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American Cities Stuck With Part of Tab for Republicans' Tax Cuts.

- **Yanking bond subsidies will make local projects more costly**
- **'The brunt of that will be born by ratepayers and taxpayers'**

Congress's plan to cut taxes by more than $1 trillion sends part of the bill to America's states and cities.

The Republican-led House Thursday passed its version of a tax-code overhaul that pulls the tax-exemption from investments in so-called private activity bonds that finance projects like airports, water facilities and roads, promising to make financing tens of billions of dollars worth of public works each year more expensive. And, like the Senate's plan, it would do away with advanced refundings, a technique municipalities frequently use to refinance their debt when interest rates fall.

"The only thing that's going to go up is the interest that you're going to pay on that cost of capital," said Columbia, South Carolina Mayor Stephen Benjamin, who is the chair of Municipal Bonds for America, a coalition lobbying to keep tax breaks on municipal borrowing. "The brunt of that will be born by ratepayers and taxpayers."

The measures don't go all that far to cover the cost of tax cuts that will add an estimated $1.4 trillion to the federal deficit over the next decade. Doing away with private-activity bonds would save the federal government about $39 billion over the next decade because investors would steer their money into stocks, corporate bonds and other assets subject to the income tax, according to the estimates of the House bill by the Joint Tax Committee. Yanking the subsidies from refinancings would save less than $20 billion over that time.

But it will mean a lot to local governments. Advanced refundings saved them an estimated $11.8 billion in the five years through 2016, according to data compiled by the Government Finance Officers Association.

The proposed tax changes would likely result in higher interest costs for municipal borrowers and strain their budgets, according to S&P Global Ratings. Tax break or no, localities still need to build roads, maintain schools and keep the water running.

Without tax-exempt status, money for projects now financed with private activity bonds would be raised in the taxable bond market, where the cost is higher. For example, an A-rated municipality that issues $100 million in 30 year general-obligation bonds in the taxable market rather than the tax-exempt market would see an additional cost of 0.55 percentage points, or $16.5 million more over that term, according to calculations based on Bloomberg's indexes.

While the Senate bill kept the tax-exemption for private activity bonds intact, both chambers' bills have backed ending advanced refundings. If that happens, local governments lose a tool that helped them during times of revenue shortfalls, like the period after the onset of last decade's recession, said John Hicks, executive director of the Washington-based National Association of State Budget

Officers.

“It’s a disappointment and a surprise that advanced refundings are being proposed for repeal,” Hicks said. “It’s an opportunity loss.”

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By Elizabeth Campbell

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