure Act, legislation that would restore advance refunding bonds.

### **BACKGROUND:**

Tax-exempt bonds are a well-established financing tool written into the first tax code in 1913. They are predominantly issued by state and local governments for governmental infrastructure and capital needs purposes, such as the construction or improvement of schools, streets, highways, hospitals, bridges, water and sewer systems, ports, airports and other public works.

Prior to 2017, advance refunding bonds were also tax-exempt and allowed counties to refinance municipal bonds once over the lifetime of the bond. Advance refunding bonds, when tax-exempt, allow state and local governments to lower borrowing costs and take advantage of more favorable interest rates. This frees up resources to be used for other important capital projects and minimizes costs to taxpayers. Advance refunding bonds also allow localities to address problematic bond terms and conditions or to restructure debt service payments for budget flexibility.

On December 23, 2017, President Trump signed the Tax Cuts and Jobs Act (P.L. 115-97), the first major rewrite of the tax code since 1986. While the final bill retained tax-exempt status for municipal bonds, it eliminated the tax-exempt status of advance refunding bonds.

Prior to this elimination, advance refunding bonds made up about a third of the municipal bond marketplace, with over \$475 billion in advance refunding bonds issued between 2012 and 2017. Over that time frame, municipalities saved more than \$14 billion of taxpayer money through this financing tool.

In February 2021, a bipartisan group of legislators introduced the LOCAL Infrastructure Act to restore the tax-exempt status of advance refunding bonds, allowing state and local governments to better respond to market conditions and reduce taxpayer burden. As Congress continues to work towards a comprehensive

*Tax-exempt bonds have been a feature of the federal tax code since 1913 and are a critical financing tool for counties nationwide*

*Counties, localities, states and state/local authorities financed \$3.6 trillion in infrastructure investment using municipal bonds from 2008-2018*

*\$475 billion in advance refunding bonds were issued between 2012 and 2017, saving taxpayers more than \$14 billion on infrastructure investments over that time*

*55 percent of long-term state and local tax-exempt bonds funded the building of schools, hospitals, roads and jails*

infrastructure package, restoring this important financial management tool is critical to future capital investments.

## **KEY TALKING POINTS**

A fundamental feature of the first federal tax code from 1913, tax-exempt financing is used by state and local governments to raise capital to finance public capital improvements and other projects, including infrastructure facilities that are vitally important to sustained economic growth.

Between 2008 and 2018, counties, localities, states and state/local authorities financed \$3.6 trillion in infrastructure investment through tax-exempt municipal bonds.

Advance refunding bonds allow local governments to be good stewards of taxpayer dollars and should also be tax-exempt. Advance refunding bonds accounted for roughly one third of the municipal bond marketplace from 2012-2016.

Advance refunding bonds save counties and taxpayers money. States and municipalities issued \$475 billion in advance refunding bonds from 2012 to 2017, saving more than \$14 billion.

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