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Congress's Tax Bill Keeps Subsidies for Private Activity Bonds.

- **Municipal debt had rallied on wager new sales would be cut**
- **So-called private activity bonds are a big share of market**

The final version of the tax bill struck by Congressional negotiators would continue to subsidize municipal bonds that help businesses to finance infrastructure projects such as airports and toll roads, dropping one provision that threatened to cut sales of tax-exempt debt by tens of billions of dollars starting next year.

The compromise legislation, hashed out by a committee of lawmakers from the Senate and House, would keep the tax preferred status for private activity bonds “that are used to finance valuable infrastructure projects,” according to highlights of the final measure obtained by Bloomberg News.

The document doesn’t say if the legislation would stop sales of tax-exempt debt for refinancings known as advance refundings, another large segment of the market that was targeted by both the Senate and House bills. Nor does it specify whether the use of private activity bonds would be limited somehow.

The federal tax overhaul unleashed a potentially record-setting torrent of bond sales this month, with borrowers rushing to raise money in the \$3.8 trillion municipal market before the end of the year. Investors have also been snapping up the securities, sending them to their biggest rally since 2011 earlier this month on speculation they would grow more valuable if Congress enacted measures that drastically reduced new sales.

The compromise bill eliminates the risk that Congress would do away with a large niche of the tax-exempt debt market that’s routinely tapped by hospitals, universities and corporations to finance infrastructure projects. While there’s no official figure for how many private activity bonds are issued each year, Moody’s Investors Service estimates that they accounted for about 25 percent to 35 percent of the \$459 billion in municipal bonds sold in 2016.

Both chambers of Congress now have to vote on the legislation before sending it to President Donald Trump for his signature.

Abolishing the tax exemption for PABs prompted an outcry from state and local government officials, who said it would increase the cost of public works and put the tax-cut legislation at odds with Trump’s stated goal of increasing spending on infrastructure.

Los Angeles World Airports, which runs LAX, would have had to choose between scaling back projects in its \$14 billion modernization plan or finding \$500 million in new revenue because of higher borrowing costs, Chief Financial Officer Ryan Yakubik said in an interview last month.

It would have also hurt charter schools, affordable housing developers and hospitals, among others. The loss of tax-exemption would have raised borrowing costs by 1 to 2 percentage points for small

hospitals with a BBB rating or below, according to David Hammer, head of municipal bond portfolio management for Pacific Investment Management Co.

Bloomberg Politics

By Martin Z Braun and Sahil Kapur

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