NATIONAL ASSOCIATION OF STATE TREASURERS

The Leading Voice For Excellence In Public Finance

The National Association of State Treasurers (NAST) serves as the nation's foremost authority for responsible state treasury programs and related financial practices, policies, and education.

NAST members lead in the following areas:

- 529 College Savings Plans
- Achieving a Better Life Experience (ABLE) Savings Programs for People with Disabilities
- Personal Financial Education and Empowerment
- Tax Exempt Municipal Bonds and State Debt Management to Support Critical Infrastructure Financing
- Local Government Investment Pools (LGIPs)
- Retirement Security, Pension and Trust Administration
- State Banking, Investment, and Cash Management
- Unclaimed Property Programs - returning money, stocks, bonds, utility deposits, etc. to individuals who may have moved, lost a check, or forgotten about a bank account

SUPPORTING STATE AND LOCAL FINANCING TOOLS FOR CRITICAL INFRASTRUCTURE

For more than a century, tax-exempt municipal bonds have been the cornerstone of state and local infrastructure financing. These bonds are pivotal for funding essential infrastructure like roads, bridges, schools, water systems, and public safety facilities. The National Association of State Treasurers (NAST) urges Congress to prioritize maintaining the federal tax exemption for municipal bonds and reinstating tax-exempt advance refunding bonds as part of its ongoing commitment to infrastructure development.

WHY TAX-EXEMPT MUNICIPAL BONDS MATTER

The federal tax exemption on municipal bonds, established in 1913, represents one of the most successful federal-state-local partnerships. It allows state and local governments to finance nearly 75% of U.S. infrastructure needs. Over the past decade, governments have issued nearly 10,000 bonds annually, averaging $391 billion per year and supporting $1.65 trillion in infrastructure investment[1].

KEY BENEFITS

Economic Growth: Tax-exempt bonds reduce borrowing costs by approximately 2.1 percentage points, enabling local governments to build vital infrastructure without overburdening taxpayers. It is estimated that the tax-exemption will save issuers/borrowers about $824 billion between 2026 and 2035[1].

- **Community Development:** Projects funded by these bonds enhance public safety, education, healthcare, and housing.
- **Stable Investment:** Municipal bonds are a reliable investment for individuals, particularly retirees, who benefit from the bonds' safety and predictable returns.

NEGATIVE IMPACTS OF ELIMINATING THE TAX EXEMPTIONS FOR MUNICIPAL BONDS

Eliminating the federal tax exemption for municipal bonds would profoundly impact state and local governments, communities, and taxpayers. Here are some of the likely outcomes:

- **Increased Borrowing Costs:** Without the tax exemption, the cost of financing infrastructure projects would rise dramatically. State and local governments would pay higher interest rates on bonds, raising borrowing costs by approximately $823.92 billion over a ten year period[1].
- **Delayed or Canceled Infrastructure Projects:** Higher borrowing costs could force governments to scale back, delay, or cancel critical projects such as schools, highways, and water systems, affecting economic growth and public safety.
- **Higher Taxes or Reduced Services:** Governments would need to offset increased costs by raising taxes, cutting essential public services, or both. This would place a heavier financial burden on residents and communities, particularly those with limited resources. Absent reduced services, the increased borrowing costs that would potentially be passed onto American residents would amount to a $6,554.67 tax and rate increase for every American household over the next decade[1].
- **Reduced Investor Demand:** Tax-exempt municipal bonds are a key investment for individuals, especially retirees (2023 IRS data indicates that 63 percent of tax-exempt income is reported by earners over the age of 65)[2]. Eliminating the exemption could reduce investor demand, destabilizing the market and making borrowing even more expensive for governments.
- **Economic Ripple Effects:** Infrastructure projects funded by municipal bonds create jobs and stimulate local economies. Scaling back these projects would reduce employment.

In short, eliminating the tax exemption would undermine the longstanding federal-state-local partnership that drives infrastructure development, leaving communities with fewer resources to address critical needs.

RESTORING TAX-EXEMPT ADVANCE REFUNDING BONDS

Until 2018, tax-exempt advance refunding bonds allowed governments to refinance debt and reduce borrowing costs. This tool provided substantial savings, enabling further infrastructure investments. However, its elimination in the Tax Cuts and Jobs Act of 2017 has increased costs for governments, ultimately burdening taxpayers.

IMPACT OF RESTORATION

- Cost Savings: Advance refunding bonds reduced interest expenses and freed funds for additional projects.
- Marketing Efficiency: In 2016, these bonds accounted for 27% of municipal bond market activity, demonstrating their widespread use and effectiveness.

ADDRESSING UNFUNDED MANDATES: FINANCIAL DATA TRANSPARENCY ACT (FDTA)

In 2022, Congress passed the Financial Data Transparency Act (FDTA) requiring the development of new bond debt reporting requirements on all state and local governments. While the full breadth of the requirements will not be known for several more years, they will ultimately require public agencies to submit financial reports in a new structured data format. This requirement will place a new and costly unfunded mandate on all public agencies while producing no new financial information for public consumption and potentially reducing government transparency. State Treasurers oppose wasting tax-payer dollars on unnecessary unfunded mandates.

NAST CALLS ON CONGRESS TO

- Maintain the tax-exemption for municipal bonds.
- Reinstate the ability for state and local governments to issue tax-exempt advance refunding bonds as a critical step in supporting cost-effective infrastructure development.
- Eliminate the unfunded mandates introduced by the FDTA.

HELPING TO REUNITE OWNERS WITH THEIR UNCLAIMED PROPERTY

Support State Unclaimed Property Administrators

Each year, State Treasuries and Unclaimed Property Administrators help reunite residents with over billions of dollars worth of their missing property. For many, this property can be anything from uncashed paychecks and missing physical property, to lost refunds and account balances. The purpose of unclaimed property laws is to protect the public by ensuring money and property owed to them is returned to them, rather than remaining permanently with financial institutions, businesses, and other entities. NAST advocates for legislation that continues to help citizens utilize the proven, trusted infrastructure of state unclaimed property programs to easily and securely claim their money.

Currently, NAST is advocating for Unclaimed Savings Bonds to be transferred to states, which could help reunite over $38 billion in unclaimed savings bond proceeds with their rightful owners.

NAST CALLS ON CONGRESS TO

- Help state unclaimed property administrators access title and records to unredeemed U.S. savings bonds, so they can use their proven track record to help reunite these bond proceeds with their rightful owners.

EXPANDING ACCESS AND AFFORDABILITY OF COLLEGE AND EDUCATION SAVINGS

Support 529 College Savings Plans

State Treasurers and 529 college savings plan administrators play a major role in helping families save for college and other education opportunities. With more than 16.9 million open accounts, over $526 billion saved, and an average account over $31,000, 529 plans are the most important education savings tool for families.[3] Research shows that children with a college savings account in their name are six to seven times more likely to attend a four-year college, compared with similar children with no dedicated account.[4]

Congressional support of 529 plans and efforts to enhance 529 savings programs have greatly benefited account holders saving for and paying for post-secondary education. However, the program would benefit from additional changes to address the current treatment of 529 savings accounts in the federal financial aid methodology, which the overwhelming majority of plan administrators cite as the top obstacle to American families opening accounts and utilizing 529 plans. Additionally, Congress should expand 529 plan use to incentivize employees to advance their careers, learn new skills and enhance their careers through lifetime learning opportunities.

NAST CALLS ON CONGRESS TO

- Expand the use of a 529 account through legislation to recognize postsecondary credential programs. This type of enhancement would provide the basis for developing competencies in many of the technical skills and jobs that employers find increasingly difficult to fill.
- Develop tax incentives that promote employer contributions to the 529 plan of employees.
- Exempt assets in 529 accounts held for the benefit of a student from being treated as a 'parental asset' in determining a family's expected contribution in the FAFSA.

PROVIDING OPPORTUNITIES FOR INDIVIDUALS WITH DISABILITIES

Support Achieving a Better Life Experience (ABLE) Accounts

Achieving a Better Life Experience (ABLE) savings accounts allow individuals with disabilities and their families to establish tax-advantaged savings and investments. ABLE accounts ease financial strains by making withdrawals tax-free when used to cover qualified expenses, such as medical and dental care, education, housing, and transportation.

Since the passage of the ABLE Act in December 2014, 46 states and DC have launched ABLE programs. More than 187,000 accounts have been opened and over $2.2 billion has been saved in ABLE accounts, as reports the ABLE Savings Plans Network as of September 30, 2024.

While Congress has already made several improvements to the ABLE Act, it would further benefit from additional enhancements. These additional changes would have minimal or insignificant cost to the federal government but would greatly benefit those with ABLE accounts.

NAST CALLS ON CONGRESS TO

- Make all of the following policies included in the Tax Cuts and Jobs Act and scheduled to sunset in 2025 a part of permanent legislation: ABLE to Work Contributions, Saver's Credit for ABLE, and 529-to-ABLE rollovers.
- Exempt ABLE accounts and balances from Medicaid recovery.
- Address Medicaid recovery statute-of-limitations issues.
- Make ABLE programs more useful by increasing savings limits.
- Allow employers to contribute to an employee's ABLE account in lieu of contributions to an employer-sponsored retirement plan and exempt these contributions from benefits income-counting rules.

[1] Built By Bonds. (2024). *Protecting Bonds to Build Infrastructure and Create Jobs: A Projected 10-Year Analysis.* Securities Industry and Financial Markets Association.

[2] IRS SOI Newsletter: Internal Revenue Service, *Statistics of Income Bulletin: Fall 2023.* Washington, D.C.: U.S. Department of the Treasury, 2023.

[3] According to CSPN data as of September 30, 2024

[4] The Role of Savings and Wealth in Reducing 'Wilt' between Expectations and College Attendance. Subsequently published as: Elliott, W. and Beverly, S. (2011). The role of savings and wealth in reducing 'wilt' between expectations and college attendance. Journal of Children & Poverty, 17(2), 165-185. William Elliott III University of Pittsburgh, School of Social Work Sondra Beverly, Center for Social Development. 2010

ABLE Savings Plans Network (ASPN)

The ABLE Savings Plans Network (ASPN) provides strategic leadership on advancing ABLE accounts by monitoring federal legislative and regulatory actions that impact state ABLE plans. Additionally, the Network focuses on developing strategies to improve ABLE plans at the federal level, and analyzing program administration and best practices for those with an eligible disability who want to save and invest for a better life, achieve financial empowerment, and prepare for a more independent future.

ABLEtoday.org

College Savings Plans Network (CSPN)

The College Savings Plans Network (CSPN) is a leading objective source of information about Section 529 college savings plans and prepaid tuition plans – popular, convenient, and tax-advantaged ways to save for college. CSPN brings together state officials who administer 529 savings and prepaid plans from across the country, as well as their private-sector partners, to offer convenient tools and objective, unbiased information to help families make informed decisions about saving for higher education.

CollegeSavings.org

National Association of Unclaimed Property Administrators (NAUPA)

NAUPA is the foremost authority on unclaimed property and the affirmed leader of the coalition of states, administrators, and holders working together to reunite rightful owners with their property. The purpose of the association is to promote and strengthen unclaimed property administration and interstate cooperation in order to enhance states' return of unclaimed property to rightful owners and provide a forum for the open exchange of information and ideas.

Unclaimed.org

State Debt Management Network (SDMN)

The State Debt Management Network represents state officials involved in the issuance, management, and oversight of public debt. SDMN provides assistance, shares information, promotes professional relationships, and provides educational development opportunities to its members.

SDMN.org

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