MAYORS, COUNTY AND LOCAL LEADERS OPPOSE MOVE TO CAP TAX-EXEMPT MUNICIPAL BONDS THAT WOULD HARM INFRASTRUCTURE, JOBS

Washington, D.C. – The U.S. Conference of Mayors (USCM), The National League of Cities (NLC) and the National Association of Counties (NACo) today called on Congress and the Administration to reject any proposals to hamstring the financing of local infrastructure projects by changing the tax-exempt status of municipal bonds. Municipal bonds provide a low-cost and efficient way for cities and counties to finance much of America’s critical infrastructure, including schools, hospitals, airports, water and sewer systems, and roads and bridges.

During a roundtable at the National Press Club held for reporters by mayors, county and local leaders of all three non-partisan organizations released a report to highlight the broad use of municipal bonds in more than thirty locales around the country. Municipal bonds are the country’s most important source of financing for vital infrastructure and are used to finance everything from multibillion transportation projects to school expansions in communities large and small.

“Municipal bonds are essential financing tools used by mayors and local officials in their communities,” said USCM Vice President Mesa, AZ Mayor Scott Smith. “Municipal bonds allow communities to build the streets, bridges, water lines, and police and fire stations that not only serve the needs of citizens, but also create jobs and drive the economy. Without them, our communities will suffer.”

The joint report also shows in the last decade, state and local governments financed over $1.65 trillion of infrastructure investment using tax-exempt bonds – nearly all in just six categories:

- $514 billion in primary and secondary schools;
- $288 billion in hospitals;
- $258 billion in water and sewer facilities;
- $178 billion in roads, highways and streets;
- $147 billion in public power projects and;
- $106 billion in mass transit.

If the proposed 28-percent cap had been in effect during that time, the borrowing costs to states and localities of these bonds would have increased by $173 billion and would have prevented many infrastructure projects from moving forward. In 2012 alone, more than 6,600 tax-exempt municipal bonds financed over $179 billion worth of infrastructure projects – the bulk of which were primary and secondary education, water and sewer facilities, and hospitals.
Of the cap proposal, NACo President Chris Rodgers, Commissioner, Douglas County, Nebraska said, “Counties build, maintain and pay for much of America’s infrastructure including schools, roads, water and sewer systems, airports, bridges and hospitals. Counties own and maintain 44 percent of the nation’s roadways, 228,026 bridges and almost one third of the nation’s transit systems and airports. Counties own 964 hospitals and 677 nursing homes. Tax-exempt municipal bonds are the single most important tool that counties use for financing our critical infrastructure. Any change to the taxation status of often voter-approved debt issued by counties risks local public works projects that benefit communities and puts into question the nature of the U.S. federalist partnership.”

In effect, the 28 percent cap on tax-exempt interest would be borne almost exclusively by state and local governments in the form of higher interest rates on their borrowing. Market analysts have estimated that this proposed tax on municipal bond interest would raise state and local borrowing costs by up to 70 basis points (0.70 percentage point) or more. Because the tax would apply not only to new state and local borrowing, but also to all outstanding bonds, investors would be taxed on investment which they reasonably expected would be tax-exempt as long as they are outstanding -- an unprecedented form of retroactive taxation.

“Talk of eliminating the tax exemption on municipal bonds is more about politics—on both sides—than economics,” says NLC representative Houston City Controller Ronald Green. “No one can argue about how cities, counties and states have utilized municipal bonds to great effect to finance their capital projects such as roads and highways, water projects, schools, libraries, fire stations and, while doing this, saving on interest costs with tax exempt ‘muni’ bonds. The yield from taxable bonds—if that was the only option for municipalities—would pale in comparison to the increased taxes residents would have to pay to fund infrastructure projects. Or, the alternative, simply to postpone needed projects.”

Finally, local leaders explained that municipal bonds represent a partnership among the federal government, state and local governments, and private investors in contributing to public infrastructure, which creates jobs and improves economic efficiency. Tax-exempt bonds maintain decision-making and project selection at the state and local level, where citizens and elected officials can best determine where needs are greatest and where investments will generate the maximum return.

Tim Firestine, Chief Administrative Officer for Montgomery County, MD, President-elect of the Government Finance Officers Association and NACo representative, elaborated on the impact that uncertainty would create, “Our county has about $2.1 billion of general-obligation bonds outstanding at this time, on which we pay interest of $93 million a year. Eliminating or even capping the tax exemption on investors would cause them to look for higher-yielding investments and we would have to offer more interest to lure them back. This simply drives up the county cost to local taxpayers to maintain our infrastructure. [And] the burden will be transferred to the property tax.”

The report concludes that curtailing or eliminating the tax-exemption would raise costs for financially strapped state and local governments, and would result in less investment in infrastructure, particularly at a time when jobs are scarce and the physical state of public works and infrastructure is deteriorating.

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The National League of Cities is dedicated to helping city leaders build better communities. NLC is a resource and advocate for 19,000 cities, towns and villages, representing more than 218 million Americans.

The U.S. Conference of Mayors is the official nonpartisan organization of cities with populations of 30,000 or more. There are 1,295 such cities in the country today, and each city is represented in the Conference by its chief elected official, the mayor. Like us on Facebook at facebook.com/usmayors, or follow us on Twitter at twitter.com/usmayors.

The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo provides essential services to the nation’s 3,069 counties. NACo advances issues with a unified voice before the federal government, improves the public’s understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. For more information about NACo, visit www.naco.org.