Mayors Fight to Keep Municipal Bonds Tax Free.

Mayors present and past swear by the value of municipal bonds, while also swearing by the tax deduction for investing in them.

Hence their ongoing battle to preserve that tax benefit as Congress considers changes that could cut the deduction or trim it back in some way as part of an overall tax overhaul, despite some whispered assurance that the century-old exemption won't get touched.

Advocates don't want to take anything for granted.

Still, it doesn't hurt that they have easy allies on the House Ways and Means Committee, where legislative changes to the U.S. tax code begin. Multiple GOP members are former mayors who are fighting opposition to the tax break.

"As we go through the tax reform debate, I will be a voice in that camp," said Rep. Tom Reed (R-N.Y.), who ran City Hall in Corning, N.Y., in 2008 and 2009.

Municipal bonding is critical to building infrastructure such as roads, he told Bloomberg BNA, adding that no financing alternatives exist. That echoes a point raised by members of the U.S. Conference of Mayors in an effort to keep the tax benefit.

The group recently launched a formal campaign to ensure the status quo.

Local and state governments financed nearly $1.7 trillion in infrastructure projects through tax-exempt municipal bonds from 2003 to 2012, but would have paid nearly $500 billion more if investors couldn't use the deduction over that decade, according to data from the mayors' group.

That kind of impact would have caused higher taxes and job losses, a number of mayors argued at a recent gathering in Washington for their 85th winter meeting.

$195 Billion

The tax benefit for municipal bonds adds up to an estimated $195 billion in lost revenue from the 2016 federal fiscal year through 2020, according to an analysis released Jan. 30 by the Joint Committee on Taxation.

That federal subsidy for state and local outlays represents wasteful spending that accrues to top-income taxpayers, said Chris Edwards, director of tax policy studies at the libertarian Cato Institute. He has recommended repealing the provision because it favors government infrastructure over the private sector.

"It's a distortion because it discourages state and local governments from making privatization reforms," Edwards told Bloomberg BNA, repeating a message he has delivered directly to Ways and Means Chairman Kevin Brady (R-Texas) and committee staff.

Private ownership of airports, seaports and highways is much more common in countries like Canada and the U.K., Edwards said, adding that it is more efficient than government-run infrastructure.

But new water and sewer infrastructure would be imperiled without municipal bond financing in South Carolina's state capital, Columbia, said its mayor, Steve Benjamin.

The project, which he said should service 300,000 people in the region when completed, hasn't required higher taxes. In fact, the city hasn't raised taxes in a decade and has ended five of the last six years with a budget surplus, Benjamin said.

"We don't need rate increases simply based on the unavailability of additional capital," he told Bloomberg BNA. "That's the concern here. Certain cities will always be able to access the market. But if in fact we saw the tax exemption go away, or any other jolts to the muni market, there are several cities that wouldn't be able to access markets."

Trump Support

President Donald Trump agrees with keeping the tax benefit, according to Benjamin, who in December met with Trump in New York along with New Orleans Mayor Mitch Landrieu and Oklahoma City Mayor Mick Cornett, president of the U.S. Conference of Mayors.

Behind the scenes, some Ways and Means Republicans don't expect change, according to two sources close to the talks who spoke on condition of anonymity so they could speak freely about the ongoing discussions, but the tax exemption's defenders don't feel safe.

"That alarms us because we know that that cuts directly into the amount of infrastructure that we're able to finance in our nation's cities," Cornett said at a news conference during the group's Washington meeting.

Several mayors had meetings with Ways and Means members and staff, Benjamin said, without providing specifics. He stayed in town through Trump's inauguration, but didn't have another meeting with the president.

"I can tell you it's one of the potential things to look at as far as replacing and simplifying the tax code," said Rep. James B. Renacci (R-Ohio), another former mayor among Ways and Means' GOP roster.

Committee members are being petitioned on a host of tax benefits that could be on the chopping block as part of tax reform, for which legislation is being developed based on the loose framework released in June by Brady and House Speaker Paul D. Ryan (R-Wis.).

"Being on the front line of that debate previously, I think mayors—and myself included—tend to understand the need for municipal bonding, and if you don't have it, how difficult it would be to meet the needs of local communities," Reed said.

Still Waiting

Renacci has pushed back against the opposition, and like Reed, would prefer to maintain the tax exemption. But the former mayor of Wadsworth, Ohio, admitted that such decisions remain out of his hands for now.

"We don't know what's in or what's out; we haven't seen the bill in writing," Renacci told Bloomberg

BNA. “It’s the same old answer—we just have to continue to wait and see what the committee staff puts in writing and we’ll have a better answer.”

Other former mayors on Ways and Means include Reps. Kenny Marchant (R-Texas), who said bonding was an essential ingredient to funding municipal projects during his tenure running Carrollton, Texas.

Ways and Means ranking member Richard E. Neal (D-Mass.), the former mayor of Springfield, Mass., said bonds’ guarantees are essential for communities and investors, and that he couldn’t imagine changing tax policy to alter their attractiveness.

“It’s a public good,” Neal told Bloomberg BNA. “I don’t think that’s a difficult one.”

But the tax overhaul blueprint needs revenue to minimize more red ink on the federal ledger, something Brady has pledged to ensure when estimating economic upside that would come from the myriad tax cuts involved in the plan.

Both Reed and Renacci cautioned that changes to tax-exempt municipal bonds remain a possibility. But Reed said he won’t hold back his opinions.

“To me, it’s a tool that’s worked for years and years and years,” he said. “And as we go through tax reform I’m about fixing the broken parts of the tax code, but for the provisions that work, we’re a voice to say let’s continue that.”

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