

Bond Case Briefs

Municipal Finance Law Since 1971

What Biden's Infrastructure Plan Means for Municipal Bonds.

Director of Municipal Bond Research at Franklin Templeton, Jennifer Johnston, joined Yahoo Finance Live to break down what Biden's infrastructure plan means for municipal bonds

ADAM SHAPIRO: We want to get a pulse on small business. We're going to do that with small business and rural towns and invite into the program right now Jennifer Johnston, Director of Municipal Bond Research- not small business, but actually talking about what's going on in the muni market. Good to have you here, Jennifer. You know, with interest rates where they are, they're not climbing too fast, why would munis be a good option?

JENNIFER JOHNSTON: Sure. Well, munis are often part of a strategy to handle people's tax liability. And when Biden was campaigning, he made it clear taxes were going to be on his radar screen. And with all the stimulus that has come through the packages up to now, as well as the potential infrastructure package, taxes are likely to go up. And munis make a great investment opportunity to help manage your tax strategy.

SEANA SMITH: Demand that's out there right now- what's fueling the optimism around munis?

JENNIFER JOHNSTON: So a lot of it is just really strong performance through the pandemic- much better than expected. It still wasn't great. But if you think back to where we were a year ago, I can't believe where we are today. We've seen budgets perform better, which means state and local governments, as well as transit authorities, and any type of municipal entity have more cash than they thought they were going to have.

They thought things would be worse, and they made strong cuts in their budget, and they've actually seen an outperformance. And then the most recent federal stimulus package that was passed in March is finally going to deliver to state and local governments the hopefully the kind of direct money that they can utilize for pretty much anything. So instead of just using it for COVID cost reimbursement, which had been previous aid, they'll actually be able to use it more for revenue replacement purposes.

ADAM SHAPIRO: What danger is there if you do purchase munis right now if we do get what we're being told is going to be a big bout of inflation coming our way?

JENNIFER JOHNSTON: Well, we'll have to see what happens on that. I mean, I think at this point, having municipal bonds in a portfolio to manage your tax strategy, if that's your goal for how you want to use them, they're going to continue to make sense regardless.

SEANA SMITH: Jennifer, when we take a look at the impact that the infrastructure plan is going to potentially have on the muni market, and we talk about ways that the state and local governments should use the increase in funding- from your view, what should state and local governments prioritize?

JENNIFER JOHNSTON: Sure. So this funding, whether through the infrastructure plan or through the traditional federal stimulus packages, is one-time in nature. This isn't the type of revenue source that's going to recur year after year. So it's critical that state and local governments, governors, legislators, whoever your decision makers are spend it in a one-time way.

You want to match one-time revenues with one-time expenditures. You don't want to start some new program that has to be funded annually going forward, because all you're going to do is create a revenue imbalance the next fiscal year when you have to find additional spending. The point is to stimulate economies and to help get communities back on its feet, not to create future funding challenges down the road.

ADAM SHAPIRO: Correct me, because I always get confused on this- municipalities used to roll over existing debt into new muni bond issuance. Do they still do that? Are they allowed to do that? And is that something you should be leery of if they do do that?

JENNIFER JOHNSTON: Yes. So, much like we would want to refinance our homes as interest rates change, local governments want to do the same thing. There's something interesting that's going on right now where if a local government wants to advance refund their debt, they have to use taxable debt to do it, as opposed to previous to the TCGA, they could actually use tax-exempt debt. But because rates are so low right now, even issuing taxable bonds still provides state and local governments with additional savings.

So many of them are able to actually refinance, still have lower interest rates issued through the taxable market, and utilize that to either save costs, as we were going through this unknown era of COVID, as well as maybe restructure when payments were going to be just to get them through this period. A lot of people have taken advantage of that. And from the perspective of an issuer, it's very smart to do that.

ADAM SHAPIRO: You know, as director of municipal bond research, which municipalities are being rewarded- those that pay down debt or those which are taking on debt to build out infrastructure?

JENNIFER JOHNSTON: Sure. So that's actually an excellent question, because it has to be a little bit of both. Because at the end of the day, municipal bonds are largely paid, especially from state and local governments, paid back through property taxes. And property taxes are going to be higher on communities that have good infrastructure, robust communities, and strong services.

And so you really need to see both things. You need to see an appropriate level of debt, but smart infrastructure build-out so that the community is still a place that's desirable and can continue to thrive. And I think the infrastructure plan that Biden has proposed is going to really target a lot of those.

ADAM SHAPIRO: All right. We appreciate you joining us with your insight, Jennifer Johnston, the Director of Municipal Bond Research at Franklin Templeton.

Yahoo Finance

April 26, 2021