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Wyden's Build America Bonds Reboot Relies on Cities: Muni Credit.

On paper, Senator Ron Wyden's idea to resurrect the Build America Bonds program would go a long way toward fixing the nation's crumbling highways and bridges.

The federally subsidized municipal bonds created in the 2009 U.S. economic stimulus proved popular with Wall Street investors and went on to finance almost $190 billion of public-works projects. Now, as Wyden tries to jump-start debate on long-term highway funding, he's struggling to gain traction.

Even with benchmark municipal yields at 11-month lows, localities are selling fewer bonds as they mend their finances after the recession sapped revenue. The federal government let the Build America Bonds program expire at the end of 2010 and later scaled back the 35 percent subsidy to issuers as part of broader spending cuts.

"Many governments were burned pretty badly," Steve Benjamin, mayor of Columbia, South Carolina, said in an interview. "The confidence is just not there."

A reboot of Build America Bonds would take a large enough federal subsidy to entice states to run up debt after the recession, said Scott Pattison executive director of the National Association of State Budget Officers.

Fresh Memories

"The memory is still pretty fresh," Pattison said in a telephone interview. "The sweetener would have to be pretty significant."

Wyden, an Oregon Democrat who runs the Senate Finance Committee, has been pitching ideas to finance a six-year measure boosting infrastructure spending and replenish the U.S. Highway Trust Fund. That pool may not be able to meet its financial obligations as early as July. He said last week that while he hasn't decided on an approach, it may include boosting the 18.4 cents-per-gallon gasoline tax and restoring Build America Bonds.

"There are two pieces in the transportation funding equation," Wyden said in an interview. "One is funding, which is the downstream approaches like the gas tax. Then on top of that, I want to focus on finance because Build America Bonds was so successful."

By most measures, the program was just that. Municipalities sold $188 billion of the taxable bonds to finance investment in infrastructure such as water, road and transit projects, data compiled by Bloomberg show.

Investors Gain

The securities became the fastest-growing part of the $3.7 trillion municipal market and drew international buyers. The debt has earned 9.6 percent this year through May 20, beating the 6.3 percent gain for the entire local-bond market, Bank of America Merrill Lynch data show.

Municipalities have sold about $95 billion of long-term, fixed-rate debt this year, down from $132 billion in the same period of 2013, Bloomberg data show.

Wyden would also have to win over debt-reduction Republicans in Congress who had complained that the original 35 percent subsidy on municipalities' interest payments was too expensive.

Build America Bonds may cost the Treasury about $3.8 billion in the current budget year, according to the White House Office of Management and Budget.

President Barack Obama has proposed a four-year, $302 billion highway bill that would raise $150 billion through taxes on overseas earnings and by closing loopholes that would normally let companies defer those obligations.

Republican Compromise

The Senate Environment and Public Works Committee last week approved a six-year highway measure that calls for the same amount of money annually as the current two-year, $105 billion bill expiring in September, plus inflation. The panel left it up to Wyden and his Finance Committee to figure out how to pay for it.

Some senior Republicans on Wyden's panel said his idea of restarting Build America Bonds deserves consideration if it helps prod debate on the highway measure. That includes Senator Orrin Hatch of Utah, the committee's top Republican, and Senator Charles Grassley, an Iowa Republican.

"I've never been a big fan of Build America Bonds, because it's just another way of spending and getting us deeper into debt," Hatch said in an interview. "But then again, it may be one of the ways we'll have to do it under the current difficulties we're in. There's no question we're going to have to try and find money for highways."

Three Wins

Some proposals already are on the table. In April, Senator Edward Markey, a Massachusetts Democrat, introduced a bill resurrecting Build America Bonds and making the program permanent. It would set the subsidy for states and localities at 31 percent in 2014, gradually lowering it to 28 percent in 2017 and later years.

It's a companion measure to a bill introduced last year by Representative Richard Neal, also a Massachusetts Democrat.

Markey said his proposal is a "win-win-win for cities, states and the entire country." His home state issued almost $5 billion in bonds when Build America was operating, with most of the funds used to repair or rebuild hundreds of bridges across the state.

In 2013 and again this year, Obama proposed similar securities providing direct interest-payment subsidies targeted at infrastructure, only to see them make little headway in Congress.

Meanwhile, not a single House Republican has signed onto Neal's bill. House Ways and Means Committee Chairman Dave Camp, a Michigan Republican, has made clear in the past he's not a fan of Build America Bonds. In 2010, he called it a "heavily subsidized spending program providing direct payments to state and local governments that issue bonds."

Municipal Skeptics

"It doesn't solve the funding problem," said Joshua Schank, president of the Eno Center for Transportation, a nonpartisan policy research group based in Washington. "If anything, this will cost money."

Wyden said that testimony this month before his committee bolsters his effort. Jayan Dhru, senior managing director for corporate and infrastructure ratings at Standard & Poor's, told the Senate Finance Committee on May 6 that as much as $200 billion a year in additional infrastructure funding could be obtained through private investors.

He told the committee that investors are "well-positioned to fill the void" with approaches like public-private partnerships.

State and local officials may hesitate after the across-the-board federal spending cuts, known as sequestration, that began last year, said Susan Collet, a lobbyist for the Bond Dealers of America in Washington.

"They're worried about proposals that could be subject to the federal government readily clawing back part of the subsidy," said Collet, whose group represents securities firms. "Investors and issuers are going to be more skeptical than last time these proposals were introduced."

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