The COVID-19 crisis continues to place financial pressure on the revenue streams of state and local budgets. State and local governments should have the ability to use advance refunding to free up immediate and flexible cash flow for projects essential to communities.

Advance Refunding of Tax-Exempt Bonds

- State and local governments issue their debt as municipal bonds to fund education, healthcare, infrastructure, and other capital improvement projects important to the overall economic well-being of local communities.
- Typically, municipal bonds are federally tax-exempt.
- When interest rates fall, municipalities may seek to refinance their outstanding bonds at a lower rate.
- Advance refunding allows state and local governments the one-time option to refinance outstanding municipal bonds to more favorable borrowing rates or terms. This tool provides state and local governments with greater flexibility to generate savings.
- The advance refunding of bonds saved state and local governments billions of dollars over decades, subsequently saving money for local taxpayers.
- Since the repeal of advance refunding, there has been a significant drop in the refinancing of municipal bonds even though interest rates continue to trend downward.
- The elimination of advance refunding has imposed substantial financial costs on states and local governments.
- Reinstatement of advance refunding does not require any direct appropriation of federal dollars.

The LOCAL Infrastructure Act

The Local Infrastructure Act would amend Section 149(d) of the Tax Code to reinstate advance refunding to free up much needed capital for state and local governments and assist in the long-term economic recovery following the COVID-19 crisis.


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