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The 'New Normal' Requires Enhanced Municipal Finance Tools.

The Great Pandemic has entered its second year with hints that its U.S. spread may finally be on the decline.

The new normal for the U.S. economy, and its impact on state and local governments, has yet to fully emerge, but is likely to be more challenging than current sanguine governmental revenue reports suggest.

Prudent behavior combined with an expanded vaccination effort offers some hope of living without fear of infection later in the year. However, this once-in-a-century calamity is likely to leave a meaningful scar.

While acknowledging the critical assistance in the federal relief bill, yet in anticipation of the uncertainty ahead, further Congressional action is essential to provide state and local governments with additional tools to manage debt programs to meet the needs of their constituents.

Just one example relates to commercial and retail real estate, its current valuation, and the previously anticipated taxes related thereto. The New York Times reports the observation of Moody's commercial and real estate group head Victor Calanog: "companies were dragged kicking and screaming to the world of letting people work remotely," adding "the genie is out of the proverbial bottle."

While that may be good news for millions of commuting employees, it suggests a very different level of need for commercial real estate with decreased valuations likely throwing into question assumptions related to property tax-supported bonds.

Moreover, the increasingly pronounced prospects of the messy and sometimes dangerous consequences of a changing climate compounds the case to give state and local government additional means to access capital to respond to demands associated with aging infrastructure and climate related stress.

Extreme cold weather in Texas left millions without electricity for days and, for a longer period, water service. The 2018 Camp Fire displaced 50,000 people and burned 19,000 structures in Paradise, California. Both resulted in scores of deaths and billions of dollars in property damage.

Within this decade there is an urgent need for infrastructure programs that both retool an economy away from carbon dependence and adapt communities to the portion of climate change consequence that may be too late to forestall.

Three proven and familiar instruments would assist state and local government to finance these imperatives:

Reauthorize advanced refundings

Altered economic circumstances often make necessary the restructuring of existing municipal debt programs. Congress should reauthorize this-type financing to enable states, cities, and other local governments to retool their debt programs for current realities with the option of using tax-exempt debt.

Create a new Build America Bond-styled taxable debt program
A subsidized taxable municipal bond program was an important innovation of the last significant US financial crisis—the Great Recession. The program broadened the access to capital, while also enhancing liquidity to investors. The limit to the investor universe inherent to tax-exempt securities was meaningfully addressed and municipalities gained access to capital worldwide. Note that any new iteration of this tool should include an assurance the federal provision for making the taxable rate equivalent to that of tax-exempt issuance will not be altered after issuance.

Expand private activity bonds for climate essential infrastructure
The transition to a net zero carbon economy by 2050 is the consensus target for government and business. The heavy lift toward that goal begins this decade. For example, most major car manufacturers are converting their products over the next few years to being powered 100% by electricity. To support this change, an expansive national system of charging stations needs to be created. Making eligible private activity bonds for this purpose will encourage this system's rapid development.

The municipal market in any given year is responsible for about 75% of the new-money spend on U.S. infrastructure. To meet this obligation, enhanced financing solutions are needed to address outsized problems related to recovery from the unanticipated pandemic and the unprecedented challenge of global warming.

The Bond Buyer

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