STATEMENT OF
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ON BEHALF OF THE GOVERNMENT FINANCE OFFICERS ASSOCIATION

TAX TOOLS TO HELP LOCAL GOVERNMENTS

BEFORE THE
WAYS & MEANS COMMITTEE
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Chairman Thompson, Ranking Member Smith, and distinguished members of the Committee, thank you for holding today's hearing on tax tools to help local governments. My name is Elizabeth Reich and I am the Chief Financial Officer of Dallas, Texas. My remarks today are as a member of the Government Finance Officers Association (GFOA). GFOA represents over 21,000 public finance officers from state and local governments, schools, and special districts throughout the United States. This includes nearly 3,000 members in California and over 2,000 members in Texas.

GFOA is dedicated to the professional management of governmental financial resources by advancing fiscal strategies, policies, and practices for the public benefit, including issues related to issuing tax exempt bonds and investing public funds. Additionally, GFOA supports a strong network of public sector issuers in Washington, D.C., called the Public Finance Network. Together with issuer organizations, the public finance network issues letters of support from millions of public sector entities throughout the year. On behalf of the GFOA and its members, I appreciate the opportunity to provide comments at this public hearing focusing on the tax tools that are so critical at the local level.

Our system of federalism requires a strong federal, state, and local partnership to achieve our shared goals. One of the best examples embodying that federal partnership is the tax-exempt municipal bond. I am here to testify that Congress should not only protect this vital tool, but consider adopting a number of provisions to further enhance its effectiveness.

Today, I would like to share two key points for your consideration as Congress explores tax tools to help local governments:

1) The tax exemption of municipal bonds should be fully maintained as they enable state and local governments to invest in the vital infrastructure that supports local community needs; and

2) Enacting federal bond modernization provisions will further enhance this financial tool and unlock additional infrastructure investment in urban, suburban, and rural communities.

<u>MUNICIPAL BONDS ARE A VITAL FINANCE TOOL AND THE TAX EXEMPTION SHOULD BE FULLY MAINTAINED</u>

Providing communities with strong infrastructure has long been a national priority and a shared goal for state and local governments and nonprofit entities that heavily rely on tax-exempt bonds to build stronger communities. For over a century, state and local governments issued debt to finance capital projects. The construction and preservation of roads, airports, highways, bridges, transportation, affordable housing, water and wastewater, schools, libraries, town halls, nonprofit hospitals, and universities, electric power and gas facilities are just a few examples among a multitude of public projects that rely on tax-exempt municipal bonds. These are the investments in infrastructure that make our communities livable and commerce possible. In fact, the municipal bond tax exemption has played a vital role in our nation's intergovernmental partnership as no single level of government can adequately provide the necessary funding to address all of our infrastructure needs. The tax-exempt bonds issued by state and local governments, and nonprofit entities, have financed over three quarters of our nation's infrastructure.

The City of Dallas has financed streets and transportation, flood protection and storm drainage, parks, libraries, public safety facilities, cultural arts facilities, and other critical projects. For example, voters approved over $200 million in 2012 for the Mill Creek Tunnel, a major flood protection and storm drainage project that reduces flooding risks on 2,200 single-family and multi-family residential properties, businesses, medical facilities, parks, and transportation facilities, totaling $4.1 billion in property value over 3,200 acres. Mill Creek is currently the largest hard rock tunnel under construction in the Western Hemisphere. We started construction on the tunnel in March 2018 and are using a Tunnel Boring Machine (TBM), assembled on site, to mine the five-mile long, 70-to-120-foot deep, and 30-to-35-foot round diameter tunnel. The project is expected to be completed in 2023. Importantly, the tunnel provides an outfall for future drainage improvements upstream.

While it is true the federal tax exemption reduces the cost of issuing municipal bonds, it is the combination of local control and local responsibility that makes municipal bonds an effective and efficient tool. Voters throughout the country overwhelmingly support tax-exempt municipal bonds, which are either approved by locally-elected officials or directly through bond referenda. In Texas, voters must directly approve all general obligation bonds and Dallas has a process that maximizes community input as we develop bond propositions. In Dallas, voters have authorized $3.6 billion in general obligation bonds for public projects over the last 16 years. And it is residents and businesses in these communities who pay the interest and principal on this debt. This important link between citizen and public finance fosters prudent decision-making. As a result, over the last decade, overall state and local borrowing is lower in proportion to the economy than it was one decade ago, while still financing more than $2 trillion in new infrastructure investments. If allowed to grow and operate unabated, municipal bonds will likely finance another $3 trillion in new infrastructure investments by 2031.

Furthermore, millions of Americans depend on municipal bonds as a secure and dependable investment. Nearly 75 percent of individual investors who are bond holders are 55 or older. Businesses also rely on municipal bonds as a safe, stable, long-term investment. Even through a volatile market, the municipal bond has sustained its resiliency and strength, with more than $400 billion municipal bonds issued in 2020.

Because tax-exempt municipal bonds will continue to be a fiscal bedrock for state and local finances for many years to come and because they are such a critical investment for millions of Americans, Congress should fully protect the tax exemption of this financial tool.

We especially applaud the efforts of the bipartisan House Municipal Finance Caucus, co-chaired by Congressman Ruppersberger and Congressman Stivers and supported by several members of this esteemed committee, for their efforts to emphasize the need to continue the tax exemption of municipal bonds and for their ongoing interest in sponsoring and co-sponsoring important municipal finance legislation in previous sessions of Congress. To be clear, the support for tax-exempt municipal bonds is bi-partisan, bi-cameral and very strong, but we still need additional federal policy support to advance initiatives that would move the infrastructure needle at the state and local level significantly.

Today's hearing is encouraging because it demonstrates a commitment to engage in the important conversation on how to best support the partnership to support infrastructure between the federal, state, and local levels.

BOND MODERNIZATION PROVISIONS WOULD FURTHER ENHANCE THIS TOOL AND UNLOCK ADDITIONAL INFRASTRUCTURE INVESTMENT

Without a doubt, municipal bonds have proven to be the preeminent tool for infrastructure investment. But enacting small enhancements could free up increasingly scarce resources for states and localities while also stimulating investments needed to keep our economy growing. A number of bond provisions that were included in legislation during previous economic crises have demonstrated their effectiveness. As for the immediate need, we respectfully ask that the next legislative package addressing infrastructure include (but is not limited to) the following provisions.

Restore Advance Refunding of Tax-Exempt Bonds: Restoring the ability for governments and other qualifying entities to advance refund tax-exempt municipal bonds would free up billions of dollars that governments and nonprofits could spend on other projects. State and local governments and nonprofits understand that responding to a pandemic requires strengthening the infrastructure that underpins their communities and institutions. Between 2007 and 2017 there were over 12,000 tax-exempt advance refundings nationwide, generating over $18 billion in savings for tax and ratepayers over the 10-year period[1].

We are asking you to restore tax-exempt advance refunding, which would provide *immediate* debt service savings and near-term debt relief for taxpayers, which can be put to public works and safety purposes. This would be of immense help for planning and budgeting purposes for state and local communities and nonprofits, such as hospitals, who are first line responders during the current public health emergency.

We fully support and appreciate previously introduced initiatives like the *Investing in Our Communities Act,* led by the co-chairs of the Municipal Finance Caucus and cosponsored by several members of this committee that seeks to fully restore tax-exempt advance refunding.

[1] GFOA analysis of Thomson-Reuters data.

Increase Access to Capital for Small Borrowers: For many thousands of small issuers and governmental and nonprofit borrowers, increasing the bank qualified borrowing limit from $10 million to $30 million, and having it apply at the borrower level would provide access to low cost capital to thousands of small local governments and non-profit hospitals and healthcare systems for immediate project needs.

Bank qualified bonds are particularly useful to smaller governments, as they have historically enabled these jurisdictions to finance infrastructure at lower costs than traditional bond financing. Bank qualified bond issuers save between 25 and 40 basis points on average. For example, on a 15-year, $10 million bank qualified debt financing, an issuer could expect to save between $232,000 and $370,000. Raising the bank qualified debt limit to $30 million, would save issuers between $696,000 and $1.1 million on a $30 million bank qualified bond issue. This is a substantial savings for our nation's smaller governments, which can be used to maintain and improve valuable community services and finance other much-needed capital improvement projects.

We fully support and appreciate previously introduced initiatives like the *Municipal Bond Market Support Act,* led by Congresswoman Sewell and cosponsored by several members of this committee that seeks to implement these changes for small borrowers.

Restore and Expand the Use of 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. Restoring and expanding the use of direct-pay type bonds and ending their subsidy exposure to sequestration, would create an investment option globally while funding state and local projects, particularly while the municipal bond market is recovering from the initial effects of the COVID-19 pandemic.

We appreciate the committee's attention to sequestration provisions in H.R. 2 in the 116th Congress. In the past, sequestration ate into the subsidies for Build America Bonds, creating mid-year budget difficulties for many issuers, including the City of Dallas. In 2009, the Dallas Convention Center Hotel Development Corp. issued $388,175,000 million in BABs for the acquisition of land and development of the Omni Hotel in Downtown Dallas. While an attractive option at the time, following federal sequestration in 2013, the Corporation has lost more than $4.5 million in credit for debt service from 2013-2019. Forecasting sequestration rates on the bonds to maturity in 2042 could mean an impact near $14 million. Continued attention to definitive protections from sequestration is necessary for the restoration of direct subsidy bonds.

Let me be clear: Direct-pay bonds would be an *excellent complement* to traditional tax-exempt municipal bonds but they would be a *poor replacement* for traditional tax-exempt bonds. Together with GFOA members across the country, I want to make it clear to the Subcommittee that my endorsement of restoring and expanding the use of direct-pay bond should in no way be construed as an endorsement of using them as a replacement for traditional tax exempt bonds.

Thank you for your consideration of these important initiatives and for holding this hearing today. GFOA will continue to support your efforts and appreciate your attention as you begin this important conversation on the vital tools that would provide substantial support to local governments in their effort to build the infrastructure our country so desperately needs. We look forward to working with you and supporting your efforts on this and other regulatory and financial matters of mutual interest.