TALKING PONTS ON PRESERVATION OF THE MUNICIPAL TAX EXEMPTION

* **Tax-exempt bonds are the primary financing mechanism for state and local infrastructure projects—they have been used for more than 100 years and provide essential funding for states, counties and localities.**
* **More than 90 percent of public-sector construction spending in the U.S. is borne by states and localities, most of which is funded through tax-exempt municipal bonds.**
* **If the tax exemption is eliminated or reduced, states and localities will pay more to finance projects, leading to fewer projects and fewer jobs, or project costs will be transferred to local tax and rate payers.**

# IMPACT OF PROPOSALS TO REPEAL THE TAX EXEMPTION

Over the last few years several federal proposals have been offered that would completely remove the long-standing exemption on municipal bond interest for investors on their taxes.

* **IMPACT OF REPEAL** - If the proposal to repeal the exemption is adopted, prospective estimates show that during the 2026 - 2035 period, public issuers could see $823.92 billion in increased borrowing costs.
* **IMPACT ON THE MARKET** - Investors would demand higher yields from state and local governments due to the increased level of uncertainty about Washington intervention into the municipal bond market.
* **IMPACT ON TAXPAYERS** - If state and local governments are unable to satisfy investor demands for higher yields, 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.

# THE TAX EXEMPTION IS A WIN-WIN-WIN-WIN!

* A win for state and local governments who need the support of investors to finance critical infrastructure;
* 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;
* 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.
* Further, elected bodies at the state and local levels or voters themselves approve whether an entity should issue bonds for specific long-term projects, not to support general government functions, such as maintaining employees or keeping the lights on.

# THE TRUTH ABOUT MUNI INVESTORS

Some have claimed that proposals to cap the investor deduction would solely impact wealthy investors. However, these claims are not accurate:

* The IRS’ own data illustrates that more than half of tax-exempt income is reported by individuals over the age of 65.
* In 2010, 52% of all bond interest paid to individuals went to those with incomes of less than

$250,000.

* A 20 year average history of data indicates that 72.4% of the total outstanding muni debt is held by retail investors/households, either directly or through mutual funds and money market funds.
* These are critical points that give us a picture of who is investing in municipal bonds and why.
  + For example, those 57% of tax-exempt income earners who are investing in muni bonds are investors with limited incomes that have chosen to invest in municipal bonds because they are a secure investment.
  + Muni bonds are an extremely safe investment, second only to U.S. Treasuries, with a nearly zero default rate.
  + Investors purchase municipal bonds without the expectation of a larger investment return from state and local governments because they know they are making safe investments.

# ENOUGH ALREADY!

* 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 CDBG, 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?