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The Tax Bill Would Take Big Bite Out of the Muni Market.

- Private activity bond prohibition would hit nonprofits hard
- Reform could reduce annual sales by up to 40 percent

To appreciate the enormity of the Republicans' assault on the municipal debt market, you have to go to the Municipal Securities Rulemaking Board's glossary and look at the definition of "Private Activity Bond."

And there you'll find bonds sold for airports, docks and "certain other transportation-related facilities; water, sewer and certain other local utility facilities," single- and multi-family mortgages, blight redevelopment and student loans.

And then: 501c3s, which means museums, hospitals, colleges and universities.

There had been at least some confusion on this point. On Friday I read a research note that questioned whether 501c3 nonprofits were included. After all, the list of bond "reforms" in the new tax bill only listed prohibitions on tax credit bonds, stadiums, private activity bonds and advance refundings, without specific definitions. But the statutes alluded to in the text make it clear that it would affect all of the above.

When the bill was unveiled on Thursday, I estimated that it would eliminate between 20 percent and one-third of the market. That was an unscientific calculation, because munis resist categorization.

There are advance refundings, and then there are issues that combine advance and current refundings. There's higher education, but you can't combine that with advance refundings, because some of those higher ed deals were advance refundings, so there'd be some double counting. I wasn't the only one to encounter this difficulty.

But what I will say now is that the new tax proposal would appear to blow up at least one-third of the municipal market, and possibly as much as 40 percent, depending on the direction of interest rates.

And then I couldn't help but thinking of Santiago's fish in "The Old Man and the Sea."

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