

# Call To Action: Protect Municipal Bonds



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

## 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 get on their schedules during recess or district work periods.** Remember to also invite the member's 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
- ◆ Any questions on how to engage members? Contact the NACo Legislative Affairs Department at 202.942.4254

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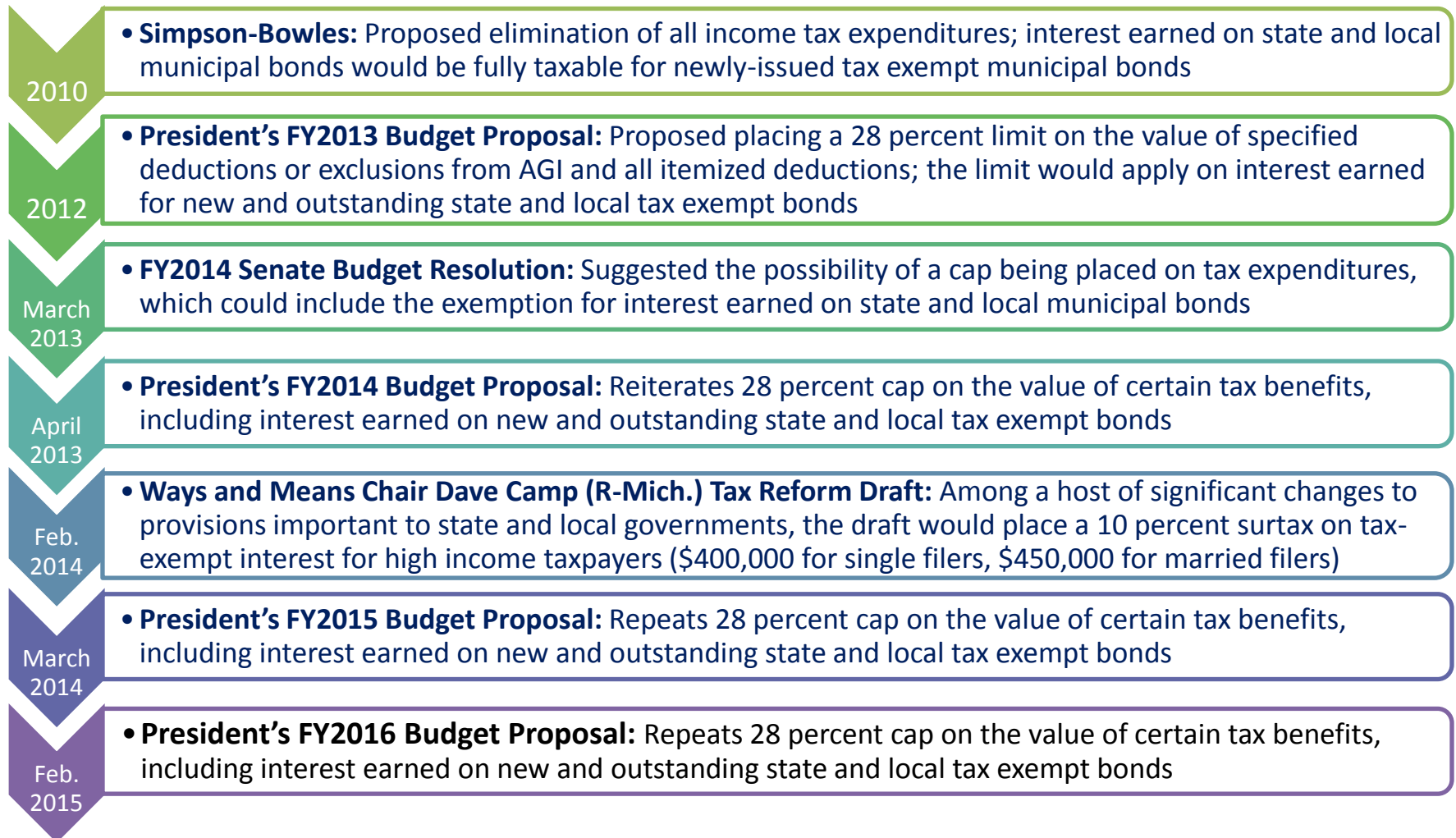
## MUNICIPAL BONDS: A CRITICAL ROLE IN LOCAL INFRASTRUCTURE, JOBS AND EVERY DAY LIFE

- ◆ *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 more than \$4 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 in the 114th:** With the start of the new GOP-controlled Senate, Sen. Orrin Hatch (Utah) takes the gavel of the committee and has expressed early optimism for tax reform. Soon after the year began, Chairman Hatch and Ranking Member Ron Wyden (Ore.) launched bipartisan tax reform working groups. Each group is responsible for looking into the areas of: Individual Income Tax, Business Income Tax, Savings and Investment, International Tax and Community Development and Infrastructure. Recommendations based on public input received by the working groups are expected in late Spring

### 113th Congress

- **Senate Finance Committee Shuffle:** After Sen. 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 112<sup>th</sup> 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
- **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



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## U.S. SENATE DEVELOPMENTS

### 113th Congress (cont.)

- **Major Coalition Letter to Senate Leaders:** NACo/NLC/USCM 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

- **Once again, 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. 124 Representatives signed on in support of municipal bonds
- **House Ways and Means Committee:** With the start of the new Congress, Rep. Paul Ryan (R-Wis.) took the gavel of the powerful tax writing committee. Chairman Ryan has supported an overhaul of the tax code but his plans to do so remain uncertain, more specifically, it remains to be seen how much of the blueprint that former Ways and Means Chair Dave Camp (R-Mich.) released in 2014 will be reused

### 113th Congress

- **Tax reform discussion draft:** Ways and Means Chairman Camp 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

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## U.S. HOUSE OF REPRESENTATIVES DEVELOPMENTS

### 113th Congress (cont.)

- **Reps. Terry and Neal 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
- **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



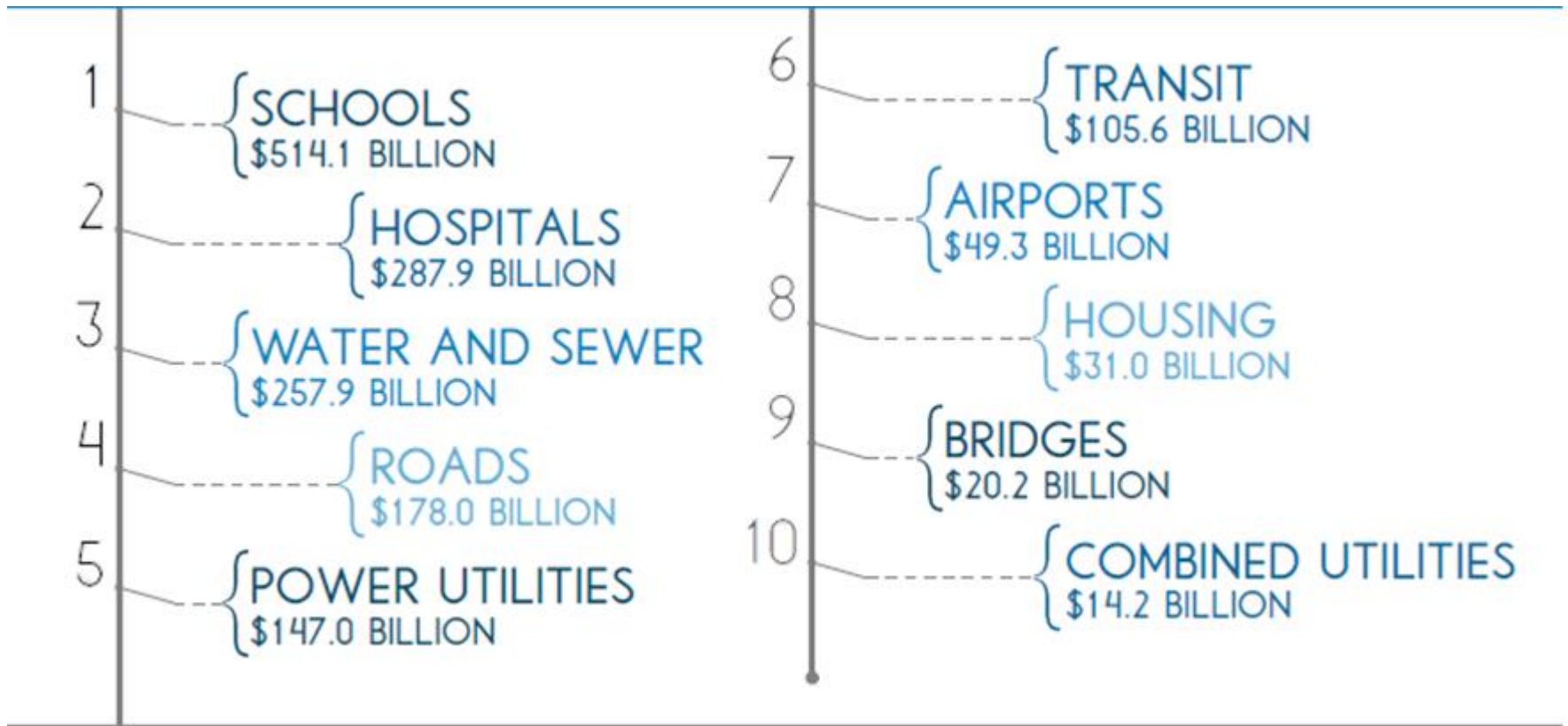
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## ADMINISTRATION UPDATE

- **President Obama's FY2016 Budget Request:** Similar to FY2013, FY2014 and FY2015 requests, includes 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 preferences
  - ◆ Proposes new bond program intended to spur private involvement in public infrastructure projects by expanding the use of private activity bonds (PABs) beyond what is currently allowed by the tax code
- **Continue to Engage in Debt and Deficit Negotiations**

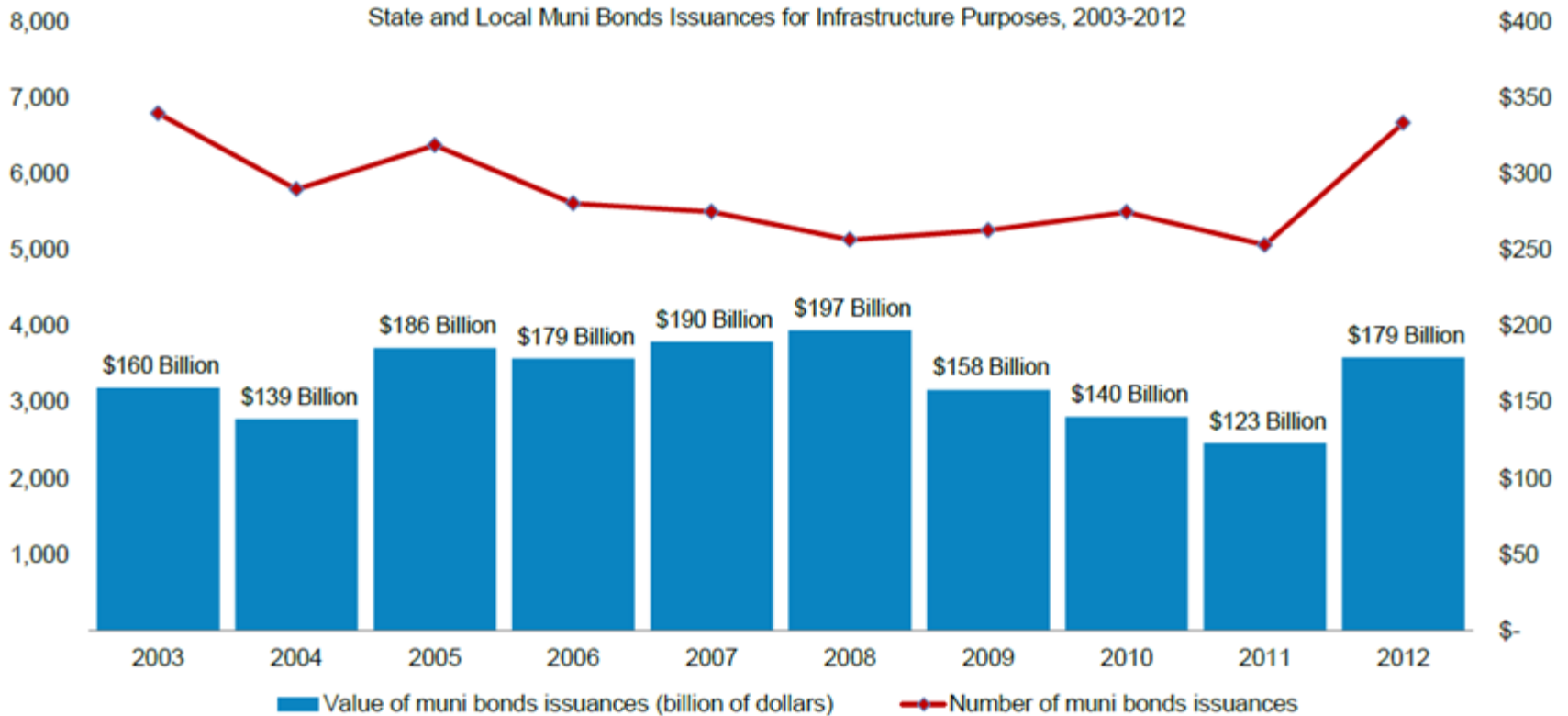
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## TOP 10 U.S. INFRASTRUCTURE PURPOSES FOR MUNI BONDS 2003-2012



# 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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NACo POLICY RESEARCH PAPER SERIES • ISSUE 1 • 2013

## Municipal Bonds Build America

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



Emilia Istrate  
NACo Director of Research

- ◆ **Between 2003 and 2012, counties, states and other localities invested 2.5 times more than the federal government in infrastructure.** Reiterates the point that 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 nests, 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



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## 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](#)

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## Contact Us!

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



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