

Tax-Exempt Municipal Bonds:

Small Issuer Exception

Impact on Ohio

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.



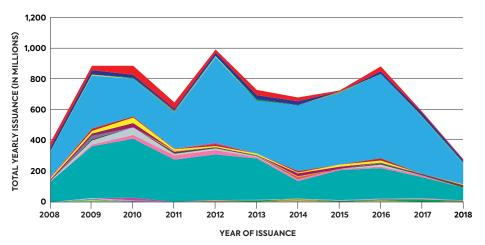
Proposed Legislative Change:

- » 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.



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

(in millions)



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

Water & Sewer Facilities Toll Roads, Highways & Streets Telecommunications Stadiums & Sports Complexes Solid Waste Single Specialty Hospital Single Family Housing Seaports/Marine Terminals Sanitation Public Power Primary & Secondary Education Police Stations & Equipment Parks, Zoos & Beaches Parkina Facilities Other Recreation Other Education Office Buildings Nursing Homes Multi-Family Housing Mass Transportation Libraries & Museums Higher Education Government Buildings General Purpose/Public Impact

General Acute Care Hospital

Economic Development Correctional Facilities

Civic & Convention Centers

Continued Care Retirement Community

Gas

Flood Control Fire Stations & Equipment

Assisted Living