

Government Finance Officers Association
Airports Council International – North America
American Hospital Association
American Public Gas Association
American Public Power Association
American Public Works Association
American Society of Civil Engineers
American Water Works Association
Association of Metropolitan Water Agencies
Association of Public and Land-grant Universities
Association of School Business Officials International
Council of Infrastructure Financing Authorities
Council of State Governments
International City/County Management Association
International Municipal Lawyers Association
Large Public Power Council
National Association of Clean Water Agencies
National Association of College and University Business Officers
National Association of Counties
National Association of Health and Educational Facilities Finance Authorities
National Association of Regional Councils
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Treasurers
National Association of Towns and Townships
National Community Development Association
National Council of State Housing Agencies
National League of Cities
National Special Districts Coalition
The United States Conference of Mayors
Water Environment Federation

October 28, 2021

The Honorable Charles Schumer
Majority Leader, U.S. Senate
322 Hart Senate Office Building
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader, U.S. Senate
317 Russell Senate Office Building
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker, U.S. House of Representatives
1236 Longworth House Office Building
Washington, DC 20515

The Honorable Kevin McCarthy
Minority Leader, U.S. House of Representatives
2468 Rayburn House Office Building
Washington, DC 20515

RE: Municipal Bonds and Infrastructure Investment

Dear Senators and Representatives,

On behalf of the municipal issuer representative groups listed above, we write collectively supporting the federal partnership represented by the tax-exemption for municipal securities and the effective use of that tax exemption for our various communities. Tax-exempt bonds are the primary mechanism through which state and local governments raise capital to finance a wide range of essential public projects. The volume of municipal bond issuance for the period from 2009 to 2019 amounted to **\$4.2 trillion**. Communities across the country depend on strong, substantive federal tax policy for state and local governments to meet their capital needs. For over 100 years, the municipal bond market has worked fairly and efficiently to address these needs, whether it is in our largest states and cities or rural communities across the United States.

We appreciate the focus on Capitol Hill in recent weeks on infrastructure, in particular given the critical point we are at now in the debate. Now is the time to enhance the finance tools available to spur public investment in infrastructure because our country's needs were amplified by the COVID-19 pandemic. As the broad diversity of the issuer groups listed demonstrates, municipal bonds finance infrastructure projects that go well beyond just roads and bridges. Everything from the construction and preservation of roads, airports, highways, bridges, public transportation, affordable housing, water and wastewater, schools, libraries, town halls, nonprofit hospitals and universities, and electric power and gas facilities are just a few examples among a multitude of public projects that rely on tax-exempt municipal bonds. It is that shared priority that brings us together today to write to you.

Above all else, our cohesion is centered around our commitment to preserving the tax exemption on municipal bonds. Elimination, reduction, or capping of the tax exemption would pose immediate increased costs to the critical projects financed by state and local issuers. Added costs to capital projects would force state and local governments, already budget-strained by the ongoing pandemic, to make difficult and pro-recessionary choices. Furthermore, increased costs would ultimately be borne by the American taxpayer.

There is broad bipartisan support in Congress to enhance municipal bonds for state and local governments, thereby providing a more powerful, cost-effective way to drive further investment and economic growth. We urge members of Congress to join in supporting these bipartisan provisions as we move into a critical phase in the legislative debate on infrastructure. The following provisions were included in the section of the budget package marked up by the House Ways and Means Committee in September. We strongly urge for their continued inclusion in the legislation moving forward:

Restore the Tax-Exemption for Advance Refunding Bonds: Before January 1, 2018, municipal issuers were able to issue single tax-exempt advance refunding bonds prior to 90 days before call. This critical tool allowed state and local governments to effectively refinance their outstanding debt in order to take advantage of more favorable interest rate environments or covenant terms. Advance refunding bonds frequently provided issuers with the flexibility to lower debt servicing charges that would otherwise be a fixed cost. The Government Finance Officers Association (GFOA) found that between 2007 and 2017, there were over 12,000 tax-exempt advance refunding issuances

nationwide which generated over \$18 billion in savings for tax and ratepayers over the ten-year period. Prior to their elimination in the Tax Cuts and Jobs Act (“TCJA”) (P.L. 115-97), advance refunding bonds made up approximately 27 percent of issues in 2016. Restoration of this tax exemption would require an act of Congress, but would be one of the most effective actions to provide state and local governments with more financial flexibility to weather downturns and increase infrastructure investment.

Support Small Issuers: We recommend exploring additional ways to enhance the ability for smaller issuers to access capital. We believe that targeted easing of capital requirements along with minor changes to the U.S. Tax Code would further strengthen access to bank loans and lines of credits for smaller issuers and borrowers in the case of nonprofits. Often in smaller communities, the relationship between an issuer and the community bank is the primary source of capital. Limitations on the deductibility of carrying costs, as well as stressed capital requirements and asset caps placed on banks, constrain their ability to meet the credit needs of small issuers. There are current bipartisan legislative efforts on Capitol Hill that many of our groups support to expand the number of small governments and nonprofits eligible to benefit from “bank qualified debt” and provide an enhanced purchaser in our markets to further diversify sources of credit to state and local governments.

Restore and Expand the Use of Direct-Pay Bonds and Eliminate Sequestration for New and Existing Direct-Pay Bonds: While not currently permitted to be issued, in the past, Congress authorized governments to issue taxable direct subsidy bonds. These bonds allowed the government/issuing entity to receive a payment from the Federal Government for the life of the bond, covering a percentage of the interest costs. Bonds under previous programs could be issued for most governmental purposes, and the subsidy generally provided the issuer with a lower net interest cost on the financing compared with conventional tax-exempt bonds. Restoring and expanding the use of direct-pay type bonds and ending their subsidy exposure to sequestration, would immediately create an attractive investment option globally while funding thousands of state and local projects, particularly while the municipal bond market is recovering from the initial effects of the COVID-19 pandemic. In addition, the application of sequestration to existing direct-pay bonds should be eliminated.

Finally, we would like to reiterate that as a collective group, and through our individual organizations we are here to serve as resources for you and your team. If you should need issue area expertise on specific sectors of our markets, we have included the contact information for the policy directors of the signing organizations. We look forward to hearing from and working with you.

Sincerely,

Government Finance Officers Association, Emily Swenson Brock, 202-393-8467
Airports Council International – North America, Amanda La Joie, 202-861-8094
American Hospital Association, Mike Rock, 202-626-2325

American Public Gas Association, Emily Wong, 202-470-4262
American Public Power Association, John Godfrey, 202-467-2929
American Public Works Association, Andrea Eales, 202-218-6730
American Society of Civil Engineers, Caroline Sevier, 202-789-7855
American Water Works Association, Tommy Holmes, 202-306-9530
Association of Metropolitan Water Agencies, Dan Hartnett, 202-331-2820
Association of Public and Land-grant Universities, Lindsey Tepe, 202-478-6079
Association of School Business Officials International, Elleka Yost, 866-682-2729
Council of Infrastructure Financing Authorities, Deirdre Finn, 850-445-9619
Council of State Governments, Andy Karellas, 202-624-5460
International City/County Management Association, Elizabeth Kellar, 202-962-3611
International Municipal Lawyers Association, Charles W. Thompson, 202-466-5424
Large Public Power Council, John Di Stasio, 512-707-1010
National Association of Clean Water Agencies, Kristina Surfus, 202-833-4655
National Association of College and University Business Officers, Liz Clark, 202-861-2553
National Association of Counties, Eryn Hurley, 202-942-4204
National Assoc. of Health and Educational Facilities Finance Authorities, Chuck Samuels, 202-434-7311
National Association of Regional Councils, Leslie Wollack, 202-618-6363
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451
National Association of State Treasurers, Dillon Gibbons (916)290-3741
National Association of Towns and Townships, Jennifer Imo, 202-454-3947
National Community Development Association, Vicki Watson, 540-656-9552
National Council of State Housing Agencies, Garth Rieman, 202-624-7710
National League of Cities, Michael Gleeson, 202-626-3091
National Special Districts Coalition, Cole Karr, 417-861-7418
The United States Conference of Mayors, Larry Jones, 202-861-6709
Water Environment Federation, Steve Dye, 703-684-2400

CC: Members of the United States House of Representatives
Members of the United States Senate