119th Congress Advocacy Talking Points

[Most Critical Point] The Importance of the Tax Exemption for Municipal Bonds

A large portion of the infrastructure in your district was likely financed with tax-exempt bonds. The tax-exemption lowers communities' borrowing costs and underpins state and local infrastructure finance.

- Holders (investors) of qualified municipal bonds do not pay federal income taxes on interest paid on qualified municipal bonds, which reduces the interest costs for state and local borrowers by 54 percent (2.1 percentage points / 210 basis points).
- Any effort to reduce or eliminate the tax-exemption would amount to a federal takeover of local decision-making and rip money away from the communities that know their respective infrastructure needs best.
- Those efforts would result in increased borrowing costs, forcing state and local governments to either cut back on infrastructure investment or raise taxes.
- Because of the tax-exemption:
  - Community issuers and borrowers saved an average of 210 basis points per transaction. In other words, a city in your district who would have received a 5.10% borrowing rate, was able to achieve a 3% borrowing rate because of the tax-exemption.
  - We estimate the tax-exemption will save issuers/borrowers about $823.92 billion between 2026 and 2035.
  - Those savings amount to $6,554.67 per U.S. household in the form of lower state and local taxes, tolls, bills, and rates over the next decade.

You can learn more about projects financed across the country at www.builtbybonds.com.

Modernize Financing Tools Available to Small and Rural Communities

Raising the threshold for the small borrower exemption, also known as bank qualified debt, is an easy way to expand financing options to small and rural communities.

- Banks generally cannot deduct the borrowing costs of holding tax-exempt securities.
- However, they may deduct up to 80 percent of the carrying costs of securities from "qualified small issuers" that issue less than $10 million in a calendar year per section 265 of the Internal Revenue Code (IRC).
- This exemption allows smaller communities to access tax-exempt rates more easily through bank placements and reduces their financing costs.
- These small issuers typically save between an estimated 25 – 40 basis points per transaction.
- The current $10 million threshold was set in 1986 and is no longer enough to finance most projects even in smaller communities.
- By raising the threshold, indexing it to inflation, and applying it to the borrower instead of the issuer, Congress and the Administration can help small communities, as well as nonprofits, reduce borrowing costs for critical infrastructure projects.

Expand Financing Options for Innovative and Critical Projects

Private activity bonds (PABs) enable financing for a host of infrastructure projects that don't otherwise fit under the tax-exemption.

- Many capital projects with a private use provide essential public benefit, such as airports, seaports, waste disposal facilities, housing, 501(c)(3) institutions, and many more.
- A private activity bond (PAB) is a bond issued to finance a facility that includes some private use, through ownership, management agreements, a lease, or another economic interest in the facility.
- The Internal Revenue Code (IRC) provides specific categories of PABs that may qualify to be issued on a tax-exempt basis due to the public benefit they offer.
- In certain instances, the volume of qualified PABs a state is allowed to issue each year is capped.

- States frequently reach their volume cap well before the end of the year—limiting access to financing opportunities for innovative and critical infrastructure projects and public private partnerships.
- By expanding certain categories of PABs and raising state volume caps, Congress and the Administration can leverage greater investment in national infrastructure projects.

Allow Our communities to Once Again Refinance at Lower Rates

Advance refunding bonds allow issuers to take advantage of more favorable interest rate environments, free up more capital for infrastructure investment, or pass savings onto taxpayers.

- For decades, state and local governments were able to refinance outstanding debt by issuing a tax-exempt advance refunding bond to pay off another previously issued bond.
- Typically, the new refunding would allow the issuer to achieve a lower interest rate and generate savings to the issuer and taxpayer.
- Between 2007 and 2017, issuers used advance refundings to save more than $18 billion.
- Reallowing issuers to issue tax-exempt advance refunding bonds beyond that window would permit state and local governments to take advantage of favorable interest rate environments, save tax dollars, and reinvest savings in additional infrastructure.