Government Finance Officers Association American Public Gas Association American Public Power Association American Public Works Association American Society of Civil Engineers Association of Metropolitan Water Agencies Association of School Business Officials International Council of Infrastructure Financing Authorities International City/County Management Association Large Public Power Council National Association of Clean Water Agencies National Association of College and University Business Officers National Association of Counties National Association of Health and Educational Facilities Finance Authorities National Association of Regional Councils National Association of State Auditors, Comptrollers and Treasurers National Association of State Treasurers National Association of Towns and Townships National Council of State Housing Agencies National League of Cities National Special Districts Coalition The United States Conference of Mayors

January 18, 2024

The Honorable Charles Schumer Majority Leader, U.S. Senate 322 Hart Senate Office Building Washington, DC 20510

The Honorable Mike Johnson Speaker, U.S. House of Representatives 568 Cannon House Office Building Washington, DC 20515 The Honorable Mitch McConnell Minority Leader, U.S. Senate 317 Russell Senate Office Building Washington, DC 20510

The Honorable Hakeem Jeffries Minority Leader, U.S. House of Representatives 2433 Rayburn House Office Building Washington, DC 20515

RE: Municipal Bonds and Infrastructure Investment

Dear Senators and Representatives,

On behalf of the municipal issuer representative groups listed above, we write collectively supporting the federal partnership represented by the tax-exemption for municipal securities and the effective use of that tax exemption for our various communities. Tax-exempt bonds are the primary mechanism through which state and local governments raise capital to finance a wide range of essential public projects. The volume

of municipal bond issuance for 2023 alone amounted to over **\$350 billion**. Communities across the country depend on strong, substantive federal tax policy for state and local governments to meet their capital needs. For over 100 years, the municipal bond market has worked fairly and efficiently to address these needs, whether it is in our largest states and cities or rural communities across the United States.

We appreciate the focus on Capitol Hill in recent years on funding infrastructure, critical investments like those made through the Infrastructure Investment and Jobs Act (IIJA) are much needed to address our nation's aging infrastructure. But we have collectively stressed that infrastructure investments are the result of a combination of funding and financing, with state and local governments shouldering the bulk of the costs. As the second session of the 118th gets underway, now is the time to enhance the finance tools available to spur public investment in infrastructure projects that go well beyond just roads and bridges. Everything from the construction and preservation of roads, airports, highways, bridges, public transportation, affordable housing, water and wastewater, schools, libraries, town halls, nonprofit hospitals and universities, and electric power and gas facilities are just a few examples among a multitude of public projects that rely on tax-exempt municipal bonds. It is that shared priority that brings us together today to write to you.

Above all else, our cohesion is centered around our commitment to preserving the tax exemption on municipal bonds. Elimination, reduction, or capping of the tax exemption would pose immediate increased costs to the critical projects financed by state and local issuers. Added costs to capital projects would force state and local governments, already budget-strained by the pandemic, to make difficult and pro-recessionary choices. Furthermore, increased costs would ultimately be borne by the American taxpayer.

There is broad bipartisan support in Congress to enhance municipal bonds for state and local governments, thereby providing a more powerful, cost-effective way to drive further investment and economic growth. We urge members of Congress to join in supporting these bipartisan provisions:

Restore the Tax-Exemption for Advance Refunding Bonds: Before January 1, 2018, municipal issuers were able to issue single tax-exempt advance refunding bonds prior to 90 days before call. This critical tool allowed state and local governments to effectively refinance their outstanding debt in order to take advantage of more favorable interest rate environments or covenant terms. Advance refunding bonds frequently provided issuers with the flexibility to lower debt servicing charges that would otherwise be a fixed cost. The Government Finance Officers Association (GFOA) found that 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. Prior to their elimination in the Tax Cuts and Jobs Act ("TCJA") (P.L. 115-97), advance refunding bonds made up approximately 27 percent of issues in 2016. Restoration of this tax exemption would require an act of Congress but would be one of the most effective actions to provide state and local governments with more financial flexibility to weather downturns and increase infrastructure investment. Therefore, we urge for the passage of current bipartisan legislation – S. 1453 (*Lifting Our Communities through Advance Liquidity for Infrastructure Act*) and H.R. 1837 (*Investing in Our Communities Act*) – to restore this vital cost-saving tool.

Support Small Issuers: We recommend exploring additional ways to enhance the ability for smaller issuers to access capital. We believe that targeted easing of capital requirements along with minor changes to the U.S. Tax Code would further strengthen access to bank loans and lines of credits for smaller issuers and borrowers in the case of nonprofits. Often in smaller communities, the relationship between an issuer and the community bank is the primary source of capital. Limitations on carrying costs' deductibility, stressed capital requirements and asset caps placed on banks constrain their ability to meet the credit needs of small issuers. There are current bipartisan legislative efforts on Capitol Hill that many of our groups support to expand the number of small governments and nonprofits eligible to benefit from "bank qualified debt" and provide an enhanced purchaser in our markets to further diversify sources of credit to state and local governments.

Restore and Expand the Use of Direct-Pay Bonds and Eliminate Sequestration for New and Existing Direct-Pay Bonds: While not currently permitted to be issued, in the past, Congress authorized governments to issue taxable direct subsidy bonds. These bonds allowed the government/issuing entity to receive a payment from the Federal Government for the life of the bond, covering a percentage of the interest costs. Bonds under previous programs could be issued for most governmental purposes, and the subsidy generally provided the issuer with a lower net interest cost on the financing compared with conventional tax-exempt bonds. Restoring and expanding the use of direct-pay type bonds and ending their subsidy exposure to sequestration, would immediately create an attractive investment option globally while funding thousands of state and local projects, particularly while the municipal bond market is recovering from the effects of the COVID-19 pandemic. In addition, the application of sequestration to existing direct-pay bonds should be eliminated.

Finally, we would like to reiterate that as a collective group, and through our individual organizations we are here to serve as resources for you and your team. If you should need issue area expertise on specific sectors of our markets, we have included the contact information for the policy directors of the signing organizations. We look forward to hearing from and working with you.

Sincerely,

Government Finance Officers Association, Emily Swenson Brock, 202-393-8467 American Public Gas Association, Joshua St. Pierre, 202-407-0015 American Public Power Association, John Godfrey, 202-467-2929 American Public Works Association, Andrea Eales, 202-218-6730 American Society of Civil Engineers, Eleanor Lamb, 202-789-7847 Association of Metropolitan Water Agencies, Dan Hartnett, 202-331-2820 Association of School Business Officials International, Elleka Yost, 866-682-2729 Council of Infrastructure Financing Authorities, Deirdre Finn, 850-445-9619 International City/County Management Association, Amber Snowden , 202-962-3611 Large Public Power Council, J. W. Thurber, 531-226-3056 National Association of Clean Water Agencies, Kristina Surfus, 202-833-4655 National Association of College and University Business Officers, Ashley Jackson, 202-861-2522 National Association of Counties, Paige Mellerio, 202-942-4272 National Assoc. of Health and Educational Facilities Finance Authorities, Chuck Samuels, 202-434-7311 National Association of Regional Councils, Erich Zimmermann, 202-986-1032 National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451 National Association of State Treasurers, Dillon Gibbons, 202-347-3863 National Association of Towns and Townships, Jennifer Imo, 202-454-3947 National Council of State Housing Agencies, Garth Rieman, 202-624-7710 National League of Cities, Michael Gleeson, 202-626-3091 National Special Districts Coalition, Cole Karr, 417-861-7418 The United States Conference of Mayors, Larry Jones, 202-861-6709

CC: Members of the United States House of Representatives Members of the United States Senate