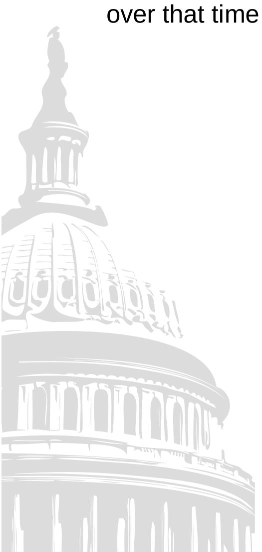
2019 POLICY BRIEF

RESTORE ADVANCE REFUNDING BONDS AND OPPOSE ELIMINATING OR LIMITING THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

QUICK FACTS

- 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 $3.1 trillion in infrastructure investment using municipal bonds from 2007-2016
- 45 percent of long-term state and local tax-exempt bonds funded the building of schools, hospitals, roads and jails
- $391 billion in advance refunding bonds were issued between 2012 and 2016, saving taxpayers nearly $12 billion on infrastructure investments over that time



ACTION NEEDED:

Urge your Members of Congress to support passage of legislation that restores advance refunding bonds and oppose any legislation that would eliminate or limit the tax-exempt status of municipal bonds.

BACKGROUND:

Tax-exempt bonds were written into the first tax code in 1913 and are a well-established financing tool. They are predominantly issued by state and local governments for governmental infrastructure and capital needs purposes. The debt issued for capital projects help governments pay for public projects, 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.

On December 23, 2017, President Trump signed the Tax Cuts and Jobs Act, the first major rewrite of the tax code since 1986. Initial drafts would have curtailed the tax-exempt status of municipal bonds and specified which projects would qualify for tax-exempt status. The final bill signed into law retained in full the tax-exempt status for all municipal bonds.

However, the tax reform legislation eliminated the tax-exempt status of advance refunding bonds. Previously, counties could issue one advance refunding bond per tax-exempt municipal bond at a lower interest rate than the original bond. In fact, advance refunding bonds made up about a third of the municipal bond marketplace, with over $391 billion in advance refunding bonds issued between 2012 and 2016. Over that time frame, municipalities saved almost $12 billion of taxpayer money through this financing tool.

With the completion of tax reform, there are no immediate threats to the tax-exempt status of municipal bonds. However, the ability to advance refund bonds saved counties and taxpayers across the country billions of dollars, and champions in Congress will introduce legislation early in the 116th Congress to restore this financing tool.

Tax-exempt bonds are a critical tool for counties that facilitates the budgeting and financing of long-range investments in the infrastructure and facilities necessary to meet public demand. Without the tax-exemption, counties would pay more to raise capital, a cost that would ultimately be borne by the taxpayers, through means such as reduced spending on the roads and bridges that counties are responsible for, decreased economic development, higher taxes or higher user fees.

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KEY TALKING POINTS

- A fundamental feature of the first federal tax code written in 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 2007 and 2016, counties, localities, states and state/local authorities financed $3.1 trillion in infrastructure investment through tax-exempt municipal bonds.
- Advance refunding bonds should also be tax-exempt and allow local governments to be good stewards of taxpayer dollars. Advance refunding bonds accounted for roughly one third of the municipal bond marketplace from 2012-2016.
- Advance refunding bonds save counties and taxpayers money. Governments issued $391 billion in advance refunding bonds from 2012 to 2016, saving nearly $12 billion.

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