NATIONAL ASSOCIATION OF COUNTIES
POLICY BRIEF
NACo 2014

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

ACTION NEEDED: Urge your Members of Congress to oppose any legislative initiatives 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 have already resulted in cuts in aid to local governments from the states and reduced funding in federal programs that benefit counties. Now, counties face the additional risk of not having a low-cost, market-driven means of financing to support local needs.

Eliminating the tax-exempt status of municipal bonds was first entertained by President Obama's National Commission on Fiscal Responsibility and Reform (Simpson-Bowles Plan). A derivative of that proposal, a 28 percent cap on the benefit of the exemption, was included in the President's FY2014 Budget Request. In March of 2013, the Senate included language in their FY2014 Budget Resolution (S. Con. Res. 8) that suggests the possibility of a cap placed on tax expenditures, which could include the exemption for interest earned on state and local municipal bonds. Similar proposals have continued to surface in the ongoing debate on tax reform in the Senate Finance Committee and House Ways and Means Committee. These recommendations would have the effect of imposing an income tax on otherwise tax-exempt interest earned by investors.

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 for government services. 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.

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 invested $3.2 trillion in infrastructure using municipal bonds from 2003-2012**
- **45 percent of long-term state and local tax-exempt bonds funded the building of schools, hospitals, roads and jails**
- **75 percent of all national infrastructure projects are completed using bond financing**

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 2003 and 2012, counties, localities, states and state/local authorities invested $3.2 trillion in infrastructure through tax-exempt municipal bonds.
- 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 44 percent of public roads and highways, own almost a third of the nation's transit systems and airports, own 964 hospitals, manage 1,947 health departments and own many of the nation's jails.

COMMITTEES OF JURISDICTION:

U.S. House Committee on Ways and Means		**U.S. Senate Finance Committee**
Majority:		**Majority:**
Dave Camp (R-MI), Chairman	Adrian Smith (R-NE)	***Ron Wyden (D-OR), Chairman***
Sam Johnson (R-TX)	Aaron Schock (R-IL)	John D. Rockefeller IV (D-WV)
Kevin Brady (R-TX)	Lynn Jenkins (R-KS)	Charles E. Schumer (D-NY)
Paul Ryan (R-WI)	Erik Paulsen (R-MN)	Debbie Stabenow (D-MI)
Devin Nunes (R-CA)	Kenny Marchant (R-TX)	Maria Cantwell (D-WA)
Pat Tiberi (R-OH)	Diane Black (R-TN)	Bill Nelson (D-FL)
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Jim Gerlach (R-PA)	Tim Griffin (R-AR)	Sherrod Brown (D-OH)
Tom Price (R-GA)	Jim Renacci (R-OH)	Michael Bennett (D-CO)
Vern Buchanan (R-FL)		Robert P. Casey (D-PA)
		Mark Warner (D-VA)
Minority:		**Minority:**
Sander Levin (D-MI), Ranking Member	John B. Larson (D-CT)	***Orrin G. Hatch (R-UT), Ranking Member***
	Earl Blumenauer (D-OR)	Chuck Grassley (R-IA)
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John Lewis (D-GA)	Joseph Crowley (D-NY)	Michael B. Enzi (R-WY)
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Xavier Becerra (D-CA)	Danny Davis (D-IL)	John Thune (R-SD)
Lloyd Doggett (D-TX)	Linda Sanchez (D-CA)	Richard Burr (R-NC)
Mike Thompson (D-CA)		Johnny Isakson (R-GA)
		Rob Portman (R-OH)
		Patrick J. Toomey (R-PA)

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