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S&P: Obama's Infrastructure Proposal Could Stimulate Much-Needed Investment.

NEW YORK (Standard & Poor's) Jan. 16, 2015—Municipal issuers in the U.S. may get a new tool to finance infrastructure under a proposal announced yesterday by President Obama. Obama proposed creating a new municipal bond—a “Qualified Public Infrastructure Bond” (QPIB)—in a broad proposal aimed at increasing infrastructure investment. Standard & Poor's Ratings Services thinks this could be a low-cost approach to stimulating much-needed infrastructure investment. But there is a cost associated with it, and as a result extensive deliberation in Congress is likely.

The new proposal follows the administration's Build America Investment Initiative, launched in July 2014.

The QPIB is intended to extend the benefits of municipal bonds to public-private partnerships, with the goal of lowering the cost of borrowing and attracting new sources of capital. While few details are known yet, the proposal is expected to be included in the executive budget to be released in February. We believe the QPIB could benefit capital financing of infrastructure projects by providing a cost-effective vehicle to move a diverse range of projects forward. However, increased debt issuance could increase the leverage of some issuers we rate. Issuers could face downward rating pressure if they are unable or unwilling to maintain margins and liquidity levels. QPIBs would definitely provide a spark to start-up projects, advancing projects that might not have gotten off the ground otherwise. For these projects the rating outcome will ultimately be determined by our assessment of the project's construction risk and the financial resources and contingencies available to the project in case it deviates unfavorably from forecast.

But for now, the big question, in our view, is: will it be approved?

We have previously noted that interest in the public-private (“P3”) approach is growing, and many states are developing programs that combine public ownership with private sector management and operations expertise. The financing structures can be complex and generally have not benefited from tax exemption, but states and other municipal market issuers have found them to be an attractive alternative to deliver large-scale infrastructure projects. If the financing becomes more cost-effective, we expect that interest could grow. Currently, 33 states have authorized P3s and many projects have been financed or are in the planning stages. The U.S. projects have primarily focused on transportation, such as roads, toll lanes, and transit projects. However, the Long Beach Courthouse in California is an example of a social infrastructure P3 project, and other states with active transportation P3 projects are also considering approving legislation allowing social infrastructure P3s. We have also started to see interest at the local level.

There are currently Private Activity Bonds (PABs) available to augment private investment projects, but their scope has been limited in terms of eligible projects and the amount available is capped. Under the White House proposal, QPIBs will expand the scope of PABs to include financing for airports, ports, mass transit, solid waste disposal, sewer, and water, as well as for more surface

transportation projects. Unlike PABs, the QPIB bond program will have no expiration date, no issuance caps, and interest on these bonds will not be subject to the alternative minimum tax. The QPIBs are not expected to be available for privately owned facilities or privatizations of public facilities.

We have frequently said that infrastructure needs in the U.S. — and worldwide -- are very high, and that failure to meet those needs could limit a government's economic competitiveness. In the U.S., investment has been restrained at the state level and for other municipal issuers, as evidenced by lower debt issuance over the past several years. In addition, pay-as-you-go contributions have been restrained by a wide range of other cost pressures and because less revenue was available following the Great Recession and the slower than average recovery.

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