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This Bill Could Save Rural Governments Millions in Infrastructure Financing.

A proposal before Congress would expand a provision that gives small governments and districts access to cheaper financing.

A new proposal in Congress could make financing infrastructure projects in rural America far more affordable.

Called the Municipal Bond Market Support Act of 2019, the bill would modernize a restriction on so-called bank-qualified municipal bonds that effectively limits small governments' access to cheaper borrowing rates in the municipal market.

The Government Finance Officers Association (GFOA) estimates that the proposed bill could save as much as $1.1 million in financing costs on a 15-year, $30 million bond issued by a small government. That translates into hundreds of millions of dollars in savings each year for small governments, nonprofits and districts across the country.

"Expanding the availability of bank-qualified bonds will help local governments and nonprofits afford critical construction projects and stimulate their economies, all while providing significant savings," Alabama Rep. Terri Sewell said after introducing the bill.

Small governments that don't issue debt in the municipal market very often tend to pay a premium on interest and borrowing costs because investors aren't familiar with them. In 1986, bank-qualified bonds were created to encourage banks to invest with these smaller, less frequent issuers by giving the banks tax breaks related to buying and holding the bonds. It also saved those municipalities money on borrowing costs because it allowed them to bypass the traditional underwriting system and sell their tax exempt bonds directly to local banks.

But only small governments that issue $10 million or less in bonds per calendar year can sell bank-qualified debt. In today's dollars, $10 million doesn't go very far. "Over the years, there's been a steadily shrinking universe of governments who are benefitting from the rules," says Municipal Market Analytics partner Matt Fabian.

Sewell and cosponsor New York Rep. Tom Reed want to push up the cap to $30 million and index it to inflation thereafter. Their legislation would also extend bank-qualified eligibility to borrowers who issue debt through a state or local finance authority.

Bank-qualified debt is a small part of the $3.7 trillion municipal bond market, but the projects they finance have a big impact for their municipalities.

In Ohio, for example, roughly $650 million in total average bank-qualified debt has been issued each year since 2009. Much of it has been for telecommunications projects, including expanding broadband access to rural Americans.

In Alabama, about half of the bank-qualified debt issued each year goes toward water and sewer projects, as well as primary and secondary education.

While there appears to be strong support for the bill from leadership in the House Committee on Ways and Means, it's unclear how far an infrastructure-related bill will go in a Congress that has dragged its feet on infrastructure financing and funding in general.

But some believe this bill has a good chance of going forward with or without a larger infrastructure package behind it. “Everybody's running for office this year,” says Emily Brock, director of GFOA's Federal Liaison Center. “They've been talking about infrastructure for the past two years, but Congress hasn't done anything yet. This is one thing that would satisfy that need.”

If it does pass, Fabian notes that it's unlikely to have a significant impact immediately on the muni market, given the historically low interest rates and the current aversion many governments have toward increasing their debt load. “In the near-term, there's probably a minimal effect on the muni market,” he says. “But in the longer term, it could cultivate stronger capital access for these smaller issuers.”

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BY LIZ FARMER | AUGUST 2, 2019 AT 4:00 AM