PUBLIC FINANCE

Municipal securities market integral to rebuilding after natural disasters

By Michael Decker January 27, 2025, 10:50 a.m. EST 4 Min Read

People sift through burned remnants of a property in Los Angeles. *Bloomberg News*

The pictures are horrific and terrifying. Entire neighborhoods wiped out like a war zone. Over 12,000 buildings destroyed. Hundreds of thousands ordered to evacuate. Nearly 40,000 acres burned. And it is not even over yet.

The destruction in Los Angeles is overwhelming. It is hard to gauge the scope of the tragedy.

Rebuilding estimates are as high as $275 billion, with much of that loss uninsured. Once the fires are out and the region is safe, reconstruction will take years. And despite having the fifth biggest economy in the world, California cannot do it alone.

Democrats and Republicans agree that California will need federal help in rebuilding. Congress must act to provide California with money and tools to restore homes, businesses, and infrastructure. Permanent tax-exempt bond authority for rebuilding in disaster areas should be part of that response.

The fires this month in California are the latest in a long list of disasters that have left American communities devastated. Hurricane Ian in 2022 caused $112 billion in damage in Florida and South Carolina. The Maui wildfires in 2023 caused nearly $6 billion in damage and destroyed 2,200 buildings. Hurricanes Helene and Milton last year together caused nearly $75 billion of damage. Hurricanes, floods, wildfires, heatwaves, droughts, and tornadoes are happening more frequently and are more intense when they do happen, according to NASA and others.

Mitigation strategies — recognizing increased risks and making infrastructure investments designed to limit the damage of severe weather and other events before tragedies happen — must be part of the public policy response to increased risk of natural disasters. But we are facing hundreds of billions in rebuilding costs for recent disasters that have already happened, and despite mitigation efforts, we will face future disasters with high rebuilding price tags.

As state and local governments are charged with funding 3/4ths of the country's infrastructure, this catastrophe highlights even more the municipal bond market's vital role in keeping the U.S. competitive globally and maintaining the heart of fiscal federalism at home.

The federal tax code provides broad authority for state and local governments to issue tax-exempt bonds for purely public projects. But bond authority is severely limited when the borrower is a private business. That means an important economic development financing tool, which can save borrowers 200 basis points or more in interest costs, is not available to most businesses to finance rebuilding in areas devastated by disaster.

Congress has addressed these kinds of issues before. In 2002, in response to the 9/11 attacks and the need to rebuild lower Manhattan, Congress enacted Liberty Zone Bond authority that allowed private businesses located in New York limited access to tax-exempt bond financing. The program resulted in billions in investments in apartment, office, retail, and hotel buildings and hastened New York's recovery from the 9/11 tragedy.

Congress acted again in 2005 in response to the devastation in Louisiana, Mississippi, and Alabama after Hurricanes Katrina, Rita, and Wilma. The Gulf Opportunity Zone (GO Zone) Act provided limited authority for developers of residential and commercial property to borrow in the tax-exempt market to finance qualified projects.

In 2008, Congress authorized Midwest Disaster Bonds in response to severe storms that occurred in 10 states between May and July of that year. Again, the legislation provided limited authority for businesses in designated areas to use tax-exempt financing for reconstruction costs and was successful in spurring redevelopment.

While Congress's actions in response to disasters in New York and the Gulf and the Midwest have been successful in helping those areas recover, they have been piecemeal. Congress acts only after disasters happen. This creates uncertainty with respect to the legislative process and delays in implementing reconstruction investments in affected areas. Congress should enact permanent authority for businesses to access tax-exempt financing in disaster-designated areas.

The law would authorize Qualified Disaster Recovery Bonds. Issuance would be available to state and local governments in federally declared disaster areas for a period of time, say five years, after the disaster declaration. State and local issuers could sell bonds on behalf of businesses in affected areas. Eligible projects would include commercial, residential, and retail projects and could cover such capital expenses as residential rental projects, public utility projects, and non-residential real property and fixed improvements. Volume caps could be included to limit the cost to the federal government.

BDA supports and promotes tax-exempt bonds as an efficient tool for infrastructure finance and for taxpayers and investors. A permanent disaster reconstruction program that includes tax-exempt bond authority for businesses seeking to rebuild would provide a powerful, proven tool to state and local governments facing the overwhelming cost and scope of rebuilding. The damage caused by the California wildfires demands a congressional response. Rather than focusing on just California, Congress should create permanent disaster reconstruction bond authority.

As Congress considers options to pay for the reauthorization of the Tax Cuts and Jobs Act, the BDA cautions that it not touch the municipal securities market, which will play a pivotal role in making sure the country can continue to lead the globe in building — and rebuilding — world-class infrastructure.

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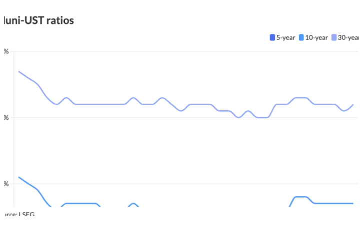

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