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New House Budget Chair Champions Bond Proposals.

WASHINGTON – The new Democratic chairman of the House Budget Committee wants Congress to consider two proposals that would have a significant impact on the municipal bond industry.

Rep. John Yarmuth of Kentucky wants to end automatic across-the-board budget cuts that include a reduction in the subsidy for direct-pay Build America Bonds, he told The Bond Buyer this week.

He also favors creating a new category of 40-year Treasury bonds to capitalize a new national infrastructure bank with an infusion of $300 billion.

Both proposals are big lifts politically. But Yarmuth – a former Republican turned Democrat – thinks they are worth consideration.

“Nobody likes sequestration,” Yarmuth said in an interview, referring to the automatic spending cuts that are part of the Budget Control Act of 2011. This forced austerity on federal spending is disliked by members of both major political parties.

The Bipartisan Budget Act of 2018 suspended many of the automatic spending cuts for fiscal 2018 and 2019, but not the BABs cuts which are 6.2% in fiscal 2019.

“The absolute elimination of the risk of sequestration of direct pay bonds would be a step in the right direction,” said Emily Brock, director of the federal liaison center for the Government Finance Officers Association. “I think his statement goes a long way to show that lawmakers understand the next iteration, if successful, should fully address the risks that accompanied Build America Bonds for issuers as a result of sequestration.”

Yarmuth also plans to introduce legislation next month to fund a national infrastructure bank with a new category of bonds he is calling Rebuild America Bonds.The $300 billion in 40-year bonds would be sold by the federal government at a two percentage point premium over Treasuries for purchase by only pension funds to help them reduce their underfunding problems. The bonds would have to be held a minimum of 10 years.

The idea for Rebuild America Bonds came out of a discussion Yarmuth said he had with a businesswoman in his hometown of Louisville about infrastructure and the crisis faced by state pension funds. Kentucky’s state pension plan is among the 10 most underfunded in the nation.

The biggest problem in creating the bonds, according to Yarmuth, will be the cost. “Legislatively the one big problem we face is that in our initial talks with CBO Congressional Budget Office they would score it as a huge cost,” he said.

Build America Mutual released a one-page commentary on Jan. 7 saying that the attractiveness of Rebuild America Bonds will vary based on the status of each pension fund.

“While the option to invest in higher-yielding risk-free securities could improve the average risk profile of public pension funds nationwide, it would not be a universal benefit,” wrote Les Richmond,

BAM's vice president and actuary. BAM would still view the holding of the new RABs "in the context of an individual plan's investment risk and liquidity needs," he wrote.

How much support it will get among lawmakers in Congress is unknown. Much of the initial attention on infrastructure financing has been on House Transportation and Infrastructure Committee Chairman Peter DeFazio's attempt to build political support for an increase in the federal gasoline tax.

Mayor Steve Benjamin, of Columbia, S.C., who is president of the U.S. Conference of Mayors and the Municipal Bonds for America Coalition, said he wants to learn more about Yarmuth's proposal.

"We encourage innovation, but not to the detriment of tax exempt municipals," Benjamin said, adding that he "would be happy to provide advice and counsel" to Yarmuth on his proposal.

The House Budget Committee will begin work in the coming weeks on a fiscal 2020 budget resolution which Yarmuth hopes will include an end to sequestration and also will include fiscal 2021.

Yarmuth earlier this month told the newspaper Roll Call the budget resolution will call for raising the corporate tax rate to 28% from 21% to claw back some of the tax revenue lost under the 2017 Tax Cuts and Jobs Act.

Yarmuth said he expects his fellow Kentuckian Mitch McConnell, the Senate Republican Majority Leader, to support a two-year budget resolution. But Senate Republicans are virtually certain to oppose a budget resolution calling for partial repeal of their tax cuts.

A spokesman for Senate Budget Committee Chairman Mike Enzi, R-Wyo., declined comment on the sequestration issue.

Budget resolutions are a blueprint for spending that are used by the appropriations committees in the House and Senate to set budgets for each department and agency.

The last round of negotiations over a joint congressional budget resolution involving both the House and Senate began in 2017 didn't end until early 2018.

His proposal is under the jurisdiction of the Ways and Means Committee and is expected to compete with other proposals for improving the nation's infrastructure.

Yarmuth said he wants to pattern the infrastructure bank component of his Rebuild America Bonds bill after a bill authored by Rep. Rosa DeLauro, D-Conn., which had 87 cosponsors in the previous legislative session. All of the sponsors were Democrats and the Republican-controlled House did not consider it.

DeLaurore introduced her bill earlier this month. It's modeled after the European Investment Bank and would leverage private sector investment from institutional investors and pension funds. The infrastructure bank would issue Public Benefit Bonds to fund projects, and make payments to help states and localities cover their bond interest payments.

Earlier bipartisan discussions about capitalizing a national infrastructure bank centered on using the revenue from the repatriation of overseas profits made by U.S. companies. But that possibility was eliminated when Republicans used the repatriation revenue to help pay for the 2017 tax cut.

Yarmuth hopes his Rebuild America Bonds will be considered as an alternative financing option.

By Brian Tumulty

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