Bond Case Briefs

Municipal Finance Law Since 1971

Republicans Push to End Muni Sales by Businesses, Stadiums.

- **Tax-cut bill would do away with private-activity bonds**
- **Advanced refundings, stadium deals would also be scrapped**

Congressional Republicans proposed barring the sale of municipal bonds for professional sports stadiums and privately run infrastructure projects such as toll roads and airports, a step that's at odds with President Donald Trump's push to increase funding for public works.

The tax-cutting bill released Thursday would also eliminate advanced refundings of debt issues, a popular refinancing technique with state and local governments, as well as bonds backed by federal tax credits. If enacted, the proposals would cut the amount of municipal debt sold each year by billions of dollars and potentially boost demand for the bonds.

"If you reduce the supply of municipal securities that would make them generally more valuable," said Rob Amodeo, head of municipal debt for Western Asset Management. "But if you look at the idea that munis are going to act as a cornerstone for financing U.S. infrastructure, some of the provisions in this tax plan may challenge that a bit."

The rollback to so-called private-activity bonds would increase costs for companies that finance public works by borrowing billions each year in the municipal securities market, where interest rates are lower. Ending the program would increase revenue by about $39 billion through 2027, according to Congressional estimates.

The proposal shows how the Republican drive to slash taxes may come into conflict with a pillar of Trump's agenda. His administration in May promised $1 trillion to rebuild crumbling roads, bridges and airports, in part by relying on investment by businesses. Businesses that work on infrastructure projects typically raise money with private activity bonds.

There will be a concerted effort by advocates to get the provision removed from the bill, said Robert Poole, director of transportation policy at the Reason Foundation, a free-market research group.

"This would be completely at odds with getting more private investment in infrastructure," Poole said.

The push to roll back federal support for professional sports teams and billionaire owners may be less contentious, with the subsidies drawing criticism from both sides of the political spectrum. Conservative opponents of the subsidies got a boost after Trump attacked the National Football League for not penalizing players who kneel during the national anthem to draw attention to police killings of black men. A Brookings Institution report in 2016 found that tax-exempt financing of professional sports stadiums has cost the federal government $3.7 billion in revenue since 2000.

Municipal bond prices were little changed after the release of the tax plan, with many analysts viewing it as a starting point that's likely to be heavily revised as it works its way through Congress.

Yields on 10-year benchmark tax-exempt debt were unchanged at 2.01 percent, while those on 30-year bonds slipped 0.01 percentage point to 2.81 percent, according to Bloomberg's indexes.

The push to roll back sales of municipal bonds is likely to draw opposition from states, cities and securities firms, which for years have lobbied to prevent their ability to issue tax-exempt debt from being curtailed. Mike Nicholas, the chief executive officer of the Bond Dealers of America, an industry lobbying group, said the Republican proposal would increase costs for local governments and reduce funding for public works.

"Any alteration to the tax-exemption would significantly increase costs and lead to decreased infrastructure investment in communities where it is needed most," he said in a statement.

State and local governments sold $428 billion of debt last year. About $20 billion were private activity bonds, according to the Council of Development Finance Agencies. Many bonds are also each year for advanced refundings, which allow governments to refinance debt before it can be repurchased from investors.

Trump previously proposed expanding the use of private activity bonds, and his budget recommended lifting a $15 billion cap on their sale for highways and shipping facilities. In late September, however, Trump told lawmakers in a closed meeting that public-private partnerships weren't the solution for rebuilding U.S. infrastructure, the Wall Street Journal reported.

Scrapping the tax exemption on private-activity bonds wouldn't eliminate the private investment outright, since businesses interested in running infrastructure projects could still borrow in the corporate debt market, albeit at a higher cost.

The amount of private-activity bonds isn't uniform. Airports aren't subject to a cap, while debt for other uses is allocated on a state-by-state basis through a formula based on population. While the bonds have mostly been used for low-income housing, student loan programs and hospitals, they have increasingly been issued for major infrastructure projects, including toll lanes on expressways in Texas and Colorado.

A group led by Kiewit Corp. and a Macquarie Group Ltd. unit used $460 million private activity bonds to help finance a $1.5 billion replacement for the 85-year-old Goethals Bridge connecting New Jersey to New York's Staten Island. Kiewit, Macquarie and Skanska AB are using the securities to finance a two-lane tolled tunnel connecting the cities of Norfolk and Portsmouth, Virginia.

Bloomberg

By Martin Z Braun and Mark Niquette

November 2, 2017, 9:23 AM PDT Updated on November 2, 2017, 1:24 PM PDT

— With assistance by Amanda Albright