

# Call To Action: Protect Municipal Bonds



# THE IMPACT OF CHANGING THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

## Stay Engaged, Educational Outreach Still Needed



### Don't just tell them, show them!

*One of the best ways to communicate to your members of Congress about the importance of tax-exempt municipal bonds is to invite them and their staff to tour facilities or projects that are funded completely or in part by municipal bonds*

- ◆ **We encourage you to reach out to their schedulers to schedule a meeting during recess or district work periods.** Remember to also invite the member's legislative Washington, D.C. staff including the legislative director and chief of staff
- ◆ **These meetings are especially important if your Senator or Representative serves on the Senate Finance Committee or the House Ways and Means Committee.** To see the members of the Senate Finance Committee, click [here](#). For House Ways and Means members, click [here](#)
- ◆ Opportunities to showcase facilities made possible with municipal bonds, meet local business leaders, and talk with employees who work in the facilities are appreciated by lawmakers and are an effective way to build relationships and begin advocacy efforts
- ◆ Don't forget to thank them for their time and, if possible, take pictures and write a press release about the visit

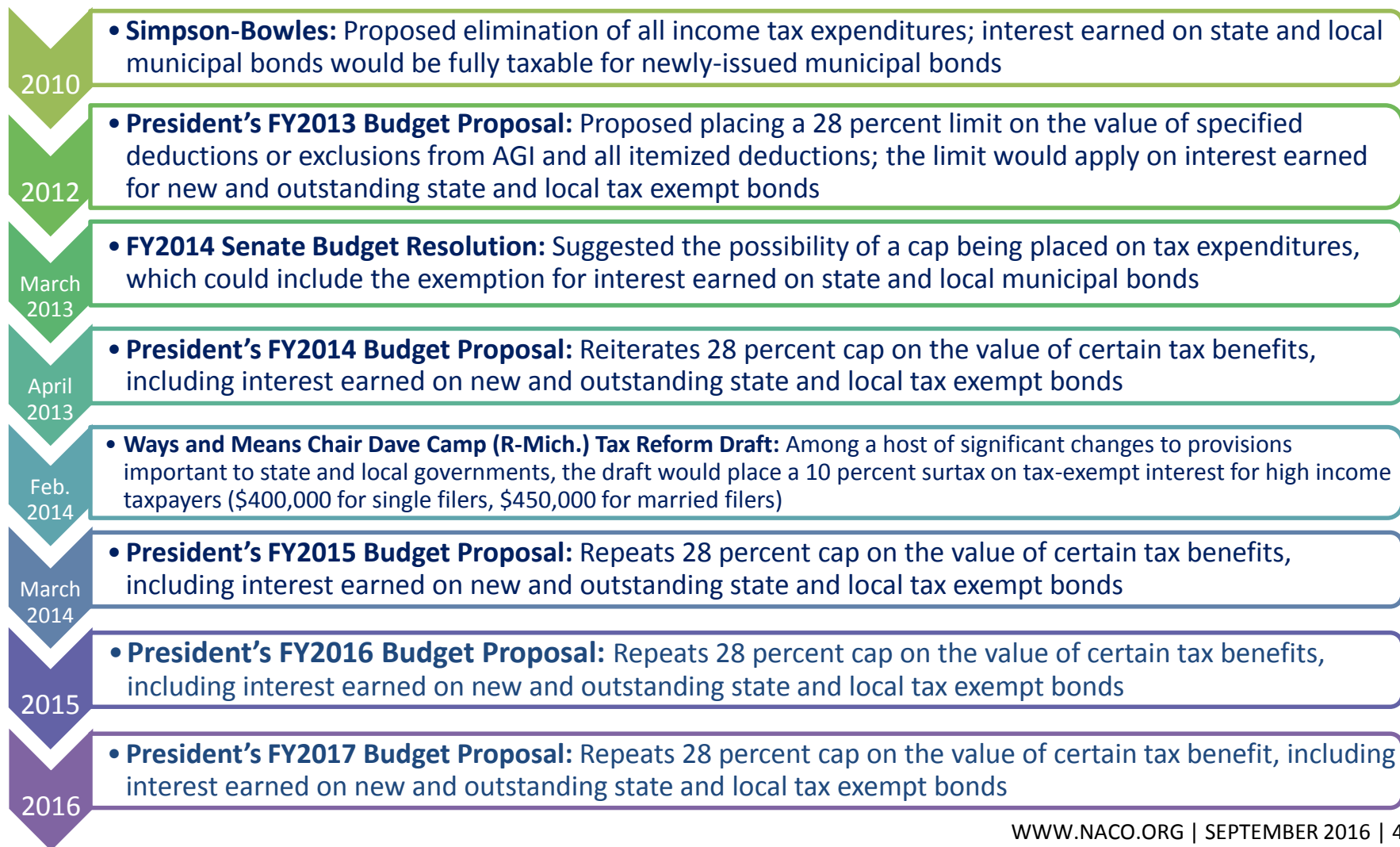
## MUNICIPAL BONDS: A CRITICAL ROLE IN LOCAL INFRASTRUCTURE, JOBS AND EVERY DAY LIFE

- ◆ *Tax-exempt municipal bonds are the single most important tool that local governments use for financing critical infrastructure*
- ◆ *Any change to the taxation status of often voter-approved debt issued by local governments risks:*
  1. *Nature of the U.S. federal-state-local partnership*
  2. *Slowing economic recovery and investments in vital infrastructure*
  3. *Shifting tax burden to local level, especially property tax owners*
  4. *Forcing more cuts in local gov't jobs (i.e. teachers, police, firefighters)*

Current Market = Over 1.5 million municipal bonds outstanding,  
totaling over \$3.7 trillion

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## Timeline of Proposals to Alter the Tax-Exempt Status of Municipal Bonds



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## U.S. SENATE DEVELOPMENTS

### 114th Congress

- **Senate Finance Committee:** With the start of the new GOP-controlled Senate, Sen. Orrin Hatch (R-Utah) took the gavel of the committee and expressed early optimism for tax reform. Soon after 2015 began, Chairman Hatch and Ranking Member Ron Wyden (D-Ore.) launched bipartisan tax reform working groups. Each group was responsible for looking into the areas of: Individual Income Tax, Business Income Tax, Savings and Investment, International Tax and Community Development and Infrastructure. Reports by the working groups were issued in July 2015. Municipal bonds were only discussed in the context of providing background on current law

### 113th Congress

- **Senate Finance Committee Shuffle:** After Sen. Max Baucus (D-Mont.) retired to become the next U.S. Ambassador to China, Sen. Ron Wyden became the Finance Committee Chair. Sen. Wyden has maintained support for comprehensive tax reform, putting forth his own proposal in the 112th Congress. The plan called for the repeal of the exemption for municipal bond interest and converting it to a tax credit
- **Senate Finance Committee Working on Tax Reform:** The Senate Finance Committee, led by Chairman Max Baucus and Ranking Member Orrin Hatch, met on a weekly basis through the spring and summer of 2013 to discuss option papers for tax reform. They also completed their “blank slate” exercise where Senators were encouraged to submit provisions that should be included in a reformed tax code. Less than half of the chamber submitted specific proposals, signaling that many are still not ready to put their favored tax preferences in writing



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## U.S. SENATE DEVELOPMENTS

### 113th Congress (cont.)

- **Sen. Begich (D-Alaska) Letter to President Obama:** Sen. Begich circulated a letter in the Senate urging the Administration to protect the tax-exempt status of municipal bonds in the ongoing debt and deficit negotiations. Fourteen Senators signed on and the letter was sent in early April 2013
- **Major Coalition Letter to Senate Leaders:** NACo/National League of Cities/U.S. Conference of Mayors led a major coalition on a [letter](#) to Senate leaders urging them to protect municipal bonds as they considered the FY2014 Budget Resolution. *Nearly 60 major groups signed on*
- **FY2014 Senate Budget Resolution:** The Senate Budget Resolution, passed by a vote of 50-49, suggested the possibility of a cap being placed on tax expenditures – which could include the exemption for interest earned on municipal bonds. *This language could support either a 28-percent cap (as proposed by the Obama Administration) or total elimination (as proposed by the Simpson-Bowles Commission) of tax-exempt financing*
  - ◆ **Impact:** *If a 28-percent benefit cap on tax-exempt interest had been in effect during 2003-2012, it is estimated that this would have cost states and localities an additional \$173 billion in interest expense for infrastructure projects financed over the past ten-year period*

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## U.S. HOUSE OF REPRESENTATIVES DEVELOPMENTS

### 114th Congress

- **Speaker releases tax reform blueprint:** As part of the election year campaign “A Better Way”, Speaker Paul Ryan (R-Wis.) releases a blueprint on tax reform. While it does not include specific details, the plan highlights that tax reform should focus on lowering rates and making the tax code simpler. The tax exemption for municipal bond interest is not specifically mentioned in the plan. The House Ways and Means Committee is charged with developing legislative text based on the blueprint before the end of 2016
- **House Ways and Means Committee:** With the departure of the Rep. Paul Ryan to take the Speaker’s office, Rep. Kevin Brady (R-Texas) took over the gavel of the powerful tax writing committee. Chairman Brady expressed interest in advancing the discussion on tax reform and holds several hearings in the Spring of 2016 where Members presented proposals and ideas for tax reform
- **House Champions Lead Letter to House Leadership Urging Preservation of Tax-Exempt Status of Municipal Bonds and establish Muni Finance Caucus:** Reps. Dutch Ruppersberger (D-Md.) and Randy Hultgren (R-Ill.) circulated a “Dear Colleague” letter to House Leadership that urges preserving the tax-exempt status of municipal bonds. 124 Representatives signed on in support of municipal bonds. Further, on March 1, 2016, the pair announced the creation of the [Congressional Municipal Finance Caucus](#) that is focused, among other things, on protecting the tax-exemption for municipal bond interest

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## U.S. HOUSE OF REPRESENTATIVES DEVELOPMENTS

### 113th Congress

- **Tax reform discussion draft:** Ways and Means Chairman Dave Camp (R-Mich.) released his discussion draft on tax reform in February 2014, he received little to no support from House leadership on moving forward with the draft. The plan would: impose a 10 percent surtax on municipal bond interest income for high-income households, eliminate the deduction for state and local taxes, repeal private activity bonds
- **House Action:** Ways and Means Republicans met with Chairman Camp throughout the fall of 2013; budget negotiations at the end of 2013 failed to produce a “grand bargain” which could have included tax and entitlement reform
- **Congressman Lead House Resolution to Support Muni Bonds:** H.Res.112, introduced March 2013 by Reps. Lee Terry (R-Neb.) and Richard Neal (D-Mass.), celebrates the importance of municipal bonds; *over 100 Representatives signed on as cosponsors*
- **Reps. Ruppertsberger and Hultgren Lead Letter to House Leadership Urging Preservation of Tax-Exempt Status of Municipal Bonds:** Reps. Dutch Ruppertsberger (D-Md.) and Randy Hultgren (R-Ill.) circulated a “Dear Colleague” letter to House Leadership that urges preserving the tax-exempt status of municipal bonds. *138 Representatives signed on in support of municipal bonds*



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## U.S. HOUSE OF REPRESENTATIVES DEVELOPMENTS

### 113th Congress (cont.)

- **House Ways and Means Committee Established Working Groups to Tackle Tax Reform:** 11 working groups gathered stakeholder feedback and data on topics related to tax reform, then submitted the information to the Joint Committee on Taxation, who compiled the findings in a report to Ways and Means Committee. *The report was released on May 6, 2013*
  
- **House Ways and Means Committee Hearing on Tax Reform:** Hearing held March 19, 2013, “Tax Reform and Tax Provisions Affecting State and Local Government,” primary topic of discussion was tax-exempt municipal bonds
  
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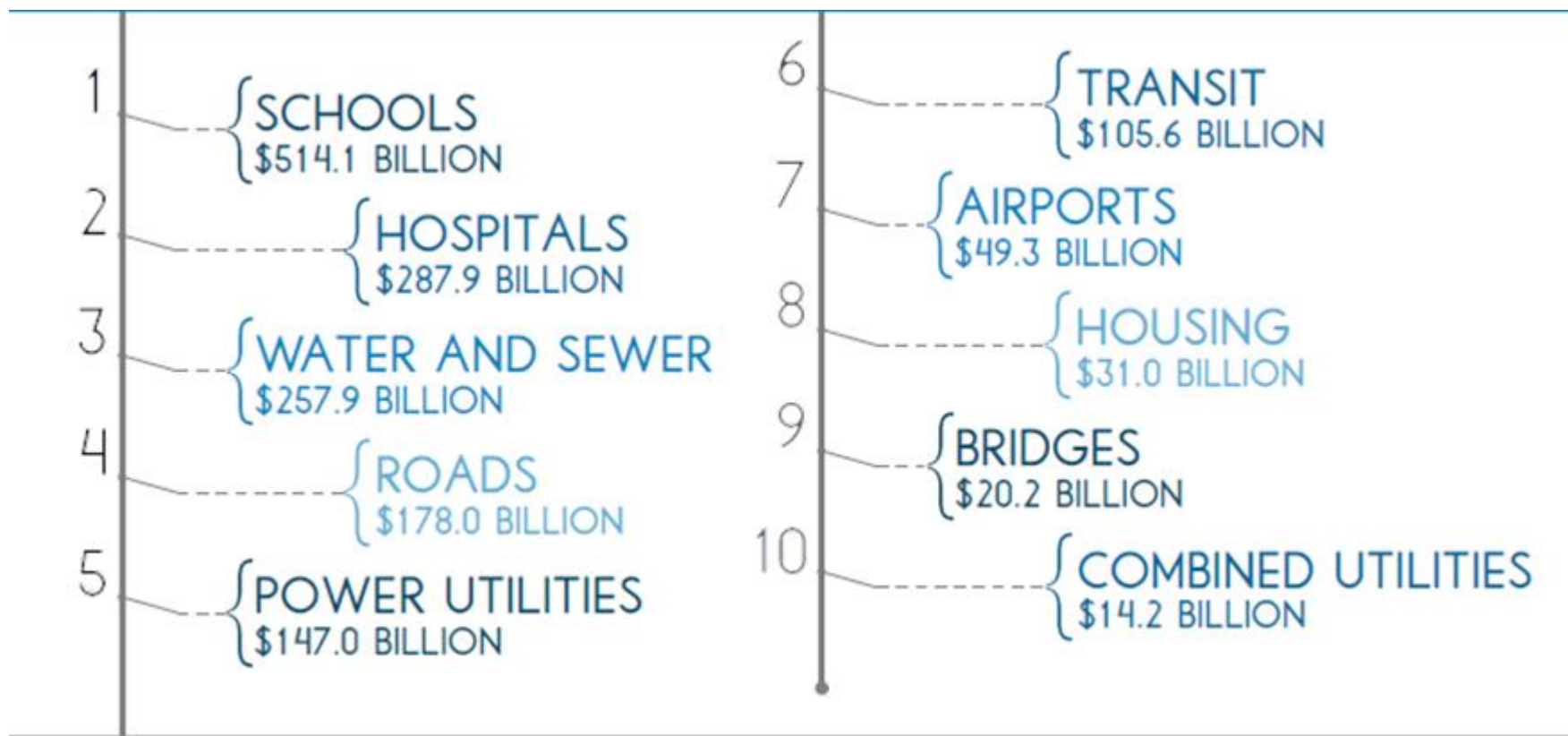
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## ADMINISTRATION UPDATE

- **President Obama's FY2017 Budget Request:** Similar to FY2013, FY2014, FY2015 and FY 2016 requests, the President's budget request includes a 28 percent cap on the value of certain tax benefits, including tax-exempt interest on municipal bonds
  - ◆ Cap represents a partial tax on otherwise tax-exempt bond interest and would apply to taxpayers in the 33, 35, and 39.6 percent tax brackets
  - ◆ Cap would apply to outstanding as well as new bonds, beginning in 2016
  - ◆ In addition to tax-exempt interest, the cap would also apply to itemized deductions and certain other tax preference
  - ◆ Reiterates proposal of a new bond program, similar to Build America Bonds, that would provide a direct subsidy to state and local issuers for the interest on the bonds. The new America Fast Forward Bonds could be used for a number of purposes, including original financials for governmental capital projects

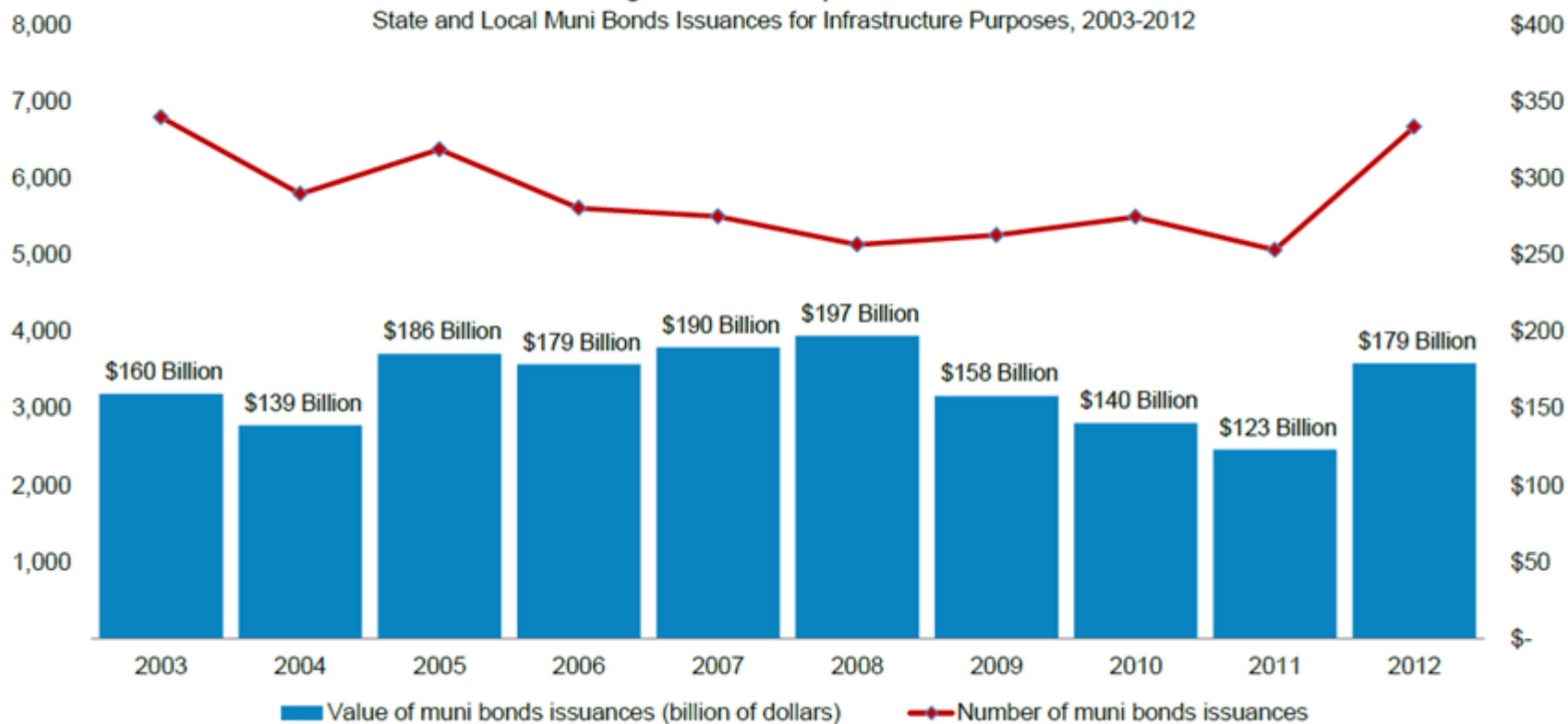
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## TOP 10 U.S. INFRASTRUCTURE PURPOSES FOR MUNI BONDS 2003-2012



# THE IMPACT OF CHANGING THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

**State and local governments financed more than \$1.65 trillion of infrastructure over the last decade (2003-2012) through the tax-exempt bond market**



# THE IMPACT OF CHANGING THE TAX-EXEMPT STATUS OF MUNICIPAL BONDS

- ◆ **Tax-exempt municipal bonds are the most important tool in the U.S. for financing investment in schools, roads, water and sewer systems, airports, bridges and other vital infrastructure.** State and local governments financed more than \$1.65 trillion of infrastructure investment during 2003-2012 through the tax-exempt bond market
- ◆ **Ninety (90) percent of infrastructure muni-bonds financing went to schools, hospitals, water, sewer facilities, public power utilities, roads and mass transit over that 10 year period.** During that decade, \$514 billion of primary and secondary schools were built with financing from tax exempt bonds, nearly \$288 billion of financing went to general acute-care hospitals, nearly \$258 billion to water and sewer facilities, nearly \$147 billion to public power projects, \$105.6 billion to mass transit and nearly \$178 billion to roads, highways and streets
- ◆ **In 2012 alone, more than 6,600 tax-exempt municipal bonds financed more than \$179 billion worth of infrastructure projects**
- ◆ **State and local governments finance small and large infrastructure projects with muni-bonds.** In 2012, the average municipal bond issuance varied from \$338 million for bridges to \$2.2 million for fire stations and equipment

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## Interest costs with and without tax exemption

\$ MIL

	current law	with 28-percent cap		with full repeal	
	ESTIMATED INTEREST COST WITH TAX EXEMPTION AS IS	ESTIMATED TOTAL INTEREST COST	COST INCREASE	ESTIMATED TOTAL INTEREST COST	COST INCREASE
<b>2003</b>	114,128.55	130,876.97	16,748.42	161,981.19	47,852.64
<b>2004</b>	96,239.27	110,820.97	14,581.71	137,901.29	41,662.02
<b>2005</b>	121,966.14	141,458.44	19,492.31	177,658.44	55,692.30
<b>2006</b>	118,248.09	137,017.62	18,769.54	171,875.34	53,627.25
<b>2007</b>	125,282.78	145,214.14	19,931.35	182,229.50	56,946.72
<b>2008</b>	140,294.09	161,012.63	20,718.54	199,489.91	59,195.82
<b>2009</b>	110,288.35	126,890.90	16,602.55	157,724.20	47,435.85
<b>2010</b>	91,207.92	105,952.85	14,744.93	133,336.29	42,128.37
<b>2011</b>	83,022.35	95,965.70	12,943.35	120,003.35	36,981.00
<b>2012</b>	100,111.45	118,949.63	18,838.18	153,934.81	53,823.36
<b>TOTAL</b>			<b>173,370.87</b>		<b>495,345.33</b>



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## Municipal Bonds Build America

A County Perspective  
on Changing the Tax-Exempt Status  
of Municipal Bond Interest



Emilia Istrate  
NACo Director of Research

NACo National Association of Counties  
The Voice of America's Counties

- ◆ **Between 2003 and 2012, counties, states and other localities invested 2.5 times more than the federal government in infrastructure.** There is no federal program that can replicate the results municipal bonds have produced
- ◆ **Changes to the tax exemption for municipal bond interest will affect all Americans.** American households hold almost three-quarters of the municipal bond market – cap or repeal would affect Americans' retirement savings, at the same time the higher debt service would impact state and local government budgets and ultimately, taxpayers
- ◆ **In 2012 alone, the debt service budget for counties would have risen by \$9 billion if repeal was in place over the 15 years, \$3.2 billion if a 28 percent cap were in place**
- ◆ **Municipal bonds are safe investments and are issued through a well-established, ground-up approval system.** Municipal bonds of all levels of Moody's credit ratings had lower default rates than corporate bonds from 1970 – 2012

## ADDITIONAL RESOURCES

- ◆ [NACo report on the impact to counties of proposed changes](#)
- ◆ [NACo municipal bond resource page](#)
- ◆ [Legislative fact sheet on municipal bonds](#)
- ◆ [Joint NACo/USCM/NLC report on the impact of municipal bonds](#)

## Contact Us!

*For questions or more information, feel free to contact us below*



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