City of Madison

City of Madison
Madison, WI 53703
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Legislation Details (With Text)

File #:	28418	**Version:** 1		**Name:**	Municipal Bonds Financing Critical Infrastructure
Type:	Resolution			**Status:**	Passed
File created:	11/19/2012			**In control:**	COMMON COUNCIL
On agenda:	11/27/2012			**Final action:**	11/27/2012
Enactment date:	11/28/2012			**Enactment #:**	RES-12-00871

Title: Municipal Bonds Financing Critical Infrastructure

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Indexes:

Code sections:

Attachments:

Date	Ver.	Action By	Action	Result
11/27/2012	1	COMMON COUNCIL	Adopt Under Suspension of Rules 2.04, 2.05, 2.24, and 2.25	Pass
11/19/2012	1	Mayor's Office	RECOMMEND TO COUNCIL TO ADOPT UNDER SUSPENSION OF RULES 2.04, 2.05, 2.24, & 2.25 - MISC. ITEMS	

Fiscal Note
No appropriation is required.

The federal tax-exemption for interest on debt issued by municipalities results reduces borrowing costs for municipalities by lowering the tax impact for investors that purchase debt issued by municipalities. Calculating this impact is difficult since it affected by the debt rating of the municipality, economic conditions and market factors. For example, the city's most recent debt issuance in September resulted in true interest costs of 1.53% for tax-exempt debt and 1.64% for taxable debt. As such, the interest rate cost differential of taxable debt would be minimal.

However, market conditions are expected to change with a strengthening economy. Assuming a 0.5% interest rate difference between taxable and tax-exempt debt going forward and applying that to planned issuance of general obligation debt included in the 2013 capital improvement program, repeal of the tax-exemption for municipal debt would result in approximately $7 million in additional interest costs paid by the general fund and $10 million all funds through 2019. Interest costs would also increase for revenue bonds issued to finance Water, Sewer and Parking Utility capital costs. Tax-exempt debt issued by the Community Development Authority could also be affected by changes to the federal tax-exemption.

Title
Municipal Bonds Financing Critical Infrastructure
Body
WHEREAS, municipal bonds are the means by which state and local governments finance the critical infrastructure of our nation, including roads, bridges, hospitals, schools and utility systems; and

WHEREAS, under current law the owners of municipal bonds are not required to pay federal income tax on the interest income they receive from the bonds; and

WHEREAS, this tax exemption is part of a more that century long system of reciprocal immunity under which owners of federal bonds are, in turn, not required to pay state and local income tax on the interest they receive from federal bonds; and

WHEREAS, this federal tax exemption provides a significant difference between public sector and private sector debt financing; and

WHEREAS, municipalities benefit from this tax exemption through substantial savings on the interest cost of borrowed money; and

WHEREAS, the benefit of lower capital costs attributable to tax exempt financing are passed on to property tax payers through reduced rates, greater local investments, or both; and

WHEREAS, from time to time Congress and the President have proposed legislation to tax or alter the federal tax exemption of - interest on municipal bonds; and

NOW, THEREFORE, BE IT RESOLVED, that the Mayor and Common Council of the City of Madison oppose any efforts by Congress and this, or any future, President to eliminate or limit the federal tax exemption on interest earned from municipal bonds.