PUBLIC FINANCE NETWORK

660 N. Capitol St., NW
Suite 410
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January 13, 2026

The Honorable John Thune
Majority Leader, U.S. Senate
511 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Charles Schumer
Minority Leader, U.S. Senate
322 Hart Senate Office Building
Washington, DC 20510

The Honorable Mike Johnson
Speaker, U.S. House of Representatives
568 Cannon House Office Building
Washington, DC 20515

The Honorable Hakeem Jeffries
Minority Leader, U.S. House of Representatives
2433 Rayburn House Office Building
Washington, DC 20515

RE: Protecting & Enhancing Tax-exempt Municipal Bonds

Dear Senators and Representatives,

On behalf of the Public Finance Network (PFN) coalition, we appreciate the work that was done in the first session of this Congress to preserve and expand tax-exempt municipal bonds. The national organizations listed below represent hundreds of thousands of public-sector entities that issue debt to finance and build the infrastructure that contributes to strong economies at the state and local levels across the country. For more than a century, states, local governments, and nonprofits have financed infrastructure and community improvement projects using tax-exempt municipal bonds. This infrastructure makes nearly every aspect of daily life possible and is critical in building and maintaining a strong economy for every citizen and business in the country. As such, we look forward to continuing our work together to ensure public sector entities can continue to use this critical financing tool.

We appreciate the focus on Capitol Hill during the first session of the 119th Congress on preparing to enact both water infrastructure and surface transportation reauthorization legislation this fiscal year, funding critical infrastructure projects and authorizing other investments that are much needed to address our nation's aging infrastructure. As a coalition, PFN has continued to collectively stress that infrastructure investments are the result of a combination of funding and financing, with state and local governments shouldering the bulk of the costs. As the second session of the 119th Congress begins, and as Congress works to enact infrastructure reauthorization legislation, now is the time to enhance the financing tools available to spur public investment in infrastructure and save taxpayer dollars.

Municipal bonds finance infrastructure projects that go well beyond just roads and bridges. This is evidenced in the broad diversity of the issuer groups listed below. Everything from the construction and preservation of roads, airports, highways, bridges, public transportation, affordable housing, water and wastewater, schools, libraries, town halls, nonprofit hospitals and universities, and electric power and gas facilities are just a few examples among a multitude of public projects that rely on tax-exempt municipal bonds. It is that shared priority that brings us together today to write to you.

Above all else, our cohesion is centered around our commitment to preserving the municipal bond tax exemption. We appreciate that Congress recognized that elimination, reduction, or capping of the tax exemption would pose immediate increased costs to the critical projects financed by state and local issuers and preserved this critical local financing tool already this Congress. Added costs to capital projects would force state and local governments to make difficult and pro-recessionary choices and these increased costs would ultimately be borne by the American taxpayer.

There is broad bipartisan support in Congress to enhance municipal bonds for state and local governments, thereby providing a more powerful, cost-effective way to drive further investment and economic growth. We urge members of Congress to join in supporting these bipartisan provisions:

Restore the Tax-Exemption for Advance Refunding Municipal Bonds: Before January 1, 2018, municipal issuers were able to issue single tax-exempt advance refunding bonds prior to 90 days before call date of the bond. Advance refunding allowed state and local governments to effectively refinance their outstanding debt to take advantage of more favorable interest rate environments or covenant terms. Advance refunding bonds frequently provided issuers with the flexibility to lower debt service charges that would otherwise be a fixed cost. The Government Finance Officers Association (GFOA) found that between 2007 and 2017, there were over 12,000 tax-exempt advance refunding issuances nationwide which generated over $18 billion in savings for tax and ratepayers over the ten-year period. Prior to their elimination in the Tax Cuts and Jobs Act ("TCJA") (P.L. 115-97), advance refunding bonds made up approximately 27 percent of bond issuances in 2016. Restoration of advance refunding would require an act of Congress but would be one of the most effective actions to provide state and local governments with more financial flexibility to increase infrastructure investment. Therefore, we urge the passage of current bipartisan legislation – S. 1481 *(Lifting Our Communities through Advance Liquidity for Infrastructure Act)* and H.R. 1255 *(Investing in Our Communities Act)* – to restore this vital cost-saving tool.

Support Small Issuers: We recommend exploring additional ways to enhance smaller communities' access to capital.

Oftentimes, community banks serve as the primary source of capital for communities and nonprofit borrowers. These community banks generally cannot deduct the borrowing costs of holding tax bonds, but they may deduct up to 80 percent of the carrying costs for bonds from “qualified small issuers” that issue less than $10 million in a calendar year. This exemption allows small communities to access tax-exempt rates more easily through bank placements and reduces their financing costs. Today, however, the $10 million dollar limit set in 1986 excludes many small, oftentimes rural, communities from taking advantage of this critical source of capital. There are current bipartisan legislative efforts in Congress that many of our groups support to raise this threshold, expand its application to nonprofit borrowers, and ultimately increase the number of small communities and borrowers eligible to benefit from this “small borrowers’ exemption.”

Eliminate Sequestration for Existing Direct-Pay Bonds: While not currently permitted to be issued, in the past, Congress authorized governments to issue taxable direct-pay subsidy bonds. These bonds allowed the government/issuing entity to receive a direct payment from the federal government for the life of the bond, covering a percentage of the interest costs. Bonds under previous programs could be issued for most governmental purposes, and the subsidy generally provided the issuer with a lower net interest cost on the financing compared with conventional tax-exempt bonds. Throughout previous congresses, sequestration chipped away at the level of direct payments, challenging the cash flows of the issuers utilizing the program. The application of sequestration to existing direct-pay bonds should be eliminated.

Municipal Bonds Issued as Private Activity Bonds (PABs): The collective membership of the Public Finance Network recognizes the critical role of municipal bonds issued as private activity bonds (PABs), with some parts of our coalition exclusively issuing PABs for specific uses, such as housing. These PABs issuers also benefit from infrastructure built around specific-use projects, which is often supported by municipal bonds. Our coalition supports the varieties of financing tools available to communities around the country, including the preservation of PABs. Further, AMT should not apply for PABs used for municipalities. Our coalition is well versed in the use of PABs and the policy advancements that expanded this financing tool to a variety of uses over the past decade. As Congress considers any policies related to the use of PABs, we stand ready to be a resource for any information that you may need.

If you need issue area expertise on specific sectors of our markets, we have included contact information for the policy directors of the signing organizations. More information on the PFN can be found at: gfoa.org/pfn. We look forward to hearing from you and working with you.

Sincerely,

Government Finance Officers Association, Emily Swenson Brock, 202-393-8467
Airports Council International – North America, Annie Russo, 202-293-4544

American Association of State Highway and Transportation Officials, Joung Lee, 202-624-5818
American Hospital Association, Jocelyn Francis, 202-638-1100
American Planning Association, Jason Jordan, 202-349-1005
American Public Gas Association, Emma Rowland, 202-407-0015
American Public Power Association, John Godfrey, 202-467-2929
American Public Transportation Association, Ward McCarragher, 202-819-4895
American Public Works Association, Andrea Eales, 202-218-6730
American Securities Association, Jessica Giroux, 518-469-1565
American Society of Civil Engineers, Eleanor Lamb, 202-789-7847
American Water Works Association, Nate Norris, 202-236-6122
Association of Metropolitan Water Agencies, Dan Hartnett, 202-505-1565
Association of Public and Land Grant Universities, Craig Lindwarm, 202-478-6032
Association of School Business Officials International, Elleka Yost, 866-682-2729
Bond Dealers of America, Brett Bolton, 850-393-3728
Council of Development Finance Agencies, Toby Rittner, 614-705-1300
Council of Infrastructure Financing Authorities, Barb Dimauro, 202-800-0688
Education Finance Council, Gail daMota, 202-552-8505
International City/County Management Association, Amber Snowden, 202-460-2280
Large Public Power Council, Tom Falcone, 202-417-8836
National Alliance for Public Charter Schools, Christy Wolfe, 571-294-5237
National Association of Bond Lawyers, Brian Egan, 202-503-3290
National Association of Clean Water Agencies, Kristina Surfus, 202-833-4655
National Association of College and University Business Officers, Liz Clark, 202-861-2553
National Association of Counties, Jeffrey Thorsby, 202-942-4272
National Assoc. of Health and Educational Facilities Finance Authorities, Chuck Samuels, 202-434-7311
National Association of Municipal Advisors, Susan Gaffney, 703-395-4896
National Association of Regional Councils, Erich Zimmerman, 202-618-5697
National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-989-6801
National Association of State Treasurers, Dillon Gibbons, 916-290-3741
National Association of Towns and Townships, Jennifer Imo, 202-331-8500
National Community Development Association, Vicki Watson, 540-656-9552
National Conference of State Legislatures, Brian Wanko, 202-624-8197
National Council of State Housing Agencies, Garth Rieman, 202-624-7735
National League of Cities, Dante Moreno, 202-626-3058
National Special Districts Association, David Ulbricht, 503-472-9965
Native American Finance Officers Association, Nicholas Lovesee, 240-751-2585
Securities Industry and Financial Markets Association, Nick Key, 202-962-7330
The Council of State Governments, Jamal Nelson, 202-624-5460
The United States Conference of Mayors, Dave Gatton, 202-957-6530