Bond Case Briefs

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Tax Cuts Curbed Muni Sales. Trump's Latest Plan Would Boost Them.

- **Private activity bonds expanded in draft infrastructure plan**
- **Proposal would allow advance refundings on the bonds**

Last month, Congress rolled back the ability of state and local governments to issue municipal bonds as a way to cover the cost of corporate tax cuts. Now, President Donald Trump is seeking to boost such borrowing to rebuild America's infrastructure.

A draft outline of Trump's proposal leaked to the press Monday calls for expanding the use of tax-exempt bonds to finance roads, sewers, airports and other public works built by businesses. It would lift state volume caps on issuance of such private activity bonds, eliminate restrictions on their use for transportation and encourage their sale by ports. It also would expand the ability to advance refinance the securities, creating potential savings that could be used for reinvestment.

The plan, if kept intact by Congress, could increase sales of state and local debt, which had been expected to decline sharply this year after governments rushed to borrow in 2017 before Congress enacted tax legislation that pulled the tax breaks from certain types of debt refinancing. Some estimates predict issuance would dip as much as 30 percent this year.

"It would certainly help the supply picture," said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago.

Trump has said he will introduce a $1 trillion proposal to upgrade roads, bridges, airports and other public infrastructure. The White House plan calls for allocating at least $200 billion in federal funds over 10 years to spur at least $800 billion in spending by states, localities and the private sector.

Barely Dry

The tax law approved by Congress and signed by Trump last month eliminated advance refundings, a frequently used refinancing technique that accounted for about a third of the municipal securities sold in 2016, and the initial House legislation proposed abolishing PABs. The president's plan, if not amended, would expand those refinancings as well as the PAB program formerly targeted by lawmakers in the House.

"If the leak proves accurate, tax reform is barely dry and already we are seeing advanced refundings come back?" said Robert Amodeo, head of municipals at Western Asset, which manages $22 billion in municipal bonds. "Every state and local government, frankly, all muni debt issuers, will request eligibility for advanced refundings."

The draft of Trump's plan also indicates he may allow state's to toll interstate highway travel to raise revenue that could back bonds and would hand states federal grants to cover a portion of a project's costs.

"This is encouraging because they're talking about expanding a part of the municipal market that we know works well," said Patrick Luby, municipal strategist CreditSights Inc.

Analysts said it's impossible to say precisely how the Trump plan would affect issuance, given that much of it will depend on how the provisions of the law are written. While there's no official figure for how many PABs 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.

The House's push to rescind the tax exemption for newly issued 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.

The White House won't comment on the contents of a leaked document but says it looks "forward to presenting our plan in the near future," spokeswoman Lindsay Walters said. The details of the plan were reported earlier by Axios and Politico.

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— With assistance by Zachary Hansen, and Elizabeth Campbell