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Obama Puts $1.3 bln Price Tag on New Infrastructure Muni Bond Plan.

Feb 2 (Reuters) – President Barack Obama on Monday put an initial four-year price tag of $1.3 billion on his proposal for a new type of municipal bond to spur public-private partnerships for infrastructure projects.

In his $3.99 trillion U.S. budget proposal, the tax-exempt Qualified Public Infrastructure Bonds (QPIBs) would cost $4.8 billion over about the next decade, from 2016 through 2025.

The bonds are the latest proposal from Obama for financing fixes for the nation's crumbling infrastructure. About $3.6 trillion is needed through 2020 to maintain U.S. infrastructure in good repair, according to numbers from the American Society of Civil Engineers. Only about $2 trillion of that money is likely available, leaving a $1.6 trillion funding gap, the group estimates.

The QPIBs would build on the existing idea of Private Activity Bonds (PABs), a type of U.S. municipal bond.

PABs are already used to for some public-private partnerships, including publicly owned roads, bridges and tunnels operated by private entities. The bonds are generally rated in the triple-B range.

Issuers can only sell a limited number of PABs each year. The QPIB program would not have such a cap and interest would not be subject to the alternative minimum tax.

"Congress is not going to authorize an unlimited issuance of tax exempt bonds if the IRS comes back and says it will cost a great deal of money," said Phil Fischer, managing director of municipal research at Bank of America Merrill Lynch. "Someone is going to have to pay for it."

Another program to finance infrastructure, called Build America Bonds (BABs), was popular but lasted just two years, expiring in 2010. The taxable debt was created in the 2009 economic stimulus plan and pays issuers a rebate equal to 35 percent of interest costs. Critics said the program was too expensive to extend for another 10 years at an estimated cost of $7.46 billion.

As he has done in past budgets, Obama again proposed America Fast Forward bonds, which would be similar to BABs.

Obama also proposed stripping tax exempt status from bonds used to finance professional sports facilities, which would save the federal government $542 million over nine years.

Altogether, incentives for infrastructure investment would total $3.5 billion over the next four years, or $11.7 billion through 2025, the budget said. His six-year plan for funding highway and transit projects totals $478 billion.

Infrastructure is one of a few areas where Republicans, who control Congress, have said they could find room for compromise with Obama, a Democrat.

Washington lobbying group Bond Dealers of America said it supports Obama’s two new bond programs “as long as they serve as a supplement to traditional tax-exempt bonds and not a replacement.”

The group continues to oppose Obama’s proposal, presented again on Monday, to cut tax breaks on municipal bond interest for high-income earners to 28 percent from 35 percent.

BY HILARY RUSS
Mon Feb 2, 2015 5:33pm EST

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