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MBFA Chair Submits Commentary in the Bond Buyer.

Why mayors are ‘completely baffled’ by loss of advance refunding

The beginning of Infrastructure Week 2018 presents us with the perfect opportunity to highlight a major blow to community control and to local government infrastructure investment: the repeal of advance refunding of municipal bonds in the Tax Cuts and Jobs Act.

I deeply appreciate that the Tax Cuts and Jobs Act maintained the century-old tax exemption for municipal bonds. State and local governments make more than 75% of our nation’s infrastructure investments, most of them financed with municipal bonds, and the tax law’s preservation of the tax exemption for municipal bonds recognized that the best thing the federal government can do on infrastructure is to first do no harm.

Unfortunately, the tax law’s elimination of the tax exemption for the advance refunding of municipal bonds will do considerable harm. This ill-conceived provision robs local governments of the ability to stretch infrastructure dollars and save taxpayer money by taking advantage of lower interest rates. Between 2012 and 2017, advanced refunding saved South Carolina cities, counties, school districts, universities, and utilities (and their taxpayers and ratepayers) approximately **\$164 million**.

Indeed, I am at a loss as to why the same tax law that recognizes the central role of municipal bonds to our nation’s infrastructure is the same one that eliminated advanced refunding of municipal bonds. I am, to quote one of my fellow mayors, “completely baffled” by the law’s advance refunding provision. Summaries of the tax law offered no policy justification for this provision, making it clear that it was nothing more than a money grab from local governments and local taxpayers to finance tax cuts elsewhere in the bill.

Even worse, I fear that eliminating advanced refunding does not even work as an offset for tax cuts: the Joint Tax Committee’s estimate that it will generate \$17 billion in revenue over the next decade seems to assume that issuers will continue to move forward with advanced refunding issues per usual, an assumption that defies common sense.

As Infrastructure Week launches and we focus on our nation’s infrastructure challenge, Congress has an opportunity to make things right. Representatives Randy Hultgren, R-Ill., and Dutch Ruppersberger, D-Md., the Chairs of the bipartisan Municipal Finance Caucus have introduced legislation to reinstate that tax exemption for advanced refunding of municipal bonds.

It is no surprise that Hultgren and Ruppersberger are leading this charge. Both spent much of their careers in public service in local government and they are therefore fully aware of how infrastructure gets built, who builds it, and what tools are needed to do so. Members of Congress who care about infrastructure should follow their leadership and support their legislation to correct this blow to our nation’s infrastructure, municipal finance, and local taxpayers.

Bond Dealers of America

by Steve Benjamin

Steve Benjamin is the Mayor of Columbia, South Carolina. He serves as Chair of Municipal Bonds for America, a non-partisan coalition of municipal bond issuers and State and local government officials along with other municipal market professionals working together to explain the benefits of the tax-exempt municipal bond market which provides the financing needed to build vital infrastructure throughout the United States.

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