
Legislation to Restore Advance Refunding for Tax-Exempt Municipal Bonds Introduced in U.S. House of Representatives.

Key Takeaways

- The Local Infrastructure Financing Tools (LIFT) Act would restore advance refunding of tax-exempt municipal bonds, a critical tool for county municipal finance
- The bill would also reauthorize the use of American infrastructure bonds and increase the small issuer exception on bank-qualified debt from $10 million to $30 million
- Counties strongly support reinstating advance refunding of tax-exempt municipal bonds

On May 14, Rep. Terri Sewell (D-Ala.) introduced the Local Infrastructure Financing Tools (LIFT) Act, that would make several significant adjustments to municipal finance tools for county governments. Specifically, this legislation would restore advance refunding of tax-exempt municipal bonds, which has been unavailable to counties since the enactment of the Tax Cuts and Jobs Act in 2017. It would also increase the small issuer exception on bank-qualified (BQ) debt from $10 million to $30 million, and authorize the use of American Infrastructure Bonds.

Prior to 2017, counties could refinance a municipal bond once over its lifetime and more than 90 days prior to the bond's redemption date at a tax-exempt status. This practice, also referred to as advance refunding, allowed counties to lower borrowing costs and take advantage of more favorable interest rates. Advance refunding bonds allows counties to address problematic bond terms and conditions or restructure debt service payments for budget flexibility. It also frees up county funds to be used for other important capital projects and minimizes costs to taxpayers.

Established as part of the Build America Bonds program, American Infrastructure Bonds allow taxable bond issuers to receive a direct payment from the federal government to cover a percentage of the interest costs associated with the issuance. Expanded access to the taxable bond market through the reauthorization of American Infrastructure Bonds would also incentivize and boost infrastructure investments in local communities.

The small issuer exception on bank-qualified debt currently allows counties issuing less than $10 million in bonds per calendar year to designate this debt as bank-qualified, allowing them to bypass the traditional underwriting process. However, the current cap of $10 million has not been adjusted since its creation in 1986. Increasing the cap to $30 million would allow more counties that issue small, less-frequent bonds to access the lower costs municipal debt needed to provide essential services and projects for residents.

Counties across the country would benefit from all the renewed municipal financing opportunities made available through this legislation. NACo has endorsed the LIFT Act and will continue to work with our federal partners in Congress to advocate for passage of this legislation.

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National Association of Counties