Tax-Exempt Municipal Bonds:

Small Issuer Exception

Impact on California

The bank qualified provision offers a proven incentive for local banks to purchase the tax-exempt debt of small local governments and borrowers such as small colleges, health care facilities and other charities. During the two years in which it was liberalized (late 2000s), it created a market for thousands of small borrowings that stimulated the economy as well as cash strapped small governments and nonprofits.

Governments issuing \$10 million or less in bonds per calendar year can have those bonds designated (or qualified 501(c)(3) bonds) as bank-qualified, which allows them to bypass the traditional underwriting system and sell their tax-exempt bonds directly to local banks at a cost savings for taxpayers.



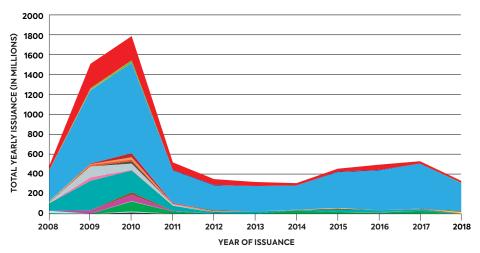
Proposed Legislative Change:

- » Increase the maximum allowed bond issuance of "bank eligible" bonds to \$30 million from the current level of \$10 million. Set in 1986, the limit should be increased and then tied to inflation in future years.
- » Permanently modify the small issuer exception to tax-exempt interest expense allocation rules for financial institutions (Section 265(b)(3)). The provision should be modified to apply to governmental issuers and the borrowing organizations separately regardless of the issuer and permit the 501(c)(3) organization to provide the designation.



CALIFORNIA BQ BOND ISSUANCE BY GENERAL USE OF PROCEEDS: 2008-2018

(in millions)



Source: GEOA analysis of Thomson Reuters data as of 11/28/18

- Water Sewer & Gas Facs
- Toll Roads, Highways & Streets
- Single Family Housing
- Public Power
- Primary & Secondary Education
- Pollution Control
- Police Stations & Equipment
- Parks, Zoos & Beaches
- Parking Facilities
- Other Recreation
- Other Education
- Multi Family Housing
- Mass Transportation
- Libraries & Museums
- Industrial Development
- Higher Education
- Government Buildings
- General Purpose/Public Impact General Medical
- General Acute Care Hospital
- Flood Control
 - Fire Stations & Equipment
 - Economic Development
 - Cont Care Retirement Community
- Combined Utilities
 - Civic & Convention Centers
- Assisted Living