Impact on Colorado

The bank qualified provision offers a proven incentive for local banks to purchase the tax-exempt debt of small local governments and borrowers such as small colleges, health care facilities and other charities. During the two years in which it was liberalized (late 2000s), it created a market for thousands of small borrowings that stimulated the economy as well as cash strapped small governments and nonprofits.

Governments issuing $10 million or less in bonds per calendar year can have those bonds designated (or qualified 501(c)(3) bonds) as bank-qualified, which allows them to bypass the traditional underwriting system and sell their tax-exempt bonds directly to local banks at a cost savings for taxpayers.

Proposed Legislative Change:

» Increase the maximum allowed bond issuance of “bank eligible” bonds to $30 million from the current level of $10 million. Set in 1986, the limit should be increased and then tied to inflation in future years.

» Permanently modify the small issuer exception to tax-exempt interest expense allocation rules for financial institutions (Section 265(b)(3)). The provision should be modified to apply to governmental issuers and the borrowing organizations separately regardless of the issuer and permit the 501(c)(3) organization to provide the designation.

COLORADO
BQ Bond Issuance by General Use of Proceeds: 2008–2018
(in millions)

Source: GFOA analysis of Thomson Reuters data as of 11/28/18

Water, Sewer & Gas Facs
Toll Roads, Highways & Streets
Theatres
Stadiums & Sports Complexes
Single Family Housing
Sanitation
Public Power
Primary & Secondary Education
Police Stations & Equipment
Parks, Zoos & Beaches
Other Recreation
Multi Family Housing
Libraries & Museums
Industrial Development
Higher Education
Government Buildings
General Purpose/Public Impact
General Medical
General Acute Care Hospital
Flood Control
Fire Stations & Equipment
Economic Development
Correctional Facilities
Cont Care Retirement Community
Combined Utilities