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Build America Bonds May Stage a Comeback in Biden's Infrastructure Plan.

March 31 (Reuters) – Build America Bonds may return after a 10-year absence as part of U.S. President Joe Biden's $2.3 trillion plan to tackle the nation's infrastructure needs, although some past issuers are wary about selling more of the federally subsidized debt.

The popular bond program was created under the Obama administration as part of an economic stimulus law, allowing states, cities, schools, airports, mass transit agencies, and others to sell for a limited time taxable debt with the federal government contributing 35% of interest costs.

Between April 2009 and when the authorization expired at the end of 2010, $181.5 billion of the so-called BABs were issued to fund construction projects aimed at helping the nation recover from the financial crisis.

Over the last 10 years, BABs on average have outperformed corporate bonds, U.S. Treasuries, and municipal bonds due to factors including the debt's hefty coupons and scarcity.

Now the $3.9 trillion U.S. municipal bond market is buzzing with speculation that with Democrats in control of the White House and the U.S. Congress, legislation for Biden's plan will bring BABs back.

"Build America Bonds successfully delivered significant savings to New York City, and if the Biden administration reintroduces the program, it could bolster the city's economic recovery from the pandemic," the city's comptroller Scott Stringer said in a statement.

U.S. Transportation Secretary Pete Buttigieg told CNBC late last week that BABs show "promise."

"Democrats have been trying to relaunch BABs since BABs expired," said Matt Fabian, a partner at Municipal Market Analytics, adding that Congress was likely to leverage bond-related ideas like BABs that were already discussed or included in past legislation.

Katie Kramer, vice president of the Council of Development Finance Agencies, said BABs' reinstatement was part of a big infrastructure bill the House passed last summer and that House Ways and Means Committee Chairman Richard Neal "is very fond of that particular tool."

Fabian cautioned that Republican opposition to BABs could be a problem in the future if the party returns to power and interferes with the program. Another concern is that the subsidy has been subject to across-the-board federal spending cuts known as sequestration that were as high as 8.7% in 2013.

"I would support giving communities the choice to use direct subsidy bonds – another tool in the toolkit, as they say, with the condition that they are protected from sequestration and that the protections are binding," said M. Elizabeth Reich, chief financial officer of the City of Dallas, Texas.

She said sequestration created mid-year budget problems for many issuers including Dallas, which lost more than $4.5 million in credit for debt service between 2013 and 2019.

Wisconsin, which sold $1.1 billion of BABs, would have been better off issuing fewer BABs and more tax-exempt bonds due to the impact of sequestration, according to David Erdman, the state's capital finance director.

"We'd take a look at (BABs) if there were some protections," he said. "But are protections really protections? Laws can always be changed."

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