



# The Public Finance Network Urges Congress to Reinstatement Tax-Exempt Advanced Refundings

## What are advanced refundings and how do they work?

State and local governments utilize advance refundings to refinance their borrowings when interest rates fall, similar to homeowners refinancing a mortgage. In the bond market, most borrowings may be retired no earlier than a predetermined “call date,” typically 10 years following issuance. If a government issuer completes a refinancing within 90-days of the call date, it is considered a “current refunding.” If the government issuer undertakes a refunding prior to the 90-day window before the call date, it is considered an “advance refunding.”

The 2017 Tax Cuts and Jobs Act eliminated tax-exempt advance refunding, limiting state and local governments ability to save taxpayer dollars. Since January 2018 advance refundings are **not permitted on a tax-exempt basis** under U.S. tax law, even though the original bonds are tax-exempt.

## How was advanced refunding used prior to 2018?

Before the Tax Cut and Jobs Act of 2017 took effect in 2018, an issuer was permitted to advance refund each new issue of bonds **only once on a tax-exempt basis** so state and local governments were judicious about when they used that one opportunity for an advance refunding.

According to the Government Finance Officers Association between 2007 and 2017, there were **over 12,000 tax-exempt advance refunding issuances** nationwide which generated over **\$18 billion in savings for tax and ratepayers** over the ten-year period.

## Why was the tax-exempt status of advance refundings eliminated?

Congress gave little policy justification for repeal during the 2017 debate.

## Why don't state and local governments execute advance refundings using taxable bonds?

Taxable bonds are generally issued at interest rates considerably higher than comparable tax-exempt bonds. Therefore, on a taxable basis there are fewer opportunities to economically advance refund tax-exempt bonds.

## Why don't state and local governments just use current refundings?

Current refundings are the only tax-exempt refunding option available to states and localities under current law. **The problem with current refundings is their lack of flexibility on timing** since the market standard is for long-term municipal bonds to be non-callable for the first ten years.

## Who do tax-exempt advance refundings benefit?

State and local government issuers of municipal bonds do not typically advance refund their debt unless there is a net present value of savings. The savings on the amount of interest payments to investors benefits state and local government directly.

## Do advance refundings hurt investors?

No. In an advance refunding, the investors in the original bonds typically see their investment **"upgraded" to the highest rating category** by the rating agencies once an escrow fund is established to pay off the refunded bonds.

## Is there bipartisan support for this proposal?

Yes. In the House, Representatives David Kustoff (R-Tenn.) and Gwen Moore (D-Wisc.) have introduced the ***Investing in Our Communities Act (H.R. 1255)*** and in the Senate, Senators Roger Wicker (R-Miss.) and Michael Bennet (D-Colo.) have introduced the ***LOCAL Infrastructure Act (S. 1481)***. Both bills would reinstate tax-exempt advance refundings.



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**The Government Finance Officers Association (GFOA)**, founded in 1906, represents public finance officials throughout the United States and Canada. The association's more than 30,000 members are federal, state/provincial, and local finance officials deeply involved in planning, financing, and implementing thousands of governmental operations in each of their jurisdictions. GFOA's mission is to advance excellence in public finance.

**The Public Finance Network (PFN)**, is a coalition of organizations united to preserve state and local government use of tax-exempt bonds. The Network represents the wide array of local and state government financing and infrastructure activities. The Public Finance Network is administered by GFOA and its Federal Liaison Center.