



CITY OF TUALATIN

Staff Report

TO: Honorable Mayor and Members of the City Council

THROUGH: Sherilyn Lombos, City Manager

FROM: Don Hudson, Assistant City Manager/Finance Director

DATE: February 10, 2025

SUBJECT:

Consideration of Resolution No. 5866-25 Declaring Support for the Preservation of the Federal Tax Exemption of Municipal Bonds.

RECOMMENDATION:

Staff Recommends that the City Council adopt the attached resolution.

EXECUTIVE SUMMARY:

The tax-exempt municipal bond market is a widely used source of capital for local governments and are used for about three-quarters of the public infrastructure in the United States. Interest on these bonds are exempt from federal tax, dating back to the 1800s and was incorporated into the modern tax code in 1913.

Tax-exempt bonds carry a lower interest rate, as investors are willing to accept a lower rate, in exchange for interest payments that are exempt from federal taxation. Currently, the spread between a tax-exempt borrowing and a taxable issue is approximately 2%. Lower total costs of borrowing translates to a lower tax levy rate, saving the City's taxpayers annually.

The City currently has two general obligation bonds outstanding; the 2018 Transportation bond and the 2023 Parks bond. Previously, general obligation bonds were issued for essential water infrastructure, parks and trails, as well as library and police facilities. By taking advantage of the tax-exempt bond market, the City was able to complete more projects at the tax levy rates that were favorable to the community.

As part of the proposed tax plan being considered by the current administration, the House Ways and Means Committee has identified eliminating the federal tax exemption of municipal bonds as one way to pay for the tax plan. It would have a significant impact on local governments, and taxpayers, if this exemption was eliminated.

In January, the City Council adopted their Federal Legislative Agenda, which included "Protect Local Government's Ability to Offer Tax-Exempt Municipal Bonds". The National League of Cities has asked cities to pass a resolution supporting the preservation of the federal tax exemption of municipal bonds and send copies to Oregon congressional members.

A resolution is attached showing support for preserving our ability to issue tax-exempt bonds,, allowing the City to borrow at a lower cost, which equates to completing more projects at lower tax levy amounts for our taxpayers.

OUTCOMES OF DECISION:

Adoption of a resolution that supports one of the Council's adopted Federal Legislative Agenda priorities.

ALTERNATIVES TO RECOMMENDATION:

Choose not to adopt the attached resolution.

ATTACHMENTS:

Resolution No. 5866-25