

THE BOND BUYER

Commentary Municipal bonds: A primer for the 116th Congress

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This year's newly elected members of the House represent the most diverse group ever sent to Congress. A record number of women were sworn into office on Jan. 3. Among them are the first Native American congresswoman and the first Muslim congresswoman. The freshman class includes former government officials, teachers, military veterans, and even two former CIA officials. The average age of Congress has now dropped by 10 years. There seemed to be an underlying theme from both parties' constituents in the midterm elections: a need for unity and the willingness to work with the opposing party to get things done.

Former Speaker of the House Tip O'Neill had many battles with President Reagan but Tip's son, Thomas P. O'Neill III, noted in a 2012 *New York Times* [op-ed](#), that although they were not close friends, they would occasionally sit down for drinks at the White House. There was a stubborn refusal by both to not allow fund-raisers, activists, party platforms or ideological chasms to stand between them and solutions. The women and men who will soon enter the ring at the Capitol are faced with a daunting task: finding an issue that will allow them to follow in the footsteps of these great leaders and prove to their constituents that Congress isn't broken.

The next generation of Congress should start with an issue that affects every voter in every district: the protection of the tax-exemption of municipal bonds to help rebuild our infrastructure. The American Society of Civil Engineers rated the country D+ in their 2017 [Report Card](#) for America's Infrastructure and the National Association of Counties reported that: "between 2003 and 2012, counties, states and other localities invested \$3.2 trillion in infrastructure through long term bonds, 2.5 times [more than the federal government](#)." Municipal bonds are a part of America's history and growth, dating back more than 200 years, when the first municipals were issued to help build the Erie Canal. According to the Government Finance Officers Association (GFOA), the municipal bond tax

exemption saved [state and local borrowers](#) more than \$700 billion in debt service expenses from 2000 to 2014.

Although not currently under siege, the tax-exemption of municipal bonds becomes more vulnerable with every increase in the deficit. If Congress eliminates the tax exemption of municipals to help with the deficit, it will shift the tax burden from Washington to local governments. Municipalities will be forced to raise property taxes or school taxes to balance budgets. Utilities will be forced to raise rates on electricity, gas, and water. It will all dribble down to the local taxpayer.

One of the hurdles Congress must get over is that many institutions in Washington, including the IRS, see the tax-exemption as either a subsidy granted by the federal government or a loophole for rich investors. One must look at the whole picture. The little guys — the taxpayers, the local communities — they are the real beneficiaries of the tax-exemption. It is neither a gift nor a loophole, it is a tool. Access to the municipal bond market is essential for the local community to repair or expand their infrastructure and decide what needs to be done on the local level without federal interference.

Now is the time to come together to protect and unleash the potential of municipal bond issuance and begin to solve our formidable infrastructure problem. Congress must reach across the aisle for the benefit of their constituents, not the fund-raisers, activists, party platforms or ideological chasms, but the average taxpayers, to rebuild our crumbling infrastructure. Preservation of the tax-exemption for municipal bonds should be step number one for this to happen.

The late Jim Lebenthal, a legendary salesman and advocate for municipal bonds, was proud to remind everyone that as soon as you woke up in the morning, almost every part of your everyday experience, from the electricity for the alarm clock, to the water you brushed your teeth with, to the bus or train you took to work, to the bridge it crossed was... “Built by Bonds.”