

U.S. Municipal Bond Market

\$1.5T for Infrastructure in Proposed “Moving Forward” Act, Municipal-Friendly Elements Included

Summary

- The U.S. House unveiled its [H.R. 2, Moving Forward Act](#) last Thursday. The text of the bill was finally uncovered today, June 22nd. The Moving Forward Act is a \$1.5 trillion package that combines several infrastructure-related elements.
- Some of the municipal bond market-friendly items will: seek to permanently reinstate a Build America Bond (BAB)-like infrastructure bond program that's exempt from sequestration, permanently reinstate the use of tax-exempt bonds for advance refundings, permanently increase the bank-qualified limit to \$30 million, and increase and expand issuance authority of private activity bonds. It also seeks to reinstate Qualified Zone Academy bonds and authorizes a new category of taxable school infrastructure bonds.
- The U.S. House is expected to vote on the Moving Forward Act proposal before the July 4th holiday.
- What is unclear is if the Moving Forward Act, including the municipal-friendly elements, has a realistic chance to become law by the November 2020 election. What is clear is that the inclusion of the municipal-friendly elements is a short-term success that can hopefully be built upon.

Municipal Bond Wish List

Taxable Build America Bonds (BABs) – BABs were created by the 2009 Recovery Act legislation to expand buyer interest in municipal bonds. BABs were considered a success from the Recovery Act as eligible issuers sold over \$185 billion in 2009 and 2010. A reinstatement of taxable, subsidized BABs have been on the wish-list of many since Congress surprisingly allowed them to expire at the end of 2010. However, it's worth noting that issuers soured on BABs after the federal government's subsidy was slightly reduced as part of the 2013 sequestration.

Tax-Exempt Advance Refundings – The threat to the municipal bond tax-exemption reached its pinnacle in November and December 2017 when private activity bonds and advance refundings hit the chopping block. While private activity bonds were protected, advance refundings with tax-exempt bonds were eliminated to help fund the Tax Cuts and Jobs Act of 2017. Since then, the reinstatement of advance refundings with tax-exempt bonds have been on the wish list for many, if not most municipal bond issuers.

H.R. 2, Moving Forward Act

The U.S. House unveiled its [H.R. 2, Moving Forward Act](#) last Thursday. The text of the bill was finally uncovered today, June 22nd. The Moving Forward Act is a \$1.5 trillion package that combines several infrastructure related elements. The main section lists \$500 billion from the House Transportation Committee. It also includes \$100 billion for schools, \$100 billion for affordable housing, \$100 billion for broadband internet, \$65 billion for water, \$30 billion for hospitals, increased Amtrak funding to \$29 billion, and \$25 billion for postal services. Some criticism that the Moving Forward Act has received is that it includes too many elements from the Green New Deal.

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Municipal Bond Market-Friendly Items in the Moving Forward Act

In the \$1.5 trillion bill, some municipal bond market-friendly items which would:

- Permanently reinstate a BAB-like infrastructure bond (Sec. 90101) with a tax credit equal to the following amounts:
 - 42% of applicable interest paid from 2020-2025
 - 38% of applicable interest paid in 2025
 - 34% of applicable interest paid in 2026
 - 30% of applicable interest paid in 2027 or after

The 2009 Recovery Act BABs had a 35% subsidy that was reduced annually after the sequestration in 2013. There is a provision that seeks to exempt this financing tool from sequestration moving forward.

- Permanently reinstate tax-exempt bonds for advance refundings (Sec 90102).
- Permanently increase the bank-qualified limit to \$30 million (Sec 90103).
- Increase issuance authority of private activity bonds (PABs) (Sec 90104).
- Expand issuance authority of small-issue bonds, bonds for first-time farmers, bonds for zero-emission vehicle infrastructure, water and sewage bonds, and highway and surface freight transfer bonds (Sec 90105-9).
- Restore Qualified Zone Academy bonds and increase limits (Sec 90111).
- Authorize a new category of taxable School Infrastructure Bonds (SIBs) for construction and repair of public schools in the amount of \$10 billion a year for three years (Sec 90112).

Potential Timing

The U.S. House is expected to vote on the Moving Forward Act proposal before the July 4th holiday. The legislation's future depends on how the legislative agenda unfolds in the coming weeks or months. Last week, we reported that the White House was working on a \$1 trillion infrastructure plan. It's possible that an infrastructure plan could be rolled into any potential approvals for surface transportation funding that's set to expire on Sept. 30th or may be included in a larger COVID-19 relief/stimulus bundle.

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Moving Forward Act

- See here for the [full-text of the Moving Forward Act](#), as of June 22, 2020.
- See here for a [section by section summary](#).
- See the [five-page fact sheet here](#).

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