
Recognize the Magnitude of Municipal Securities in the Infrastructure Debate.

The Trump administration and legislators on Capitol Hill have a tall order to fill when it comes to developing policies that can spur more investment in the nation's infrastructure. To inspire informed dialogue on this topic, the Municipal Securities Rulemaking Board (MSRB), created by Congress in 1975 to oversee the $3.8 trillion municipal securities market, recently gathered bankers, developers and scholars for an infrastructure discussion.

Our goal was to look beyond the municipal market – which finances the lion's share of the nation's infrastructure – and better understand all it may take to fulfill the outsized need to maintain and build the nation's roads, bridges, tunnels, schools and more over the next decade. If the municipal securities market serves as the perpetual backdrop and most essential aspect of public finance, how might state and local government finance be coordinated with and enhanced by federal incentives and private sector involvement?

Potential innovations in infrastructure finance and related policies must contend with a legislative process on Capitol Hill that advances on a fragmented and episodic basis, and which is affected by the challenges of rising federal debts and soft economic growth. Transportation funding and water infrastructure bills are core priorities for appropriations and infrastructure committees in Congress.

According to the Congressional Budget Office, federal, state, and local governments collectively spent $416 billion on transportation and water infrastructure in 2014 – a quarter of which came from federal spending. This significant level of spending has been a relatively stable percentage of the GDP over the past 30 years.

Yet congressional involvement in infrastructure policy reaches much further. For example,infrastructure stimulus proposals have been at the top of the agenda for President Obama's, and now, President Trump's, first terms. These proposals engage congressional tax writers in seeking to jumpstart infrastructure through new incentives. While the Trump administration favors federal tax credits and public private partnerships for stimulus, the tax component of Obama-era stimulus legislation established new types of subsidized municipal securities that have since expired, including tax-credit bonds and direct-pay, "Build America Bonds." The return of these bonds, or the development of enhanced private activity bonds programs, is under discussion by the current administration.

A wide array of programs could be enacted by Congress or fine-tuned through regulatory relief in the name of infrastructure development – from P3s to infrastructure banks, QPIBs to QZABs, and WIFIA to TIFIA. Sometimes overlooked in this policy alphabet soup is the very foundation for successful infrastructure: efficient capital markets. Municipal securities, which are traditionally tax exempt, have been and remain the essential element for ensuring state and local governments can affordably access capital markets to maintain infrastructure, from roadways to alleyways, and from universities to elementary schools.

With 50,000 governmental and nonprofit issuers and counting, it is primarily the municipal securities market that assures community needs are identified, prioritized and financed at a reasonable cost. The municipal securities market must function well just to maintain current state and local government priorities, and must thrive to support policies aimed at bridging the nation's infrastructure funding gap. While the market hums along to meet much of the nation's infrastructure need – with an average $430 billion in municipal securities issued annually – experts are focused on removing policy barriers so that public and private finance can fit together more seamlessly and foster innovation.

The MSRB keeps top of mind its mission to promote a fair, efficient and transparent municipal securities market and those policies specifically targeted at its structure. As we seek to protect municipal securities investors and issuers, we are aware that new federal policies not directed at municipal securities or even infrastructure will nevertheless affect our market. Such policies may unleash or stymie the potential of capital markets as a whole – and may put the $3.8 trillion municipal securities market to work – or to rest. Democratic and Republican members of Congress have prioritized infrastructure investment, and the Trump administration is taking careful stock of infrastructure needs and the policies that could unlock the full potential of capital markets and the economy through the tax code and regulatory relief.

Within this debate, corporate or individual tax reform could change the relative value or tax treatment of municipal securities for investors and affect borrowing costs for issuers as priorities are aligned to support ideas for promoting U.S. competitiveness. Such legislative deal making can create surprise consequences, and the municipal securities market can adapt, having endured previous tax reforms, sequestration and economic recessions.

It is a resilient resource borne of the founding principles of a nation that reserves power, decision making authority and access to capital for state and local government. Yet hazards for the market should be avoided or overcome, and indirect consequences of tax proposals, carefully considered. An efficiently operating municipal securities market is the basis from which to advance essential priorities. As policymaking brings disparate ideas into focus, it must be remembered that the municipal securities market, operating quietly in the background, is the very foundation for financing the nation's infrastructure.

THE HILL

BY LYNNETTE KELLY, OPINION CONTRIBUTOR – 06/09/17 02:30 PM EDT

Lynnette Kelly is executive director of the Municipal Securities Rulemaking Board.