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Will Muni Bonds Get a Big Boost from Capitol Hill?

Pending municipal finance provisions in the big spending bills before Congress could benefit issuers, investors and taxpayers. To get the best deal, state and local leaders must press their case immediately.

As Congress continues to kick around bills for infrastructure and federal spending priorities, state and local leaders need to keep their eyes on the shape the legislation's somewhat arcane provisions for municipal finance will take.

In the grand scheme of things, they don't cost federal taxpayers that much, so one would think that they stand a good chance of adoption, but nobody can take that for granted. It's one of those esoteric topics that rarely makes the headlines outside of industry newsletters, but the benefit/cost ratio for local taxpayers is easily demonstrable. Whether the muni provisions make into law is now very much up in the air as the Senate whittles down its version's "tax expenditures."

Although many state and local officials are fixated foremost on the infrastructure bill, the House budget reconciliation bill has three provisions that are a big deal in the world of municipal bond finance; on the Senate side, these provisions are now in peril. One of them gives issuers of tax-exempt debt an option to sell their bonds on a taxable basis, pay a higher interest rate and receive a federal cash subsidy. Economists call it a "taxable bond option" (TBO), though it's better known in the industry as Build America Bonds (BABs) from the Obama era when they were allowed temporarily during the Great Recession.

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