

Federal Legislative Update: What to Expect in 2020



Government Finance Officers Association

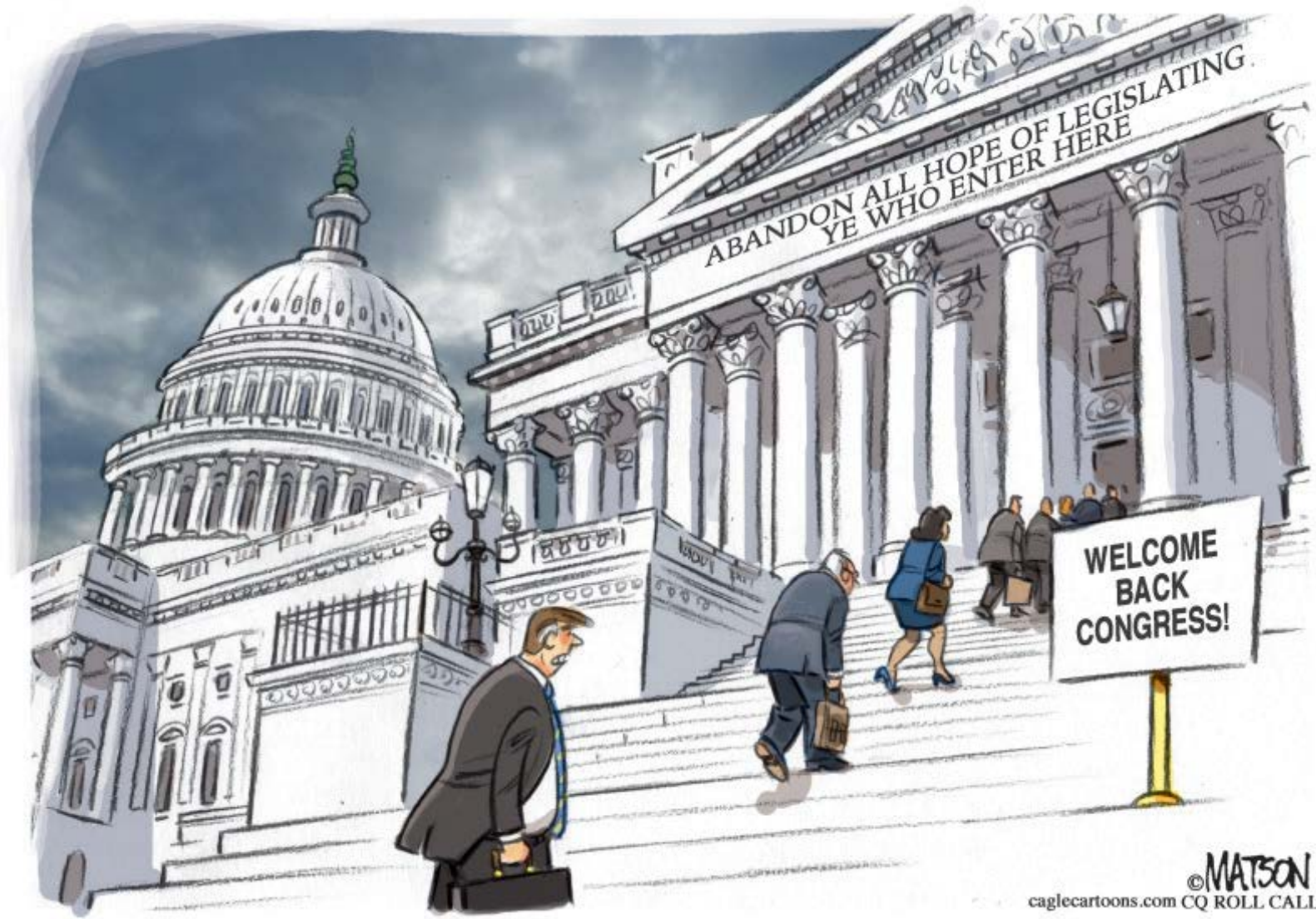
Maryland GFOA
Michael Belarmino
January 24, 2020

Federal Liaison Center

- Congressional Advocacy
 - Tax exempt municipal bonds
 - Infrastructure
 - Deductibility of state & local taxes
 - Remote sales tax
 - Pensions & benefits
- Executive Advocacy
 - SEC
 - MSRB
- Amicus Briefs to the Supreme Court



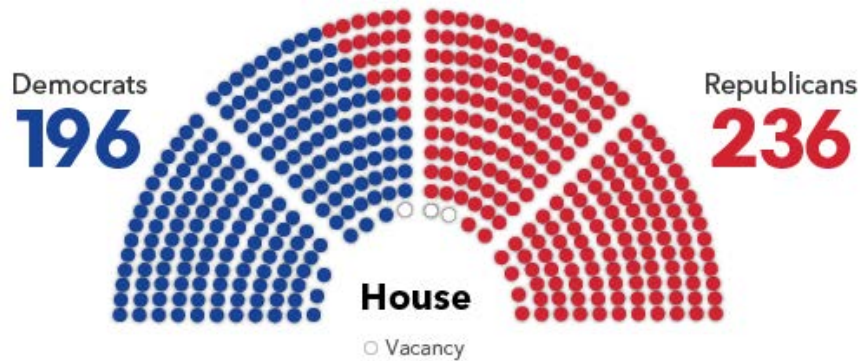
Current Mood



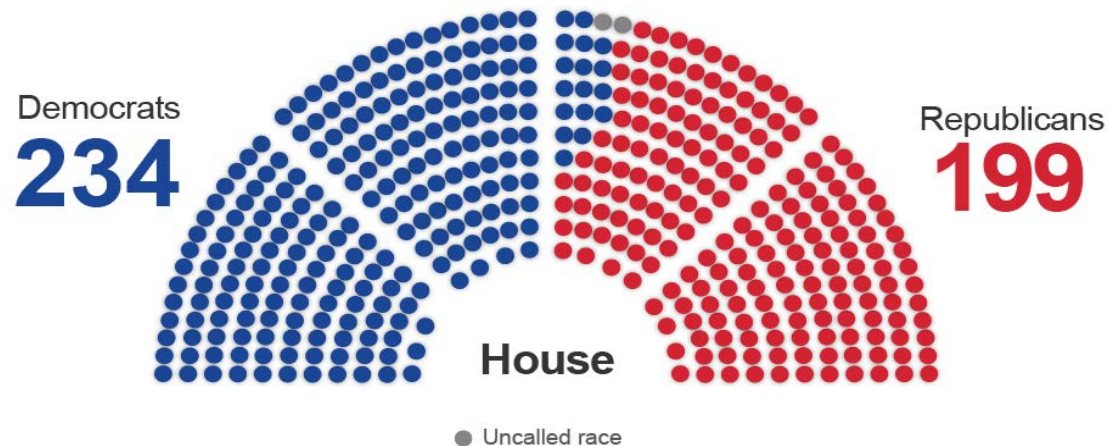
Balance Shift in the House

What will 2020 Elections Bring?

115th Congress



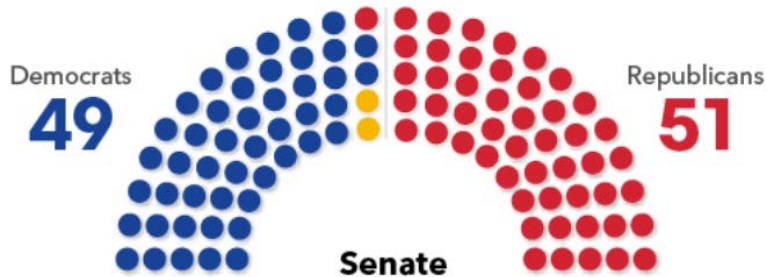
116th Congress



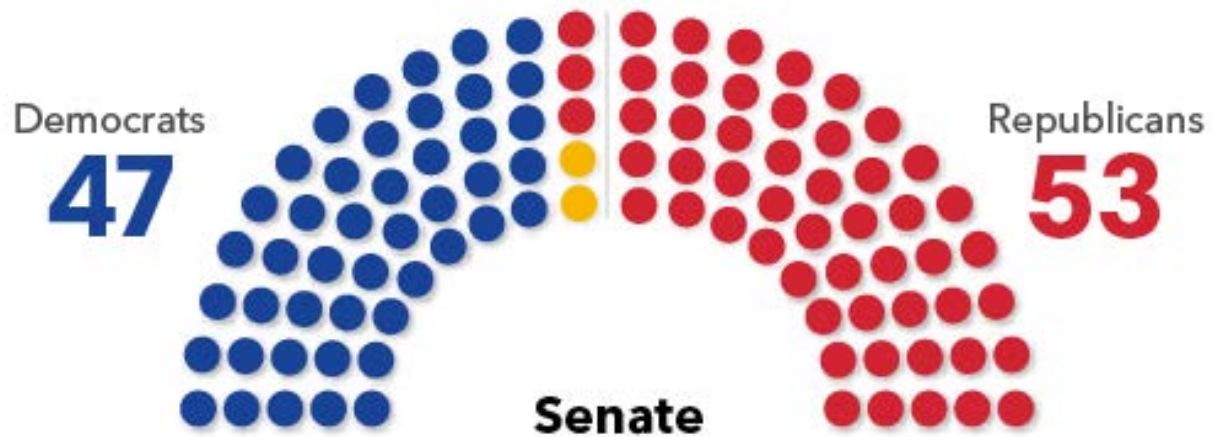
Senate Balance of Power

What will 2020 Elections Bring?

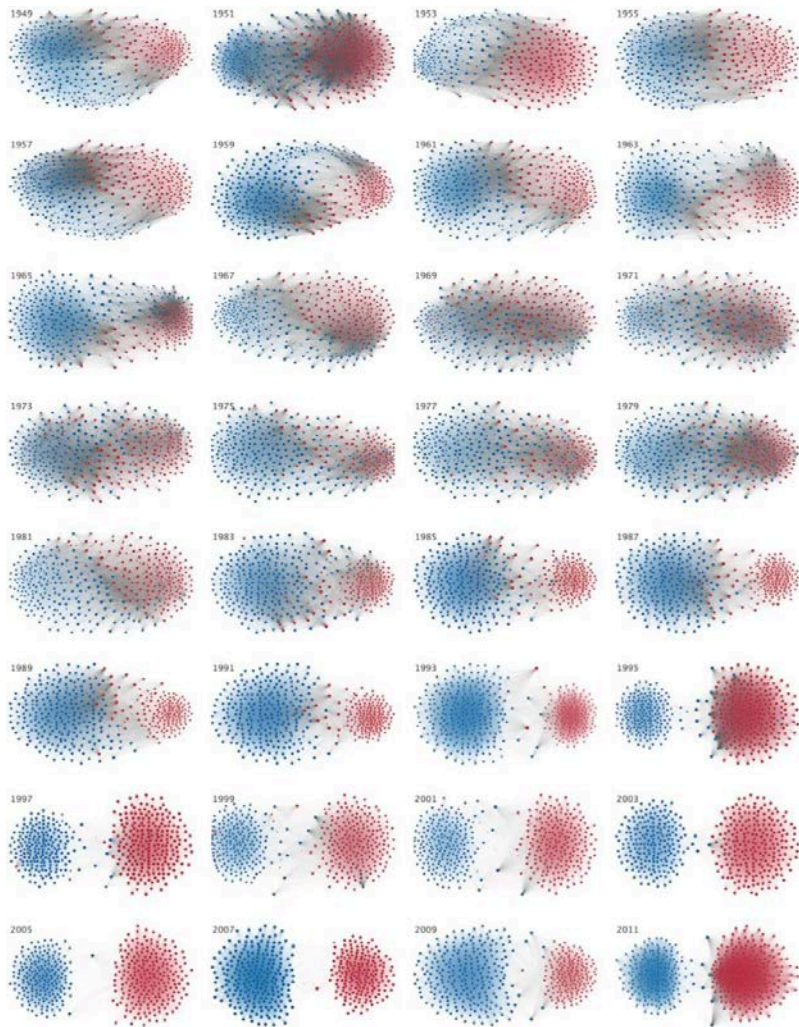
115th Congress



116th Congress



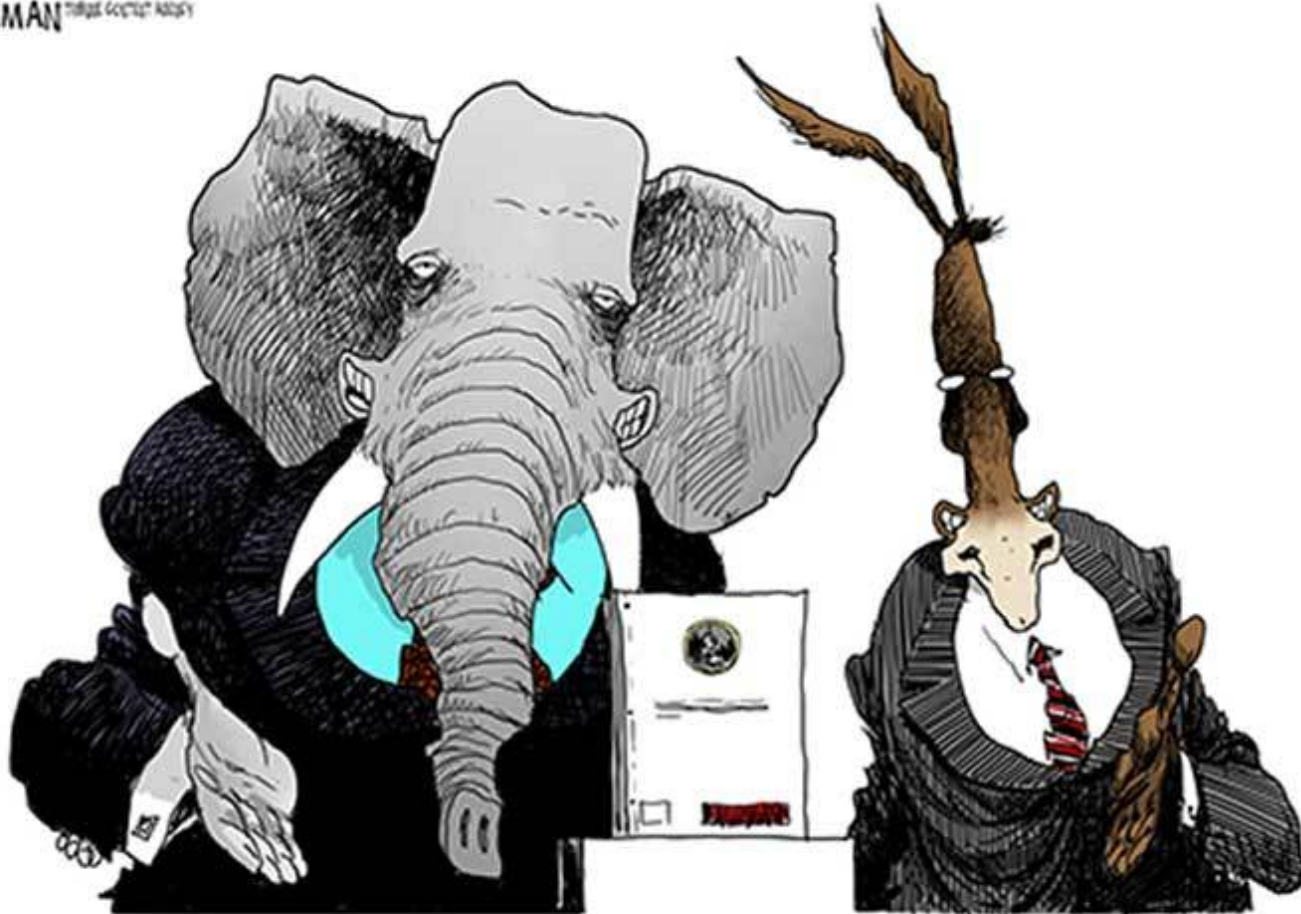
A Troubling Snapshot – U.S. House of Representatives



- Data analyzed – congressional votes from 1949 to 2011
- The dots are Representatives and there are lines connecting pairs who vote together a given number of times
- Dots are also placed according to how frequently vote together overall

Ending 2019 on a High Note???

SHENEMAN THIRD COAST ASBY



"THIS BUDGET IS PROOF THAT, IF WE PUT POLITICS ASIDE AND WORK TOGETHER, WE CAN ACCOMPLISH THE ABSOLUTE BARE MINIMUM."



Spending Deal Highlights

- Top line number of \$1.4T to fund federal government FY 2020
- With just days left, avoided government shutdown
- The 12 federal spending bills were split into two “minibuses”
 - 4 percent bump in defense spending (\$746B)
 - 5 percent bump in nondefense spending (\$669B)
- Along for the ride
 - Cadillac Tax Repeal
 - Age limit for tobacco products
 - Select group of tax extenders, including
 - Deductions for mortgage insurance premiums, college costs, and large medical expenses
 - Credits for employer-paid family and medical leave



116th 1st Session brought us...

- House passes SALT Cap repeal...kind of...
 - H.R. 5377 (Restoring Tax Fairness for State and Localities Act)
 - Doubles the SALT deduction to \$20k for 2019
 - Removes the \$10k cap for 2020-2021
 - Bring back the 39.6% income tax bracket

- Bills related to GFOA priorities
 - H.R. 2772, led by Reps. Ruppberger (D-MD) and Stivers (R-OH), would reinstate advance refunding
 - H.R. 3967, led by Reps. Sewell (D-AL) and Reed (R-NY), would increase BQ limit from \$10M to \$30M, adjust cap for inflation in out years, peg the issuance to the borrower

- Awaiting infrastructure framework

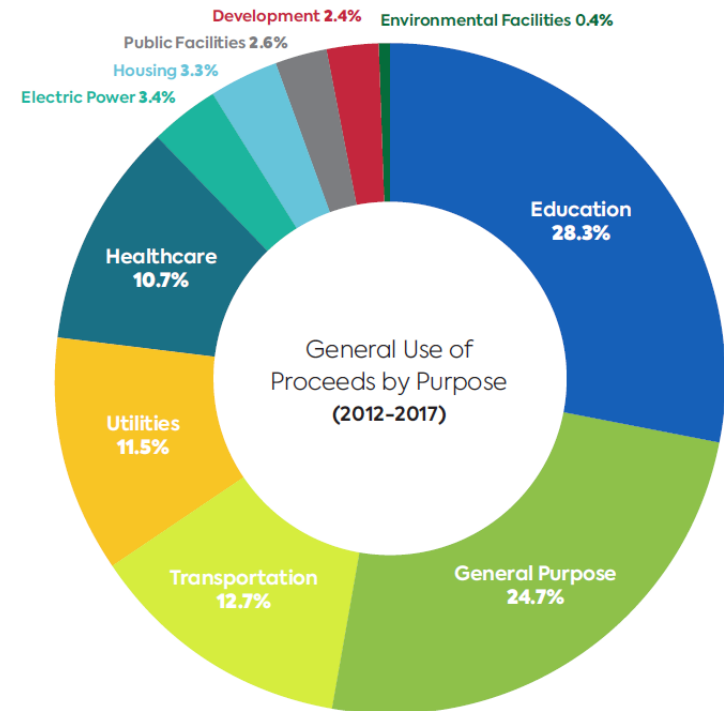


GFOA Legislative Priorities

- Protection of the Municipal Bond
 - ❖ Munis are bipartisan and apolitical
 - Munis are an easy story to tell (#buildbybonds)
 - Munis aren't *just* roads
 - ❖ Munis constitute a strong, vibrant capital market for infrastructure

PROJECTS FUNDED BY TAX-EXEMPT BONDS

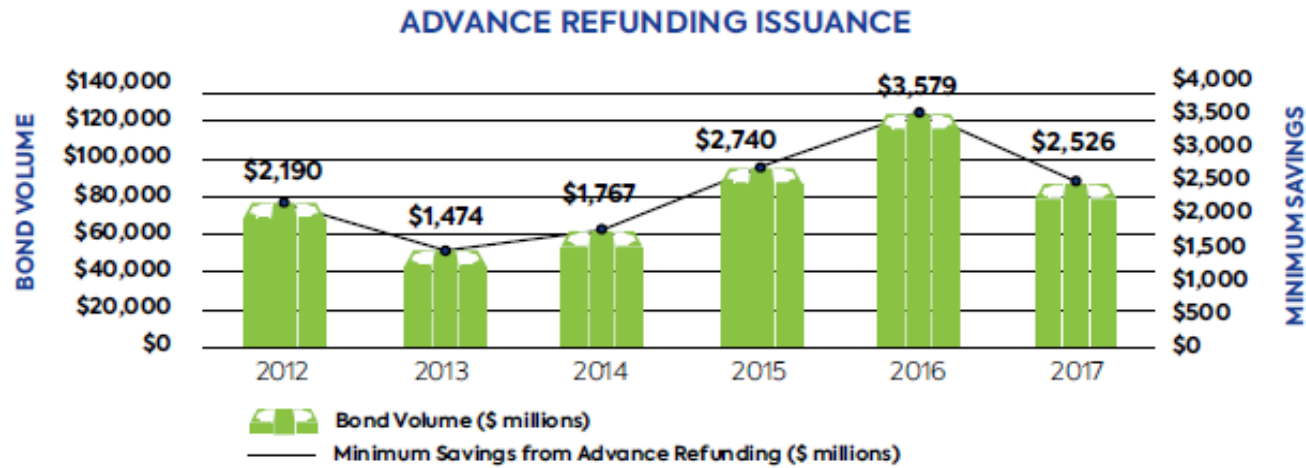
Table 2. Projects funded by bonds by type and five year average



Source: Thomson Reuters

TCJA Impacts – Advance Refunding

- ❖ Savings of 3-8% of par foregone
- ❖ Bringing back AR is our number one goal:
 - Will it stand alone? Not likely!
- ❖ HR 2772 - bipartisan but needs cosponsors to join Ruppertsberger and Stivers



Source: GFOA analysis of Thomson Reuters data



TCJA Impacts – Advance Refunding

Restore Advance Refunding

316 views • Published on Jul 10, 2019

2 0 SHARE SAVE ...

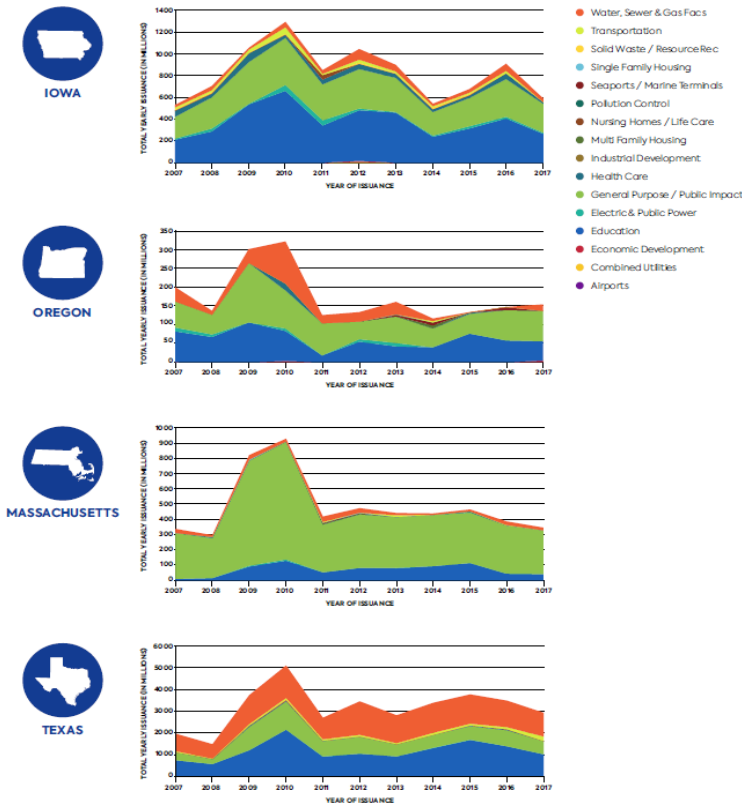
<https://youtu.be/jwcl7x4DZfl>



Bank Qualified Debt (aka Small Borrower Exception)

TAX-EXEMPT MUNICIPAL BONDS & INFRASTRUCTURE

BQ BOND ISSUANCE BY GENERAL USE OF PROCEEDS: 2007-2017 (in millions)



Source: GFOA analysis of Thomson Reuters data as of 11/28/18

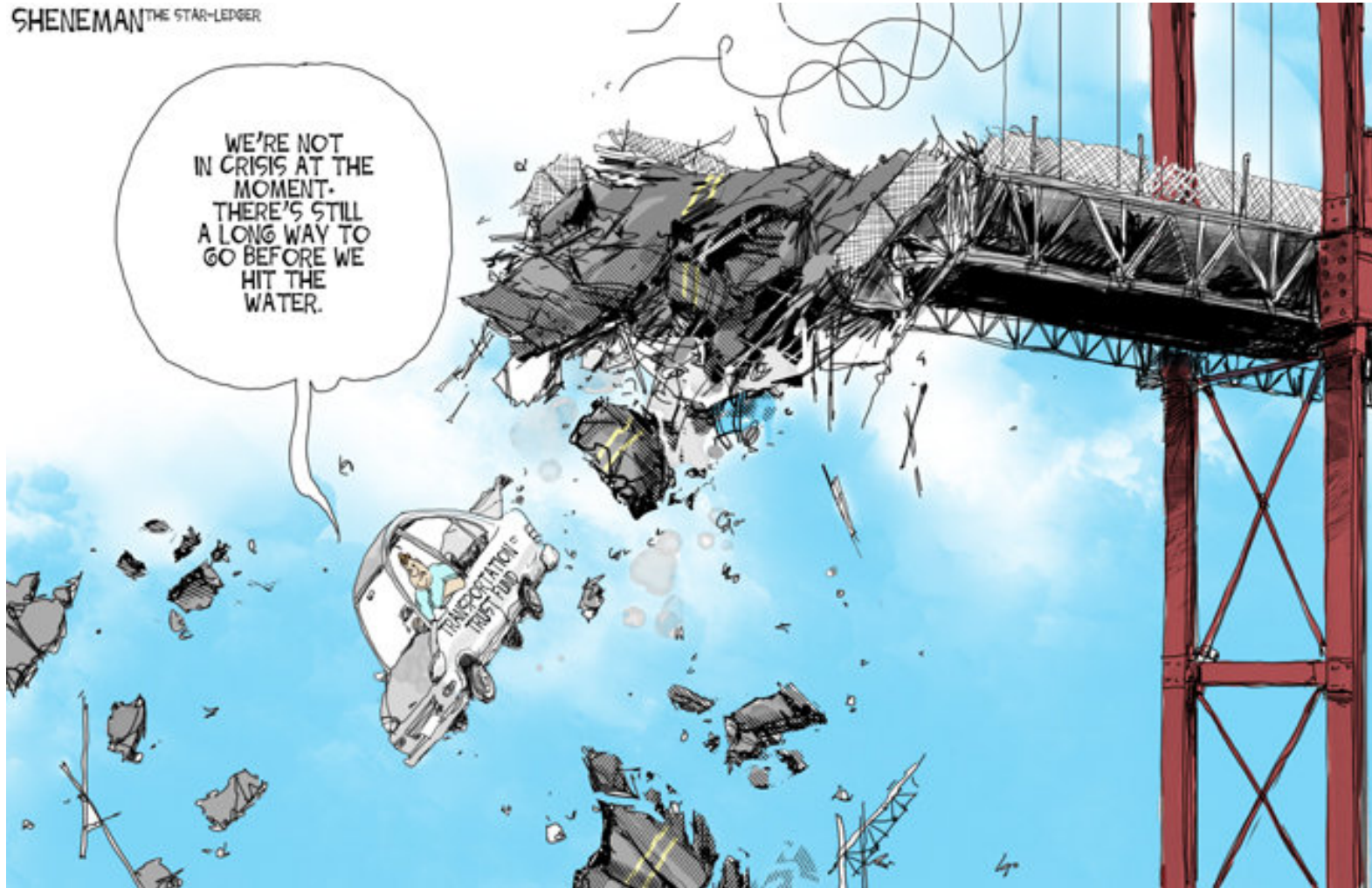
JANUARY 2019 5

- ❖ Small Issuer Exception allows smaller jurisdictions working with community banks to issue TE BQ debt
- ❖ Right now the cap is \$10m per issuer, we are asking to raise the cap to \$30m, pegged to inflation and based at the level of the borrower
 - Cost- NOMINAL!
- ❖ HR 3967
 - Bipartisan, led by W&M

Transportation Reauthorization

SHENEMAN THE STAR-LEDGER

WE'RE NOT
IN CRISIS AT THE
MOMENT.
THERE'S STILL
A LONG WAY TO
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HIT THE
WATER.



Where We Are on Infrastructure

- Early 2019, tentative deal struck between President and Democratic Leaders
- No specifics but \$2T in funding:
 - ❖ Repair roads and bridges
 - ❖ Water projects
 - ❖ Emphasis on broadband/power grid
- So now what?



Infrastructure Framework

- Some Coordination between House T&I and W&M
- T&I Chairman DeFazio
 - ❖ Laid out principles in closed door meeting in November 2019
 - ❖ Fast Act rewrite v. go bigger
 - ❖ Trust Fund challenges
- W&M Chairman Neal
 - ❖ Hearing next week to examine ways to pay for a federal infrastructure package
 - ❖ Witness TBD
 - ❖ Framework TBD



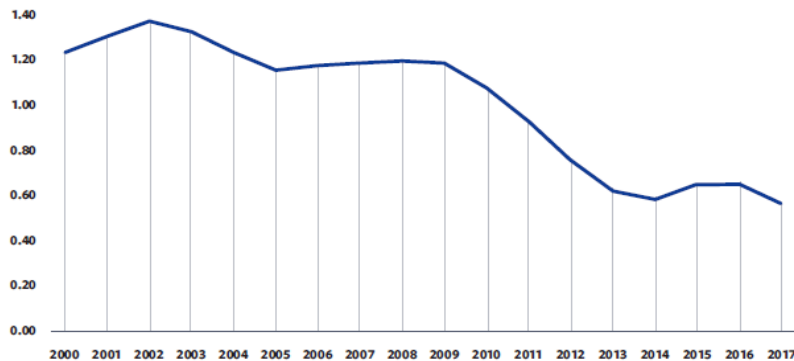
The Importance of Outreach



Infrastructure Funding

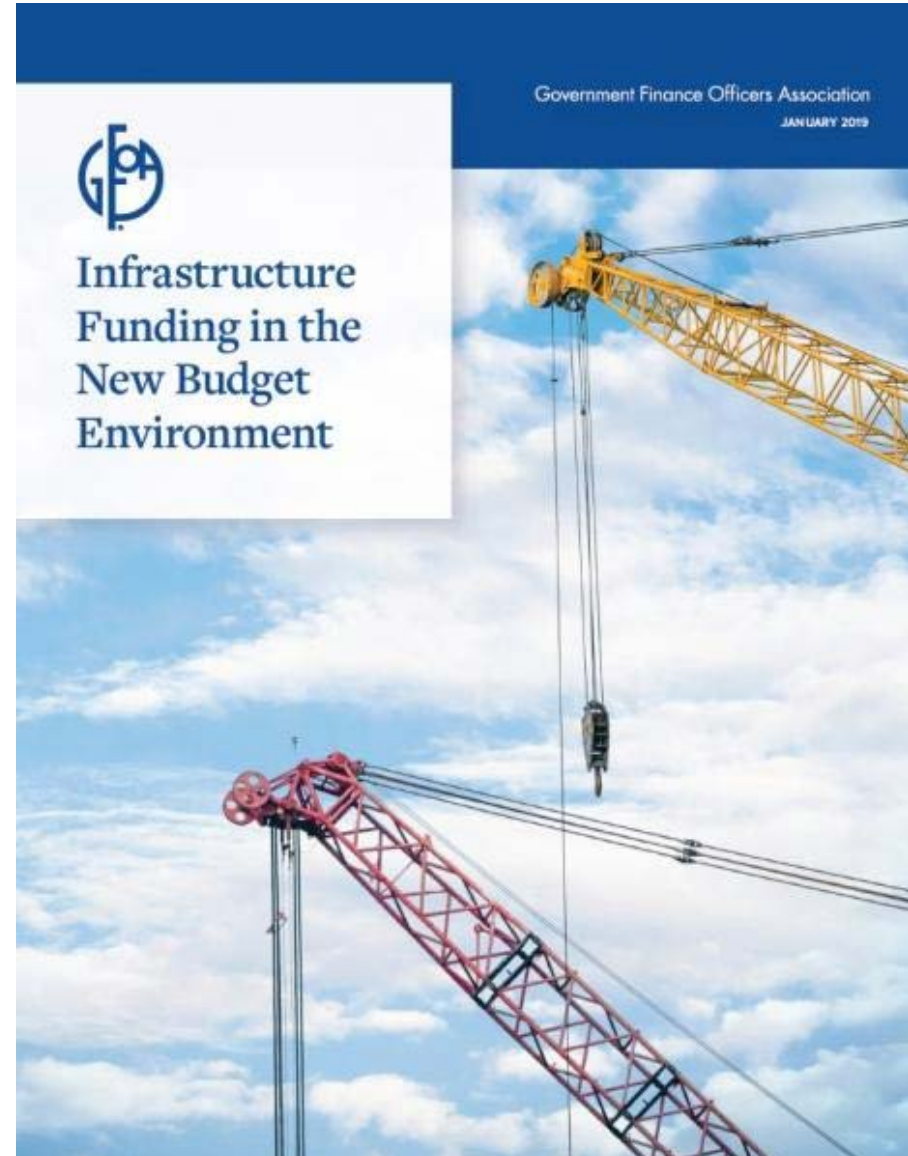
- ❖ One in 6 congressional representatives are new, creating new informational pieces a priority
 - Funding piece
 - Financing Piece
 - Issue Brief

Figure 5. Overall Net Investment into Infrastructure (As a % of GDP)



Source: U.S. Bureau of Economic Analysis, Net government investment: Federal: Nondefense [B892RC1A027NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/B892RC1A027NBEA>, January 19, 2019.

⁵ American Society of Civil Engineers "Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future"



Infrastructure Financing

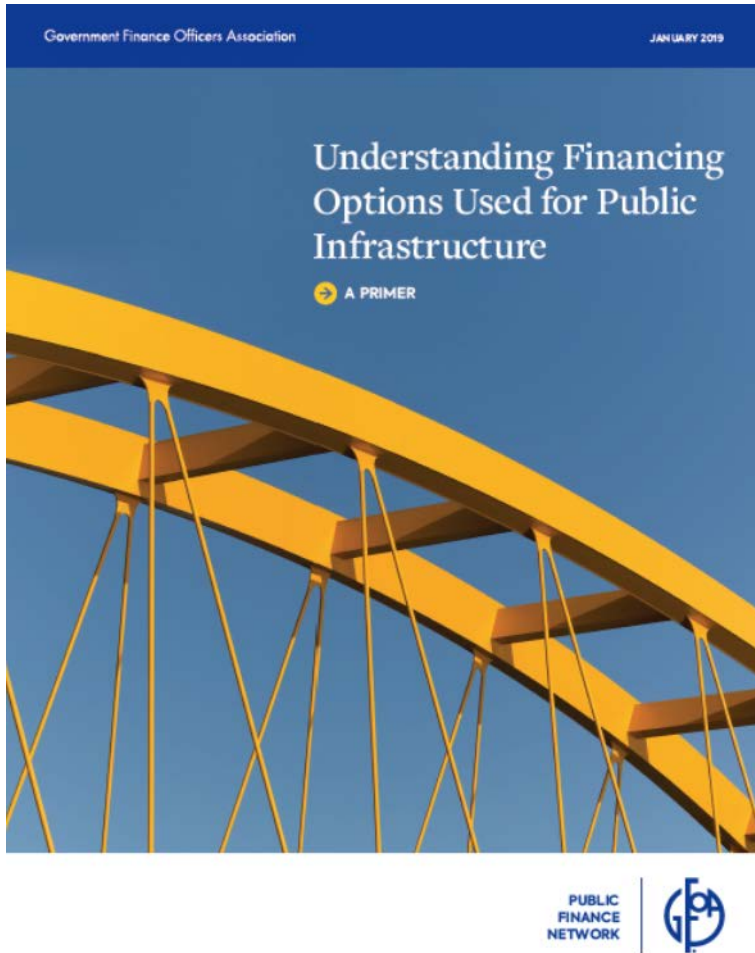
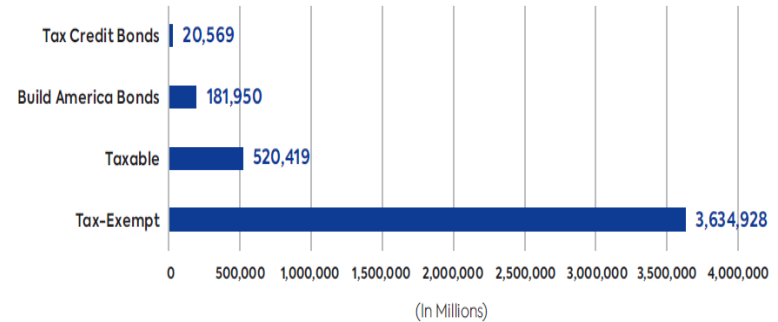


Table 4. Bond Issuance Volume by Type, 2007 to 2017



Source: Thomson Reuters

Table 8. 20 Year Average History of Holders of Municipal Securities

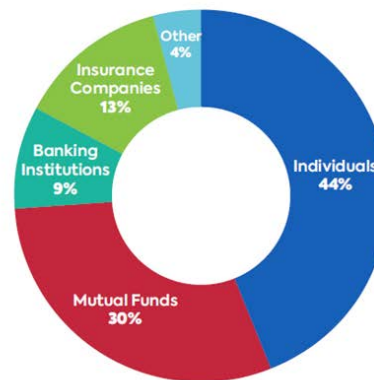
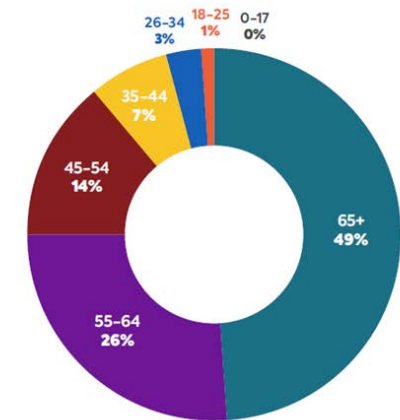


Table 9. Retirees as Bond Holders



Number of Returns with Tax-Exempt Interest Deduction by Age Group, Tax Year 2016

³ Moody's Investor Service, US Municipal Bond Defaults and Recoveries, 2017

SEC Rule 15c2-12: What is the Change?

- ***Aka “Fifteen and Sixteen”***
- ***Broker/Dealer (Underwriter) Rule – Issuers are not directly regulated by the SEC or MSRB***

Governments will have to state in CDAs entered into on or after February 27, 2019 that they will

- **15:** Disclose to the market any new and material financial obligations
- **16:** Notify the market when certain events occur with respect to an outstanding or new financial obligation that reflect financial difficulties.



GFOA Best Practices

- [Debt 101 \(Volume 1\) - Issuing a Bond](#)
- [Debt 101 \(Volume 2\) - Responsibilities After Bond Issuance](#)
- **GFOA Best Practice**, [Debt Management Policy](#)
- **GFOA Best Practice**, [Understanding Your Continuing Disclosure Responsibilities](#)
- GFOA Best Practice, [Post Issuance Policies and Procedures](#)
- GFOA Best Practice, [Primary Market Disclosure](#)
- GFOA Best Practice, [Using Technology for Disclosure](#)
- GFOA Best Practice, [Bank Loans](#)
- GFOA Best Practice, [Maintaining an Investor Relations Program](#)
- Best Practice, [Using the Comprehensive Annual Financial Report to Meet SEC Requirements for Periodic Disclosure](#)
- GFOA Advisory, [Use of Debt-Related Derivatives Products](#)
- Best Practice, [Investment of Bond Proceeds](#)



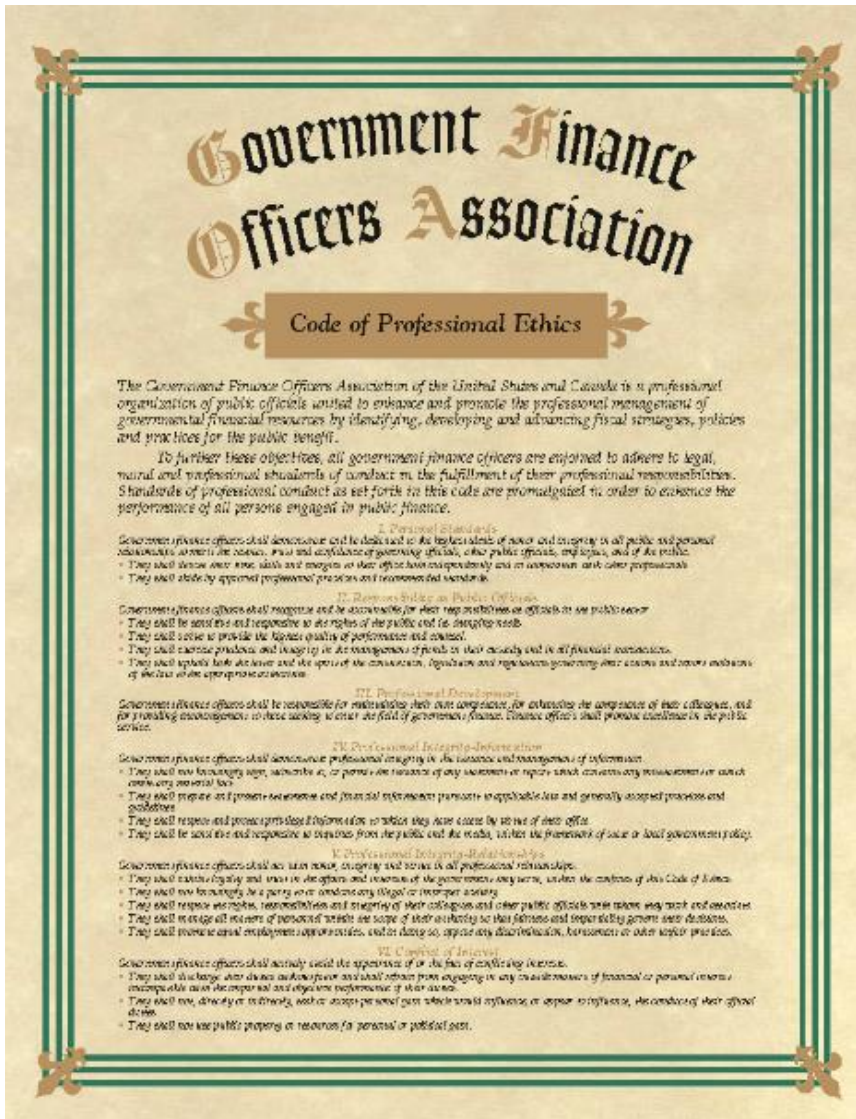
What Else Should We Know?

- LIBOR is going away January 1, 2022
 - ❖ Treasury has identified an overnight financing rate (SOFR) as the replacement
 - ❖ What is the municipal/nonprofit exposure?
- What does “stale” financials mean?
 - ❖ SEC Chairman Clayton coined the term during the Municipal Bond Conference December 2019



Code of Ethics Reboot

- Last code decades old
- Goal was to develop new code that is:
 - ✓ Values based
 - ✓ Addresses current realities
- Used latest research
- Engaged members in process
- Supported with research & training



Climate and Cyber

- Collaborative Committee Projects
- Multiple resources anticipated
- In order to combat speaking in generalizations, we need case studies, anecdotes to help tell the story



Thank you!



Michael Belarmino
Senior Policy Advisor
Federal Liaison Center
mbelarmino@gfoa.org
www.gfoa.org



GOVERNMENT FINANCE OFFICERS ASSOCIATION