

**Statement for the Record
Of the Public Finance Network
To the Senate Committee on Finance
For the Hearing on “Tax Tools for Local Economic Development”
July 30, 2024**

On behalf of the undersigned organizations who represent members of the Public Finance Network, we write today in strong support of the testimony by C. LaShea Lofton, Deputy City Manager of the City of Dayton, testifying for the Government Finance Officers Association, and in appreciation for this committee’s longstanding bipartisan support for tax-exempt financing.

In her testimony, Ms. Lofton shared two key points for the Committee’s consideration:

- 1) The tax exemption of municipal bonds should be fully maintained as a critical tool for states, local governments, and nonprofits to invest in the vital infrastructure that supports local community needs; and
- 2) Enacting federal bond modernization provisions will further enhance this financial tool and unlock additional infrastructure investment in urban, suburban, and rural communities.

As a coalition of organizations united to preserve the state and local use of tax-exempt bonds, we could not agree more strongly.

For more than a century, states, local governments, and nonprofits have financed infrastructure and community improvement projects using tax-exempt municipal bonds. This infrastructure makes possible nearly every aspect of daily life and is critical in building and maintaining a strong economy for every citizen and business in the country. In the last decade alone, \$2.7 trillion in municipal bonds have been used to finance more than 80,000 new projects nationwide.¹ These include roads, bridges, public transit, ports, airports, parks, affordable housing, water and wastewater facilities, schools, libraries, town halls, nonprofit hospitals and clinics, colleges and universities, electric power and gas facilities, fire houses, and police stations. Overall, nearly three-quarters of the nation’s core infrastructure is financed with municipal bonds.²

Municipal bonds are approved either by locally elected or state appointed officials or directly through bond referenda. And it is residents and businesses of these communities who ultimately pay the interest and principal on this debt. These important links between citizen and public finance foster prudent

¹ The Bond Buyer, 2023 in Statistics: Annual Review (Feb. 22, 2024), at A3; The Bond Buyer, 2022 in Statistics: Annual Review (Feb. 13, 2023), at A3; The Bond Buyer, 2021 in Statistics: Annual Review (Feb. 22, 2022), at A3; The Bond Buyer, 2020 in Statistics: Annual Review (Mar. 1, 2021), at A3; The Bond Buyer/Thomson Reuters 2020 Yearbook (March 2020).

² *Understanding Financing Options Used for Public Infrastructure*.

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decision-making and explain why municipal bonds are overwhelmingly supported nationwide. In Texas alone, for example, of 5,374 bond referenda considered in the last 25 years, voters approved 4,023.³

Municipal bonds are also incredibly secure, well-understood investments that are vital to U.S. finance. With a default rate of just 0.09% (compared to 2.23% for corporate securities)⁴, banks, credit unions, life insurance, and property and casualty companies hold more than \$900 billion in municipal bonds to meet stringent capital requirements, and nearly \$2.9 trillion are held by individual investors – almost 75 percent of which are 55 or older⁵ – to provide secure, steady income for household needs.

Imposing a federal tax on municipal bond interest would increase the cost of borrowing for every state and local project currently financed with tax-exempt bonds. The tax exemption on municipal bonds saves issuers and borrowers an estimated \$80 billion each year in borrowing costs on the \$4 trillion of municipal bonds currently outstanding (assuming a roughly 200 basis point spread between tax-exempt and comparable taxable rates on municipal bonds). Were the tax-exemption for municipal bonds revoked, that would mean at least \$800 billion of additional interest expense that would either need to be raised through additional taxation or cut from communities' planned infrastructure investments. Any lost savings would translate to more money paid purely for additional interest expenses and less investment in infrastructure for our local communities.

Further, Congressional action to revive the tax-exemption for advance refunding and to liberalize the small borrower rules would unlock further savings and access to capital for thousands of governmental and non-profit borrowers.

As examination and deliberation continues on ways to reform our federal tax code and improve our country's infrastructure, we reiterate our support for preserving the current laws governing the tax-exempt status of municipal bonds. Cost-effective financing is essential in supporting our economy and building our nation's infrastructure. **Tax-exempt municipal bonds are a proven mechanism to accomplish this task. We urge members of Congress to continue supporting the tax-exemption for municipal bonds and to advance proposals that would support our critical market and expand the financing tools available to our communities.**

Sincerely,

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³ <https://data.texas.gov/Government-and-Taxes/Local-Debt-Bond-Election-Results/kbmc-qmvg/data>

⁴ Municipal Securities Rulemaking Board, Municipal Market by the Numbers, March 2024, at 2.

⁵ Internal Revenue Serv., Statistics of Income—2021: Individual Income Tax Returns (Rev. 4-2024), Table 1.5. All Returns: Sources of Income, Adjustments, and Tax Items, by Age, Tax Year 2021 (Filing Year 2022).

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