Municipal Bonds for America

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UTAH

HOW RESTRICTIONS ON THEMUNICIPAL 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 Utah, 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, Utah would have suffered in highly tangible ways:

- For the City of Salt Lake, the increased financing costs would equal 159% of the city's annual interest earnings. Cities carry a cash balance and invest that in securities and other investments, so this is an important source of revenue. Thus, the additional muni bond financing costs would equal 159% of Salt Lake's earnings on its investment portfolio.

- To offset its higher financing costs, the City of Salt Lake, would have needed to reduce its spending by the equivalent of 41% of its emergency services budget.

- For the Utah Transit Authority, the increased financing costs would total over $15 million, equal to a 32% reduction in passenger fare collections.

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

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.