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Municipal Bonds Build America

A County Perspective on Changing the Tax-Exempt Status of Municipal Bond Interest

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Counties, as well as states, other local governments and local/state authorities, would be deeply affected by a change to the tax-exempt status of municipal bond interest.

- Counties, states, localities and state/local authorities would have paid almost $500 billion more in interest in case of a repeal of the tax-exempt status of municipal bond interest during the last decade.
- In 2012 alone, the debt service burden for counties would have risen by $9 billion if municipal bonds were taxable over the last 15 years.

Executive Summary

Counties, states and other localities are the main funders of infrastructure in the United States. Municipal bonds enable state and locals to build essential infrastructure projects, such as schools, hospitals and roads. Congress and the Administration are currently debating federal tax reform, including a cap or a repeal of the tax-exempt status of municipal bond interest. An analysis of the municipal bond market and of the estimated impact of a 28 percent cap and a repeal of the tax-exempt status of municipal bond interest on the 3,069 county governments reveals that:

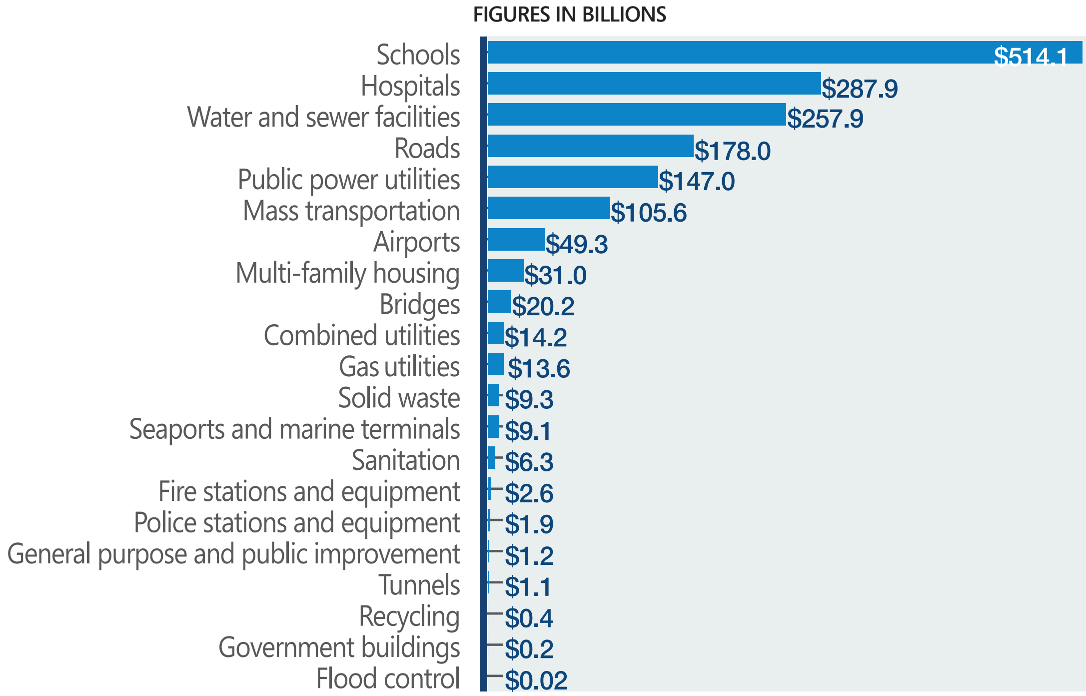
1 – **Municipal bonds finance a wide range of locally selected infrastructure projects and have a long history of low default rates.** Between 2003 and 2012, counties, states and other localities invested $3.2 trillion in infrastructure through long-term tax-exempt municipal bonds, 2.5 times more than the federal investment. In counties, the legislature of the county government has to approve a bond issuance and often voters also approve the bond financing. Municipal bonds maintain a track record of low default rates, better than comparable corporate bonds.

2 – **Any tax imposed on currently tax-exempt municipal bond interest will affect all Americans, as investors in municipal bonds and as taxpayers securing the payment of municipal bonds.** American households hold almost three-quarters of the municipal bond market, for retirement plan diversification and as a way to invest in their communities. A cap or a repeal of the tax-exempt status of municipal bond interest would deeply affect Americans' retirement nests and asset formation. In the same time, the higher debt service would impact counties and other state and local governments' budgets and directly affect taxpayers.

3 – **In 2012 alone, the debt service burden for counties would have risen by $9 billion if municipal bonds were taxable over the last 15 years and by about $3.2 billion in case of a 28 percent cap.** Large counties (with more than 500,000 residents) would have borne more than half of the cost, and small counties would have been most at risk to lose access to the municipal bond market. On a larger scale

For the full report and the companion interactive data tool with individualized cost data for each of the 50 states, the DIstrict of Columbia and 51 counties, see www.naco.org/muni-bonds.

MUNICIPAL BOND ISSUANCES FOR THE 21 LARGEST INFRASTRUCTURE PURPOSES | 2003–2012



Notes: The hospital category reflects only bonds for general acute-care hospitals. These are long-term, governmental tax-exempt municipal bonds for the 21 largest infrastructure purposes, excluding refundings. *Source: Thomson Reuters, Feb. 2013.*

and longer time horizon, counties, states, localities and state/local authorities would have paid $173.4 billion more in interest between 2003 and 2012 with a 28 percent cap on the benefit of their tax-exempt municipal bonds for the 21 largest infrastructure purposes in the last 10 years. The cost would have soared to almost $500 billion in case of a repeal of the tax-exempt status of municipal bond interest during the last decade.

The tax-exemption of municipal bond interest from federal income tax represents one of the best examples of the federal-state-local partnership. Because of the federal tax exemption, investors are willing to buy municipal bonds that pay less interest relative to other securities. With a cap or the elimination of the exemption entirely, investors will want to receive greater interest payments, which would be borne by counties, states, localities and state/local authorities. Finally, all Americans, as taxpayers securing the payment of municipal bonds, will incur the cost.

Municipal bonds are a proven, decentralized investment tool that maintains the decision-making for infrastructure with state and local leaders in partnership with their residents. It allows Americans to diversify their retirement portfolios into safe investments and provides them an opportunity to invest in their communities. Using municipal bonds, both small, rural counties and large, urban counties finance schools, hospitals, roads and other essential infrastructure projects. Any change to the tax-exempt status of the municipal bond interest will only multiply the woes of a beset U.S. infrastructure system.

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