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Taxation

With Trump's Support, Muni Exemption Advocates Take Battle to Congress

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WASHINGTON – U.S. mayors and other municipal market participants are stepping up pressure on Congress to maintain the tax exemption on municipal bonds, after President-elect Donald Trump said he supports the tax break that they say is crucial for funding infrastructure projects.

Mike Belarmino, associate legislative director and associate general counsel for the National Association of Counties, said although the group is "highly encouraged" by Trump's statement, it will now focus its efforts on making sure lawmakers also recognize the importance of the muni exemption.

"We will remain vigilant and stay focused on protecting the tax exemption as a top priority for counties, because it will take a combined effort of the administration and the U.S. Congress to achieve any comprehensive tax reform," Belarmino said.

Jessica Giroux, general counsel and managing director of federal regulatory policy for Bond Dealers of America, called Trump's support of the muni exemption an "encouraging development" that she said comes as a result of the lobbying and education BDA and other organizations have been engaged in on the Hill. However, she added that Trump's statements do not mean the groups' work is done.

"We have a complicated road ahead with regard to tax reform," Giroux said.

"Still, this is a very important public step with what the president-elect has said," she added. "It's extremely encouraging and we're happy the meeting went as well as it did."

Trump told the U.S. Conference of Mayors (USCM) during a 15-to-20 minute conversation on his infrastructure plan on Thursday that he plans to maintain the tax-exempt standing of municipal bonds. The Republican president-elect's 10-year infrastructure plan utilizes \$137 billion of tax credits that he says will leverage \$1 trillion of private investments.

Speaking to reporters at Trump Tower in New York City on Thursday, Columbia, S.C., mayor and USCM second vice president Stephen Benjamin said that Trump "was clear that his support of the tax exemption was there and that was wonderful news." "Protecting the tax exemption on municipal bonds ... is sacrosanct to us delivering on infrastructure.

"[Trump] listened to our issues and concerns and our desire to see a significant investment in infrastructure and the protection of the tax exemption of municipal bonds as a key part of that

plan," he added.

Because Trump's tax plan still lacks details and doesn't mention munis directly, state and local groups had expressed concern that the muni exemption could be in jeopardy.

Earlier this year, House Republicans proposed a blueprint for tax reform, which doesn't mention munis directly, but does suggest limiting or repealing unnamed special-interest provisions.

Because roughly 75% of U.S. infrastructure has been financed using munis, Benjamin said the exemption was an "important piece" of the discussion with Trump.

"A focus on infrastructure goes hand-in-hand with a commitment to preserving the exemption on municipal bond interest," said Emily Brock, director of the Government Finance Officers Association's federal liaison center. "But our work isn't done. We will continue to work with our champions in the House and the Senate to ensure the exemption stays intact during the 115th congress, especially as discussions on tax reform proceed."

USCM has stressed the low-cost borrowing the muni exemption provides issuers as well as the \$1.65 trillion in debt issued for infrastructure by state and local governments from 2003 through 2012. Opponents, meanwhile, have argued that the exemption is an inefficient method for financing infrastructure and costs the federal government in the long run.

In addition to infrastructure investment, USCM representatives discussed public safety, unfunded federal mandates and immigration priorities with Trump, according to the group.

At its bipartisan meeting earlier this fall, the mayoral organization stressed that the next president must maintain the tax exemption for municipal bonds or risk costing cities up to \$500 billion in spending.

USCM is scheduled to hold its winter meeting in Washington next month, where nearly 300 mayors are expected to meet with representatives from the Trump administration.

