Save the Children
Action Network

April 10, 2015

The Honorable Dean Heller
324 Hart Senate Office Building
Washington, DC 20510

The Honorable Michael Bennet
458 Russell Senate Office Building
Washington, DC 20510

RE: Submission to the Senate Finance Committee, Infrastructure and Community Development Working Group

Dear Co-Chairs Heller and Bennet,

Save the Children Action Network (SCAN) is submitting these proposals to the Infrastructure and Community Development Working Group of the Senate Finance Committee in support of mechanisms to enhance funding for early learning programs and facilities. We believe the tax code can be revised to create innovative financing for preschool and pre-kindergarten educational program centers by incentivizing and directing private dollars. SCAN specifically recommends revising the tax code to encourage private funding of early childhood education centers by expanding the use of federally tax-exempt municipal bonds.

At the state and local level, governments generally issue municipal bonds for long-term financing of capital projects. Uses vary greatly, but may include the construction of schools, hospitals, public housing, infrastructure, and various other public benefit projects. Because interest income earned on certain bonds has tax-favored status, they encourage private investment in public good projects. We recommend that the Working Group look for ways to use these bonds to draw additional private financing into early learning centers.

For favorable treatment, tax regulations governing municipal bonds generally require all money raised in a bond sale to be spent on one-time capital projects within three to five years of issuance. This traditional use of a municipal bond may finance the construction of a public preschool, for example. But the rules for issuing this type of debt vary from state to state. Certain exceptions permit the issuance of bonds to fund other items, including ongoing operations and maintenance expenses – for example, at a preschool or public child care center. We support a federal broadening of the rules for qualified municipal bonds to incorporate more early childhood education facilities and programs, which should help drive more private investment into early childhood education.

More specifically, under the umbrella of tax-exempt municipal bonds, there are two types we see as most ideal for funding early learning facilities: bank qualified bonds and 501(c)3 nonprofit bonds.

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The first type of bond we propose expanding are bank-qualified bonds, or BQ bonds. Historically, commercial banks were the largest purchaser of municipal bonds as they could deduct 80 percent of their interest expense used to purchase the bonds. The Tax Reform Act of 1986 effectively repealed this deductibility for banks except for bonds that met certain criteria, also known as "bank-qualified bonds". To qualify, among other rules, BQ bonds must come from an issuer offering no more than $10 million in bonds in a calendar year. This provision effectively limits banks' bond purchases to rural counties, smaller towns, and school districts. Congress recognized the problem with this limitation and the value of expanding this limit in the American Recovery and Reinvestment Act, temporarily lifting the $10 million limit to $30 million. This increase expired in 2011, but there have been several efforts to reinstate it – most recently with the Municipal Bond Market Support Act of 2014 (H.R. 5199), which attracted strong bipartisan support in the House. Given the ability for some school districts to issue BQ bonds, early childhood education would benefit from lifting the $10 million limit, in addition to expanding BQ bonds to explicitly allow bonding for early learning facility operating costs.

The second type of bond are those issued through a state or local government on behalf of 501(c)3 organizations. While only government agencies can issue tax-exempt bonds, federal law and state law also permit "conduit revenue bond financing," in which a municipality issues bonds and loans the proceeds to a 501(c)3 organization at rates much lower than traditional bank loans. These bonds are most typically used to finance facilities used for the operation of non-profit organizations, such as educational facilities, health care facilities, or even libraries. But at its core, the law requires that the proceeds be used for the activities related to the organization's tax-exempt purpose and not, for example, paying teacher salaries. We propose expanding these rules to specifically allow for financing the operational costs of early childhood educational facilities, including construction, maintenance expenses, and educator pay.

We appreciate this opportunity to submit suggestions to the Senate Finance Committee Tax Reform Working Group on Infrastructure and Community Development, and would be glad to provide you with any additional information. Please do not hesitate to contact us if you have any questions.

Best regards,

Mark K Shriver

Mark Shriver
President
Save the Children Action Network