2023 POLICY BRIEF

OPPOSE EFFORTS TO ELIMINATE OR LIMIT THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

ACTION NEEDED:

Urge your Members of Congress to oppose any legislation that would eliminate or limit the tax-exempt status of municipal bonds.

BACKGROUND:

Tax-exempt bonds were written in 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.

Deficit reduction efforts in recent years resulted in cuts in aid to local governments from the states and reduced funding in federal programs that benefit counties. Although there was some momentum in the 117th Congress related to several Democratic proposals to establish new tax incentives, the divided nature of the 118th Congress makes the possibility of such changes unlikely.

Eliminating the tax-exempt status of municipal bonds was first entertained by President Obama's National Commission on Fiscal Responsibility and Reform in 2010. While the 2017 Tax Cuts and Jobs Act tax reform bill ultimately retained the tax-exempt status of municipal bonds and private activity bonds, the tax-exempt status of advance refunding bonds was eliminated under this law. This has, therefore, restricted counties from refinancing bonds at lower interest rates.

Since enactment of the Tax Cuts and Jobs Act, counties have been urging the U.S. Congress to preserve the tax-exempt status of municipal bonds. In the 117th Congress, Democrats introduced a budget reconciliation bill, the Build Back Better Act, which included several initial provisions related to infrastructure financing. This includes the reinstatement of the tax-exempt status of interest on

TAX-EXEMPT BONDS ARE A **CRITICAL FINANCING TOOL** FOR COUNTIES NATIONWIDE

COUNTIES, LOCALITIES, STATES AND STATE/LOCAL AUTHORITIES FINANCED **$3.6 TRILLION** IN INFRASTRUCTURE INVESTMENTS USING MUNICIPAL BONDS FROM 2008-2018

BETWEEN 2012 AND 2017, **$475 BILLION** IN ADVANCE REFUNDING BONDS SAVED TAXPAYERS MORE THAN **$14 BILLION** ON INFRASTRUCTURE INVESTMENTS

THE MUNICIPAL BOND TAX-EXEMPTION REPRESENTS A **FAIR ALLOCATION** OF THE COST OF PROJECTS BETWEEN FEDERAL AND STATE/LOCAL LEVELS OF GOVERNMENT

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advance refunding bonds and the return of Build America Bonds that allow issuers of qualified infrastructure bonds to receive a tax credit equal to the applicable percentage of the interest. These provisions, however, were ultimately eliminated during negotiations and the bill was ultimately not enacted in law. Despite the challenges presented by a divided Congress, counties look forward to working with lawmakers to support maintaining the tax-exempt status of municipal bonds.

Over the past half century, state and local governments have increasingly borne the cost of infrastructure and public improvements. According to the Congressional Budget Office, about 75 percent of public funding for transportation and water infrastructure alone is supplied by state and local governments. The federal savings from the proposed changes will not offset the economic strain that will burden state and local governments (and their local taxpayers) because those investments will become more expensive.

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.

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.

- If municipal bonds were fully taxable during the 2003-2012 period, it is estimated the financing for the 21 largest infrastructure purposes would have cost state and local governments an additional $495 billion of interest expense. If the 28 percent cap were in effect, the additional cost to state and local governments would have been approximately $173.4 billion.

- For 2012, the debt service burden for counties would have risen by $9 billion if municipal bonds were fully taxable over the last 15 years and roughly $3.2 billion in the case of a 28 percent cap. Americans, as investors in municipal bonds and as taxpayers securing the payment of municipal bonds, would have borne this burden.

- The municipal bond tax-exemption represents a fair allocation of the cost of projects between federal and state/local levels of government. Through the use of tax-exempt municipal bonds, state and local governments invested 2.5 times more in infrastructure than the federal government.

- Tax-exempt bonds are vital for infrastructure, justice and health needs because counties own and operate 45 percent of public roads and highways, own almost a third of the nation's transit systems and airports, own 976 hospitals, manage 1,592 health departments and own many of the nation's jails.

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