

Municipal Bonds: The Status of the Tax Exemption



CITIES STRONG TOGETHER

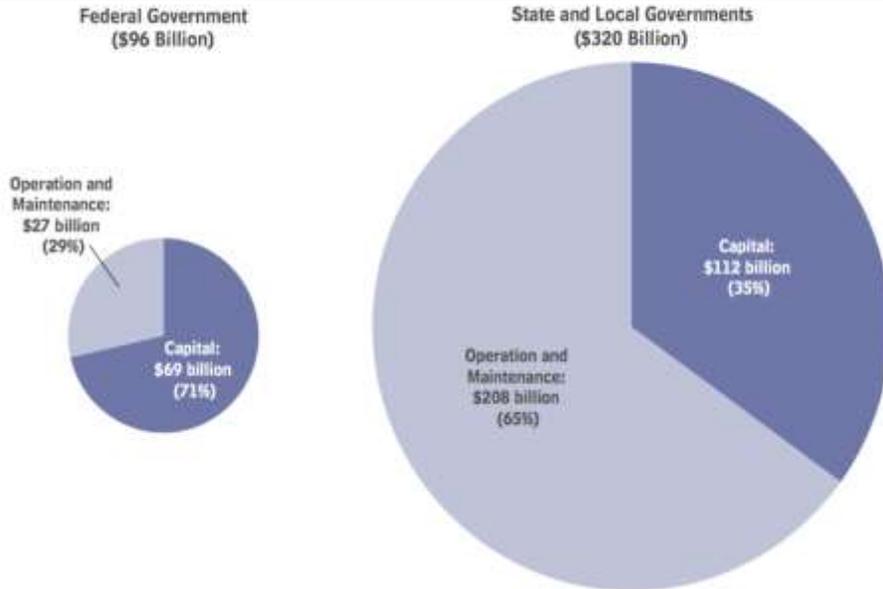
Congressional City Conference
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COURT STREET GROUP

The U.S. Relies on Cities, States, and Local Governments to Fund Infrastructure

Shares of Public Spending for Capital and for the Operation and Maintenance of Transportation and Water Infrastructure, by Level of Government, 2014



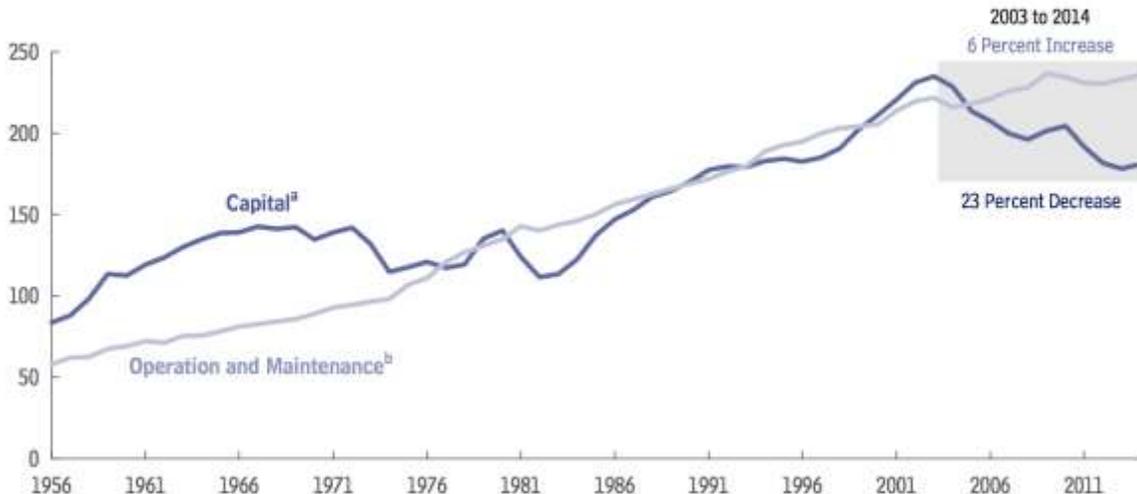
Source: Congressional Budget Office based on data from the Office of Management and Budget and the Census Bureau.



Overall Investment Has Been Declining and Maintenance Is Consuming a Larger Share of Spending

Public Spending on Transportation and Water Infrastructure, by Category of Spending, 1956 to 2014

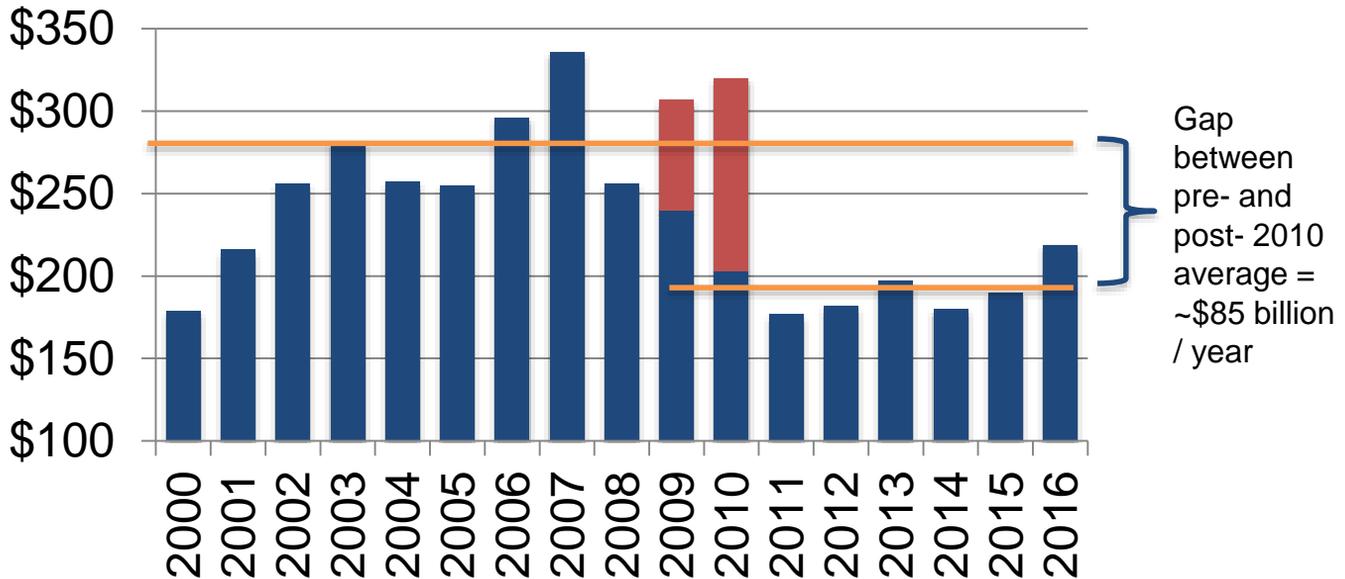
Billions of 2014 Dollars



Source: Congressional Budget Office based on data from the Office of Management and Budget, the Census Bureau, and the Bureau of Economic Analysis.



The Municipal Bond Market Has Ample Room for Growth as a Source of Capital for Infrastructure



Returning to the 2001-2010 average new-money sales of \$276 billion/year would close more than half of the “infrastructure funding gap” cited by the American Society of Civil Engineers



Municipal Bonds Are Viewed as a Significant “Expense” in the Federal Budget

“Tax Expenditure”	10-Year Cost (in billions)	Rank
Exclusion of Employer contributions for medical insurance premiums	\$2,742	1
Lower tax rate for capital gains	\$948	3
Home mortgage interest deduction	\$921	4
Defined contribution retirement plans	\$852	5
Deductibility of nonbusiness state and local taxes (other than property tax on owner-occupied homes)	\$692	8
Deductibility of charitable contributions	\$601	10
Exclusion of interest on public purpose state and local bonds	\$501	12



2017 Outlook: The Need to Educate Federal Policymakers

The municipal bond market needs to recognize the disconnect between our everyday work and how DC sees the market ... and be ready to “set the record straight”

What DC Policymakers Believe	Reality
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Centralized planning of infrastructure cuts waste	
Municipal bonds are sold to fund deficit spending	



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Municipal bonds are sold to fund deficit spending	Unlike the Federal government, very little municipal debt is used to finance deficits: The vast majority flows directly to infrastructure



Conclusion

Cities need to be at the table with the Federal government so this moment of public support for infrastructure is not squandered and to avoid counterproductive changes that could interfere with investment

Key Points

- Municipal bonds' tax-exemption must be preserved
- The municipal market can support significantly higher levels of investment
- The core issue blocking infrastructure investment is the availability of sustainable revenue streams – not market capacity

