As Congress and the White House revisit negotiations on comprehensive tax reform and budget deficit reduction, lawmakers are refocusing on proposals that would repeal the tax exemption on municipal bond interest or replace the exemption with a cap on investor deductions. As these discussions continue, it is important to take a closer look at the great productivity and irreplaceable nature of this long-standing public infrastructure investment tool and ask simply – Why are we looking at this policy change again?

The federal tax exemption on municipal bonds was included in the country’s income tax code in 1913. Through the tax-exemption, the federal government continues to provide critical support for the federal, state and local partnership that develops and maintains essential infrastructure, which it cannot practically replicate by other means. Three-quarters of the total United States investment in infrastructure is provided by state and local governments, and tax-exempt bonds are the primary financing tool that are used by over 50,000 state and local governments and authorities to satisfy these infrastructure needs. On average, state and local governments issue nearly 10,000 bonds a year totaling $300 billion. This has allowed state and local governments to finance more than $1.65 trillion in infrastructure investment over the last decade through the tax exempt market.

Our citizens, communities and public, private and non-profit sectors benefit in many ways from the issuance of these bonds, as they are used to build and maintain schools to support an educated workforce, and to build our roads, public transportation systems and airports, all of which are essential for supporting commerce. They also help to address the country’s water infrastructure, public utilities, health care and affordable housing needs, as well as provide public safety infrastructure that ensures local and national security.

In INSERT YOUR JURISDICTION, the tax exemption on municipal bonds has contributed to the advancement and completion of a great number of critical infrastructure projects, including the $TOTAL COST OF PROJECT NAME OF PROJECT (FOR EXAMPLE – THE $400 MILLION DOWNTOWN WATER SYSTEM REPLACEMENT PROJECT). INCLUDE SEVERAL COMPELLING PROJECTS IF POSSIBLE, AND WHERE POSSIBLE, ALSO INDICATE/ESTIMATE THE NUMBER OF JOBS CREATED BY EACH. ALSO EXPLAIN THE STATE/REGIONAL/LOCAL NEED FOR THESE PROJECTS (WHY IS/WAS THE PROJECT NECESSARY? PROVIDE PERSUASIVE DATA TO SUPPORT THE NEED FOR THE PROJECT (FOR EXAMPLE – THE PROJECT ADDRESSES A CRITICAL STATE/REGIONAL/LOCAL NEED, SUCH AS PROVIDING CLEAN WATER, IMPROVING PUBLIC HEALTH, RELIEVING REGIONAL CONGESTION AND EXPANDING ECONOMIC DEVELOPMENT).

The tax exemption on municipal bond interest is a win-win-win-win. It is a win for state and local governments who need the support of investors to finance critical infrastructure. It is a win for taxpayers across the country who depend on this infrastructure for reliable transportation systems, schools, public health facilities, energy, clean water and affordable housing. The exemption is a win for the federal government who is able to provide a small tax benefit for a return of billions of dollars of
infrastructure; and a win for investors who purchase bonds for many reasons, including the safe nature of these financial products.

Proposals to reduce or repeal the tax exemption would have severely detrimental impacts on national infrastructure development and the municipal market, raising costs for state and local borrowers and creating uncertainty for investors and taxpayers. For example, it is estimated that if the proposal to cap the exemption on municipal bonds at 28 percent had been in place over the last 10 years it would have cost state and local governments an additional $173 billion in interest costs. Total repeal of the exemption over that time would have cost state and local governments over $495 billion in additional interest costs. Given the severe budget constraints that state and local governments have faced since the national financial crisis of 2008, it is very likely that many of the infrastructure projects funded through tax exempt bonds would not have been possible.

Proposals to cap or repeal the exemption would also have introduced uncertainty into the municipal market, causing investors to fear additional federal intervention in the market where none has existed for the past 100 years. Ultimately these investor concerns translate into demands of higher yields from and increased costs to state and local governments. If these entities are unable to satisfy investor yield demands, then either needed infrastructure projects will not move forward or the costs of these projects will be passed on directly to state and local tax and rate payers. Meanwhile other proposals to replace tax exempt bonds with tax credit or direct subsidy bonds have also gained some attention, but it is important to note that these proposals would also create uncertainty and instability in the market, and more importantly, the costs of issuance for a majority of governments, especially smaller governments, would rise should such proposals be enacted. These costs would then be passed along to taxpayers.

The federal government has asked state and local governments to sacrifice a lot over the years, with dramatic decreases in federal government funding for critical state and local programs such as CDGB, HOME, COPS, BYRNE/JAG and the CWSRF and DWSRF programs through annual appropriations cuts and sequestration. To also take away this advantage to low cost capital, is a double hit that would cripple national infrastructure development.

The tax exemption on muni bonds has helped state and local governments pay for the vast majority of our country’s infrastructure over the past 100 years, having been maintained through two world wars and the Great Depression, as well as the recent Great Recession. It works. It works for small governments and large governments.

Why would Congress want to change something that works already for a majority of state and local governments of all sizes, and provides trillions of dollars in infrastructure funding that cannot be replicated or replaced?