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Supporters Hope for Build America Bonds Revival in Infrastructure Plan.

It won't likely be hard to find buyers for the program, designed to leverage increasing amounts of private funding for public works via taxable municipal debt.

The push to revive the federally subsidized Build America Bonds program as part of massive infrastructure legislation has investors and issuers champing at the bit.

Their appetite for the bonds, or BABs, was immense when they were briefly issued more than a decade ago by states, cities and local governments unable to finance their projects at reasonable rates during the Great Recession.

But with Uncle Sam's backing, they could. Treasury Department data showed rapid uptake, with issuance reaching one-fifth of the total municipal bonds market barely a year after launching in April 2009.

Supporters expect more of the same if the BABs program gets fresh life — supplying a durable financing tool to cover some costs in President Joe Biden's $2 trillion infrastructure plan.

"Market forces and economics have not changed," said Aaron Klein, senior fellow in economic studies at the Brookings Institution. "If BABs were brought back, they would work well."

It won't likely be hard to find buyers for the program, designed to leverage increasing amounts of private funding for public works via taxable municipal debt.

Investor draw: Unlike more traditional state and local municipal bonds, which provide tax-free interest to investors, BABs would be part of the increasingly popular taxable municipal debt market. Because of their taxable nature, this type of debt, known as tax credit bonds, offer higher interest rates, a factor that draws in a wide array of investors for whom tax-free municipal issuance is much less attractive.

The popularity is evident in data from Charles Schwab Corporation last year, which showed about 30 percent of all new municipal bonds that were issued were taxable, compared to nearly 10 percent of all issuance historically.

"There is incredible demand for yield in this market and, depending on potential structural changes, BABs could prove incredibly attractive to investors," said Isaac Boltansky of Compass Point Research & Trading LLC, an investment firm.

When initially available, BABs appealed to pension funds — which don't pay taxes anyway — hence their general disinterest in tax-free municipal bonds. Taxable municipal debt also makes good sense for insurance companies; some foreign investors for whom traditional municipal debt isn't as good an investment; nonprofits; individuals with moderate incomes; and other individuals and institutions that don't benefit from tax-exempt interest income.

Policy appeal: Drawing in an entirely new class of investors broadly benefits the state and local debt market by increasing investor competition, letting issuers lower the interest rates they offer on all their debt across the board though still at appealing-enough levels to attract buyers, Klein said.

Treasury research from 2010 shows that BABs saved issuers around $20 billion relative to traditional tax-exempt municipal debt, and they lowered costs even for state and local governments that stuck solely to traditional financing through tax-exempt bonds.

The 35 percent federal subsidy rate in 2009 and 2010 also reduced costs for the government entities that financed projects through the program. Overall, BABs proved positive for issuers' bottom lines, said Mark Ritacco, government affairs director for the National Association of Counties.

He said the group's members have begun pressing lawmakers and the Biden administration to bring back BABs as one of multiple avenues for funding infrastructure. The U.S. Conference of Mayors has staked out a similar position supportive of BABs or similar bonds as a supplement to tax-exempt bonds, though not as a replacement.

"Tax credit bonds and direct subsidy bonds are an excellent complement to traditional tax-exempt municipal bonds," the mayor of Columbia, S.C., Steve Benjamin, recently testified before the House Ways and Means Select Revenue Measures Subcommittee.

Fresh opportunity: The program was established on a temporary basis as part of former President Barack Obama's American Recovery and Reinvestment Act in 2009 and ran through 2010. It was meant to help state and local governments borrow more easily during the recession that followed the financial crisis, and more than $181 billion worth were issued in all 50 states, the District of Columbia and two territories, far exceeding internal projections.

But after Republicans took back House control in 2011, they let the BABs program expire.

Backers like Klein, a Treasury official when the BABs program existed, have argued for their renewal ever since, and an opportunity appears at hand as Biden presses massive infrastructure legislation. BABs would provide a direct interest subsidy to support infrastructure projects financed by state- or locally issued debt, potentially at no net cost to the federal government, depending on the subsidy rate.

Biden didn't include BABs in the initial outline of his proposal, but members of Congress key to advancing Biden's agenda are certainly interested. House Ways and Means Chair Richard Neal (D-Mass.) listed BABs among his own priorities for the infrastructure plan earlier this month, and his counterpart, Senate Finance Committee Chair Ron Wyden (D-Ore.) has regularly praised BABs for more than a decade.

"Build America Bonds were an overwhelming success in the Recovery Act," Wyden said. "I'm incredibly proud of that program, and a similar financing structure will be part of the conversation as we move forward."

Neither he nor Neal have divulged details of their ideas for reviving BABs, but parameters in the previous program could be tailored depending on desired outcomes. For example, a federal subsidy rate of 28 percent would make them revenue neutral for the federal government, Klein said.

Neal said talks are still underway to settle certain particulars like the subsidy rate and the potential to scale it up or down. But past experience indicates a winning formula is achievable, he said.

"The Build America Bond investment was performative in the downturn," Neal said.

However, critics have pointed out that the revenue-neutral projection assumes no subsidized bonding would have otherwise happened. Others said BABs were a solution to a problem in 2009 and 2010 that doesn't currently exist, given the larger degree of municipal revenue stability during the pandemic compared to the Great Recession, as well as billions of dollars in state and local transportation funding provided in pandemic relief packages over the past year.

"This is a different era than when Build America Bonds were created to fund infrastructure when the financial crisis constrained investment," said Rep. Kevin Brady (R-Texas), the GOP's top Ways and Means member.

Brady also criticized their original iteration as "overly rich subsidies." He said today's infrastructure conversation should focus on "better approaches to attract private investment, rather than exclusively relying on state and local financing, or tax increases that land on the backs of American workers."

A Treasury spokesperson declined a request for comment, but investors predict something will come of the talks.

"I think we will see some debates over the amount of the subsidy and other programmatic particulars, but the BAB structure is something that should be welcomed by investors, municipalities, and many on Capitol Hill," Boltansky said.

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By AARON LORENZO

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