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How State Bond Banks Could Supercharge Fiscal Federalism.

With an expanded role, they could serve as an efficient conduit between local governments of all sizes and federal financial resources for revenue shortfalls and infrastructure.

The COVID-19 pandemic has hit states, counties, cities, school districts and other jurisdictions and public agencies like a financial tidal wave. In March, the municipal bond market became fiscal flotsam. Fortunately, the Federal Reserve System and Congress acted more swiftly and decisively than ever before and built a makeshift breakwater.

Most Governing readers are well aware of the multi-trillion-dollar federal bailouts of large and small companies, which were funded by Congress and implemented through the Treasury Department and the Federal Reserve. But some may not know that the Fed also surgically injected unprecedented liquidity into the municipal bond market. Public officials at the state and local level need to learn how this works and what it portends for a more resilient future in muni finance. Then the opportunity to fully leverage fiscal federalism becomes more obvious.

State bond banks, which consolidate local bond issues to garner better interest rates and lower issuance costs, could supercharge the Fed's municipal-market operations and kickstart local infrastructure projects whenever Congress opens its construction checkbook. But to function as hubs in the intergovernmental finance network, the bond banks would need to expand their charters.

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