



# Municipal Bonds for America

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## **SOUTH DAKOTA**

### **HOW RESTRICTIONS ON THE MUNICIPAL BOND EXEMPTION WOULD AFFECT THE STATE**

For over 100 hundred years, municipal bonds have served as the chief engine driving infrastructure investment in America. Over 70% of today's infrastructure was built with the help of municipal bonds, helping to construct America's hospitals, roads, airports, electrical and water treatment plants and countless other facilities Americans rely on every day.

In South Dakota, limiting the exemption would have dramatically negative effects. The higher costs of financing would force state and local governments to make cuts elsewhere, forcing unacceptable trade-offs. For example, if the Obama Administration's proposal to limit the exemption to only 28% of income earned had been in effect for its municipal bond offerings, South Dakota would have suffered in highly tangible ways:

- To offset its higher financing costs, Sioux Falls would have had to find revenues equal to a 28% increase in license and permit fees.
- The Dakota Valley School District 61-8 would have had to make offsetting cuts equal to 68% of its health spending.

Limiting the municipal bond exemption is not a theoretical problem. It would have real world costs that would be felt in the lives of the citizens of South Dakota every day.

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### **MUNICIPAL BONDS—JUST THE FACTS**

- More than \$1.7 trillion in infrastructure investments have been financed in the last decade and nearly two-thirds of U.S. core infrastructure was financed with municipal bonds.
- Interest paid to bond holders is exempt from federal income tax—just as interest paid to federal bond holders is exempt from state and local tax.
- Financing the last decade of state and local infrastructure investments with taxable debt would have increased costs by \$495 billion.
- Most bonds are owned by individual investors—about three-fifths of whom are over the age of 65. Roughly one-half of interest goes to households with income of less than \$250,000.
- The municipal tax exemption provides tax savings, but investors also accept a lower rate of return on the bond in exchange, reducing or eliminating any tax “windfall”.
- As a percent of GDP, the 42,000 State and local governments and governmental entities that issue bonds have reduced borrowing over the last decade.