

# California Municipal Treasurers Association



Government Finance Officers Association

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May 3, 2022

# Roadmap

- Part 1: Bipartisan Infrastructure Law (IIJA)
- Part 2: ARPA and Infrastructure
- Part 3: Muni Bonds and Infrastructure



# Part 1: The Bipartisan Infrastructure Law

# Infrastructure, Defined...



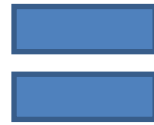
Bipartisan  
Infrastructure  
Framework  
BIF/BIL



Infrastructure  
Investment &  
Jobs Act



Build Back Better  
BBB



Budget  
Reconciliation Bill

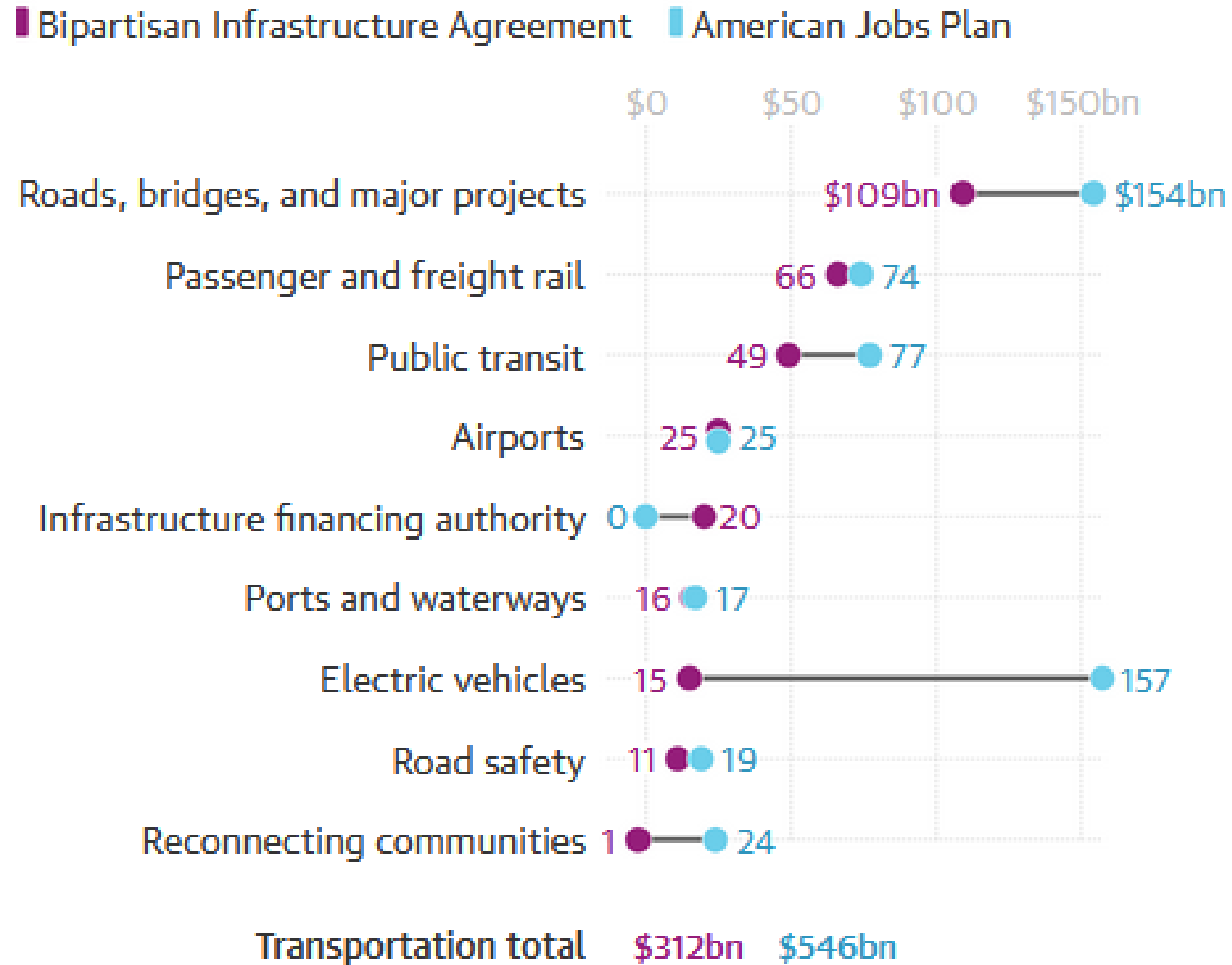


American Jobs  
Plan



American  
Families Plan

# How Things Change....



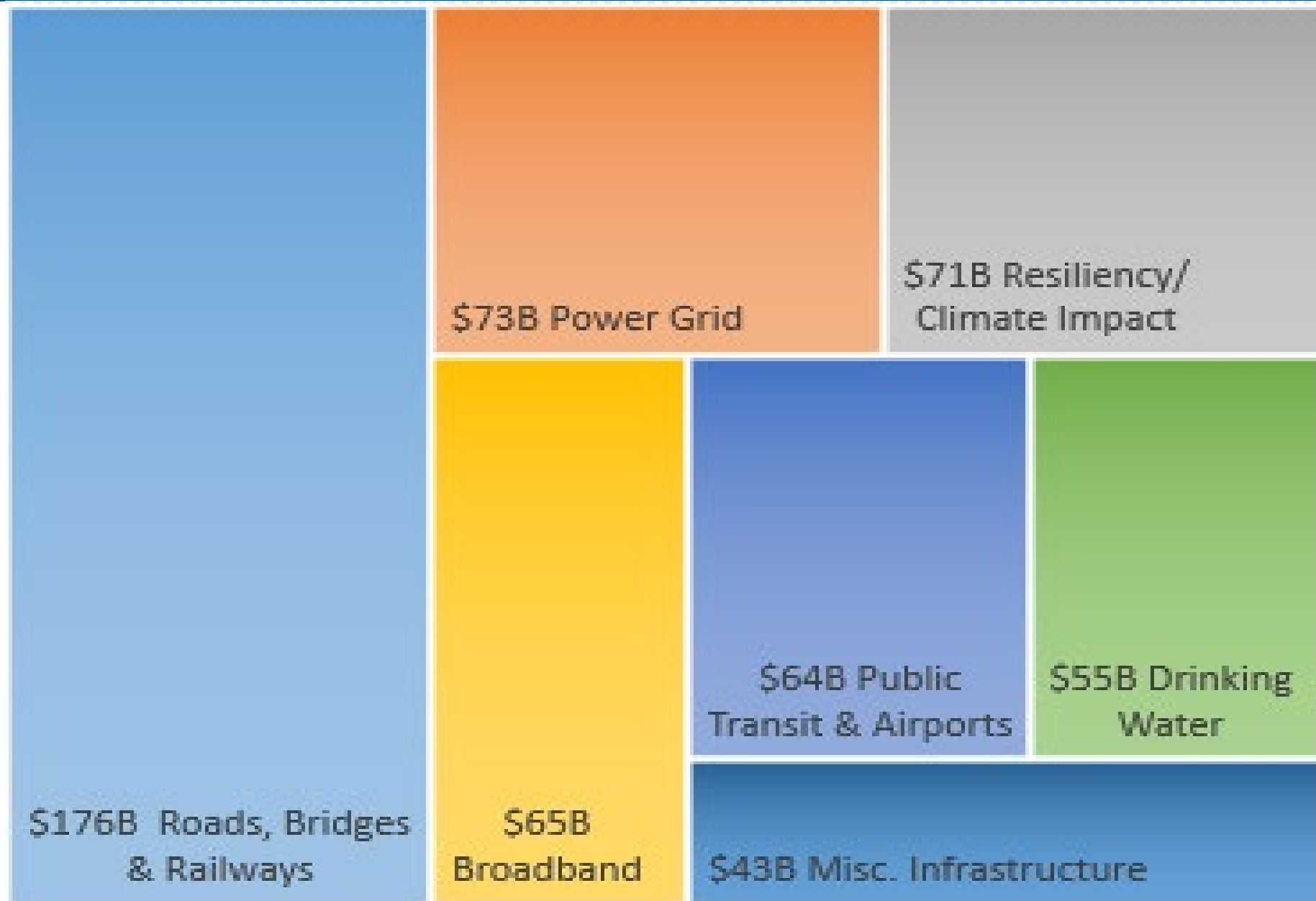
# The Bipartisan Framework (“BIF”) Rundown

- Roads, bridges, and major projects → \$110B
- Power grid → \$73B
- Rail-passenger & freight → \$66B (from **\$80B**)
- Broadband → \$65B (from **\$100B**)
- Water infrastructure → \$55B
- Public transit → \$39B (from **\$80B**)
- Airports → \$25B

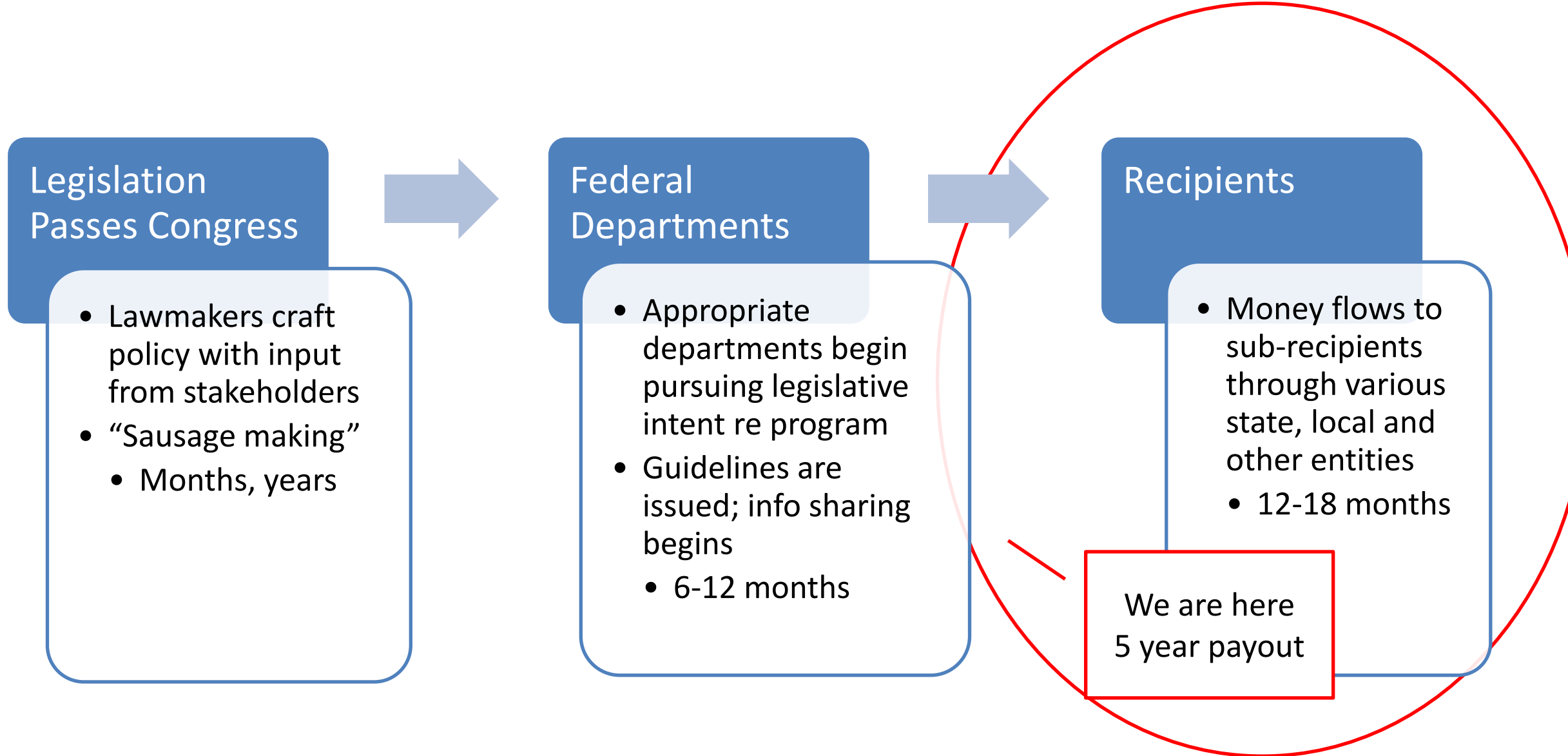


# Infrastructure Investment & Jobs Act

- \$1.2 Trillion total price tag
- \$550 Billion in new money
- Most monies distributed over 5-year period



# Legislation to Deliverables



# Recurring Key Concepts

## ■ Equity

- ❖ Workforce expansion grants
- ❖ Supply chain considerations
- ❖ Bridge building/noninterstate highway considerations (FHA)

## ■ Sustainability

- ❖ “Build Back Better”
- ❖ Grant programs and audits will include sustainability metrics

## ■ Partnering

### ❖ With your state

- Local and regional “significance” in the projects
- Nonfederal match will still be a requirement. 10 on water, 20 on roads

### ❖ With private partners

- Documenting P3 successes
- VFM Analysis associated with large projects (is privatizing cheaper/faster/better?)



# ROADS

# Roadmap on Transit IIJA Projects

- 3-in-1 Multimodal Discretionary Project Grant
- Other Notable Road, Bridge, and Railway Programs
- Low or No Emission Bus and Bus Facilities Competitive Grants
- Airports and Ports



# Some Current NOFOs

- Low or No Emission and Grants for Buses and Bus Facilities Competitive Programs FY2022 (FTA)
- Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Competitive Programs FY2021 through FY2026
- 2022 Port Infrastructure Development Program (PIDP) Competitive Programs FY2022

# 3-in-1 Multimodal Discretionary Project Grant

- Funding for the Infrastructure for Rebuilding America Program (INFRA), National Infrastructure Project Assistance program (MEGA), Rural Surface Transportation Grant Program (Rural)
- Total of \$2.9 billion in total funding in one application
- The application is due on May 23, 2022 at 11:59 PM EST.



# INFRA

- Formerly known as TIGER (Transportation Investment Generating Economic Recovery)
- IIJA provides **\$10.9 billion** over 5 years for competitive grants including highway or bridge projects to **add capacity or improve mobility**, intermodal or freight projects, and rail-highway grade crossing separation.
- Approximately \$1.55 billion will be given out for FY 2022.
  - Maximum of 85% of the funding will go towards projects larger than \$100 million and
  - Minimum of 15% of the funding will go towards projects smaller than \$100 million
- Eligible Applicants:
  - A state, or group of states
  - A metropolitan planning organization that serves more than 200,000 individual
  - A unit of local government or a group of local governments
  - A political subdivision of a state or local government
  - A special purpose district or port authority with a transportation function.
  - A Federal land management agency that applies jointly with a state or group of states.

# MEGA

- National Infrastructure Project Assistance
- \$5 billion in competitive grants for states, local governments, tribes, and other related organizations.
- \$1 billion will be given out for FY2022.
  - 50% for projects > \$500 million and
  - 50% for projects between \$100 million and \$500 million.
- This program provides funding for megaprojects that will likely generate national, regional, economic, mobility, or safety benefits.



# Rural

- Rural Surface Transportation Grants
- \$1 billion in competitive grants to states, local governments, tribes, and regional transportation planning organizations.
- The program will provide funds to improve and expand the surface transportation infrastructure in rural areas to increase connectivity, improve the safety and reliability of the movement of people and freight, and generate regional economic growth and improve quality of life.
- \$300 million will be given out in FY 2022.
  - A minimum of 90% of all projects have a minimum \$25 million rural grant award. There is no award minimum for the other 10%.



# Other Notable Road, Bridge, and Railway Programs

## ○ Capital Investment Grants Program

- IJA guarantees **\$8 billion**, and authorizes **\$15 billion** more in future appropriations.
- This grant program funds transit capital investments, including heavy rail, commuter rail, light rail, streetcars, and bus rapid transit.
- Federal transit law requires transit agencies seeking Capital Investment Grants funding to complete a series of steps over several years.
- The law also requires projects to be rated by Federal Transit Administration at various points in the process according to statutory criteria evaluating project justification and local financial commitment.

## ○ Rebuilding American Infrastructure with Sustainability and Equity (RAISE) Grants

- IJA increases funding for the program by **\$15 billion** with half of that in guaranteed appropriations.
- It is a competitive grant program which provides funding for road, rail, transit, and other surface transportation of local and/or regional significance.
- Selection criteria includes safety, sustainability, equity, economic competitiveness, mobility, and community connectivity.

## ○ Safe Streets and Roads For All

- **\$5 billion** in competitive grants to support local initiatives to prevent death and serious injury on roads and streets, commonly referred to as “Vision Zero” or “Toward Zero Deaths” initiatives.

## ○ Railroad Crossing Elimination Grant Program

- IJA provides over **\$5 Billion** for this new competitive grant program to fund highway-rail or pathway-rail grade crossing improvement projects that focus on improving the safety and mobility of people and goods.

# Low or No Emissions Programs

- **Low or No Emission Grant Program**
  - IIJA provides approximately \$1.1 billion for the Low or No Emission Grant Program for FY 2022.
  - Funding is available for states, counties, cities/townships to help transit agencies purchase or lease low or no-emission buses.
- **Bus and Bus Facilities Competitive Grant Program**
  - IIJA provides approximately \$372 million for the Bus and Bus Facilities Competitive Grant Program for FY 2022.
  - Funding is available for states, counties, and cities/townships to replace, rehabilitate, purchase, or lease buses, bus-related equipment, and bus-related facilities.



# Airports and Ports



## Airport Terminal Program

- IIJA provides \$5 billion (\$1 billion for FY 2022) for this program through competitive grants.
- Eligible if the airport is operated within the National Air Transportation System.
- It provides grants for passenger terminal buildings, traffic control towers, and on-airport rail access projects.

## Port Infrastructure Development Program Grants

- IIJA provides \$2.25 billion (\$450 million for FY 2022) for this program through competitive grants.
- It provides grants for addressing sea-level rise, flooding, extreme weather events, earthquakes, and tsunami inundation.
- It also funds projects that reduce or eliminate pollutants and greenhouse gases in ports.



# BROADBAND

# National Telecommunications and Information Administration

## Broadband funding (IIJA)

IIJA included \$65 billion to help close the digital divide. **Comments/feedback currently under review**

- Broadband Equity, Access, and Deployment (BEAD) Program:
  - \$42.5B for states, territories, the District of Columbia, and Puerto Rico (each state to receive \$100M, territories to split \$100M, remaining distributed via formula according to broadband needs in each state)
  - Broadband deployment, mapping, and adoption projects
  - State plans shall be informed by collaboration w/ local and regional entities
- Enabling Middle Mile Broadband Infrastructure Program
  - \$1B for construction, improvement or acquisition of middle mile infra
  - Goal is to reduce the cost of connecting unserved and underserved areas to the internet
  - Broad list of eligible applications, including local governments and public utility districts
- Digital Equity Act Programs
  - \$2.75B to establish three grant programs to promote digital inclusion and equity (ensure targeted populations have access to broadband)
  - Two of the grant programs are formula based for states for planning and implementation of digital equity plans
  - Third program is competitive grant program to provide additional support for implementing digital equity projects





# WATER

# Roadmap on IJA Water Projects

- **\$55 Billion for the EPA to fund a variety of programs**
- **EPA Major Safe Drinking Water and Contaminants Grants→\$48,426,000,000 (5-years)**
  - Clean Water State Revolving Funds under the Fed. Water Pollution Control Act→\$11,713,000,000
    - 49% of funds in form of grants or principal forgiveness loans
    - 51% as low interest loans
    - State match reduced to 10%
  - Drinking Water State Revolving Funds under the Safe Drinking Water Act→\$11,713,000,000
    - 49% of funds in form of grants or principal forgiveness loans
    - 51% as low interest loans
    - State match reduced to 10%
  - Drinking Water Capitalization Grants-- lead service line replacement→\$15,000,000,000
    - No state match required
    - 49% of funds in form of grants or principal forgiveness loans
    - 51% as low interest loans

# IJA Water Projects

- Clean Water State Revolving Funds under Fed Water Pollution Control Act, emerging contaminants→\$1,000,000,000
  - No state match required
  - Grants or principal forgiveness loans
- Cap grants—Drinking Water State Revolving Funds under the Safe Drinking Water Act, PFAS→\$4,000,000,000
  - No state match required
  - Grants or principal forgiveness loans
- Safe Water Drinking Act—emerging contaminants, underserved communities→\$5,000,000,000
  - Provided as grants
  - No state match required



# IJA Water Projects

## ○ **\$8.3 Billion for Department of Interiors Bureau of Reclamation**

- **Feasibility studies and construction** of previously approved water storage, groundwater storage, and conveyance projects. Includes small-scale storage and groundwater projects→\$1,150,000,000
- **Major rehabilitation and replacement** of water infrastructure including funds for dam failures, dam rehabilitation or replacement→\$3,200,000,000
- Water recycling and reuse projects→\$1,000,000,000



— BUREAU OF —  
RECLAMATION

## ○ **\$17 Billion U.S. Army Corps of Engineers**

- Federal waters
- Harbors
- Dredging
- Inland waterways



# New Programs

- **Section 50108 Needs Assessment for Nationwide Rural and Urban Low-Income Community:** Requires the EPA Administrator to prepare and submit to Congress a comprehensive report on municipalities, communities, and Tribes with a disproportionate number of people who spend a disproportionate amount of household income on access to public drinking water or wastewater services or who have unsustainable levels of water-related debt.
- **Section 50110 Lead Contamination in School Drinking Water:** Requires the EPA to develop a program to make grants to states and Tribes to help schools test for and remediate lead in drinking water.
- **Section 50202 Wastewater Efficiency Grant Pilot Program:** Provides funds for the EPA to establish a wastewater efficiency grant pilot program to carry out projects that create or improve waste-to-energy systems.
- **Section 50203 Pilot Program for Alternative Water Source Projects:** Amends the Federal Water Pollution Control Act to support projects that use water, wastewater, or storm-water or treat wastewater or storm-water for groundwater recharge, potable reuse, or other purposes.
- **Section 50204 Sewer Overflow and Storm-water Reuse Municipal Grants:** Amends the Federal Water Pollution Control Act to support project funding for projects in rural communities or financially distressed communities for the purpose of planning, design, and construction of treatment works to intercept, transport, control, treat, or reuse municipal sewer overflows, sanitary sewer overflows, or storm-water; or any other measures to manage, reduce, treat, or recapture storm-water or subsurface drainage.

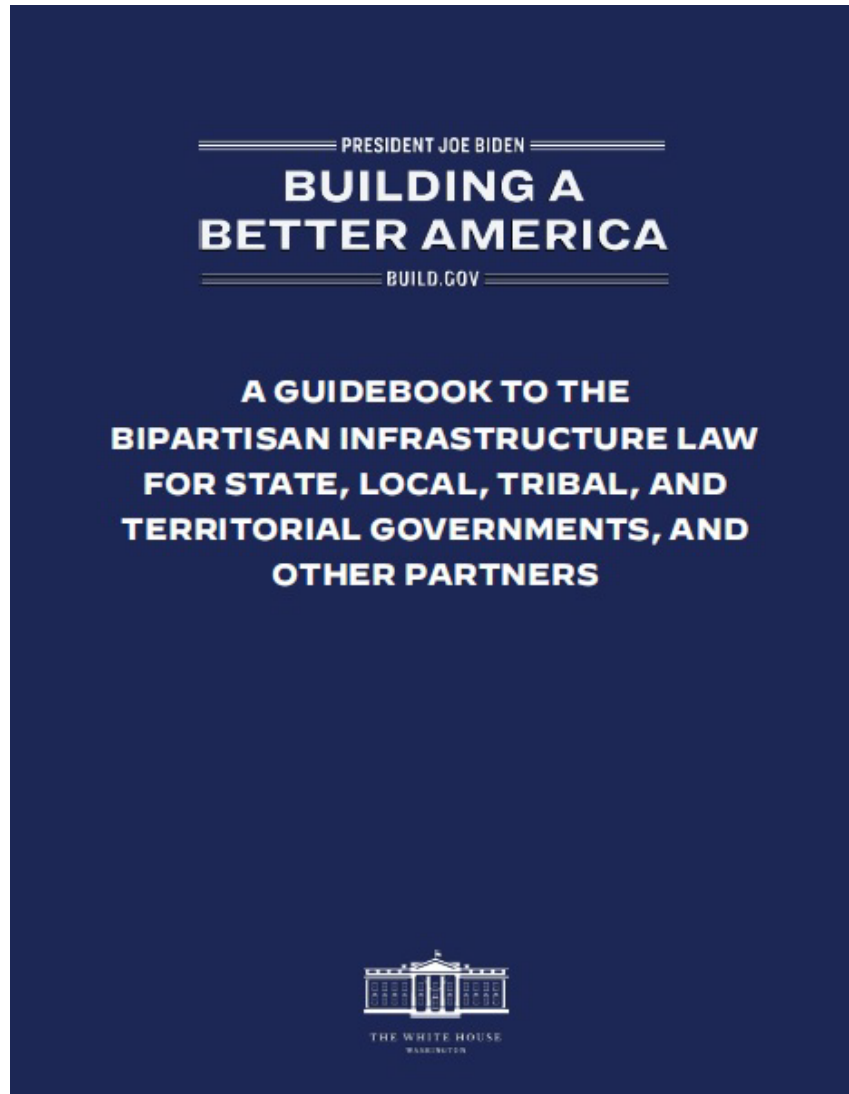
# New Programs

- **Section 50205 Clean Water Infrastructure Resiliency and Sustainability Program:** Amends the Federal Water Pollution Control Act to require the EPA Administrator shall establish a clean water infrastructure resilience and sustainability program providing grants for the purpose of **increasing the resilience** of publicly owned treatment works to a natural hazard or cybersecurity vulnerabilities through the conservation of water
- **Section 50207 Small Publicly Owned Treatment Works Efficiency Grant Program:** Amends the Federal Water Pollution Control Act to permit the EPA to develop an “efficiency grant program” for small publicly owned water systems or non-profit groups that assist such systems, for the replacement or repair of equipment that improves water or energy efficiency of small publicly owned treatment works, as identified in an efficiency audit.
- **Section 50208 Grants for Construction and Refurbishing of Individual Household Decentralized Wastewater Systems for Individuals with Low or Moderate Income:** Amends the Federal Water Pollution Control Act to provide grants to private nonprofit organizations for individuals for the construction, repair, or replacement of an individual household decentralized wastewater treatment system; or for the installation of a larger decentralized wastewater system designed the purpose of improving general welfare by providing assistance to eligible to provide treatment for 2 or more households under specific circumstances.

# Key Procurement Considerations of IJA

- Expanding domestic preference procurement policies applicable to federal financial assistance programs for public works infrastructure.
- ***Build America, Buy America (aka BABA)*** Unless:
  - When there is inconsistency with the public's interest.
  - Where the necessary volume of iron, steel, and manufactured products is not produced in sufficient quantities or satisfactory quality.
  - Where enforcement of Buy America would increase the cost of the project by more than 25%
- **Justice 40**
  - deliver at least 40 percent of the overall benefits from Federal investments in climate and clean energy to disadvantaged communities.
  - Requires identification of disadvantaged communities (DACs) and calculating the benefits
  - Climate and Economic Justice Screening Tool (CEJST)

# IJA/BIL Implementation



- Guidebook = roadmap
- On [White House website](#)

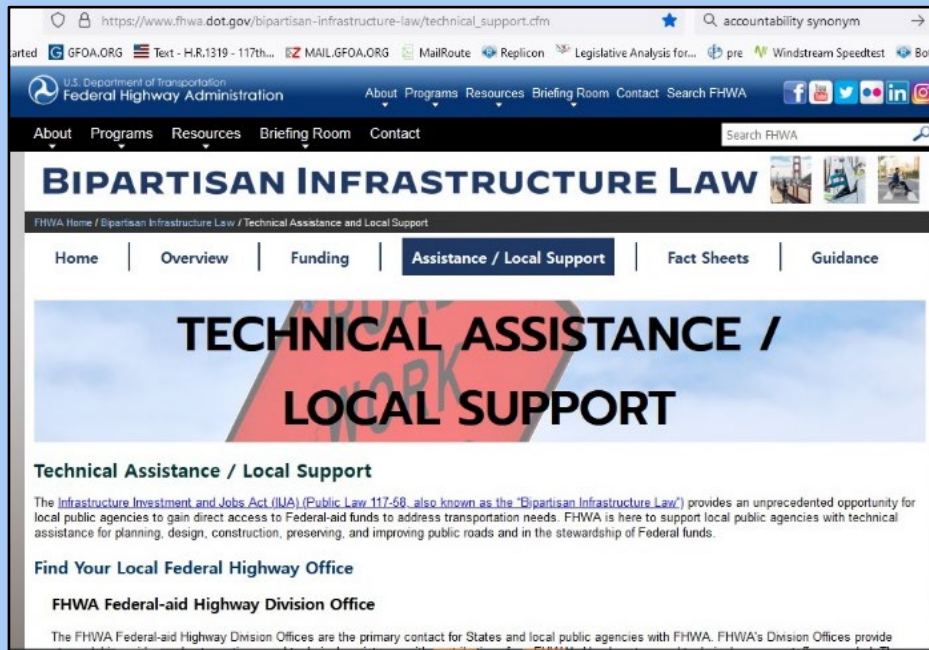
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### Clean Energy and Power

**Challenge:** Our energy system is in desperate need of modernization and reform to increase resilience and bring low-cost clean energy to more Americans. Power outages cost the U.S. economy up to \$70 billion every year and one in three U.S. households face challenges paying their energy bills. Many promising clean energy technologies that can help to meet our climate goals work in the lab but have yet to be demonstrated at scale. Too many of our homes, schools, and offices are inefficient, contributing to high energy bills and air pollution. And for too long, we have ceded ground on manufacturing to our global competitors.

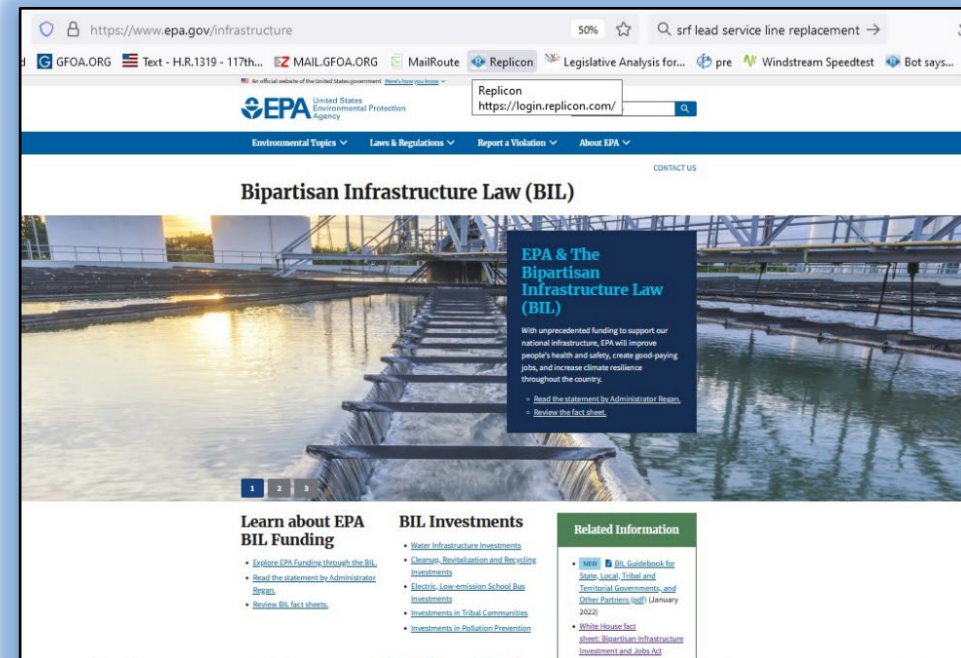
**Solutions:** The Bipartisan Infrastructure Law is the largest investment in clean energy infrastructure in American history. It will modernize our power grid by building and upgrading thousands of miles of resilient transmission lines to reduce outages and energy costs and facilitate the expansion of clean energy. It will invest in energy efficiency and clean energy improvements in our homes, schools, businesses, and communities to make them cleaner and more affordable. And it will fund new programs to support the development, demonstration, and deployment of cutting-edge clean energy technologies to accelerate our transition to a zero-emission economy, while also creating good paying jobs and investing in manufacturing in communities across the country.

# IJA/BIL Implementation



<https://www.epa.gov/infrastructure>

[https://www.fhwa.dot.gov/bipartisan-infrastructure-law/technical\\_support.cfm](https://www.fhwa.dot.gov/bipartisan-infrastructure-law/technical_support.cfm)



# Member Resource

The screenshot shows a web browser window with the URL <https://www.gfoa.org/the-infrastructure-investment-and-jobs-act-iija-was>. The browser's address bar shows the page is zoomed to 90%. The GFOA logo is in the top left, and navigation links for 'MEMBER COMMUNITIES', 'LEARNING DASHBOARD', 'EVENTS', 'MATERIALS LIBRARY', 'LOG IN', and 'SIGN UP' are in the top right. A secondary navigation bar includes 'MEMBERSHIP & EDUCATION', 'BEST PRACTICES & RESOURCES', 'ADVOCACY & AWARDS', 'I WANT TO', and a 'SEARCH' button.

The main content area features a large blue banner with the text 'Infrastructure Investment and Jobs Act (IIJA) Implementation Resources' overlaid on a background image of construction workers on a steel structure. Below the banner, a small breadcrumb trail reads 'Home / Federal Advocacy / Infrastructure Investment and Jobs Act (IIJA) Implementation Resources'. A paragraph of text begins: 'The Infrastructure Investment and Jobs Act (IIJA), aka Bipartisan Infrastructure Law (BIL), was signed into law by President Biden on November 15, 2021. The law authorizes \$1.2 trillion for'.

The Windows taskbar at the bottom shows various application icons, a system tray with 99% battery, 46°F temperature, and the date/time 9:53 AM 2/11/2022.



# Part 2: ARPA Final Rule Updates

# Eligible Expenditures: Four Main Categories

- A. COVID-19 or a negative economic impact
- B. Premium pay for eligible workers
- C. For government services to the extent of the loss of revenue
- D. Investments in water, sewer and broadband infrastructure



# A. Public Health & Negative Economic Impacts

# Final Rule: Capital Expenditures

- **Overall eligibility requirements**

- Capital expenditures subject to same “related and reasonably proportional” standard as other uses
- Recipients other than Tribal governments must complete Written Justification (WJ) for capital expenditures at or over \$1 million
  - » WJ requires recipients to explain why a capital expenditure is appropriate and why the proposed capital expenditure is superior to alternatives
  - » Depending on project size, recipients may be required to submit WJ with reporting; no pre-approval

- **Presumptions for capital expenditures**

**Projects presumed eligible, provided the above requirements are met:**

- ✓ Testing labs and equipment
- ✓ Emergency operations center & equipment
- ✓ Affordable housing
- ✓ Childcare facilities
- ✓ Schools (for Disproportionately Impacted communities)
- ✓ Primary care health clinics and hospitals (for Disproportionately Impacted communities)

**Projects generally presumed to be ineligible:**

- × Construction of new correctional facilities as a response to an increase in rate of crime
- × Construction of new congregate facilities to decrease spread of COVID-19 in facility
- × Construction of convention centers, stadiums or other large capital projects for general economic development or aid to impacted industries



# C. Revenue Loss

# Final Rule Additions

- Recipients may determine their revenue loss by choosing between two options:
  - A standard allowance of up to \$10 million in aggregate, not to exceed your award amount, during the program
  - Calculating your jurisdiction's specific revenue loss each year using Treasury's formula, which compares actual revenue to a counterfactual trend.



# D. Water/Sewer & Broadband Infrastructure

# D. Water/Sewer

- Necessary investments in projects that:
  - Improve access to clean drinking water.
  - Improve wastewater and stormwater infrastructure systems.
  - Provide access to high-quality broadband service.
- Necessary Investment:
  - Designed to provide an adequate minimum level of service and are unlikely to be made using private sources of funds.
- Give priority to those most in need



# Final Rule Additions

- **Invest in water, sewer, and broadband infrastructure**, making necessary investments to improve access to clean drinking water, to support vital wastewater and stormwater infrastructure, and to expand affordable access to broadband internet.
  - Recipients may fund a broad range of water and sewer projects, including those eligible under the EPA's Clean Water State Revolving Fund, EPA's Drinking Water State Revolving Fund, and certain additional projects:
    - Broader set of lead remediation projects, including faucets, fixtures, and internal plumbing in schools and childcare facilities
    - Additional types of stormwater infrastructure, such as culverts
    - Residential wells
    - Certain dam and reservoir rehabilitation

# D. Broadband

## Broadband

Broadband: “Last Mile” projects

Broadband: Other projects

- Build broadband infrastructure with modern technologies in mind, specifically projects that deliver services offering:
  - Reliable 100 Mbps download and 100 Mbps upload speeds, unless impracticable due to topography, geography, or financial cost.
- Assisting underserved households and businesses:
  - Meet household/business needs, such as:
    - Ability to work from home, receive education online, use health applications online etc.
- Treasury interprets “businesses” in the context of Broadband Infrastructure broadly to include:
  - Non-residential users of broadband, including private businesses and institutions that serve the public, such as schools, libraries, healthcare facilities, and public safety organizations.

# Final Rule Additions

- **Invest in water, sewer, and broadband infrastructure**, making necessary investments to improve access to clean drinking water, to support vital wastewater and stormwater infrastructure, and to expand affordable access to broadband internet.
- Recipients may fund high-speed broadband infrastructure in areas of need that the recipient identifies, such as areas without access to adequate speeds, affordable options, or where connections are inconsistent or unreliable:
  - Under the IFR, recipients were required to invest in households and businesses without reliable wireline 25/3 Mbps
  - Final rule broadens flexibility by encouraging recipients to invest in locations without reliable wireline 100/20 Mbps but enables recipients to identify additional need for investment (e.g., affordability)
  - Final rule also adds an affordability requirement

# Procurement Questions

- Recipients **do not need approval** from Treasury to determine whether an investment in a water, sewer, or broadband project is eligible under the SLFRF.
  - Each recipient should review the IFR in order to make its own assessment of whether its intended project meets the eligibility criteria in the IFR.
- Major procurement considerations include
  - **Davis Bacon Requirements (and/or project labor agreements)**
  - **Employees and contractors working on the project**
  - **Technology minimum standards**



# Revisiting Flexibility

# S. 3011 Overview, Cornyn Padilla

- Passed unanimously by Senate on 10/19/21.
  - Waiting on House vote.
- **Additional flexibility for SLFRF recipients funds for Transportation**

## Current SLFRF bill text:

(c) for the provision of government services to the extent of the reduction in revenue of such State, territory, or Tribal government due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the State, territory, or Tribal government prior to the emergency;

## S. 3011 Change in SLFRF bill text:

(II) by amending subparagraph (c) to read as follows:

(c) for the provision of government services up to an amount equal to the greater of—

- (i) the amount of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county to the emergency; or
- (ii) \$10,000,000;

;

# S. 3011 Overview

- Include disaster relief:
  - Emergency relief from natural disasters/negative economic impacts of natural disasters (e.g. temporary emergency housing, food assistance, financial assistance for lost wages, or other immediate needs).
- Funds declined by SLFRF recipients will be returned to the Treasury and would be used towards deficit reduction
- Tribal governments would receive an extension to spend funds from CRF - **December 31, 2022.**

# HR. 7078 Overview

- Flexibility for spending on affordable housing projects planning to use the ARPA funds
- Unlocks Recovery Funds for LIHTC Developments
- Faces Republican opposition to ARPA Fixes
- SLFRF money effectively cannot be used as long-term loans to serve as gap financing for Housing Credit developments.



# Part 3: Where are we now?

# Build Back Better (or Never?)

## What's out

- Paid family leave
  - ~\$225B
- Free community college
  - \$109B
- Dental & Vision (Medicare)
  - ~\$??B
- Prescription drugs
  - ~\$??B

## What's in (\$1.75T)

- Early child care
  - \$400B
- Home care services
  - \$150B
- Climate Investment
  - \$555B
- Hearing (Medicare)
  - \$35B
- Child & Earned ITC
  - \$200B
- Housing
  - \$150B

# Corporate Minimum Tax

- 15% CMT on all holdings ***including Municipal Bonds***
  - \$4T Market:
    - \$230B Property and Casualty
    - \$200B Life Insurers
    - \$600B Banks
- Munis have been subject to AMT before
- CBO has determined potential issuer impact at 50 bps
- Bad Tax Policy!

# Muni Bond Provisions

## Legislative Priorities

### Advance Refunding

- Critical cost-saving tool for public issuers
- Valuable financial management tool that could free up capital for other public works purposes

### Bank Qualified Debt (Small Issuer Exception)

- Expands access to municipal bond market for smaller communities
- Provides long overdue update

### Qualified Infrastructure Bonds (Direct Subsidy Bonds)

- Another tool in the toolbox
- Enhances federal/state/local partnership on infrastructure development

Government Finance Officers' Association  
Airports Council International - North America  
American Hospital Association  
American Public Gas Association  
American Public Power Association  
American Public Works Association  
American Society of Civil Engineers  
American Water Works Association  
Association of Metropolitan Water Agencies  
Association of Public and Land-grant Universities  
Association of School Business Officials International  
Council of Infrastructure Financing Authorities  
Council of State Governments  
International City/County Management Association  
Large Public Power Council  
National Association of Clean Water Agencies  
National Association of College and University Business Officers  
National Association of Counties  
National Association of Health and Educational Facilities Finance Authorities  
National Association of Regional Councils  
National Association of State Auditors, Comptrollers and Treasurers  
National Association of State Treasurers  
National Association of Towns and Townships  
National Community Development Association  
National Council of State Housing Agencies  
National League of Cities  
National Special Districts Coalition  
The United States Conference of Mayors  
Water Environment Federation

October 27, 2021

The Honorable Charles Schumer  
Majority Leader, U.S. Senate  
322 Hart Senate Office Building  
Washington, DC 20510

The Honorable Mitch McConnell  
Minority Leader, U.S. Senate  
317 Russell Senate Office Building  
Washington, DC 20510

The Honorable Nancy Pelosi  
Speaker, U.S. House of Representatives  
1236 Longworth House Office Building  
Washington, DC 20515

The Honorable Kevin McCarthy  
Minority Leader, U.S. House of Representatives  
2468 Rayburn House Office Building  
Washington, DC 20515

# Loss of AR has Cost More than it Saved

**MMA** Independent & Data Driven

## DAILY STRATEGIST

Thursday, November 4, 2021

On Wednesday, municipals edged out gains despite a somewhat anxious Treasury curve leading into the FOMC's statements; municipals finished flatter, Treasuries steeper. Powell reiterated the challenges in predicting the persistence of supply constraints and their effects on inflation, but did suggest that supply chains will return to normal at some point. Municipals found some solace from 1) the perception that supply may remain low, 2) the largest reported ICI



Figure 1 & 2: Figure 1 & 2: Above compares October vs. 2021 secondary breaks across sectors (i.e. larger negative values reflect sectors providing greater secondary trading opportunities on recently issued bonds). And below is an updated break curve.

**FUNDAMENTALLY**

- Municipal 30-day supply \$11.7B.
- Stocks climbed to record high; oil fell back below \$80/barrel intraday.
- Last week of October saw two more payment defaults.
- MMA estimates municipal issuers' aggregate incremental borrowing expense for the use of taxable vs. tax-exempt refunding's since January 2020 is between \$8-10 billion (more to follow in Monday's OUTLOOK).

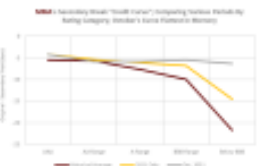
ber's larger deals and trade breaks, it has been the municipal power, healthcare and transportation sectors that have shown a trend toward larger breaks, at least when compared to average sector breaks throughout 3Q21 (Figure 1). Interestingly, October's secondary break credit curve was among the flattest in recent memory; BBB and below credits broke, on average, by similar magnitudes as AA and AAA credits (Figure 2). Below average overall issuance and above average taxable issuance during the month (i.e. so very light new tax-exempt issuance), combined with still low nominal yields, positive flows and only moderate price volatility has maintained a steady de-

mand for new issue product across rating categories. The -4 to -6 bp average secondary "break" range in recent weeks across all larger deals and ratings (which would equate to "0.25% at an intermediate maturity) is a demonstration of the strength of municipal underwriting generally, and the benefits afforded to active municipal bond issuers (particularly when compared to a large public equity offering like Allbirds Inc. that traded up 75.0% in its debut).

**TECHNICALLY**

- MMA Municipal Price Index turned positive on October 29.
- November's seasonal price change has been mixed.
- MMA Muni Value Index has risen to -17 during the past three months of weakness. The current normal range is between -17 and -24, so that the -17 index value reflects a neutral value.

mutual fund inflow in a month (at \$584M), and, importantly, 3) a newly positive underlying price trend established last week, which has a long history of preceding further 5-day and 10-day cumulative gains. The week's primary calendar should begin to break into the secondary today. Looking back to Octo-



| Maturity | Muni 5% AAA Consensus | Treasury | % to Treas | # of SD | Prev Day | BP Chng | 10/27/21 | 10/05/21 | 10/20/20 |
|----------|-----------------------|----------|------------|---------|----------|---------|----------|----------|----------|
| 1yr      | 0.17                  | 0.15     | 113.3%     | -1.0    | 0.18     | -1      | 0.18     | 0.15     | 0.28     |
| 2yr      | 0.23                  | 0.47     | 48.9%      | 0.2     | 0.24     | -1      | 0.23     | 0.18     | 0.33     |
| 5yr      | 0.62                  | 1.19     | 52.1%      | 0.1     | 0.63     | -1      | 0.63     | 0.55     | 0.63     |
| 10yr     | 1.36                  | 1.60     | 85.0%      | -0.8    | 1.37     | -1      | 1.38     | 1.31     | 1.25     |
| 15yr     | 1.65                  | n/a      | n/a        | n/a     | 1.67     | -2      | 1.70     | 1.63     | 1.56     |
| 20yr     | 1.77                  | n/a      | n/a        | n/a     | 1.79     | -2      | 1.82     | 1.75     | 1.75     |
| 30yr     | 1.89                  | 2.02     | 93.6%      | 0.7     | 1.91     | -2      | 1.94     | 1.88     | 1.87     |

- MMA estimates municipal issuers' aggregate incremental borrowing expense for the use of taxable vs. tax-exempt refunding's since January 2020 is between \$8-10 billion.
- Savings recorded by congress: 10 years earned \$17.2B
- vs cost borne: in 4 years cost state and local governments \$8-10B
- In ten years the loss of advanced refunding will cost more to state and local issuers to provide infrastructure than it will have saved the federal government.



Where can I direct my advocacy?

# Timing and Outreach



- House and Senate both vested interest
- CA delegation is critical
- Unsure about timing – the sooner the better



## Registration is Open for GFOA's 116th Annual Conference

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# Thank you!