Government Finance Officers Association

2016 Federal Update

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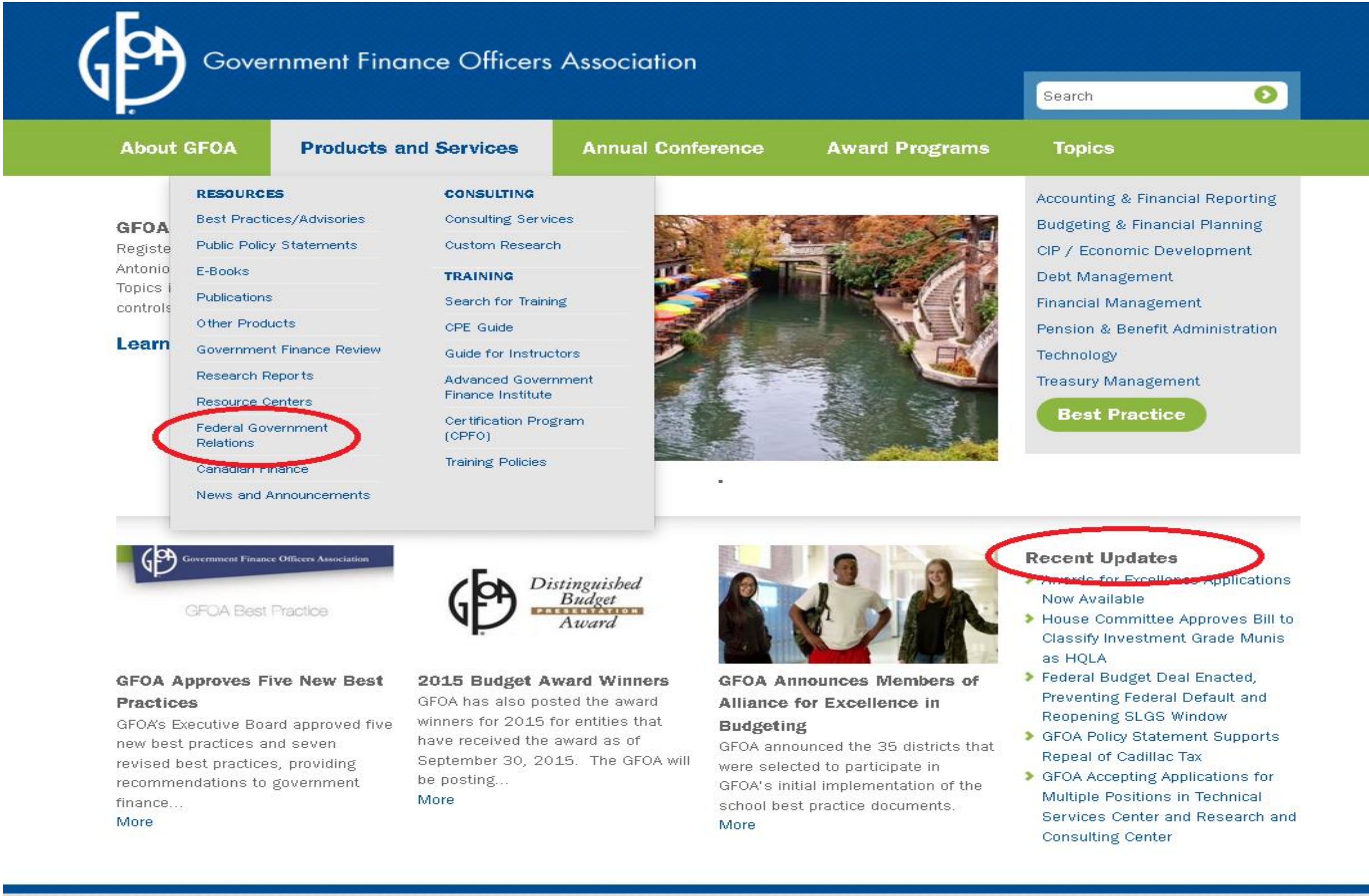
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GFOA Best Practice
Distinguished Budget Presentation Award
GFOA Approves Five New Best Practices
GFOA's Executive Board approved five new best practices and seven revised best practices, providing recommendations to government finance...
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2015 Budget Award Winners
GFOA has also posted the award winners for 2015 for entities that have received the award as of September 30, 2015. The GFOA will be posting...
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GFOA Announces Members of Alliance for Excellence in Budgeting
GFOA announced the 35 districts that were selected to participate in GFOA's initial implementation of the school best practice documents.
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Recent Updates
Awards for Excellence Applications Now Available
House Committee Approves Bill to Classify Investment Grade Munis as HQLA
Federal Budget Deal Enacted, Preventing Federal Default and Reopening SLGS Window
GFOA Policy Statement Supports Repeal of Cadillac Tax
GFOA Accepting Applications for Multiple Positions in Technical Services Center and Research and Consulting Center

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  - Municipal Advisor (MA) Rule Resource Center
  - Marketplace Fairness Act Resource Center
  - Federal Tax Exemption on Municipal Bond Interest Resource Center
  - Liquidity Coverage Ratio Rule Resource Center
  - Affordable Care Act Resource Center

Federal Government Relations

GFOA's Federal Liaison Center - Our Mission:

The mission of the Federal Liaison Center is to inform GFOA members about federal legislation, regulations, judicial actions, and policies that affect public finance functions and to represent the interests of GFOA in Washington, DC. Center staff collects, analyzes, and disseminates information to GFOA members and provides policymakers with information on GFOA positions.

The center's activities include participating in many working groups with other state and local organizations on issues of importance to GFOA members including: public financing, tax, pension and benefits, and banking issues. We maintain close working relationships with many regulatory agencies including the Securities and Exchange Commission (SEC), the Internal Revenue Service (IRS), the Municipal Securities Rulemaking Board (MSRB), and have constant dialogue with other organizations such as the National Association of Counties (NACo), the National League of Cities (NLC), the National Governors Association (NGA), and the National Association of State Treasurers (NAST).

We always appreciate and would like your input and suggestions about the GFOA's Washington activities. Please e-mail Dustin McDonald or Emily Brock with your ideas.

Resource Center

- **2015 GFOA Legislative and Regulatory Agenda**
- Liquidity Coverage Ratio Rule Resource Center
- Federal Tax Exemption on Municipal Bond Interest Resource Center
- Marketplace Fairness Act and RTPA Resource Center
- Municipal Advisor (MA) Rule Resource Center
- Affordable Care Act Resource Center
- Internet Tax Freedom Act Resource Center

Agenda

I. 2016 Legislative Priorities and Outlook

i. Preservation of the Tax Exemption on Muni Bond Interest

ii. High Quality Liquid Assets (HQLA) Legislation

iii. Bank Qualified Debt Legislation

II. 2016 Regulatory Outlook

i. SEC Municipalities Continuing Disclosure Cooperation (MCDC) Initiative

III. Upcoming GFOA Webinars and Annual Conference

Preservation of the Tax Exemption

- **Tax Reform – 2016 & 2017**
- **Get Engaged!!!!!**
  - State and local government association sign-on letter.
    - GFOA Homepage
    - Contact – emma@statetreasurers.org
    - 2/15 Deadline

March 2, 2016

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Sander M. Levin
Ranking Member
Committee on Ways and Means
United States House of Representatives
1106 Longworth House Office Building
Washington, DC 20515

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Brady, Ranking Member Levin, Chairman Hatch, and Ranking Member Wyden:

As leaders in state and municipal government, we are writing to stress the importance of maintaining the current tax exemption for municipal bonds. It has been estimated that at the combined state and local levels, we must spend $3.6 trillion by the year 2020 to meet our infrastructure needs, and the importance of building and maintaining our public infrastructure has never been more apparent.[1] Tax exemption of interest on municipal bonds was implemented more than 100 years ago at the dawn of the U.S. income tax system, and we strenuously oppose any reduction or elimination of this tax exemption. Any such change will inhibit our ability to make critical infrastructure investments. Proposals to change this commitment to tax-free municipal bonds would not only be costly for state and local taxpayers, but also result in fewer projects, fewer jobs and further deterioration of our infrastructure.

Three quarters of all public infrastructure projects in the United States are built by the states and local governmental entities and tax-exempt bonds are the primary financing mechanism for these essential projects. Municipal bonds have a very strong repayment record – much higher than corporate bonds – allowing state and local governments to borrow responsibly for capital projects, and providing a safe and reliable investment option for our citizens.

Tax-exempt municipal bonds finance highways, bridges, transit systems, airports, water and wastewater systems, schools, higher education facilities, and many other basic infrastructure projects. Tax-exempt bonds bring affordable capital to these projects, saving an average of 25 to 30 percent on interest costs compared to taxable bonds. In an age of constrained federal and state budgets, the ability to save billions of dollars on infrastructure financing is critical for state and

[1] "Failure to Act, The Impact of Current Infrastructure Investment on America's Economic Future." Page 7, Report, American Society of Civil Engineers, January 15, 2013. http://www.asce.org/uploadedFiles/Infrastructure/Failure_to_Act/Failure_to_Act_Report.pdf

HR 2209 – High Quality Liquid Assets Legislation

- 9/3/14 - Federal Reserve, FDIC, and Comptroller Of Currency approved new liquidity standards for banks.
- New rules are a response to the 2008 financial crisis and will require banks with at least $250B in total assets to maintain designated levels of high-quality liquid assets (HQLA - assets that can easily be converted to cash) during a 30-day fiscal stress scenario.
- ***Rule classifies foreign sovereign debt securities as HQLA while excluding investment grade munis!***
- Excluding munis from HQLA means banks could not use municipal securities to satisfy the liquidity coverage requirement of the new rules.
- 1/1/15 - Rules went into effect.

HR 2209 - High Quality Liquid Assets Legislation

2015 & 2016 Activity

- **May 2015** – Bipartisan legislation introduced to amend the Rule.
- **Nov 2015** – House Financial Services Committee approved HR 2209 by a vote of 56 – 1.
- **Feb 2016** – House to vote on HR 2209 *(under suspension of the House rules).*
  – GFOA working with Senators to introduce Senate companion legislation to HR 2209.
- **How Can You Help?** Send letters to your Senators!!!

HR 2229 - Municipal Bond Market Support Act

- Bipartisan legislation that would increase the bank qualified debt limit from $10 million to $30 million.

- **Uuuuuummmm . . . OK.   Why Should I Care?**
  - BQ debt helps smaller issuers reduce debt issuance costs *(typically 25 to 40 basis points)*
  - *25 – 40 bps costs savings on a 15-year, $10M bond = $232K - $370K*
  - *25 – 40 bps cost savings on a 15-year, $30M bond = $696K - $1.1M*

- **Awesome. So What Can I Do to Help?**
  - Send letters to your House Members!!!

SEC – MCDC Initiative

- 2014 Initiative to improve continuing disclosure compliance by compelling government bond issuers to self-report violations of federal securities laws.

- Initiative offered issuers standardized and “favorable” settlement terms if they self-reported instances of inaccurate statements in bond offering documents about their prior continuing disclosure obligations.

SEC – MCDC Initiative

- **Standardized and "Favorable" Settlement Terms**
  - Issuer will consent to a cease and desist order, which they will have to carry on their future official statements for 5 years.
  - Issuer agrees to further cooperate with any additional SEC investigations, including those regarding the roles of individuals involved.
  - No monetary penalties for issuers, however the SEC reserves the right to impose monetary fines on individuals who it determines are at fault for violating federal securities laws.
  - Issuer agrees to establish appropriate continuing disclosure policies, procedures and training and update its past delinquent continuing disclosure filings.

SEC – MCDC Initiative

- **Underwriter Settlements – Two rounds in 2015**
  - 58 underwriting firms paid $13.5M for failing to identify misstatements and omissions before offering and selling bonds as required by SEC Rule 15c2-12.
    - Violations were from 2010 – 2014.
    - Included failure to file material event notices and late filings (some as little as 14 days)
    - All but four of the deals (90%) were negotiated.
    - Very quick turnaround on underwriter settlements (2 weeks)
    - Likely one more round of underwriter settlements before issuer settlement rounds begin (timing TBD)

GFOA Webinars

- **2/17 – Understanding Public Private Partnerships**
- **2/24 – New Accounting for Pensions and Other Post-Employment Benefits**
- **4/14 – Best Practices in Budgeting and Fiscal Policy**
- **4/20 – Understanding Internal Control**

GFOA 110th Annual Conference

Questions?