

# THE BOND BUYER

## Stakeholders expect next DOT secretary to have a muni edge

By

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Municipal bond market participants want the next U.S. Secretary of Transportation to have more issuer experience and understand the inner workings of the muni bond market.

Many candidates on the table for the next Secretary of Transportation have experience as issuer officials or as legislators dealing with tax issues, which gives localities some comfort.

“When you look at a potential new transportation secretary who has issued general obligation debt or any other creative structures to make infrastructure, rail and roads happen in their region, it’s satisfying because we won’t have to start from square one when talking about the market and instead you’re starting from square three and you’re moving forward and beyond,” said Emily Brock, director of the Government Finance Officers Association’s federal liaison center.

Multiple media outlets have reported Los Angeles Mayor Eric Garcetti, Rep. Earl Blumenauer, D-Ore., and former Chicago Mayor Rahm Emanuel as top contenders for the post.

They bring something new to the table, Brock said.

Biden could announce his pick in the next few weeks. President Trump has not conceded electoral defeat, though the Associated Press and other organizations have declared Biden the presumptive winner.

Current Secretary Elaine Chao was appointed by President Trump in 2016 and was the U.S. Secretary of Labor from 2001 to 2009. Though she does have a significant transportation background, the potential for local leaders to have experience in issuing general obligations is helpful, Brock said.

Blumenauer can be a strong advocate for municipal bonds if picked by President-elect Joe Biden. He was a county commissioner and member of the Portland City

Council before being elected as a congressman in 1996. He is currently a member of the House Ways and Means Committee. He also was on the House Transportation and Infrastructure Committee for almost 10 years.

“(Blumenauer) has been a longtime supporter of bonds, from Plain Jane vanilla bonds to private activity bonds,” Brock said. “So he understands the different tools in the tool kit. That would be incredibly useful. On the other hand, someone like Garcetti or Rahm could understand conceivably the GO and how it’s used and specifically with regards to transportation.”

Biden plans to invest \$1.3 trillion dollars over the next 10 years in infrastructure, with a heavy stated focus on resiliency.

“Every federal dollar spent on rebuilding our infrastructure during the Biden Administration will be used to prevent, reduce, and withstand the impacts of this climate crisis,” according to Biden’s plan. “If we transform our modes of transportation and the sources of energy that power them, we can make real progress toward reducing our greenhouse gas emissions.”

Brock expects partnerships between local and federal governments to achieve those climate initiative goals.

Marion Gee, finance director at the Metropolitan St. Louis Sewer District and GFOA president, wants to see proposals for grant funding to help localities build resilient infrastructure.



*GFOA President Marion Gee hopes that the next transportation secretary will be an advocate for reinstating tax-exempt advance refunding.*

“It will be difficult from a municipalities’ stance to do these projects on a standalone basis, so they’re going to need federal support to build those kinds of projects,” Gee said.

Gee hopes that the next transportation secretary will be an advocate for reinstating tax-exempt advance refunding to help fund future infrastructure projects. Tax-exempt advance refunding was taken away during the 2017 Tax Cuts and Jobs Act.

Last week, the Public Finance Network released a report on the benefits of tax-exempt advance refunding. The National Association of Counties, a PFN member, said pandemic effects on counties’ finances would be helped by bringing back advance refunding. NACo plans to work with the next Congress on that issue.

“As described in this new resource, reinstating advance refunding of municipal bonds would improve state and local governments’ ability to invest in critical infrastructure projects, such as hospitals and other health facilities, schools, roads, bridges, water and sewer systems ports, airports and other public works,” NACo said on Monday.

NACo Associate Legislative Director Jessica Jennings wants the next transportation secretary to understand the role counties play in national transportation, adding that counties directly support 78% of public transit and 45% of public roads.

“That’s obviously a huge stake in the national system so having a secretary that understands that and realizes how important the local level is and what we’re doing is really what we need,” Jennings said. Jennings wants direct funding from the U.S. DOT instead of state DOTs.

Jennings also wants to see a fix to the depleted Highway Trust Fund. Biden has said he plans to stabilize it and ensure new revenues, according to his infrastructure plan.

The HTF is in need of funds as it runs mostly on gas taxes while also receiving money from Treasury general funds under existing legislation. Shortfalls in the funds have been filled by transfers totaling \$144 billion since 2008, according to the Peter G. Peterson Foundation, a non-partisan research organization.



*President-elect Joe Biden wants to stabilize the Highway Trust Fund, according to his infrastructure plan. **Bloomberg News***

Highway, transit and airport grant programs run by the U.S. DOT is often used as seed money for issuers and can be leveraged with bond proceeds in order to raise money for infrastructure projects, said Michael Decker senior vice president of policy and research at Bond Dealers of America.

“It’s important that the secretary is committed to those programs, that they are committed to the success and proliferation of those programs and there are going to be opportunities under the next administration to expand some of the transportation-related initiatives that already exist,” Decker said.

One of those programs is the Transportation Infrastructure Finance and Innovation Act, which provides long-term, low-interest loans and other types of credit assistance for constructing surface transportation projects.

In July, Rep. John Garamendi, D-Calif., introduced the TIFIA for Airports Act. In 2019, Sens. Tammy Duckworth, D-Ill., and David Perdue, R-Ga., released a similar bill.

The next secretary could be a leader in expanding TIFIA, Decker said.

Other initiatives on the table are municipal provisions in the House’s Moving Forward Act. The House passed its infrastructure bill, which was folded into the larger Moving Forward Act in July 2020. That bill includes a series of taxable direct-pay bonds and a restoration of tax-exempt advance refunding.

“There are a lot of initiatives on the table in the context of the transportation bill where Congress’ action could be really helpful and I hope that the next Secretary of Transportation would be an advocate for those kinds of changes,” Decker said.

The National Association of State Treasurers is also hopeful the next secretary will be a strong federal partner.

“States need the tried and true tools to continue financing the lion’s share of America’s infrastructure, but we also need a stronger federal partner and additional federal funding in the mix if we are ever truly going to tackle our infrastructure deficit,” said Brian Egan, NAST’s policy director.

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