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The Bond Buyer Op-Ed: How Do We Close the Infrastructure Gap? Restoring Advance Refunding Is a Start.

America faces an extraordinary infrastructure deficit. With existing federal infrastructure programs failing to meet current demand, the U.S. is continuing the troubling trend of under-investment in this area and risks substantially adding to the financial burdens of state and local governments.

This will only lead to further delays of investment in and maintenance of critical public projects, including highways, bridges, hospitals, airports, schools, water and sewer systems.

Prior to 2018, one way to help fund capital improvement and infrastructure projects was using tax-exempt advance refunding bonds (or advance refundings). This important financial-management program allowed state and local governments to save billions in interest costs by using proceeds from one bond issuance to essentially pay off another outstanding bond in advance of its call date. Savings were achieved because the new bond was issued at a lower interest rate than the original obligation.

By reducing their debt service expenses through advance refundings, states and localities were able to free up their borrowing capacity for new investments in infrastructure and other important public projects, in turn boosting their local economies with the creation of new jobs and making public services more affordable. This is much like homeowners refinancing mortgages to a lower interest rate.

State and local governments can no longer access cost savings through this valuable financial tool. As most in the industry know, the Tax Cuts and Jobs Act of 2017 eliminated advance refundings. We estimate state and local issuers are currently forgoing about $4 billion of present-value savings annually.

At SIFMA, we believe it is critical to close the infrastructure financing gap and it is imperative to restore and create additional vehicles to assist in resolving this need.

Preserving the tax-exemption, which is the financing mechanism for the clear majority of infrastructure projects that state and local governments undertake, is crucial. Further, as described above, we strongly support restoring the ability of state and local governments to advance refund their securities, which will help them efficiently manage their financial obligations.

But we need to do more.

The challenges of our national infrastructure are so complex that a single solution is not enough.

A comprehensive expansion of federal investment in infrastructure should include the authorization of a new direct-payment bond program and an increase in the volume cap for private activity bonds. An expansion of “bank qualified” tax-exempt bonds would support infrastructure investment in small and rural communities that may have difficulty accessing the capital markets.

Meaningful public-private partnerships (P3) can also be a potential important component, leveraging our capital markets for creative financing options through municipal bonds.

Initiatives for infrastructure finance should recognize the need for a partnership among federal, state and local governments as well as private investors and developers. Tax credits for equity investors and availability of tax-exempt financing for P3 projects as exists for traditional municipal bond-financed initiatives are other useful options.

Simultaneously, we are exploring how we can make existing investment dollars go further. Innovative approaches like design-build enable us to do just that.

The municipal bond market has long been a key component of successful infrastructure project financing. The recent dialogue between Administration and Congress around this issue represents an important step toward bringing our infrastructure into the 21st century.

With the current infrastructure crisis, restoring advance refundings and implementing other tools identified above, we can begin to close the financing gap and restore our nation's infrastructure.

This week, May 13-20, is the seventh annual Infrastructure Week – an opportunity to highlight and continue the important national conversation on the need to revitalize, modernize, and invest in infrastructure. Let's #BuildForTomorrow. Starting now.

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DATE: May 17, 2019

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