# Bond Case Briefs

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## Three Measures in the House's Infrastructure Package Most Fiscally Important to Cities and Towns.

*Through NLC's Rebuild With Us campaign, local leaders are asking Congress to pass a comprehensive infrastructure package that steps up federal support for transportation, water, broadband, workforce, and more. On July 1, the U.S. House of Representatives passed the Moving Forward Act (H.R.2), which makes significant investments to support cities' infrastructure requests, but Senate action will be needed. This is the fourth in a series examining infrastructure components of the Moving Forward Act focused on finance priorities.*

On July 1, 2020, the House passed The Moving Forward Act (H.R. 2), a $1.5 trillion infrastructure package now awaiting action in the Senate. As Chair of the NLC Finance Administration and Intergovernmental Relations (FAIR) Committee, I was pleased to see several legislative priorities we've advocated for prior to the passage of the Tax Cuts and Jobs Act (TCJA) in 2017 included in the bill. Relaunching the Build America Bonds program, restoring the tax-exempt status for Advance Refunding Bonds, and extending the New Market Tax Credit are all priorities that will improve the fiscal health of localities across the nation. As city leaders, and as we grapple with the costs associated with COVID-19, we must champion H.R. 2. Our constituents are counting on us.

A critical priority of the infrastructure package is relaunching the **Build American Bonds** (BABs) Program. Favorable especially to local and state government issuers, BABs are taxable municipal bonds that previously included federal tax credits or subsidies for either the bondholder or the issuer. Seen widely as an alternative to traditional tax-exempt financing, BABs allow for decreased borrowing costs with increased savings for the locality.

The program expired in 2010, but as of 2019, nine Texas cities had BABs outstanding, with a total principal exceeding just over $2.1 billion with total payments peaking at $4.01 billion. Among these nine Texas cities, three are in the top ten most populous cities in the United States (Houston, San Antonio, and Dallas). Also included is San Marcos, frequently named among the nation's fastest growing localities. These cities and their respective regions are experiencing tremendous population growth – and that's just in Texas.

It's critical that we as city leaders continue to make infrastructure development a policy priority interconnected with broader issues such as quality of life and equity. With an increasing demand, the fiscal bill for much of our current infrastructure came due years – and in some cases, decades – ago.

For small and large issuers alike, BABs offset many of the fiscal challenges communities across the nation saw as a result of the Great Recession. Citizens, weary of traditional markets, turned to the municipal bond market, and local governments turned to BABs to attract investment to offset costs associated with large-scale investments in our infrastructure. BABs are a fiscally responsible tool we must bring back.

**Advance Refunding Bonds** have been a longstanding tool in local governments' tool chests as well, allowing issuers to take advantage of lower interest rates while minimizing borrowing costs. Here in Houston, the city has realized more than $900 million in present value savings in the last decade alone due to advance refundings. With the restoration of the tax-exempt status for advance refundings, those savings could be even higher.

In 2017, the Tax Cuts and Jobs Act (TCJA) removed the tax exemption for savings generated as a result of advance refundings. Similar to how a homeowner would refinance their home with better interest rates, localities should be able to take advantage of the same benefit. Especially at a time when local governments are staring down rising costs associated with COVID-relief, among other large costs, restoring the tax-exempt status of Advance Refunding Bonds is a critical step in improving the fiscal health of our communities big and small.

Created in 2000 to attract private capital to economically distressed communities, the **New Markets Tax Credit** (NMTC) provides investors with a Federal tax credit that finance businesses such as manufacturing, food, retail, housing, health, technology and many others in low-income communities.

Since 2003, more than $27 billion in investments have been deployed to communities and neighborhoods most in need. The Community Development Financial Institutions Fund (CDFI Fund) estimates that for every dollar invested by the federal government, more than $8 in private investment is realized. With roughly $1.9 billion in annual federal spending dedicated to NMTC, the multiplier effect of this investment easily offsets the benefits realized by the community as a result of tax obligations forgiven for the new investor. This too is a positive cost-benefit tool intended to incentivize private investment and should be extended permanently.

As the Senate deliberates on the House-passed infrastructure package, many local leaders are still responding to everyday challenges in their communities. From addressing annual budget shortfalls, to funding retirement benefits and rising service demand, our cities and towns are facing a new reality: the pandemic caused by COVID-19. Many of our localities are facing fiscal hardship, and it is our Senators' obligation to our shared constituencies to pass this tangibly beneficial legislation.

**National League of Cities**

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