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Congress Urged to Use Muni Tax Breaks to Help Black Colleges.

- **House panel Wednesday focused on muni market's social impact**
- **Idea, proposed before, backed by Wall Street trade groups**

Here's one way the federal government could help America's black colleges and universities: expand the market for their tax-exempt bonds.

Christopher Parsons, a University of Southern California finance professor who found that such schools face higher costs in the bond market than others, told a panel of the House Financial Services Committee Wednesday that making their debt exempt from all state and local income taxes nationwide would help reduce their financing bills.

That step, which is backed by Wall Street trade groups, would broadly expand the buyer base for their bonds beyond their home states, largely in the U.S. south. Municipal-debt investors typically buy bonds from local borrowers to ensure that the federally tax-exempt income isn't taxed by the state either.

"The effect of this policy would be to remove the tax disadvantages an investor living in, for example, New York or California currently faces when potentially investing in an HBCU-issued bond from another state," Parsons said at a hearing focused on the role of the municipal-bond market in economic, racial and social justice.

The tactic would significantly expand the pool of potential bond buyers nationwide, including to states such as California and New York where the higher tax rates may leave investors willing to accept lower yields than investors elsewhere. Such tax treatment helped to create a nationwide market for Puerto Rico's debt.

The Securities Industry and Financial Markets Association supports extending the tax-exemption for the historically Black schools, board member Gary Hall, a partner at underwriter Siebert Williams Shank & Co., testified during the hearing. He said it would increase demand, result in better pricing and fit with the market's "strong appetite" for social-impact bonds, a subset of the environmental, social and governance market.

President Joe Biden has pushed for greater funding for historically black colleges and universities, many of which were contending with sliding enrollment and financial pressures even before the pandemic shutdowns hit Black Americans disproportionately hard. The spending plan that Biden unveiled on Wednesday included a \$39 billion program to subsidize tuition for students from families earning less than \$125,000 at HBCUs and related institutions, among other measures.

The idea of expanding the tax breaks for buyers of bonds sold by such schools was previously proposed in Congress but failed to advance. The Bond Dealers of America, another securities industry lobbying group, said it's in favor of it.

“HBCUs traditionally have faced hurdles accessing public and private market financing as efficiently as some other peer institutions,” the group said in a statement to the subcommittee. “HBCUs play a vital role in our higher education system, and it is important that HBCUs have efficient and ready access to capital to finance investments.”

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