**Bonds promote fiscal responsibility**

Some policymakers and outside interest groups seeking to pay for new federal spending or cuts in federal income tax rates have called for a tax on municipal bond interest. Some would rationalize this unprecedented move by arguing that the current tax-exemption for bond interest has led to runaway state and local spending on unwise or unnecessary projects. Nothing could be further from the truth.

**Bonds hold state and local governments accountable.**

- Generally, municipal bonds must be approved by voter referendum or an affirmative vote of a governmental body (a city council, county council, utility board, or the like).

- The federal tax exemption for bond interest reduces borrowing costs, but it is state and local residents who repay principal and interest.

**History shows that state and local governments have used bonds responsibly.**

- Over the last decade, while federal debt has nearly doubled (both in real dollars and as a percent of GDP), state and local debt has remained flat in real dollars and declined as a percentage of GDP.\(^1\)

\(^*\)^{*} \(^*\)^{*} 

\(^1\) Board of Governors of the Federal Reserve, *Flow of Funds Accounts of the United States*, (Sept. 16, 2016).