

# **Bond Case Briefs**

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## **Why Munis Are So Important For Infrastructure Projects.**

WASHINGTON - The federal government and Congress need to play a more active role in securing infrastructure funding and protecting the tax-exempt status of bonds, said Jim McIntire, Washington state treasurer and president of the National Association of State Treasurers.

In a recent interview with The Bond Buyer, McIntire said that the muni bond market has been hampered due to stresses on state and local budget revenues. As tax reform proposals begin to surface in Congress, he said he wants to remind lawmakers that the nation's infrastructure, including water and sewer systems, roads and schools are in need of "serious repair."

"Repairing these systems and maintaining them is not something you can do easily or quickly. It takes a lot of planning and quite a bit of investment," McIntire said. "It will take planning and broader policy thinking at the federal level."

"It's not just local in scope," he added. "We're talking about transportation - we all need to get goods across state lines. We have a common interest in getting states and localities to invest, but we need a federal frame for that."

NAST leaders in February sent a letter to members of Congress urging them to support tax-exempt bonds as a key source of infrastructure funding in the wake of President Obama's proposed \$4.1 trillion 2017 budget that would tax the value of tax exemption at 28%.

NAST senior vice president and Oklahoma state treasurer Ken Miller said in the letter, which had more than 600 signatures from state and local officials as well as organizations, that a cap would place more of an onus on taxpayers to pay for projects in their communities.

"Municipal bonds have long been a vital source of funding for states, cities and counties to pay for essential infrastructure needs," Miller wrote. "Removing the tax-exempt status of these bonds for select taxpayers would cause a devastating ripple effect."

McIntire said in the interview that capping the value of the tax exemption for municipal bonds would raise borrowing costs for bond issuers as well as costs for taxpayers on state and local government projects. State and local governments also would have to use revenue from sales and property taxes to fill that gap, he added.

McIntire said there is broad bipartisan consensus among his fellow state treasurers around the issue of protecting the tax-exempt status of municipal bonds.

"Three-quarters of infrastructure in this country is financed by state and local governments and we are a major player in that," he said. "Almost all of that is financed with municipal bonds."

McIntire made his remarks just before the start of Infrastructure Week on Monday, which includes a series of panels, initiatives and other events across the country that highlight the importance of funding infrastructure projects.

The event has more than 100 government, business and labor affiliate organizations, including the muni bond advocate group Municipal Bonds for America, as well as dealer groups Bond Dealers of America and the Securities Industry and Financial Markets Association.

The theme for this year's Infrastructure Week is "Infrastructure Matters", with an emphasis placed on "roads, bridges, rails, ports, airports, pipes and the power grid," according to the event's website.

One positive for infrastructure is that Flint, Mich., which has been plagued by a water crisis for more than two years, may be aided by the Water Resources Development Act of 2016, which was passed by the Senate Environment and Public Works Committee last month. The bill, which is still pending in the Senate, would provide \$1.4 billion of federal funding over the next five years to "small and disadvantaged" communities comply with the Safe Drinking Water Act.

The Flint provisions had originally been included in the long-stalled Senate energy bill, but were removed in April.

Sen. Mike Lee, R-Utah, had placed a hold on the energy bill because of concerns the Flint provisions would prove too costly, suggesting instead Michigan tap into its \$386 million in rainy day funds or its \$575 million surplus from 2015 rather than seek federal funding.

McIntire lauded the five-year Fixing America's Surface Transportation Act that was enacted in December, but said federal leadership is still needed on how to finance transportation systems that can no longer be solely reliant on a gas tax because it has flattened or declined on a per capita basis.

Rural areas, he said, oftentimes don't have the rate base to afford, maintain and upgrade water systems. Older urban areas that have not experienced much economic prosperity or growth may also lack the necessary tax base rate to make necessary infrastructure improvements, he added.

Rapid growth areas like Seattle in McIntire's state have their own set of infrastructure challenges that require tax-exempt financing. Washington had a population increase of roughly 150,000 people last year, many of whom moved in from out of state, which places more of a burden on state schools and roads.

"That's like adding another small city," he said. "It's about keeping up with those needs."

## **The Bond Buyer**

By Evan Fallor

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