

THE BOND BUYER

Muni market groups vigilant after White House infrastructure meeting

By

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WASHINGTON — Municipal market advocates are focused on making sure that munis aren't hurt in the name of a bipartisan infrastructure compromise in the wake of President Donald Trump's meeting with top Democrats earlier this week.

While muni groups were encouraged to see Trump, House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer agree to pursue a \$2 trillion infrastructure plan, paying for that plan is another matter and groups remain vigilant that the tax exemption or spending important to the muni market not end up on the chopping block.

"I'm glad to see that leaders from both sides of the aisle are talking about infrastructure," said Dee Wisor, National Association of Bond Lawyers president. "Obviously it's important to our country and our economy. The devil remains in the details, particularly on how to pay for it."

During the Tuesday meeting, the leaders decided on a \$2 trillion plan even more ambitious than the \$1 trillion agenda Trump campaigned on three years ago. Democratic leaders said they are awaiting Trump's plans to fund the agenda in three weeks.

Republicans and Democrats have been split over the past few years on how to pay for infrastructure spending, with many Democrats favoring an increase in the gas tax and wanting to roll back 2017 tax cuts. Republicans, on the other hand, don't want to raise taxes. Wisor said he was concerned that because sides are compromising, that some financing tools important to the muni market might be hurt in the process.

Schumer has said he wants to fund the plan at least in part by rolling back the 2017 tax cuts, according to Politico. The Tax Cuts and Jobs Act of 2017 hit the muni market hard by eliminating tax-exempt advance refundings. The municipal

bond market almost lost private activity bonds too, and Wisor said he hopes Congress will expand them.

“But because they haven’t figured out a way to pay for this yet, I want to be vigilant that we don’t lose something at the same time we may be picking up some other options on private activity bonds,” Wisor said.

With all financing tools now on the table to fund the \$2 trillion infrastructure plan, the market needs to talk about what actually contributes to infrastructure, which are advance refunding and bank-qualified debt, said Emily Brock, director of the Government Finance Officers Association federal liaison center.

“When everything is on the table, we have to remain vigilant,” Brock said. “We have to make sure that they understand our priorities and what those priorities do for our nation’s infrastructure.”

Brock also said the tone changed in a letter sent to Trump from Pelosi and Schumer, when those leaders expressed to Trump that infrastructure was not just transportation.

“To truly be a game-changer for the American people, we should go beyond transportation and into broadband, water, energy, schools, housing and other initiatives,” Pelosi and Schumer wrote in the letter.

Brock said the market has been saying for years that infrastructure is more than transportation.

“We need to make sure that our congressional leaders also kind of hum that same tune and when we hear it from the top, that’s pretty impressive,” Brock said.

Bond Dealers of America was encouraged that congressional leadership and the administration were working to find common ground to fund an infrastructure package.

“We look forward to continuing our work with Congress and the administration to ensure that municipal bonds are included in these discussions, and specifically the reinstatement of municipal advance refundings and increased utilization of private activity bonds,” BDA Chief Executive Mike Nicholas wrote in an email.

The Securities Industry and Financial Markets Association advocated for the expansion of private activity and direct pay bonds, adding it supported leveraging the work states and localities do in building and maintaining infrastructure.

“A partnership among federal, state and local governments and private investors will ease the burden on the cash-strapped federal government by leveraging our capital markets to create expanded financing options,” Ken Bentsen, SIFMA’s president and CEO, said in a statement.

Though President Trump [ran on a campaign supporting private-public partnerships](#), he has [since said he no longer supports them](#), saying he was never supportive of them, according to The Hill.

“The issue is that if you’re going to get private investment, you need projects that can generate excess revenues, so it tends to lean more towards transportation projects like airports or toll roads,” said Howard Cure, director of Municipal Bond Research at Evercore Wealth Management LLC.

Democrats may want to see an increase in taxes, included gas and corporate and create more toll roads, Cure said. Republicans may decide to leverage state or local contributions before deciding themselves to contribute, like a matching program, he said. Republicans could also be supportive of P3’s and give more tax-exemptions, Cure said.

Cure, however, doesn’t believe the administration will roll back tax cuts.

“I don’t think the Republicans are in any sort of mood to create an even bigger federal deficit,” Cure said. “I’m not sure what sort of negotiations or compromise are going to take place for this.”

In a statement, Rep. Peter DeFazio, D-Ore., wrote as chair of the House Committee on Transportation and Infrastructure that the meeting between Trump and Democratic leaders was “a big step in the right direction.”

“Two trillion dollars is a significant federal investment that could make a real difference in communities across this country, whether we’re talking roads, bridges, and transit systems, or harbors, airports and wastewater systems, just to name a few areas that would get a real boost from a bipartisan deal,” DeFazio wrote.

DeFazio introduced a bill Tuesday along with top Transportation Committee Republican Sam Graves of Missouri called the Full Utilization of the Harbor Maintenance Trust Fund Act. The bill would unlock billions in already collected fees to maintain ports and harbors, its intended purpose, DeFazio wrote.

The bipartisan bill would make it easier for Congress to appropriate any funds collected in the Trust Fund for authorized harbor maintenance needs.

The National League of Cities also sent out a statement Tuesday on the White House meeting, urging Congress and the administration to build a framework for legislation to fund and fix infrastructure.

“Washington has procrastinated long enough,” NLC wrote in its statement. “It’s time to demonstrate leadership and put America’s infrastructure needs first.”

Some muni market groups are wary that current impeachment hearings could derail infrastructure plans, decreasing optimism that legislation could pass.

“I remain uncertain,” Wisor said. “I think it’s a positive that the leadership is talking. I remain concerned that investigations and impeachment thoughts may derail all this, but it was positive that they got together and had a conversation without that getting in the way.”

In 1998, Democrats and Republicans passed an infrastructure bill, at the same time when the Republican Congress was trying to impeach former President Bill Clinton.

On Tuesday during the [Milken Institute Global Conference in California](#), Mick Mulvaney, acting White House chief of staff, said that though both sides want infrastructure, it doesn’t mean they will agree. He was also asked how an infrastructure package could pass at the same time as impeachment hearings.

Also at the conference, Alan Schwartz, executive chairman of Guggenheim Partners, said he didn’t think impeachment would stall an infrastructure deal.

Brock said the meeting in itself on Tuesday was symbolic that there may be motivation to discuss an infrastructure bill and that leaders had to talk about infrastructure in a completely bipartisan fashion.

“Where there are politics going on, this is not it,” Brock said. “Infrastructure is not politics. This discussion has to rise to that occasion.”