

CLIENT NEWS BRIEF

Tax Bill Eliminates Advance Refunding Opportunities

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On December 22, 2017, President Donald J. Trump signed the Tax Cuts and Jobs Act of 2017, putting into place the most sweeping tax reform seen in three decades, including significant cuts to corporate and individual tax rates. The new law also effectively eliminates a critical tool local agencies have long used to save taxpayers money.

The tax bill eliminated the tax-exempt status of advance refunding bonds, effectively ending their use by local government agencies. Local agencies may still issue them, but the interest is no longer tax exempt for bondholders. The revocation of this long-standing subsidy eliminates a tool that local government agencies, including school and community college districts, have used to restructure existing debt and provide savings to taxpayers.

An advance refunding occurs when issuers replace outstanding bonds with new bonds with a lower interest rate before payment of the original bonds is fully due. Borrowers advance refund their outstanding debt to take advantage of a favorable interest rate environment. Such an approach results not only in a reduction of borrowing costs, but may also free up resources for new projects.

Since 1986, federal tax law has permitted governmental bonds to be advance refunded once. Under the new tax bill, one of the key advantages to advance refundings—tax exempt status—will no longer exist.

Lozano Smith has expertise in public finance matters, serving as bond counsel on more than \$1 billion in school district and community college district bond issues. Lozano Smith will be conducting school bond workshops across the state, covering topics that include:

- Elections: Timelines and requirements
- Bonds: Types, validity and tax treatment
- Roles and Responsibilities: Committees, consultants, and counsel
- Disclosure and Record Keeping: Regulations and legal considerations
- Statewide Bond: Matching and impact

If you have any questions regarding the tax bill's impact on your agency, please contact an attorney at one of our [eight offices](#) located statewide. You can also visit our [website](#), follow us on [Facebook](#) or [Twitter](#) or download our [Client News Brief App](#).



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