THE BOND BUYER

MUNIS

Muni advocates raise the stakes in tax-exempt fight

By Scott Sowers February 13, 2025, 2:23 p.m. EST 3 Min Read

future growth needs. The housing industry uses bonds for affordable, senior and workforce housing. There are no alternatives to bonds and the United States is the only country in the world that has a market of this nature."

Council of Development Finance Agencies

The battle for the budget is underway pitting tax cuts against paying for the Trump administration's new priories as advocates for keeping the tax-exempt status of municipal bonds work on maintaining a valuable tool.

"Losing tax-exempt bonds would devastate American communities and set economic development efforts back decades," said Toby Rittner, president and CEO of the Council of Development Finance Agencies.

"Communities use bonds to finance their built environment, infrastructure, schools and future growth needs."

"The housing industry uses bonds for affordable, senior and workforce housing. There are no alternatives to bonds and the United States is the only country in the world that has a market of this nature."

The list includes a savings estimate of $250 billion over 10-years for losing tax exempt munis and $114 billion of savings tied to cutting private activity bonds, which play an integral role in financing affordable housing.

The threat to PABs appears as the most eminent danger, despite the President's history with them.

"Many of President Trump's real estate projects have used private activity bonds as their source of financing," said Rittner.

"Eliminating this tool would have massive ramifications for state and local governments. Based on CDFA research, without this critical tool, communities would face an increase in capital cost of 35-45%."

To combat the repeal effort The Government Finance Officers Association teamed up with Bond Dealers of America to stage fly-ins, and office visits designed to educate and persuade lawmakers.

"Traditional bond issuers, who we represent, are aware of the threat to tax-exempt bonds and are very engaged in our efforts to preserve them," said Rittner.

"The average, everyday community leader does not fully understand what is being considered on Capitol Hill."

A webpage logs ongoing activities aimed at advocacy efforts. On Feb. 26, the agency is hosting an online briefing. They've published a policy paper, and are staging a two-day conference in Washington DC in April.

The threat to munis isn't the only one on the Congressional budget table. The CDFA is also wrangling support for new market tax credits, greenhouse gas reduction funds, brownfield development, the Community Development Financial Institutions Fund and the State Small Business Credit Initiative program.

The current strategy for lobbyists working the Hill is to educate while also keeping a low profile. The industry believes it has four or five champions in place in the House and the Senate representing both parties.

This week Reps. Rudy Yakym R-Ind., David Kustoff R-Tenn., Gwen Moore D-Wisc., and Jimmy Panetta D-Calif., introduced a bill restore tax-exempt advance refunding for municipal bonds. Terri Sewell D-Ala., is also known to be friendly to muni interests.

Imagining a worst case scenario includes possible alternative avenues for funding large-scale infrastructure projects.

An investment advisory published by CreditSights last month said, "Should traditional issuers of municipal bonds lose their tax-exempt status, many may turn to issuing taxable bonds. Although this shift would raise borrower costs, it could simultaneously enhance the appeal of municipal credit and boost demand for taxable municipal bonds."

"An alternative method of restricting the tax exemption could involve imposing limitations on investors rather than issuers, such as capping the amount of tax-exempt interest a taxpayer can earn."

THE BOND BUYER

of any particular bond against other fixed-income investments."

Scott Sowers

MUNIS POLITICS AND POLICY WASHINGTON DC PRIVATE ACTIVITY BONDS

RELATED

1 Trump's return, SEC's role in muni disclosures: Top news November 2024

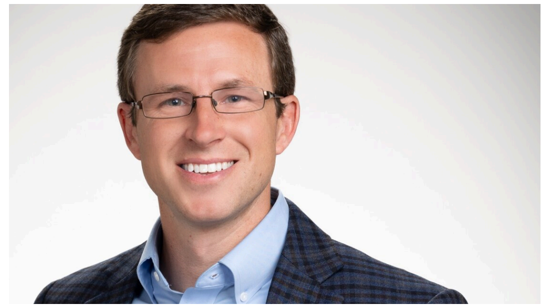
2 Trump's tax plans could diminish municipal tax exemptions

3 Muni market takes a breather as inflows continue

4 Muni lobbyists schedule Capitol Hill 'fly-ins' to tout tax exemption

MORE FROM THE BOND BUYER

A taxable muni market would mean less liquidity, a 'modest' rise for outstanding tax-exempt bonds



Portfolio managers seem more sanguine about threats to the tax exemption from Congress.

Feb 13, 2025

Muni advocates won't give up tax exemption without a fight

The tax exemption has been in place for more than 110 years, but Republicans say its removal is vital for prolonging many parts of the Tax Cuts and Jobs Act.

Feb 12, 2025

Key Congressional staff meet with BDA, mum on tax exemption

Texas Sen. John Cornyn remains a supporter of private activity bonds, his staff told BDA.

Feb 7, 2025

Muni advocates spell out costs of ending tax-exemption

Issuers, trade organizations, and investors team up to fight the threat to the tax-exempt status of municipal bonds by laying out its effect on borrowing, the housing market, and infrastructure costs.

Feb 3, 2025

refunding introduced in House

The legislation comes as the municipal market industry fends off threats to tax-exempt municipal bonds.

Feb 13, 2025

Advocating to preserve municipal securities' tax-exempt status 'a priority,' SIFMA president says

The tax exemption appears to be in realistic danger as House Republicans seek to offset the cost of extending the Trump tax cuts.

Jan 21, 2025