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MBFA Chair Contributes Article on PABs and Advance Refundings in the Bond Buyer.

The City of Columbia and other local governments have long worked in good faith with our federal partner to develop policies and programs that invest in our communities and deliver results. As such, I deeply appreciate that both the House and Senate tax bills would maintain the century-old tax exemption for municipal bonds. State and local governments make over 75 percent of our nation's infrastructure investments, many of them financed with municipal bonds, and the preservation of the tax exemption for municipal bonds in both bills recognizes that the best thing the federal government can do on infrastructure is to first do no harm.

However, I am deeply concerned that the House bill would eliminate the tax exemption for private activity bonds and that both bills would eliminate the advance refunding of municipal bonds, robbing local governments of the ability to save taxpayer money by taking advantage of lower interest rates. I am also concerned that the House bill would eliminate the New Markets Tax Credit and the Historic Preservation Tax Credit, which are important tools in our economic and community development efforts. Combined with proposals to limit or completely eliminate the deduction for state and local taxes included in both bills, it is not hyperbole to argue that absent changes, these bills pose a grave threat to local government finance in general and to local government efforts to build and maintain core infrastructure.

Private Activity Bonds may sound esoteric and even boring, but they play a critical role in financing projects and programs that foster job creation and economic development and meet important public policy goals. In Columbia and South Carolina, they finance hospitals, affordable housing (including rental projects and mortgage financing), airports, student loans, and more. Equally important: Private Activity Bonds maximize community control, putting decision making firmly in the hand of state and local officials. The tax exemption for private activity bonds allows the federal government to support infrastructure investments and economic development efforts with a minimum of federal bureaucracy and interference. Repealing it makes little sense, especially in light of the reforms, strict controls, and volume caps on private activity bonds instituted by the 1986 tax act.

I am at a loss as to why both the House and Senate bills would eliminate advanced refunding of municipal bonds. I am, to quote one of my fellow mayors, "completely baffled" by this provision. Summaries of the bills offer no policy justification for this provision, making it clear that it is nothing more than a money grab from local governments and local taxpayers to finance tax cuts elsewhere in the bill. Since 2012, advanced refunding has saved South Carolina cities, counties, school districts, universities, and utilities (and their taxpayers and ratepayers) approximately $164 million. It makes no sense to rob local governments of the ability to take advantage of lower interest rates and save our taxpayers and utility customers money.

Just as alarmingly, the Senate bill's elimination of the deduction for state and local taxes would increase taxes for a large number of South Carolinians and taxpayers across the country, imposing federal taxes on dollars they never see in the first place – the textbook definition of double taxation.

Simply put, the deduction puts more money in the hands of American families. In addition, any alterations to the deduction would upset the carefully balanced fiscal federalism that has existed since the permanent creation of the federal income tax over 100 years ago. As a general principle, the City of Columbia strongly believes that no federal law or regulation should preempt, limit or interfere with the constitutional or statutory rights of states and local governments to develop and operate our own tax systems.

The Historic Preservation Tax Credit and the New Markets Tax Credit have a strong track record of delivering results in South Carolina and across the country. They are crucial to our economic development and community revitalization efforts. New Markets has supported hundreds of millions of investment in struggling South Carolina neighborhoods, creating thousands of jobs. The Historic Preservation Tax Credit has been critical to the revitalization of Downtown Columbia and our neighborhoods. (I would be remiss if I did not include a plug for Senator Tim Scott's proposal, the Investing in Opportunity Act, to create tax incentives for investment in distressed communities. It is a perfect example of how the federal government can work with local governments to promote economic revitalization.)

I am fully aware of the urgent need to simplify our tax code and broaden our tax base, preferably in a deficit neutral manner. This bill does not do that. Many of its $5.5 trillion in tax cuts, which are tilted towards corporations and the wealthy, would be paid for on the back of local governments and our taxpayers through the provisions outlined above. $1.5 trillion of the bill's tax cuts would simply be added to our debt and paid for by future generations.

Regardless of where you stand on the issue of tax cuts, there is a better way: one that respects a century of federalism and the federal-local partnership and does not pass costs on to local governments, local taxpayers, and middle-class families.

Click HERE to view the Bond Buyer article online.

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