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What Does President Biden's Infrastructure Push Mean for Local and State Governments?

Earlier this year, President Biden introduced one of the largest-ever U.S infrastructure plans, roughly \$2 trillion investment over a decade, to address the aging and underfunded infrastructure, which has often been neglected through the years.

This infrastructure push entails efforts to revamp the transportation sector, roads and highways, shift to green energy, and more importantly the aging sewage systems throughout the U.S. It's also important to note the timing of this expenditure plan, which comes after the United States government has already distributed over \$6 trillion in COVID-19 economic relief funds in the form of direct impact payments, state and local government aid and extended unemployment benefits.

The funding for the infrastructure plan is expected and proposed to come from a potential increase in the corporate tax rate that'll take the tax rate back up from 21% to 28%. Although the plan focuses on many different areas of American infrastructure - including manufacturing, commercial and residential construction, veterans' hospitals, schools, digital infrastructure, airports and creating well-paying American jobs - in this article, we will take a closer look at how the proposed transportation revamp and fixing the water infrastructure fits into the overall strategy of President Biden's overall vision.

Push for Transportation Revamp

One of the central pieces of President Biden's plan is to bring the American transportation infrastructure into the 21st century, to not only compete with other international powers but also meet the growing demand of the American travel industry - mainly airports and modernizing the rail infrastructure.

In addition, the plan also entails a strong push for the allocation of a significant amount of funds to fix economically significant bridges, highways, roads and main streets. The plan also allocates over \$85 billion dollars to modernize transit agencies throughout the United States; this push will bring much-needed funding for repair backlogs and modernizing existing infrastructure, especially coming out of the COVID-19 downturn and low ridership.

We can decipher two main areas of the transit infrastructure push that will require joint efforts from multiple local governments and jurisdictions: public-private partnerships and public debt financings in the sector to fund certain projects and then potentially seek reimbursements from the federal programs.

Let's take a look at some prominent issues in the public infrastructure spaces that are currently issuing private activity bonds (PABs). Public-private partnerships have been in place for quite some time and are increasingly utilized for transit projects to access the tax-free capital markets. The issuance of PAB bonds in southern California by the city of Long Beach for major improvements at the Long Beach airport is a prime example of this type of venture, which was taken in conjunction with the local government and resulted in two debt financings (private and governmental) totaling

over \$61 million. In another example, Denver, Colorado Transit District issued \$396 million in debt for its rail line expansion project and it was made successful through the public-private partnership between a local transit agency and a private firm.

President Biden's plan also highlights the proposition to accelerate the shift to electric vehicles by building more charging stations and providing certain incentives to purchase American-made electric vehicles – this push will not only go in-line with the green infrastructure push, but also reduce oil dependency.

America's Aging Water and Wastewater Infrastructure

Another big push in President Biden's plan is to ensure clean, safe drinking water and the treatment of wastewater that's safe for the environment. The recent White House publication regarding the water infrastructure push states, "An estimated six to ten million homes still receive drinking water through lead pipes and service lines. The President's investments in improving water infrastructure and replacing lead service lines will create good jobs, including union and prevailing wage jobs. President Biden's plan invests \$111 billion to address these issues".

From the public debt financing view, the water utilities and various local governments have often used public debt for traditional infrastructure financings like centralized water and wastewater plants, pipes, pumps and other treatment plants. With the renewed focus on these areas, we are likely to see more of these financings, which may be funded collectively by both the public debt and by the federal grant monies.

We are also seeing local and state governments starting their own programs that are more environmentally friendly and curb excess water usage.

The Bottom Line

President Biden's ambitious view on revamping America's infrastructure will inevitably face its own political roadblocks in different levels of governments, but it will likely be a give-and-take proposition for both political parties for a larger good. In recent years, we have already seen local governments and transit agencies pushing their respective governing bodies for considerations that are in line with the American infrastructure plan; furthermore, investors will likely see an increase in municipal capital market activity related to the infrastructure push and issuance of debt.

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by Jayden Sangha

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