Tax-Exempt Municipal Bonds

America faces an infrastructure crisis. The 104-year old tax exemption on municipal bond interest is an irreplaceable tool for state and local governments and nonprofits seeking to finance the replacement of our crumbling bridges and roads or to upgrade our inadequate ports and transit systems. Municipal bonds finance roads, highways, and bridges; public transportation; seaports and marine terminals; airports; water and wastewater facilities; schools; acute care hospitals; multi-family housing; libraries; parks; town halls; electric power and natural gas facilities; and other large-scale public projects that create jobs and strengthen our global competitiveness. Tax-exempt municipal bonds, whether "governmental" or "qualified private activity", financed more than $1.7 trillion in new infrastructure investments in the last decade. Over the past 30 years, tax-exempt bonds have financed:

4 million miles of roadway
500,000 bridges
1,000 mass transit systems
16,000 airports
25,000 miles of intercostal waterways
70,000 dams
900,000 miles of pipe in water systems
15,000 waste water treatment plants[1]

National Development Council's Use of Tax-Exempt Bonds

The National Development Council (NDC), a national nonprofit headquartered in New York City, uses tax-exempt bonds to finance privately delivered, but publically controlled buildings, roads and municipal utilities in partnership with local communities and universities. Using NDC's American Model™, ndconline.org/public-private-partnerships/ an innovative approach to Public Private Partnerships, NDC combines tax-exempt financing with private sector design, construction and management efficiency. As federal funding for community development projects declined as a percentage of GDP by 75% since 1979, NDC pioneered an approach to capture private investment on behalf of increasingly capital-starved communities, helping municipalities construct or renovate over 3.7 million square feet of new municipal assets valued at over $2.6 billion.

For example, most recently NDC closed a $39 million transaction with the City of Scranton, PA to repair and manage the city's financially troubled parking garages and on-street parking meters. By collaborating with NDC, the City of Scranton is able to repay outstanding bonds and maintain ownership of its essential public assets while NDC through a concession/lease oversees repairs and day-to-day operations. Further, due to NDC's unique nonprofit model, cash flow is returned annually to the benefit of Scranton in the form of 501(c)(3) grants to nonprofits.

[1] Source: National League of Cities

In addition to parking structures, NDC's American Model™ portfolio includes municipal offices, city halls, justice centers, laboratories, student housing, libraries, biomedical facilities, and hospitals.

Policy Recommendations for Tax-Exempt Municipal Bonds

Maintain the federal tax exemption on municipal bond interest. Proposals to reduce, repeal, or limit the tax exemption on municipal bonds would have a severely detrimental impact on the replacement and expansion of the nation's aging and outdated infrastructure, destroy the highly efficient municipal bond marketplace, remove local determination and raise the cost for state and local borrowers. Proposals to tax municipal bond interest, in whole or in part, also introduce uncertainty into the municipal debt market, causing investors to fear additional federal intervention in the market where none has existed for the past 104 years.

Furthermore, capping or eliminating the exclusion of municipal bond interest from federal tax will adversely affect job creation. A recent IHS Global Insight report estimates that proposals to replace the exemption with a *28* percent cap on investor deductions would result in the loss of almost *312,000 jobs* annually and *$24.7 billion* in Gross Domestic Product (GDP). The report also estimates that full repeal of the exemption would result in the loss of nearly *892,000 jobs* annually and *$70.7 billion in GDP*.

State and local governments use municipal bonds to finance the construction of the majority of our nation's core infrastructure.[2] Proposals to eliminate or reduce the interest exclusion for municipal bond investments focus solely on federal tax revenues that could be raised by such proposals, ignoring almost entirely the potential negative effect on state and local governments and ultimately, placing the cost burden solely on state and local taxpayers. Had municipal bond interest been subject to federal income tax, the $1.65 trillion in new infrastructure projects financed from 2003 to 2012 would have cost state and local governments an additional $495 billion in interest expense. Any reduction of the interest exemption will create pressure to raise local taxes and fees to cover the additional cost.

NDC encourages federal policymakers to continue the partnership with state and local government and resist any efforts to shift the cost burden for infrastructure from the federal government to state and local governments. After all every American taxpayer lives in a local community and will bear the burden of cost shifting.

[2] CONG. BUDGET OFFICE, J. COMM. ON TAXATION, SUBSIDIZING INFRASTRUCTURE INVESTMENT WITH TAX-PREFERRED BONDS (Oct. 2009)(showing that for education, water, and sewer, nearly all capital investments are made by state and local governments and that for transportation most investments are made by state and local governments).