# Protecting Bonds to Build Infrastructure and Create Jobs

**A PROJECTED 10-YEAR ANALYSIS**

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# Contents

## Data Exhibits

**States and local governments are responsible for more than 90 percent of all public-sector construction spending, most of which is funded through tax-exempt municipal bonds.**[1] Unlike Federal Treasury bonds, which can support deficit spending, tax-exempt municipal bonds are subject to strict limitations under the Internal Revenue Code and state constitutions. As a result, they are predominantly used to fund new infrastructure projects such as roads, bridges, schools, and essential utilities like water, sewer, and power systems.

## KEY FINDINGS

→ The tax-exempt municipal bond market is a widely used source of capital for states, local governments, tribes, territories, infrastructure and service providers, and non-profit borrowers that finances a tremendous share of the nation's public infrastructure.

→ We estimate a global savings spread between taxable and tax-exempt municipal bonds of **210 basis points**.

→ We estimate the tax-exemption will **save issuers/borrowers about $823.92 billion** between 2026 and 2035.

→ Elimination of the tax-exemption would correspondingly **raise borrowing costs $823.92 billion**, a cost that would be passed onto American residents and amount to a **$6,554.67 tax and rate increase for every American household** over the next decade.

[1] U.S. Census Bureau, Construction Spending, December 2, 2024. Additional information on the survey methodology may be found at census.gov/construction/c30/meth.html

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# Determining the Size of the Tax-Exempt Municipal Market

The Securities Industry and Financial Markets Association (SIFMA) estimates that the entire municipal securities market has an outstanding par value of $4.1 trillion as of Q1 2024.[2] Municipal Market Analytics (MMA) analysis of Bloomberg data as of November 24, 2024 found that tax-exempt municipal securities composed approximately 84.28 percent of the total outstanding market, which leads us to estimate the par value of outstanding tax-exempt municipal securities in the market as of 2024 to be approximately $3.512 trillion. From there, we assume a 2 percent per annum growth in the market to derive the size of the outstanding tax-exempt municipal bond market for the calendar years 2023-2035.

Any large, comprehensive tax legislation in 2025 will likely pass via budget reconciliation, which requires revenue implications for the bill to be contained within a 10-year window. Assuming an effective date of January 1, 2026, and a sunset within 10-years, we chose to focus our estimations on the municipal market on calendar years 2026-2035.

## $3.512 TRILLION

Estimated par value of outstanding tax-exempt municipal securities in the market as of 2024

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**Exhibit 1** | Total Par Value of Outstanding Municipal Market (in billions)

| Year | Par Value of Outstanding Municipal Market | Par Value of Outstanding Tax-Exempt Municipal Market | |
|------|-------------------------------------------|------------------------------------------------------|---|
| 2023 | $4,018.00 | $3,375.12 | |
| 2024 | $4,100.00 | $3,444.00 | |
| 2025 | $4,182.00 | $3,512.88 | Hypothetical Enactment Date |
| 2026 | $4,265.64 | $3,583.14 | |
| 2027 | $4,350.95 | $3,654.80 | |
| 2028 | $4,437.97 | $3,727.90 | |
| 2029 | $4,526.73 | $3,802.45 | |
| 2030 | $4,617.27 | $3,878.50 | |
| 2031 | $4,709.61 | $3,956.07 | |
| 2032 | $4,803.80 | $4,035.19 | |
| 2033 | $4,899.88 | $4,115.90 | |
| 2034 | $4,997.88 | $4,198.22 | |
| 2035 | $5,097.83 | $4,282.18 | |

[2] Securities Industry and Financial Markets Association (SIFMA). "US Municipal Bonds Statistics." November 1, 2024.
Web Access: https://www.sifma.org/resources/research/statistics/us-municipal-bonds-statistics

# Calculating a Global Savings Spread

In order to determine the average spread between taxable and tax-exempt bonds, we rely on data from The Municipal Market Monitor (TM3) indices offered by Refinitiv. Spread data on 10-year bonds from 249 days in CY2023 were averaged to reach the following spreads across four ratings categories: AAA, AA, A, and BAA. We then used the market share of each rating, as determined by analysis from Municipal Market Analytics, Inc. (MMA), to develop a weighted formula that approximates a market-wide spread to serve as the basis for our findings. Only investment grade ratings were considered for these calculations, and market shares are based on the portion of the investment grade market rated at each rating.

While the omission of spreads and market shares for unrated and below-investment-grade bonds likely represents a small portion of the market, it is important to acknowledge that their spreads likely exceed those of investment-grade bonds. Consequently, excluding these bonds may lower the calculated global spread, resulting in a more conservative estimate. Using our weighted formula, we estimate a global average spread between taxable and tax-exempt municipal bonds of 210 basis points. In practical terms, this means the tax exemption on municipal bonds reduces borrowing costs for municipal issuers by an average of 2.10 percentage points.

# 2.1
## PERCENTAGE POINTS

Average amount borrowing rates are lowered for municipal issuers and borrowers when bonds are tax-exempt

**Exhibit 2** | Average Spreads Between Taxable and Tax-Exempt Bonds Per Rating Category

## Market Share and Average Spread per Municipal Rating Category

| Ratings | Market Share | Weight | Spread Approximation (bp) | Formula Result |
|---|---|---|---|---|
| AAA | 20.2% | 0.20 | 200 | 40.00 |
| AA | 58.8% | 0.59 | 207 | 122.13 |
| A | 17.5% | 0.18 | 222 | 39.96 |
| BBB and under | 2.9% | 0.03 | 248 | 7.44 |
| Total Investment Grade | 99.4% | | | |
| | | | | |
| Below Investment Grade | 0.9% | | | |
| Total Share of Rated Market Excluded | 0.9% | | | |
| | | | | |
| Global Spread (bp) | | | | 209.53 |
| Global Spread (%) | | | | 2.10% |

**Exhibit 3** | Global Spread Formula

0.20(AAA Spread) + 0.59(AA Spread) + 0.18(A Spread) + 0.03(BBB Spread) = Global Spread

0.20(200 bp) + 0.59(207 bp) + 0.18(222 bp) + 0.03(248 bp) = Global Spread

40.00 bp + 122.13 bp + 39.96 bp + 7.44 bp = Global Spread

**Global Spread = 210 bp**

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# Estimating Nationwide Savings

With an established average spread between taxable and tax-exempt bonds, we are able to estimate the total savings to issuers and conduit borrowers of tax-exempt municipal bonds over various periods of time by multiplying the projected outstanding tax-exempt market size for each year by our global savings spread of 2.10 percent. It is worth noting that we assume the global savings spread remains constant at 2.10 percent. While macroeconomic conditions and Federal Reserve actions will likely cause the global spread to fluctuate over the covered years, our finding of 210 bp is in congress with long term municipal market trends.

We estimate a cumulative nationwide savings to tax-exempt issuers and borrowers of $823.92 billion between 2026 and 2035. From there we determined the savings, and therefore cost increase in the event of the tax-exemption elimination, per US household, taxpayer, and resident using estimated values from the Census Bureau and Tax Foundation.

| **Exhibit 4** | Estimated Nationwide Savings to Issuers / Borrowers of Tax-Exempt Municipal Bonds (in billions) | | | |
|---|---|---|---|---|
| **Year** | **Par Value of Tax-Exempt Municipal Market\*** | **Savings Spread (%)** | **Estimated Savings\*** | **Cumulative Savings** |
| 2023 | $3,375.12 | 2.10% | $70.88 | |
| 2024 | $3,444.00 | 2.10% | $72.32 | |
| 2025 | $3,512.88 | 2.10% | $73.77 | |
| 2026 | $3,583.14 | 2.10% | $75.25 | $75.25 |
| 2027 | $3,654.80 | 2.10% | $76.75 | $152.00 |
| 2028 | $3,727.90 | 2.10% | $78.29 | $230.28 |
| 2029 | $3,802.45 | 2.10% | $79.85 | $310.13 |
| 2030 | $3,878.50 | 2.10% | $81.45 | $391.58 |
| 2031 | $3,956.07 | 2.10% | $83.08 | $474.66 |
| 2032 | $4,035.19 | 2.10% | $84.74 | $559.40 |
| 2033 | $4,115.90 | 2.10% | $86.43 | $645.83 |
| 2034 | $4,198.22 | 2.10% | $88.16 | $734.00 |
| 2035 | $4,282.18 | 2.10% | $89.93 | $823.92 |
| **10-Year Projected Savings (2026-2035)** | | | | **$823.92** |

| **Exhibit 5** | Estimated Costs of Elimination of the Tax-Exemption to Americans | |
|---|---|---|
| **Year** | **Estimated Population** | **Cost Burden** |
| Per US Household[2] | 125.7 million | $6,554.67 |
| Per US Taxpayer[3] (2021) | 153.6 million | $5,364.07 |
| Per US Resident[2] | 334.9 million | $2,460.20 |

[3] U.S. Census Bureau. "Quick Facts United States: Population Estimates, July 1, 2023." Web access: https://www.census.gov/quickfacts/fact/table/US
[4] Tax Foundation. "Summary of the Latest Federal Income Tax Data, 2024 Update." March 13, 2024. Web access: https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2024

# Borrowing Absent the Tax-Exemption

Based on the CY2023 issuance data, we determined the average taxable issuance rate, similarly weighted by bond rating, to be 4.92 percent and the average tax-exempt rate to be 2.83 percent. Using these average yields for municipal bonds we were able to project the anticipated 10-year (2026-2035) cumulative borrowing costs to municipal issuers and borrowers in the event the tax-exemption stays in place ($1.11 trillion) and in the event the tax-exemption is eliminated ($1.93 trillion). These figures likely fall short of the true additional borrowing cost increase resulting from the elimination of the tax-exemption as they do not include the increased cost to municipal issuers and borrowers that would result from private placement loans converting to taxable in the event the tax-exemption is eliminated.

## $1.11 TRILLION

Projected cumulative borrowing costs to municipal issuers and borrowers if tax-exemption **stays in place**

## $1.93 TRILLION

Projected cumulative borrowing costs to municipal issuers and borrowers if tax-exemption **is eliminated**

**Exhibit 6** | Projected Borrowing Costs in the Event Tax-Exemption Stays in Place (in billions)

| Year | Par Value Outstanding T/E Municipal Market | T/E Rate | Borrowing Cost | Cumulative Costs |
|------|---------------------------------------------|----------|----------------|------------------|
| 2023 | $3,375.12 | 2.83% | $95.52 | |
| 2024 | $3,444.00 | 2.83% | $97.47 | |
| 2025 | $3,512.88 | 2.83% | $99.41 | |
| 2026 | $3,583.14 | 2.83% | $101.40 | $101.40 |
| 2027 | $3,654.80 | 2.83% | $103.43 | $204.83 |
| 2028 | $3,727.90 | 2.83% | $105.50 | $310.33 |
| 2029 | $3,802.45 | 2.83% | $107.61 | $417.94 |
| 2030 | $3,878.50 | 2.83% | $109.76 | $527.70 |
| 2031 | $3,956.07 | 2.83% | $111.96 | $639.66 |
| 2032 | $4,035.19 | 2.83% | $114.20 | $753.86 |
| 2033 | $4,115.90 | 2.83% | $116.48 | $870.34 |
| 2034 | $4,198.22 | 2.83% | $118.81 | $989.15 |
| 2035 | $4,282.18 | 2.83% | $121.19 | $1,110.34 |
| | | **Projected 10-Year Borrowing Costs** | | **$1,110.34** |

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## Exhibit 7 | Projected Borrowing Costs in the Event Tax-Exemption is Eliminated (in billions)

| Year | Par Value Outstanding T/E Municipal Market | T/E Rate | Borrowing Cost | Cumulative Costs |
|---|---|---|---|---|
| 2023 | $3,375.12 | 4.93% | $166.39 | |
| 2024 | $3,444.00 | 4.93% | $169.79 | |
| 2025 | $3,512.88 | 4.93% | $173.18 | |
| 2026 | $3,583.14 | 4.93% | $176.65 | $176.65 |
| 2027 | $3,654.80 | 4.93% | $180.18 | $356.83 |
| 2028 | $3,727.90 | 4.93% | $183.79 | $540.62 |
| 2029 | $3,802.45 | 4.93% | $187.46 | $728.08 |
| 2030 | $3,878.50 | 4.93% | $191.21 | $919.29 |
| 2031 | $3,956.07 | 4.93% | $195.03 | $1,114.32 |
| 2032 | $4,035.19 | 4.93% | $198.94 | $1,313.26 |
| 2033 | $4,115.90 | 4.93% | $202.91 | $1,516.17 |
| 2034 | $4,198.22 | 4.93% | $206.97 | $1,723.14 |
| 2035 | $4,282.18 | 4.93% | $211.11 | $1,934.25 |
| | | | Projected 10-Year Borrowing Costs | $1,934.25 |

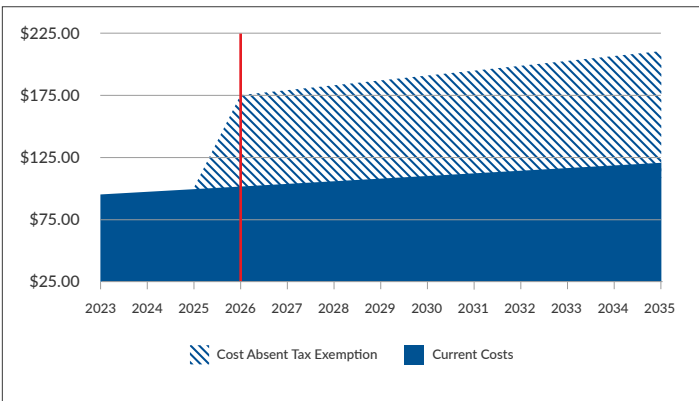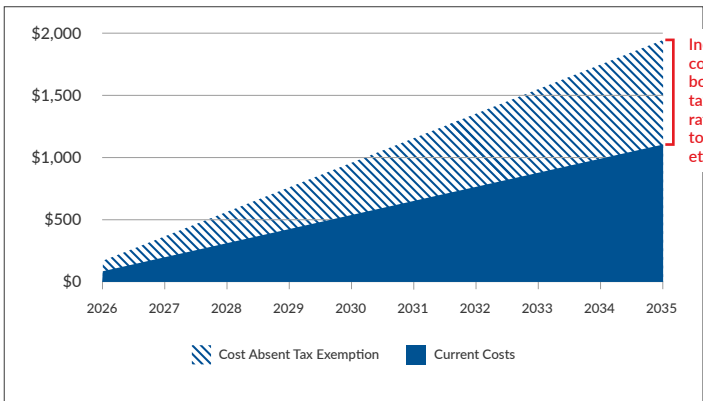## Exhibit 8 | Projected Annual Borrowing Costs, 2023-2035 (in billions)



Cost Absent Tax Exemption
Current Costs

## Exhibit 9 | Projected Cumulative Borrowing Costs, 2026-2035 (in billions)



Increased costs borne by taxpayers, ratepayers, toll payers, etc.

Cost Absent Tax Exemption
Current Costs

# SUPPORTING PARTNERS

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**PUBLIC FINANCE NETWORK**

Formed in 1988, the Public Finance Network is a coalition of organizations united to preserve state and local government use of tax-exempt bonds. The Network represents the wide array of local and state government financing and infrastructure activities. The Public Finance Network is administered by the GFOA and its Director of the Federal Liaison Center, Emily Brock.

For information about the Network and financing issues, call 202-393-8467 or write to 660 North Capitol St., NW, Suite 410 Washington, D.C. 20001.

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