THE BOND BUYER

Commentary Mayors in support of advance refundings

By

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Many onlookers have a sense of renewed hope and optimism for a federal infrastructure package after the new Congress began in January. This is especially true for those with vested interests in the jurisdiction of the House Ways and Means Committee with the seminal leader Richard Neal (D-MA) taking the helm. However, the issue of infrastructure cannot be fully negotiated without the loss of advance refundings being discussed.

The ability for state and local governments to advance refund their bonds—that is to refund a bond issuance more than 90 days prior to redemption—is a matter of billions of dollars in access to savings. That's right, that's billions with a "b," in potential savings to taxpayers and communities that require growth through infrastructure investments by the low cost of capital with lower interest rates.

Over the past five years, state and local governments have issued $392 billion in advance refunding bonds, generating at least $12 billion in actual savings. Last year's Tax Cuts and Jobs Act, eliminated this valuable financing tool which experts project will save the Federal government only $17 billion over ten years – that is a mere $1.7 billion per year. To put that figure into perspective, that is a purported savings of $1.7 billion, or only 0.04% of the $4.4 trillion Federal Budget in fiscal year 2019. Just so we are all clear with this math: in the last five years, state and local governments have saved ($12 billion), while the Federal government estimates to save ($8.5 billion) over five years. Expressed another way, local governments will forgo $12 billion to save the Federal government $8.5 billion. The balance of these two figures ($3.5 billion), could be used toward capital improvement projects across the country where the American Society of Civil Engineers (ASCE) grades America's infrastructure as a D+. We must do better.

There continue to be gross misrepresentations of the truth when advance refundings are discussed on Capitol Hill, albeit even from some experts of the tax- writing committee. Currently, there is a belief that local governments "double-dip" on the tax exemption for municipal bonds when refunding (refinancing) their current bonds to lower rates — remember the savings of $12 billion from the example above. Advance refundings are not double-dipping. No more than a homeowner refinancing their mortgage at a lower rate increases their total debt. In fact, the opposite is true — refinancing the same amount at a lower interest rate results in cost savings. That is precisely the effect that advance refundings have. These savings ultimately translate into updated facilities for our nation's future including, new libraries, playgrounds, hospitals, improved roads and bridges, lower rates on local water and sewer projects, and many others. Additionally, these savings could be used to rebuild communities hit by natural disasters, such as Hurricane Harvey in 2017.

The ability for state and local governments to access low-cost capital makes sense. According to the National League of Cities, metropolitan economies drive 91 percent of our country's GDP growth. As a result of smart financing policies, including the ability to advance refund bonds, cities and communities across the nation can contribute to the U.S. economy by providing affordable services to its citizens and re-invest those resources to create jobs for their future. These savings are evident in smaller communities such as Columbia, S.C. For example, between 2012 and 2018, there were seven different advance refundings for Columbia's taxpayers that saved over $21 million.

Over the past ten years, direct federal funding has been on the decline, while the municipal bond market continues to drive new construction efforts. Tax-exempt municipal bonds also play the lion's share in financing our nation's infrastructure. Last Congress, the bi-partisan Congressional Municipal Finance Caucus, had introduced H.R. 5003—to Reinstate Tax-Exempt Advance Refunding Bonds in the House of Representatives. According to the bill sponsors, "the legislation would restore advance refundings so that states and local governments can take advantage of favorable interest rates and more efficiently manage their financial obligations." We strongly urge the bill sponsors to reintroduce this legislation and for members of the House Ways and Means Committee to consider this legislation this Spring.

As the Trump administration and others in Congress have touted the need for infrastructure investment in the U.S., this is a time when we need our country's leaders to find solutions that don't take tools off the table. More specifically for state and local governments, it's about the flexibility to access savings and restructurings in a more cost effective manner. However, when Congress is unencumbered with the facts of municipal bond financing, we cannot expect to see a different grade for America's infrastructure from the ASCE anytime soon.