



CALL TO ACTION: PROTECT MUNICIPAL BONDS

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

Municipal Bonds: Immediate Action Needed!



URGE YOUR SENATORS:

1. To support the tax-exemption for municipal bonds as the debates over the federal debt and deficit and comprehensive tax reform continue

URGE YOUR HOUSE MEMBERS:

1. To co-sponsor [House Resolution 112](#), which former local elected officials Reps. Lee Terry (R-NE) and Richard Neal (D-MA) introduced to reinforce the importance of municipal bonds.
 - ✓ If your Members would like to sign on, have their staff contact either A.T. Johnston in Rep. Terry's office (at.johnston@mail.house.gov or 202.225.4155) or Ann Jablon in Rep. Neal's office (ann.jablon@mail.house.gov or 202.225.5601)
2. To sign on to a House "Dear Colleague" letter led by former county executive Rep. Dutch Ruppersberger (D-MD) and Rep. Randy Hultgren (R-IL) to oppose any changes to the tax-exempt status of municipal bonds
 - ✓ If your Members would like to sign on, have their staff contact either Walter Gonzales in Rep. Ruppersberger's office (walter.gonzales@mail.house.gov or 202.225.3061) or Scott Luginbill in Rep. Hultgren's office (Scott.Luginbill@mail.house.gov or 202.225.2976)

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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 \$3.7 trillion

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Proposals to Alter the Tax-Exempt Status of Municipal Bonds Continue to Remain a Threat to County Government

2010

- **Simpson-Bowles:** Proposed elimination of all income tax expenditures; interest earned on state and local municipal bonds would be fully taxable for newly-issued tax exempt municipal bonds

2012

- **President's FY2013 Budget Proposal:** Proposed placing a 28 percent limit on the value of specified deductions or exclusions from AGI and all itemized deductions; the limit would apply on interest earned for new and outstanding state and local tax exempt bonds

March
2013

- **FY2014 Senate Budget Resolution:** Suggested the possibility of a cap being placed on tax expenditures, which could include the exemption for interest earned on state and local municipal bonds

April 2013

- **President's FY2014 Budget Proposal:** Reiterates 28 percent cap on the value of certain tax benefits, including interest earned on new and outstanding state and local tax exempt bonds

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U.S. SENATE UPDATE

- **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 the last decade, 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*
- **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*
- **Sen. Begich (D-AK) 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
- **Senate Finance Committee Working on Tax Reform:** The Senate Finance Committee, led by Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT), continue to convene regularly to discuss options for tax reform

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U.S. HOUSE OF REPRESENTATIVES UPDATE

- **House Ways and Means Committee Hearing on Tax Reform:** Hearing held March 19, “Tax Reform and Tax Provisions Affecting State and Local Government,” primary topic of discussion was tax-exempt 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*
- **Reps. Terry and Neal Lead House Resolution to Support Muni Bonds:** H.Res.112, introduced by Reps. Lee Terry (R-NE) and Richard Neal (D-MA), celebrates the importance of municipal bonds; *co-sponsors still needed*
 - ✓ If your Members would like to sign on, have their staff contact either A.T. Johnston in Rep. Terry’s office (at.johnston@mail.house.gov or 202.225.4155) or Ann Jablon in Rep. Neal’s office (ann.jablon@mail.house.gov or 202.225.5601)
- **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-IL) are circulating a “Dear Colleague” letter to House Leadership that urges preserving the tax-exempt status of municipal bonds
 - ✓ If your Members would like to sign on, have their staff contact either Walter Gonzales in Rep. Ruppertsberger’s office (walter.gonzales@mail.house.gov or 202.225.3061) or Scott Luginbill in Rep. Hultgren’s office (Scott.Luginbill@mail.house.gov or 202.225.2976)

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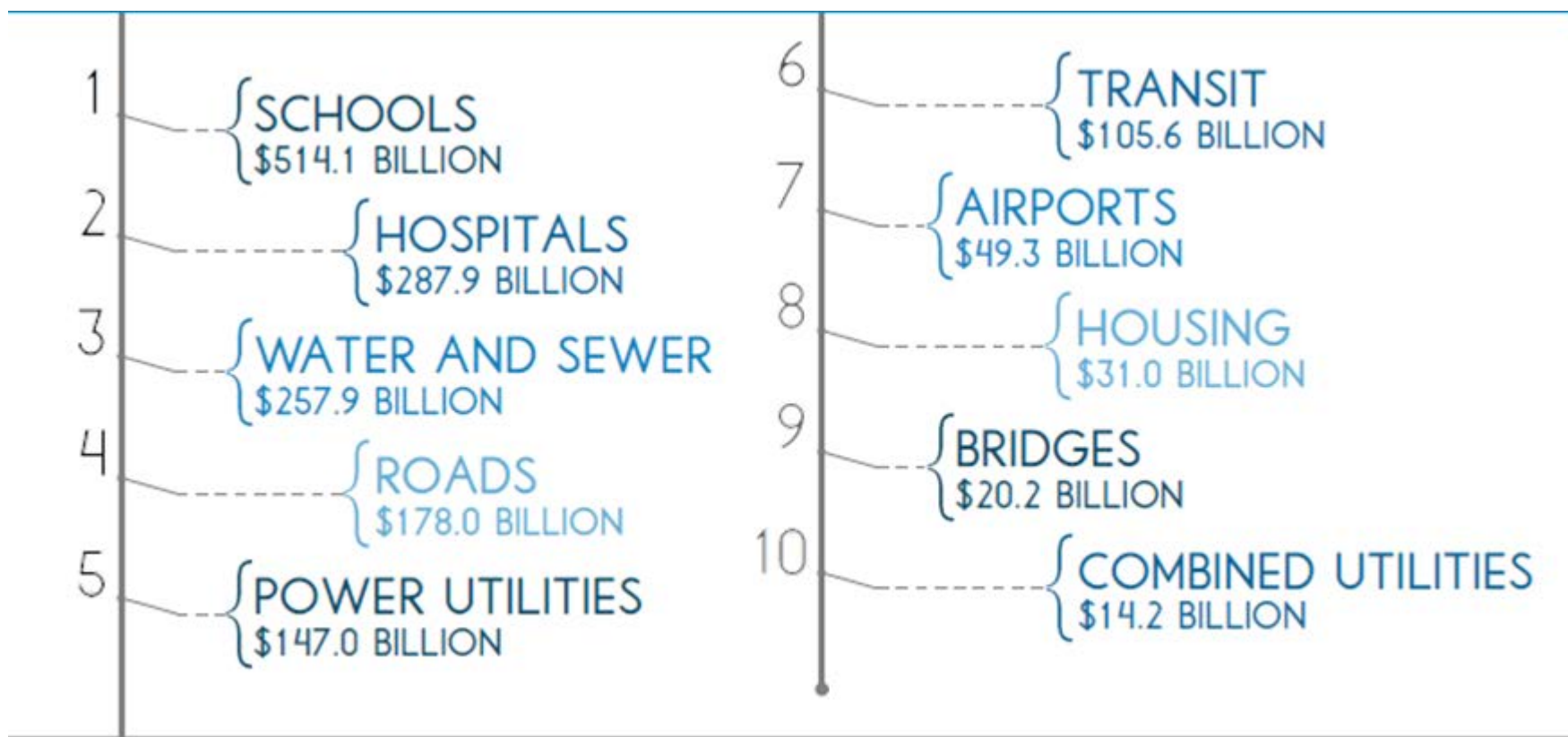
ADMINISTRATION UPDATE

- **President Obama's FY2014 Budget Request:** Similar to FY2013 request, 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 2014
 - ◆ In addition to tax-exempt interest, the cap would also apply to itemized deductions and certain other tax preferences

- **Continue to Engage in Debt and Deficit Negotiations**

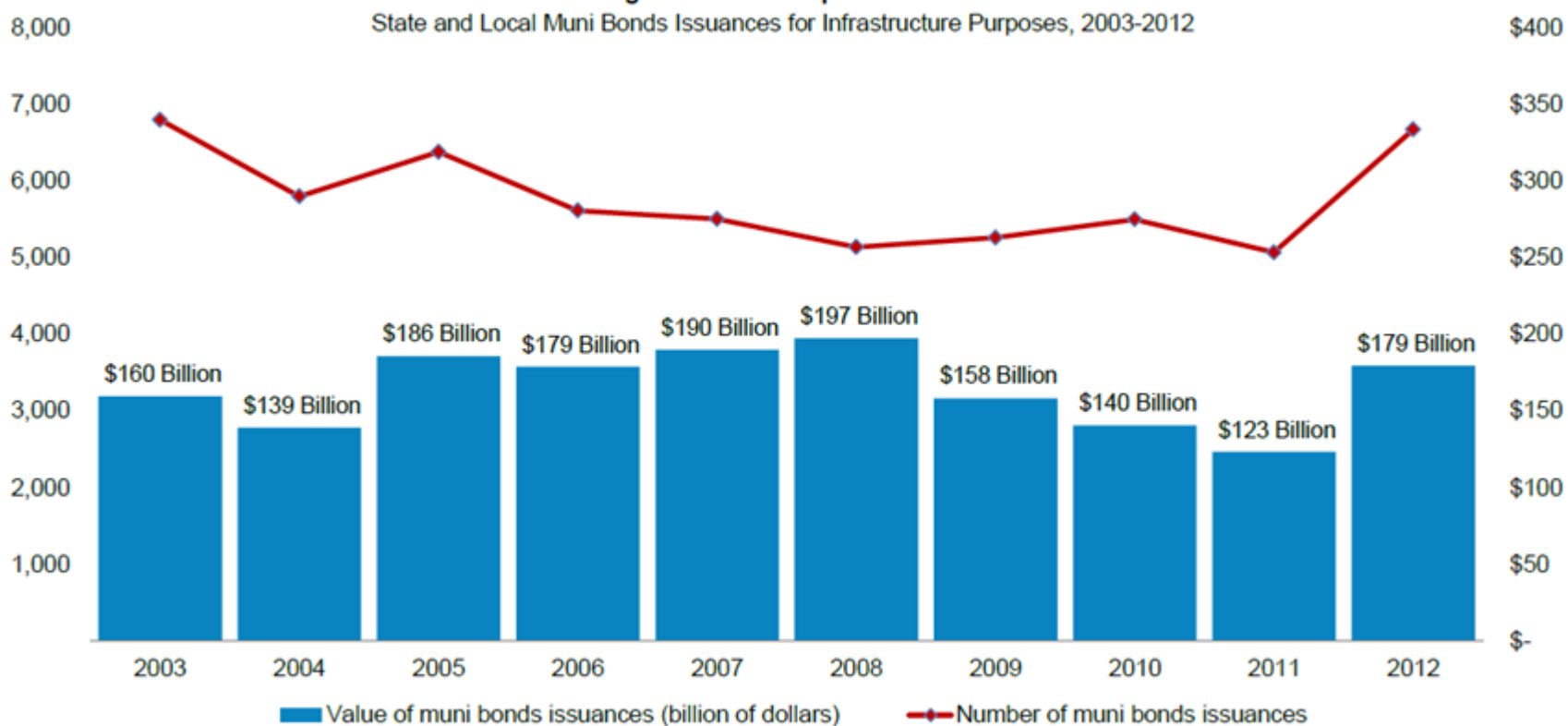
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TOP 10 U.S. INFRASTRUCTURE PURPOSES FOR MUNI BONDS 2003-2012



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



Source: Thomson-Reuters data, February 2013

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- ◆ **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 over the last decade (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 the last 10 years.** 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
2003	114,128.55	130,876.97	16,748.42	161,981.19	47,852.64
2004	96,239.27	110,820.97	14,581.71	137,901.29	41,662.02
2005	121,966.14	141,458.44	19,492.31	177,658.44	55,692.30
2006	118,248.09	137,017.62	18,769.54	171,875.34	53,627.25
2007	125,282.78	145,214.14	19,931.35	182,229.50	56,946.72
2008	140,294.09	161,012.63	20,718.54	199,489.91	59,195.82
2009	110,288.35	126,890.90	16,602.55	157,724.20	47,435.85
2010	91,207.92	105,952.85	14,744.93	133,336.29	42,128.37
2011	83,022.35	95,965.70	12,943.35	120,003.35	36,981.00
2012	100,111.45	118,949.63	18,838.18	153,934.81	53,823.36
TOTAL			173,370.87		495,345.33

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ADDITIONAL RESOURCES

- ◆ [Presentation with charts and infographics](#)
- ◆ [Legislative fact sheet on municipal bonds](#)
- ◆ [Joint NACo/USCM/NLC report on the impact of municipal bonds](#)
- ◆ [50 state profiles showing potential impact of cap or elimination](#)

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Contact Us!

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



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