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Wicker, Bennet Introduce American Infrastructure Bonds Act.

U.S. Senators Roger Wicker, R-Miss., and Michael Bennet, D-Colo., today announced the introduction of the "American Infrastructure Bonds Act of 2020," legislation that would create a new class of "direct-pay" taxable municipal bonds to help struggling governments finance critical public projects in the wake of the coronavirus pandemic. The senators' proposed "American Infrastructure Bonds (AIBs)" would improve upon the model of "Build America Bonds (BABs)" that were issued after the 2008 financial crisis to attract more investment in public infrastructure.

"Empowering our local leaders to start important infrastructure projects is a proven, cost-effective way to help our communities emerge from severe financial hardship with assets that provide value to the area for years to come," Wicker said. "The American Infrastructure Bonds Act of 2020 would improve upon previous efforts to expand investment in the state and local bond market by increasing flexibility for communities and adding assurances for the bondholder."

"This bipartisan proposal will support locally-driven efforts to revitalize our infrastructure, create jobs, and improve quality of life in communities across Colorado," said Bennet. "American Infrastructure Bonds are a proven, successful model for drawing much-needed investments that are critically important for creating stronger and more resilient communities – from improving roads, bridges, public transit, and tunnels to renovating hospitals and school buildings."

The senators' legislation would allow state and local governments to issue taxable bonds for any public expenditure that would be eligible to be financed by tax-exempt bonds. These bonds could be used to support a wide range of infrastructure projects, including roads, bridges, water systems, and broadband internet. The bonds would be modeled as a "direct-pay" taxable bond, with the U.S. Treasury paying a percentage of the bond's interest to the issuing entity to reduce costs for state and local governments. These payments would encourage economic recovery from the coronavirus pandemic by subsidizing AIBs issued through 2025 at a higher percentage of the bond's interest. The payments would revert to a revenue neutral percentage for projects after 2025, reducing long-term costs for the federal government and providing a permanent financing option for localities.

In plain terms, the senators' legislation is expected to boost investment in infrastructure and other important public projects at a critical time by providing affordable access to the large taxable bond market. The higher interest rates offered by the taxable AIBs increase the expected value of the bonds to some types of investors, such as pension funds and foreign investors, who do not receive the tax advantage from traditional tax-exempt bonds. Expanding the market for municipal bonds increases private investment in the public sector and equips local governments with more options for financing projects. Importantly, AIBs would incentivize private capital to invest in rural areas, where financing can often be harder to secure.

The senators' legislation provides important flexibilities to state and local governments. With AIBs, local communities can develop their infrastructure strategically without the burden of a centralized bureaucracy or the constraint of a state cap on allocation. As an additional benefit, the payments from the U.S. Treasury to issuers would be exempt from sequestration, which would increase the confidence of the bondholder and bond issuer alike.

The American Infrastructure Bonds Act of 2020 is supported by: The National League of Cities, the National Association of Counties, the Government Finance Officers Association, the American Public Gas Association, the National Association of Bond Lawyers, the Bond Dealers of America, the American Society of Civil Engineers, the American Council on Education, the Securities Industry and Financial Markets Association, and the American Planning Association.

For a one-page explanation of the legislation click here.

By Yall Politics Staff

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