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Bipartisan infrastructure bill passage a win for munis

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The bipartisan infrastructure bill provides the muni industry with a considerable win, though muni industry advocates are still pushing for their largest priorities to be included in the still unfinalized reconciliation bill.

The bipartisan infrastructure bill includes $550 million to reauthorize surface transportation funding programs, and increases the federally-administered private activity bond volume cap to $30 billion from $15 billion, in addition to $110 billion for roads and bridges, $66 billion for rail projects, $42 billion for ports and airports, $39 billion for public transit, $73 billion for updating the power grid, $55 billion for drinking water and $65 billion for broadband infrastructure.

House Speaker Nancy Pelosi, D-Calif. is pushing for a vote on the Build Back Better package, which includes relief from the SALT deduction cap that's being sought by state and local governments. ***Bloomberg News***

The bill also includes specific bond provisions such as new authority for private activity bonds for electric vehicle charging stations in addition to carbon capture facilities.

“The infrastructure bill is a big win for the country,” Chuck Samuels, member and co-chair of retail and consumer products at Mintz Levin and counsel to the National Association of Health & Educational Facilities Finance Authorities said. “It's good to get that bill, which has enormous indirect consequences for the municipal market by working on a variety of infrastructure needs, into law.”

The passing of this infrastructure package and the larger effect of the reconciliation bill could also help buyers and issuers alike.

“In terms of buying municipal bonds, it should help because I don't think there's any doubt that taxes are going to be increased, which obviously makes municipals more attractive,” said John Farawell, executive vice president and head municipal trader at Roosevelt & Cross.

“In terms of municipal issuance, I think they may get some matching funds, so we can see improvement on that and I think we're gonna see more municipals issued in the future,” Farawell added. “This is definitely a positive for us.”

It may be difficult to measure the exact effects this legislation will have for some time, besides a generally positive one. But in terms of allocating this money to states and local governments, getting this massive amount of money to its respective agencies may be the next challenge.

“It's going to take a little while to get the money where it needs to go,” Emily Brock, director of the federal liaison center at the Government Finance Officers Association said. “We need to track the money, we need to understand distribution channels and we need to make sure we are giving local governments what they need to understand where the funds are going to flow and how they then can become eligible for those funds.”

The money will be allocated through federal agencies, mainly under the umbrella of the Department of Transportation.

“While the money might not flow through the Treasury, it's definitely going to be going through parts of the administration,” Brock said. “We're going to have to make sure we understand where it goes and how the grants process is going to work.”

GFOA has been in close contact with the National Governors Association as well as the National Association of State Treasurers to ensure local governments understand how this money is being allocated and how they can be eligible for it.

But the real focus of the muni advocates is on the Build Back Better agenda. The restoration of tax-exempt advance refunding, the creation of a direct-pay bond program, and a higher cap on the bank-qualified issuance limit were all stripped from the bill under consideration in the House. But muni advocates remain determined to pursue those goals until the process is over.

“Until it's over, it's not over,” Samuels said. “Our long standing agenda deserves careful consideration and inclusion and we've got Chairman Neal, who will look for any opportunity to include it.”

The provision was included, for a time, in a draft reconciliation bill but was since cut as the package went from $3.5 trillion to $1.75 trillion. Negotiations are still ongoing and may be for the weeks to come.

“I don't think the process is finished,” Michael Decker, senior vice president for research and public policy at Bond Dealers of America said. “There's a house bill, which is nearly ready for a vote but there's still work to be done there on the scoring and other things,” he said. “I anticipate that the Senate will take a parallel but slightly different track with respect to what they consider.”

“I don't think the House bill, assuming it passes in the next week or two is necessarily what the Senate is going to be working from,” Decker said. “There may be opportunities to revisit some of the decisions about the bond provisions.”

The reconciliation bill also includes a provision to raise the cap on state and local tax deductions to $80,000 from $10,000 and could be subject to further change once the Senate receives the bill.

Congress is in recess this week but over the weekend, a group of House members indicated that they don’t intend to vote on the reconciliation bill until it is scored by the Congressional Budget Office.

“I presume that CBO staff are working on that score while Congress is out,” Decker said.

While Farawell predicted that the proposed increase in taxes could help muni demand, others are worried that another provision of the bill will do the opposite.

“Then you have the issue of this alternative minimum tax proposal with its negative impact on corporate appetite and municipal bonds,” Samuels said. “We have the ironic, actually, somewhat cruel scenario where we may actually be hurt by this second bill, rather than helped."

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