Bond Case Briefs

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Senate Bill Would Create New Municipal Bond to Fund Infrastructure Projects.

A bipartisan group of U.S. Senators introduced legislation that would create a new class of municipal bonds to help governments finance infrastructure and other public projects.

The American Infrastructure Bonds Act of 2021 would create “direct-pay” taxable municipal bonds called American Infrastructure Bonds (AIBs). They seek to improve upon the model of Build America Bonds (BABs) issued after the 2008 financial crisis to attract more investment in public infrastructure.

“Empowering local leaders to launch new infrastructure projects is a proven way to support local economic growth,” Sen. Roger Wicker (R-MS), one of the bill’s sponsors, said. “This legislation would improve upon previous efforts to expand investment in the state and local bond market by increasing flexibility for communities and adding assurances for bondholders. As our nation looks to invest in public works, now is the right time for Congress to allow state and local governments to seize this opportunity and renew infrastructure across the nation.”

It was co-sponsored by Sens. Michael Bennet (D-CO), Roy Blunt (R-MO), Debbie Stabenow (D-MI), Shelley Moore Capito (R-WV), Tim Kaine (D-VA), and Cynthia Lummis (R-WY).

The bill would allow state and local governments to issue taxable bonds for any public expenditure that would be eligible to be financed by tax-exempt bonds. This includes infrastructure projects like roads, bridges, water systems, and broadband internet. As a “direct-pay” bond, the U.S. Treasury would pay a percentage of the bond’s interest to the issuing entity to reduce costs for state and local governments. These payments would be issued for projects at 28 percent of the bond’s interest.

The bill is designed to boost investment in infrastructure and other important public projects at a critical time. The higher interest rates offered by the taxable AIBs increase the expected value of the bonds to some types of investors, such as pension funds, insurance companies, and foreign investors, who do not receive the tax advantage from traditional tax-exempt bonds. Expanding the market for municipal bonds increases would increase private investment in the public sector.

It also provides flexibility for state and local governments as local communities can develop their infrastructure strategically without going through a centralized bureaucracy.

The bill is supported by various groups, including the National League of Cities, the National Association of Counties, the Government Finance Officers Association, the American Public Gas Association, the National Association of Bond Lawyers, National Railroad Construction and Maintenance Association, American Institute of Architects, the Insured Retirement Institute (IRI), and SIFMA.

“This bill authorizes a direct-pay subsidy for American Infrastructure Bonds, which allows state and local governments to attract taxable bond investors, such as insurance companies, pension funds, and foreign investors, to invest in infrastructure projects. Increasing the demand for municipal securities is particularly helpful now, as state and local governments are experiencing much higher costs due to the COVID-19 pandemic," SIFMA president and CEO Kenneth Bentsen, Jr. said.

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