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Congress, It's Time to Bring Back Advance Refunding Bonds.

What can help local governments finance critical new infrastructure, help cities better-weather a recession and save local taxpayer money? It's not a miracle, nor is it a novel concept. Up until the passage of the Tax Cuts and Jobs Act in 2017, municipalities were able to use a tool known as advance refunding bonds to lower interest rates and achieve cost savings to spend on other local priorities.

Similar to a home mortgage refinancing, advance refunding bonds allowed a city, town or village to refinance outstanding bonds to take advantage of lower interest rates. Over the years, the tool helped save communities substantial amounts of local dollars. The Government Finance Officers Association (GFOA) estimates that advance refunding bonds saved state and local governments a minimum of $14.3 billion between 2012 and 2017.

In Houston, we used tax-exempt advance refunding bonds to save the city $186.6 million between 2016 and 2017 alone—the last two years the tool existed. These were useful savings — particularly in the wake of one of Houston's most devastating natural disasters — Hurricane Harvey. Not to mention unrealized savings could otherwise be used to fix deteriorating infrastructure, hire police officers or build a neighborhood park. Restoring the tax exempt status enables us to better prepare for the next disaster while meeting the growing demand for essential services in a growing city.

Advance refunding bonds also provided communities like Houston with a tool to better endure recessions. Interest rates tend to fall during economic downturns; at the same time, local property and sales tax revenues plummet for cities. These bonds would allow us to change an otherwise fixed cost when our residents and cities hit hard times.

And while we may be the fourth largest city in America, communities of all sizes—big and small—have used the tool to reach savings of at least three to five percent on their bonds. That's real savings for any community. And, that's real money for new bridges, better schools, safer communities, cleaner water and lower property taxes.

So, as Chair of NLC's Finance, Administration and Intergovernmental Relations (FAIR) Committee, I welcomed the introduction of the Investing in Our Communities Act (H.R. 2772), which would restore tax-exempt advance refunding bonds. I also applaud the Chairs of the House Municipal Finance Caucus—Congressmen Ruppersberger (D-MD-2) and Stivers (R-OH-15)—who introduced the bill earlier this month. More than ever, our communities need bipartisan, commonsense policy.

Now as local leaders, it's on us to build both awareness for this critical tool and support for H.R. 2772. Call on your members of Congress and make sure federal leaders in Washington know what bonds have built in your community.

National League of Cities

By NLC Staff

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