

Bond Case Briefs

Municipal Finance Law Since 1971

Bill Would Make BAB Program Permanent, Repeal the AMT on PABs.

WASHINGTON — Rep. Richard Neal has introduced a bill that would among other things, make the Build America Bond program permanent with reduced subsidy payments and repeal the alternative minimum tax for private activity bonds.

The bill is called the Invest in United States Act of 2014 (H.R. 3939) and Neal, a Democrat from Massachusetts, is ranking minority member of the House Ways and Means Committee's select revenue subcommittee. The measure has been referred to the Ways and Means as well as the Transportation and Infrastructure and Education and the Workforce committees.

"This legislation will go a long way in creating an environment where our economy can take off by making the strategic investment needed to spur growth," Neal said in a news release.

The BAB program, created by the American Recovery and Reinvestment Act, allowed state and local governments to issue taxable bonds in 2009 and 2010 and receive subsidy payments from the U.S. Treasury equal to 35% of their interest costs. Subsidy payments to BAB issuers have been reduced as a result of across-the-board spending cuts known as sequestration and have also been offset by issuers who owe the federal government money.

Under Neal's bill, BABs would have a lower subsidy rate, depending on the years in which they were issued of 31% in 2014, 30% in 2015, 29% in 2016 and 28% in 2017 and thereafter.

The bill contains a provision that would make issuers whole even if sequestration is in effect and allow them to receive subsidy payments in the amount they were originally owed. The legislation also would allow qualified BABs to be current refunded.

Neal introduced another bill with the same BAB provisions about a year ago but it never moved forward.

This more recent bill would eliminate the AMT for PABs, which currently leads to higher interest rates and project costs for muni issuers.

Exempt-facility bonds issued by water and sewage facilities would be exempted from the annual state volume caps on PABs, under the bill. Excluding these types of bonds from the caps "makes additional private investment capital available for these types of infrastructure facilities," the bill summary said.

Additionally, the bill would create an infrastructure bank called the American Infrastructure Financing Authority, which would provide loans and loan guarantees for transportation, water and energy infrastructure projects.

To be eligible for financial assistance from the authority, a non-rural project's expected costs would have to be at least \$100 million and a rural project's expected costs would have to be at least \$25

million. The Treasury would make available \$10 billion in seed money for the authority, and the bank would not be allowed to finance more than 50% of any one project.

“Traditional municipal bonds issued by state and local governments are proven to work and have been a part of the tax code for over 100 years, and additional infrastructure financing options can be created at the federal level to complement the current system to best meet infrastructure needs,” the findings and purpose section of the bill said.

Other provisions in the bill include increase the federal minimum wage to \$10.10 an hour from \$7.25 an hour over four years and extending and expanding the new markets tax credit and the research and development tax credit.

Aides to Neal said that, while the congressman would love for the bill to become part of a larger legislative package, parts of the bill could be other legislation.

BY NAOMI JAGODA

FEB 4, 2014 4:42pm ET