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Obama Proposes New Muni Bonds for Public-Private Investments.

President Barack Obama is proposing a new class of municipal bonds to spur private investment in U.S. infrastructure projects.

The program, called Qualified Public Infrastructure Bonds, wouldn't expire, and there'd be no cap on issuance, the administration said in a statement Friday. The debt also wouldn't be subject to the Alternative Minimum Tax, which limits the tax benefits and exemptions that high-earning individuals can claim.

"QPIBs will extend the benefits of municipal bonds to public private partnerships, like partnerships that involve long-term leasing and management contracts, lowering the cost of borrowing and attracting new capital," the administration said in the statement. The bonds will serve "as a permanent lower cost financing tool to increase private participation in building our nation's public infrastructure."

The proposal for a new type of security in the \$3.6 trillion municipal market is part of a broader White House plan calling for more investment in roads, bridges and other infrastructure in advance of the administration's budget proposal that will be released Feb. 2.

Building Block

The market contracted in 2014 for an unprecedented fourth straight year as local officials refrained from borrowing even as tax-exempt interest rates were close to generational lows.

The last time the market expanded was in 2010, the final year of the federal Build America Bonds program. The initiative, popular with local officials and Wall Street investors, gave municipalities a subsidy on interest costs for issuing taxable debt to finance infrastructure work.

The new type of debt for public-private partnerships, or P3s, would build upon the \$10 billion private-activity bond market by including funding for airports, ports, mass transit, water and sewer initiatives. There's a \$15 billion limit to issuance of private-activity bonds. The proposed bonds can't be used to privatize public systems or finance privately owned facilities.

America's federal, state and local governments need to spend \$3.6 trillion through 2020 to put the nation's critical systems in adequate shape, according to a 2013 report from the American Society of Civil Engineers. Without higher spending, the group projects the costs of travel delays, power and water outages will reach \$1.8 trillion by 2020.

Alternative Appeal

"The interest in P3s has clearly been growing, and we've seen states in particular launch a lot of these projects," said Robin Prunty, who oversees state credit ratings at Standard & Poor's in New York, said in an interview. "The availability of an attractive alternative with cost-effective financing,

certainly from a strict muni perspective that's a positive."

Obama has made previous calls for increased infrastructure investment since the end of Build America Bonds, which were part of his 2009 stimulus plan. He asked Congress in 2013 to create a national infrastructure bank and recommended a program called America Fast Forward Bonds. He sought the same initiatives last year after they failed to advance in Congress.

Because the new munis would require legislative approval, it's unlikely they'll become reality, said Matt Posner at Municipal Market Analytics.

"MMA suggests clients put the reality of these bonds ever entering the marketplace at a very low probability," Posner, a managing director at the Concord, Massachusetts-based research firm, wrote in a note today.

Tax Threats

The president has also recommended altering the century-old policy of giving a tax exemption to interest on muni bonds. He's recommended a 28 percent cap on income-tax deductions for the wealthiest households since 2011.

The tax break also has faced challenges in Congress amid a push to curb the federal deficit, including from Oregon Senator Ron Wyden, the top-ranked Democrat on the Finance Committee. No proposals have advanced.

While it's unclear how much of Obama's latest initiative may be implemented, the plan for the new bonds is welcome, said Robert Poole, director of transportation policy at the Reason Foundation, a nonprofit in Los Angeles that advocates free markets.

Many people who track public-private partnership deals are concerned that the cap on private-activity bonds will be reached in the next few years, he said.

"Eliminating that cap — mainstreaming level playing-field financing for P3 projects — is huge," Poole said by e-mail.

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