

# **Bond Case Briefs**

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## **Muni Bond Provisions Likely Dead in Democrats' Spending Package.**

**A last-ditch effort to salvage tax-exempt advance refunding and other proposals appears to have come up short.**

It's unlikely that a municipal bond refinancing tool and other state and local public finance provisions will make it into the Democratic spending package taking shape on Capitol Hill, according to the office of a lawmaker who is a key advocate for the proposals.

A spokesperson for U.S. Rep. Dutch Ruppersberger, a Maryland Democrat who co-chairs the municipal finance caucus, said by email Tuesday morning that the congressman "made a final appeal" to House Speaker Nancy Pelosi's office to include the finance provisions—which included the revival of tax-exempt advance refunding—in the bill. But it appears to have been unsuccessful.

"We've put up a good fight and are disappointed they will not likely make the cut but understand that compromises must be made as we work toward a bill that can be passed and signed into law," said Jaime Lennon, Ruppersberger's director of communications.

The roughly \$1.75 trillion spending bill and a \$1.2 trillion infrastructure bill that is also pending in the House "are still ultimately good for states and counties," Lennon added. "We remain optimistic that Congressman Ruppersberger's advance refunding and related bills can be absorbed into future legislative packages as they are bipartisan, popular and enjoy support from committee leadership."

When Route Fifty asked Ruppersberger at the Capitol on Monday night about the outlook for the provisions, he referred to how finalizing the spending bill had turned into a complex balancing act among Democrats—which has bogged down legislative progress.

Democrats are seeking to fit in a wide range of programs related to the environment, health care, housing, education and other areas, while containing costs to satisfy moderate senators.

"Appropriations is about priorities," Ruppersberger said.

"We're going to come up with other strategies," he added, referring to the muni bond provisions. "We're still going to stay on top of it, because it's needed and everybody in leadership understands that. But right now, we got to get out of this situation we're in."

Tax-exempt advance refunding was a tool states and localities previously used to refinance and restructure debt to achieve cost savings. But the 2017 Republican tax overhaul killed the tax exemption for interest investors earned on the bonds, halting their issuance.

State and local government groups and their advocates in Congress have pushed to restore tax exempt advance refunding in the years since. The infrastructure legislation and the spending bill were seen as a good opportunity to do that, given municipal debt is commonly used to finance infrastructure projects.

A provision to bring back advance refunding was included in legislation the House Ways and Means Committee marked up in September. But it was left out of the framework that the Biden administration rolled out last week.

When it comes to federal budget legislation, the tax break for the bonds shows up as a cost in the form of sacrificed tax revenue, complicating the case for restoring advance refunding as Democrats tried to thin down their bill.

Congress' Joint Committee on Taxation, around the time the 2017 tax bill passed, projected that the repeal of the advance refunding tax exemption would increase federal revenues by \$17.4 billion between fiscal years 2018 and 2027.

Looking to the state and local level, the Government Finance Officers Association estimates that between 2007 and 2017 advance refunding transactions nationwide saved tax- and rate-payers over \$18 billion.

Language designed to increase the access small municipal borrowers have to capital, through “bank qualified debt,” which is generally considered lower cost than turning to the traditional bond market is also unlikely to make it into the spending legislation. As is a program to revive “direct-pay” type bonds—similar to the Build America Bonds launched around the time of the Great Recession.

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