Advait Arun
Yakov Feygin
Jackson Moore-Otto

October 2026

Long-term liquidity for long-term public capital planning

A central goal of Biden-era climate and infrastructure legislation was to empower state and local governments to support new investments into clean energy, resilient infrastructure, manufacturing, and other critical sectors. Both the Bipartisan Infrastructure Law (BIL) and the Inflation Reduction Act (IRA) featured many innovative programs for catalyzing investment at the state and local levels, such as the LPO's Title 17 SEFI Carveout, the elective pay provisions of the tax credits, and a number of other grant and loan programs. It is a testament to the popularity of these programs that, at least nominally, were not eliminated in the 2025 One Big Beautiful Bill Act (OB3A).

Surveying the landscape of actions the federal government can take to continue to support this kind of investment in the aftermath of OB3A, we believe that empowering states and communities to advance their decarbonization and infrastructure resilience goals requires going beyond simply reinstating tax credits and grant-based financing programs in BIL and IRA. Our experience supporting state and local governments trying to implement BIL and IRA programs demonstrated that these entities not only have limited capacity to engage with and administer these programs but that these limitations are only amplified by federally imposed financial and fiscal constraints on local and state capital planning.[1]

Even though public and nonprofit entities, including state and local governments, can make use of elective pay to build new clean energy infrastructure, many of them cannot easily develop projects themselves due to their limited access to liquidity on the bond market—nor can they deploy their borrowing capacity to support private and nonprofit developers. And state and local reliance on federal and state-channeled discretionary and competitive grant programs for various infrastructure resilience programs, as well as restrictions on the breadth of those programs, limits the ability of public agencies to build long-term sustainable capital plans.

Acknowledging that state and local governments will always face fiscal limitations, we still believe **state and local leaders should endeavor to invest directly into critical resilient infrastructure and clean energy projects.**[2] The federal government has several options beyond what it authorized in BIL and IRA to empower state and local government investment in critical infrastructure that both lowers costs and helps drive decarbonization and resilience. We separate our recommendations below into two sections: First, recommendations for reforming the municipal bond market to catalyze long-term resilience investments and, second, additional

[1] See: (1) Arun. 2025. "Now We Decide the Future of U.S. Climate Policy." Heatmap News. (2) Arun. 2024. "State capacity: The Inflation Reduction Act, American federalism, and infrastructure finance." Center for Public Enterprise.

[2] This note follows up on a previous note, "Holding Down the Fort," focused on state strategies for advancing clean energy finance. See: Feygin, Yakov and Advait Arun. 2025. "Holding Down the Fort: What States Can Do To Advance Decarbonization." Center for Public Enterprise. Many of the recommendations in this note are featured in the SEEC Institute's Thriving Economy Project report. For more context, see also: Arun, Advait. 2024. "Want to Solve Climate Change? First Fix Muni Bonds." Heatmap News.

suggestions for improving state and local capital planning for infrastructure investment and development.

Reforming the municipal bond market to catalyze long-term resilience investments:[3]

- **Expand Private Activity Bond (PAB) eligibility** to include clean energy projects, grid infrastructure investments, climate-resilient infrastructure investments, and manufacturing investments larger than the current $10 million cap. State bond issuers could then issue tax-exempt PABs to private and nonprofit developers of critical public-purpose projects.[4] Currently, the only way public agencies can use their access to lower-cost financing toward public ends in these sectors is to wholly sponsor and own projects themselves. Changing PAB eligibility rules allows public agencies to support private, nonprofit, and even utility developers[5] where doing so might be more appropriate, especially where agencies may not have the internal technical capacity to manage project ownership themselves. This change gives states more flexibility over public ownership and public finance considerations, lowers the average cost of capital for infrastructure projects of all kinds, and, in supporting greater project development, mobilizes greater volumes of capital.[6]

- **Raise volume caps on PAB issuance** to give state and local bond issuers more financial firepower.[7] This proposal to raise the volume of tax-exempt debt states can issue *must* be paired with the previous one: Expanding PAB eligibility without raising volume caps would constrain how states can deploy their PAB issuance capacity, and raising volume caps without expanding PAB eligibility would not direct any new liquidity toward key resilience-oriented public investments.

- **Reinstate Build America Bonds (BABs)** to draw institutional investors back into the capital market for long-term infrastructure projects. BABs, which were instituted after the Great Recession but were phased out through budget sequestration after 2010, were taxable bond instruments with tax credit and direct pay provisions that essentially allowed state and local borrowers to issue taxable bonds at a subsidized cost. Issuing taxable bonds expanded the pools of interested investors to include institutional

[3] Many of these recommendations were included in the SEEC Institute's Thriving Economy Project report, on page 100.
[4] The recently proposed MAMBA Act already calls for increasing the borrowing cap on manufacturing bonds and expanding PAB eligibility in certain sectors. See: Council of Development Finance Agencies. 2026. "The Modernizing Agricultural and Manufacturing Bonds Act."
[5] Utility developers may need to set up a "GenCo" or a special structure for project development that allows for external capital support and avoids burdening the rate-base.
[6] To address concerns that PAB eligibility expansion could allow local and state governments to use their conduit lending authorities to provide increased support and incentives to industrial and large-load customers, public-purpose "eligibility" rules for PABs could be further clarified—especially given findings that some large-load customers, like data centers, may strain local finances without improving local labor outcomes, to say nothing of their impacts on retail electricity and water prices. Large investments in utility systems could be cleared by a state utility commission, for instance.
[7] Council of Development Finance Agencies. "Volume Cap Resource Center."

investors and pension funds, which do not normally participate in the muni bond market because they do not gain major benefits from tax exemption. By increasing the universe of interested investors, BABs provided critical liquidity to long-term public infrastructure debt issuances when the economy was struggling.[8] Reinstituting BABs today, at a time when investor interest in muni bonds is already high, would also mobilize large volumes of new capital toward public-purpose projects at a time when high interest rates are sapping local government fiscal capacity.[9]

- **Create a national municipal bond clearinghouse** to provide a liquidity backstop to muni bonds by purchasing municipal bonds and securitizing them into standardized liabilities. Versions of this proposal have been successful when implemented. The pandemic-era Municipal Liquidity Facility allowed the Federal Reserve to backstop the muni market when yields spiked severely in spring 2020; the mere announcement of the facility and its promise of liquidity for the otherwise shallow and unstandardized asset class immediately stabilized the market.[10] That facility, which phased out at the end of 2020, could be reconstituted as a federally chartered financing institution that purchases muni bonds and, in the manner of Fannie Mae and Freddie Mac, securitizes them into standardized public asset-backed securities.[11] By issuing these securities as taxable bonds, this secondary market issuer would draw significant liquidity from institutional and foreign investors who do not ordinarily participate in less liquid and less standardized tax-exempt municipal bond markets.[12] Such an entity could also attenuate the impacts of climate risk on the municipal bond market, especially if climate vulnerabilities and shocks destabilize issuer solvency.[13]
    - Some market experts, including the Council of Development Finance Agencies, have proposed setting up a similar clearinghouse facility for **disaster recovery bonds** in particular.[14]
- **Clarify bond arbitrage rules to ensure states can set up public investment vehicles such as revolving loan funds.**[15] Federal law should ensure that states can issue tax-exempt bonds to capitalize public revolving funds that provide catalytic financial support to public and private infrastructure projects through issuing loans to or

[8] Puentes, Robert et al. 2013. "Cut to Invest: Revive Build America Bonds (BABs) to Support State and Local Investments." The Brookings Institution.
[9] Charles Schwab. 2026. "2026 Mid-Year Outlook: Municipal Bonds."
[10] Only two borrowers, the New York MTA and the state of Illinois, ever made use of the facility.
[11] Feygin, Yakov and Pooja Reddy. 2021. *Building Our Municipalities Markets Better: The Case for a GSE for Municipal Finance*. Berggruen Institute. See also: Omarova, Saule. 2022. *The National Investment Authority: A Blueprint*. Berggruen Institute.
[12] Such a structure could act as an institutionally stable alternative to BAB bonds.
[13] Mishra, Aayushi et al. 2026. "Physical climate risk creates challenges and opportunities in US municipal finance." Nature Cities. (Advait Arun was a co-author of this paper in a personal capacity.)
[14] See: (1) Tankus, Nathan. 2024. "The Fed should create a hurricane crisis facility." The Financial Times. (2) Devitt, Caitlin. 2024. "Issuer group urges Congress to create permanent disaster recovery bonds." The Bond Buyer.
[15] PWC. 2026. "Regulatory considerations for municipal bonds."

purchasing securities in those projects. Some states like Rhode Island have set up new revolving funds without issue, but policymakers elsewhere are unsure if they can currently use the bond market for this purpose. The federal government could exempt state revolving loan funds from arbitrage rebate restrictions to ensure states can retain and lend interest earned on funds that have higher yields than the tax-exempt debt that backed them.[16]

- **Expand FEMA's Building Resilient Infrastructure and Communities (BRIC) grant program with greater appropriations.**[17] While the BRIC program, the country's preeminent pre-disaster mitigation grant program, remains protected for now despite funding threats, it must be further strengthened with additional appropriations and speedier payout times. The federal government's role supporting disaster preparedness and relief is a key mitigant against downgrades of state and local governments' credit ratings.[18] The proactive nature of BRIC grants allows communities to make zonal adaptation investments that reduce property insurance costs and suppress climate risk damages for all homeowners and businesses in an area—rather than having them access post-disaster relief subject to means-testing and in an individualized, uncoordinated manner.

- **Provide states with funding to set up public investment vehicles such as revolving loan funds in the manner of the water-focused State Revolving Funds.**[19] The federal government already capitalizes state-level revolving loan funds and infrastructure banks for water and transportation projects, respectively, and, in the case of water-related projects, lets states create their own lending standards and project pipelines subject to limited federal control.[20] For state-backed water projects meeting federal standards, the federal government set up the WIFIA (Water Infrastructure Finance and Innovation Act) loan program to backstop state lending. The federal government should capitalize vehicles like these for housing, energy, and other asset classes encompassing emerging infrastructure.

Additional suggestions for improving state and local capital planning for infrastructure:

- **Expand and enhance federal transportation infrastructure loan programs like RRIF (Railroad Rehabilitation and Improvement Financing) and TIFIA (Transportation Infrastructure Finance and Innovation Act)**. These loan programs leverage the US government's low cost of capital and, for any given appropriation, can provide

[16] This is a long-standing recommendation from the Government Finance Officers Association.
[17] Germ, Aubrey and Edward Fernandez. 2026. "FEMA BRIC is back: What the restart means for resilience funding." ICF.
[18] Cohick, Michael. 2025. "What Happens to Munis If FEMA Ends?" VanEck.
[19] We have discussed this proposal with the SEEC Institute—the SRFs are discussed in the SEEC Institute's Thriving Economy Project report on pages 38, 71, and 225—and with various House and Senate offices. Also see: Feygin, Yakov and Chirag Lala. 2024. *Revolving Loan Funds*. Center for Public Enterprise.
[20] Federal support of state water revolving loan funds is constrained by what is known as the "equivalency rule."

significantly more fiscal firepower to state and local borrowers than grants ever could, supporting more total spending while avoiding the oversubscription and funding uncertainty concerns associated with many competitive grant programs.[21]

- **Provide RRIF with standing credit subsidy appropriations**, like the DOE Loan Programs Office receives, so that applicants do not need to pay for their own credit subsidies.[22]
- **Eliminate the investment-grade credit rating requirement for TIFIA loans**, insofar as many smaller-scale transportation projects never receive credit ratings.[23] The DOT's Build America Bureau can still make appropriate judgments of borrower creditworthiness through its own underwriting process, focused on assessing an applicant's ability to repay for a project or a pool of projects.[24]
- **Direct the DOT's Build America Bureau to clarify how RRIF and TIFIA can support "transit-oriented development" (TOD) projects that combine housing and transit assets.** Ensure that, where possible, states and localities can use these loan programs to capitalize transit-oriented development assets more broadly, rather than rail-based transportation assets exclusively for RRIF.
- **Enable community lenders and developers (e.g., CDFIs, green banks) to pool local transportation and TOD projects and, in doing so, meet the threshold for accessing TIFIA lending.**[25] This proposal expands on existing FAST Act authorities, which already authorize State Infrastructure Banks (SIBs) to draw on TIFIA capital for a pool of projects. This reform still requires the DOT to judge borrower creditworthiness directly by ability to repay rather than relying on project-level credit ratings, as mentioned above.

- **Create a loan program for port and airport decarbonization, similar to RRIF and TIFIA, rather than relying on discretionary grant appropriations.** Port and airport decarbonization projects are multimodal investments that require large volumes of capital. Grants have limited runway and private investors may still be skittish about underwriting these investments. This presents a clear role for public capital.
- **Expand use of "advance appropriations" for more federal infrastructure financing programs.** BIL made significant use of advance appropriations—reserving

[21] Moore-Otto, Jackson. 2026. "Loans can stabilize transit funding." Center for Public Enterprise. (Originally published for the Institute for Progress's Transit Abundance Playbook.)
[22] ibid.
[23] This recommendation was included in the SEEC Institute's Thriving Economy Project report, on page 74.
[24] McAdams, Ben and Aaron Shroyer. 2025. "How an infrastructure financing law can help build thousands of homes and expand transit access." The Brookings Institute.
[25] This is a long-standing reform recommendation from organizations like the Local Initiatives Support Corporation (LISC) and Enterprise Community Partners.

appropriations for future fiscal years in advance of those budget cycles—for all modes of surface transportation programs, providing certainty to state and local governments, as well as to upstream suppliers, that projects would have access to consistent federal funding resources.[26] While more work remains to realize true funding stability and move away from grant programs, as per the previous suggestion, advance appropriations represent real progress that must be sustained for critical public-purpose infrastructure—and other infrastructure funding programs should make similar use of the budgeting technique.

- **Provide federal incentives and top-ups, such as advance market commitments and contracts for differences, for the use of clean building materials and power electronics for public projects.** State departments of transportation, housing finance agencies, and school construction agencies—among others—are major procurers of steel and concrete, both of which carry significant embodied emissions. Providing federal incentives to public agencies procuring clean building materials helps build markets for those resources that private investors and developers, especially those working under public contract, can make use of. Electrical transformers and substations are also backordered, and remain a key bottleneck to upgrading, electrifying, and decarbonizing both housing and transportation infrastructure. Prepurchasing and warehousing power electronics reserved for housing and transportation assets helps speed up and smooth the buildout of those assets.
    - **Shifting federal infrastructure finance and grant programs toward encouraging the procurement of clean building materials**, with a waiver for Build America Buy America (BABA) provisions[27] permitted where such procurement from a domestic supplier is impossible or too costly even with top-ups and incentives, could provide a coherent and powerful demand lever for the scale-up of clean concrete and steel production.
- **Promote standardized procurement where possible across these infrastructure and transportation loan programs.** The federal government should help coordinate and manage procurement of standardized assets such as buses and railcars so that state and local borrowers do not inflate their own costs through individual, customized, and one-off procurement of these assets in an uncoordinated, unstandardized manner. The federal government can either procure assets wholesale and resell to borrowers or condition its loans on borrowers committing to purchase assets that other borrowers are also purchasing.[28]

[26] Klein, Sarah. 2026. "How IIJA's Funding Structure Complicates Surface Transportation Reauthorization • Bipartisan Policy Center." Bipartisan Policy Center.
[27] Currently, entities subject to BABA must navigate a labor- and time- intensive waiver process. Congress should establish a certain dollar threshold per agency of BABA-exempt purchases to allow public entities to procure the specialized equipment they need.
[28] For an instructive discussion of how local procurement and customization increases costs, see: Bou Sleman et al. 2025. "Paying Less for Public Transit Buses." Brookings.

Conclusion:

The federal government can quickly and effectively support the capacity of state and local governments to make public investments in advancing decarbonization, building resilient infrastructure, and advancing economic development. Providing state and local public agencies with greater access to liquidity and easier byways for deploying it toward critical public goals allows them to build vital state capacity to plan for the future.[29] BIL and IRA did not sufficiently expand public agencies' access to liquidity for most resilient infrastructure projects; its neglect of the municipal bond market, its reliance on grant-based delivery, and its sometimes-inflexible underwriting prevented state and local governments from making the most ambitious investments they could. **The combination of reforms to muni markets and federal infrastructure finance programs allows localities to invest billions more into necessary decarbonization and resilience projects more quickly and at lower costs of capital.** In doing so, these reforms empower states and localities to serve as the "laboratories of democracy" for resilience-forward capital planning.

[29] Feygin, Yakov. 2023. "The Designer Economy." Noema.