

# Post-Tax Reform/Pre-Infrastructure Session: What Local Governments in Ohio Need to Know About What's Happening in Washington, DC



**Government Finance Officers Association**

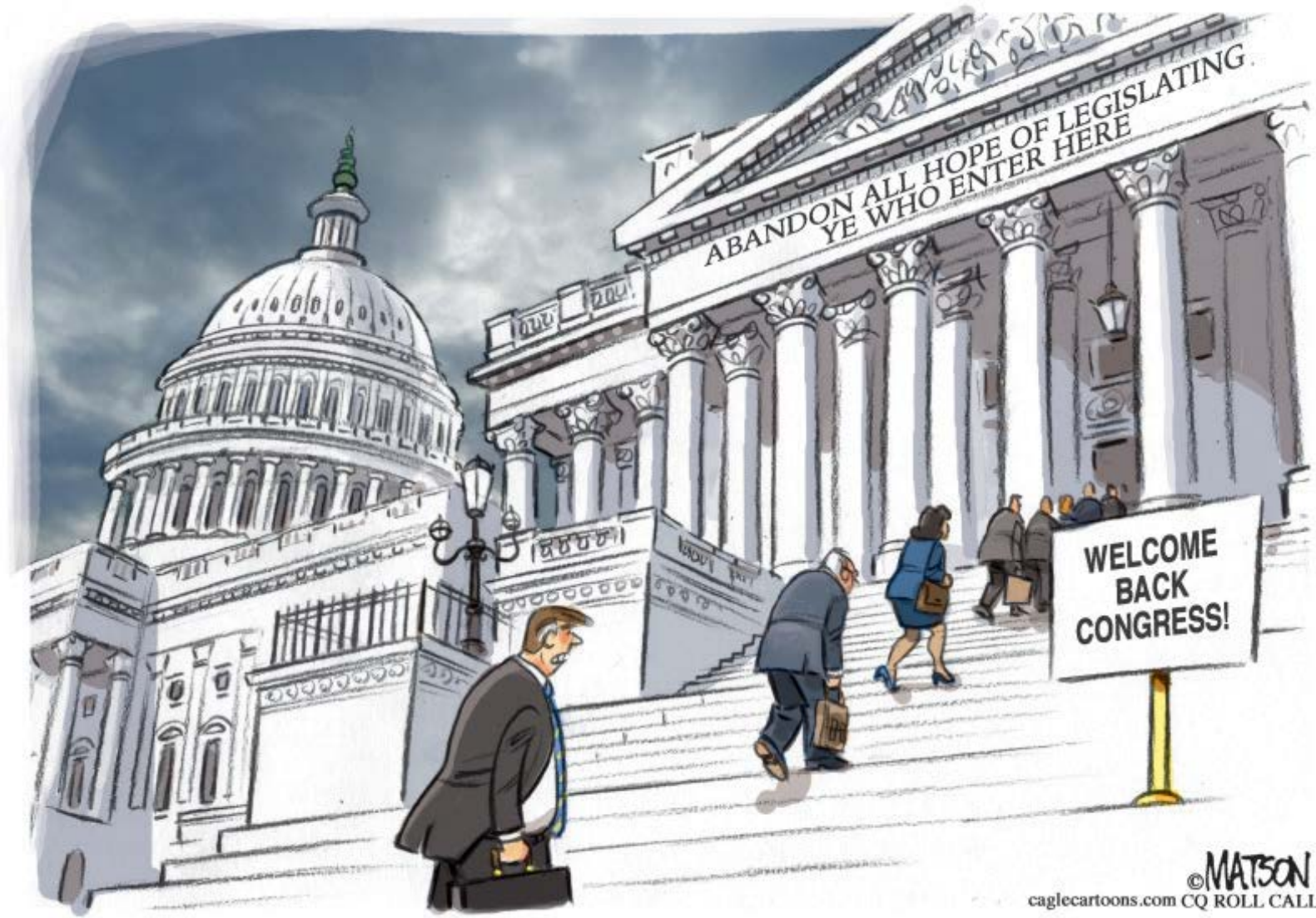
OHGFOA 2019 Annual Conference  
Michael Belarmino  
September 18, 2019

# 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



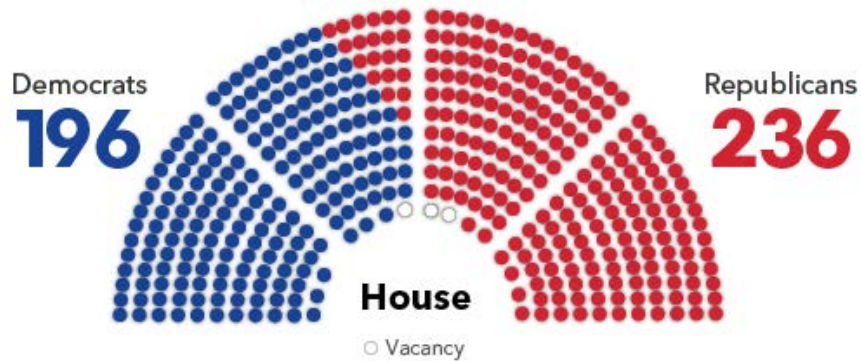
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caglecartoons.com CQ ROLL CALL



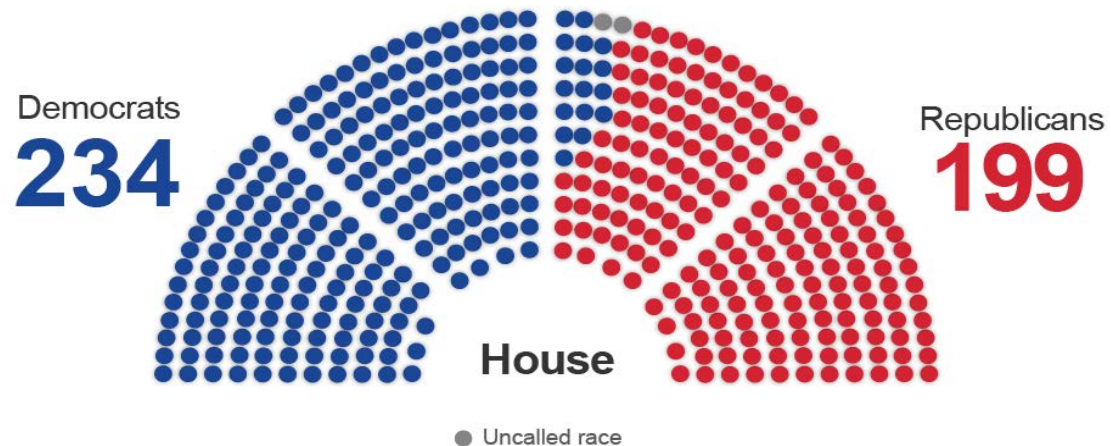
# Balance Shift in the House

## What will 2020 Elections Bring?

115<sup>th</sup> Congress



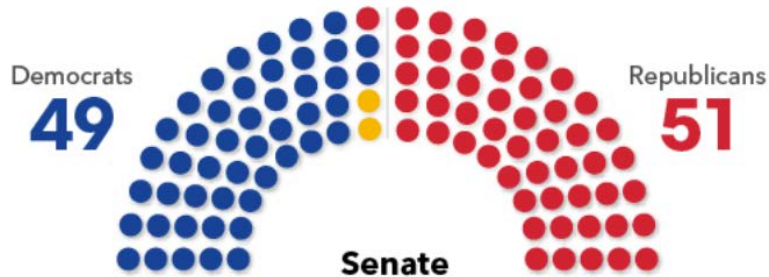
116<sup>th</sup> Congress



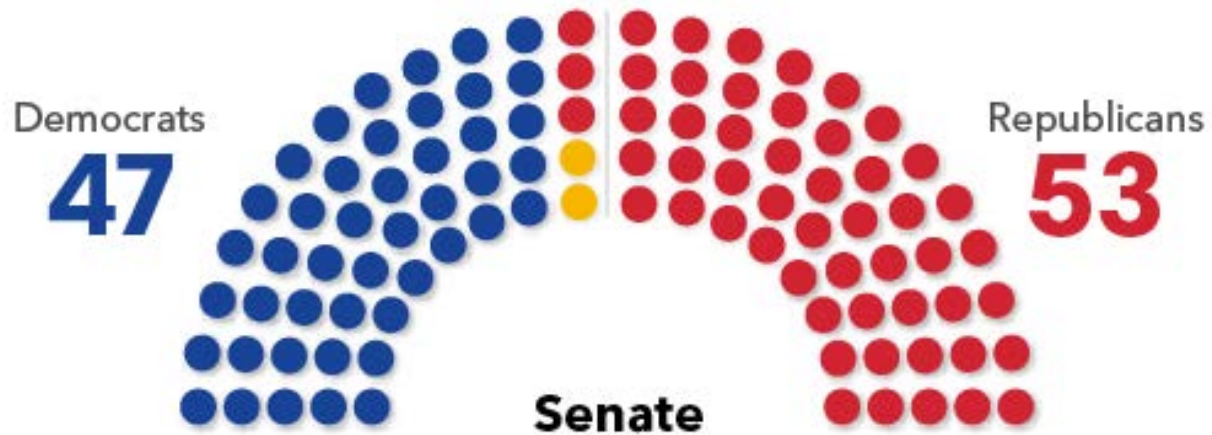
# Senate Balance of Power

## What will 2020 Elections Bring?

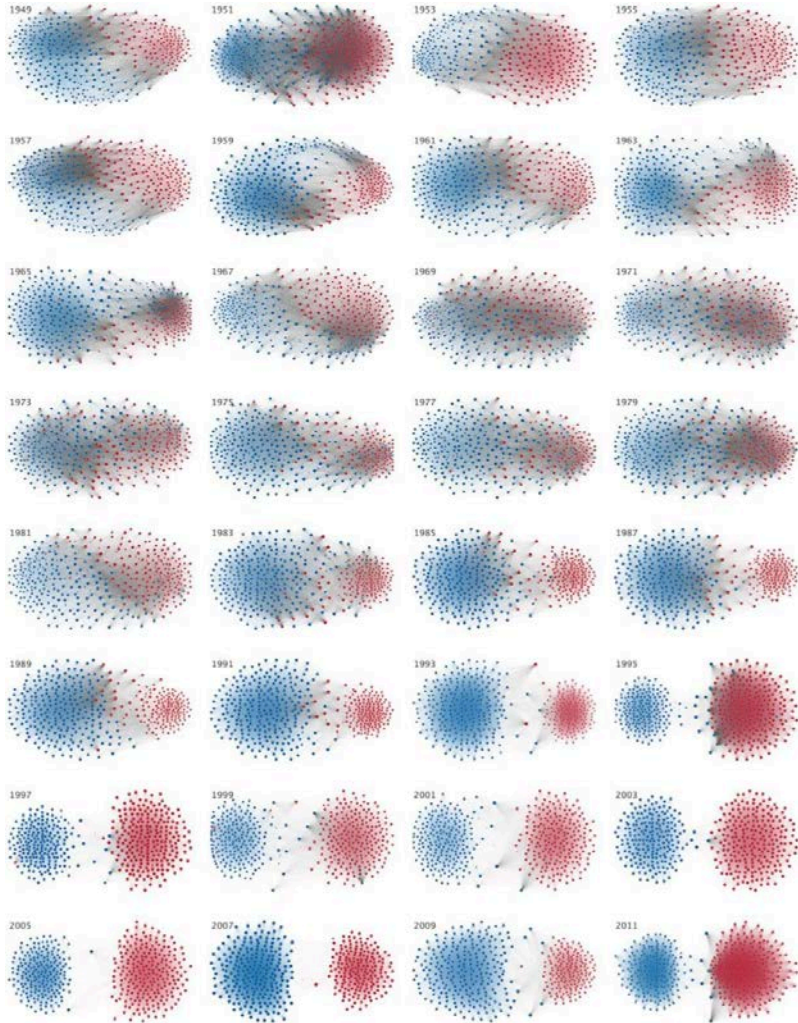
115<sup>th</sup> Congress



116<sup>th</sup> 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

# Freshmen Members of 116<sup>th</sup> Congress



# 116th 1<sup>st</sup> Session winding down...

- Ways and Means could turn to public finance issues
  - SALT rollback on the table; AR, BQ
- House Municipal Finance Caucus still active on our priorities
  - Co-Chairs: Representatives Ruppertsberger (D-MD) and Stivers (R-OH)
  - Introduced AR bill, helped host a successful briefing for Hill staff



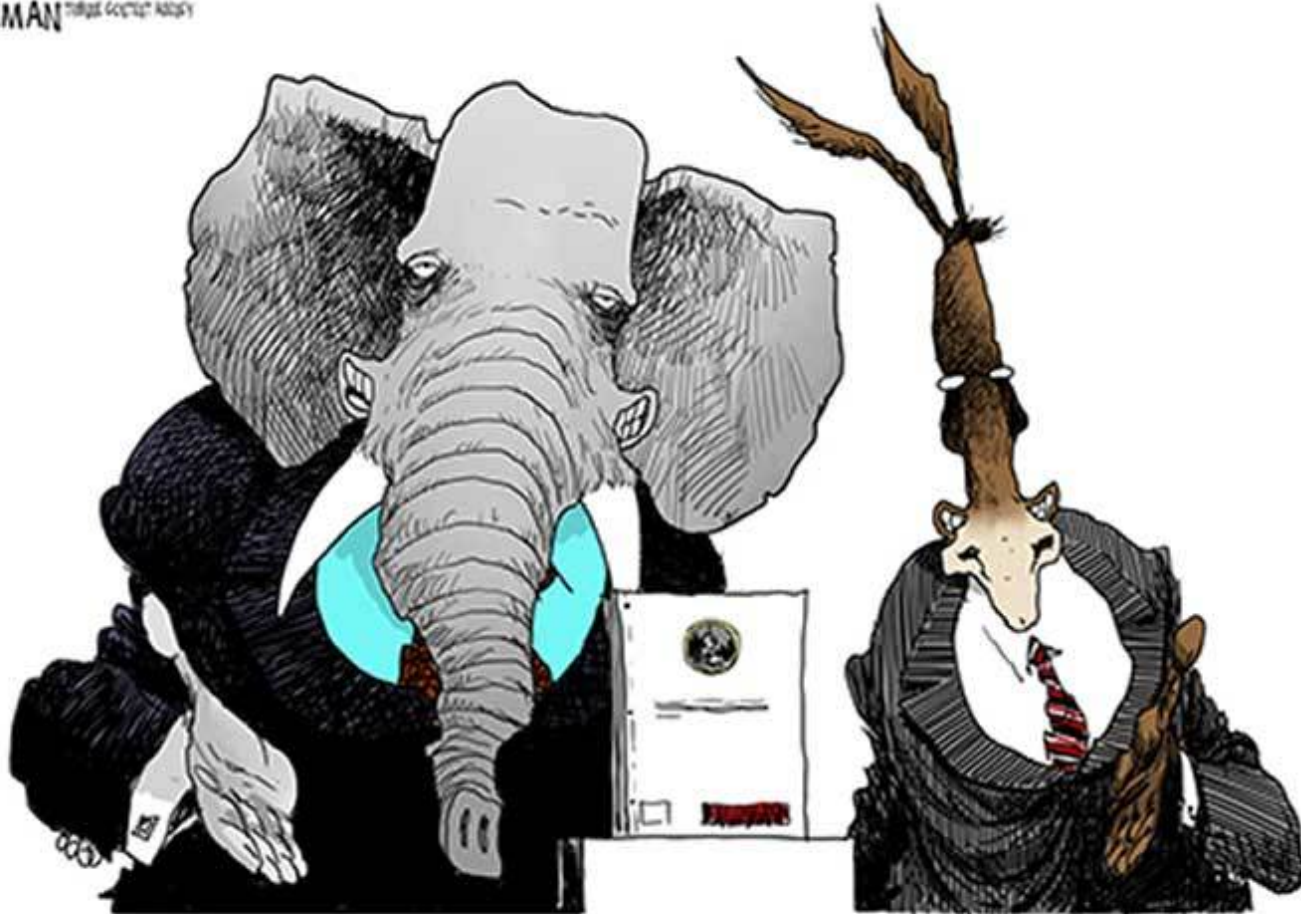
- Remainder of 2019 – Infrastructure? Taxes? Appropriations? Health Care?
  - What could be most helpful in 2019-2020?





# Current Mood

SHENEMAN THIRD GOVT ASST



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

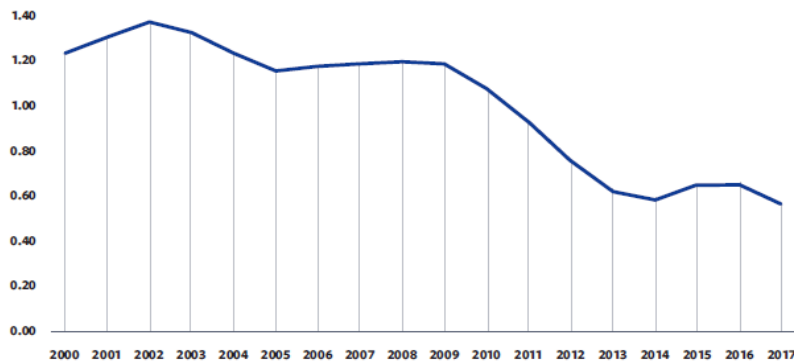


# Infrastructure Funding

❖ One in 6 congressional representatives are new, creating new informational pieces a priority

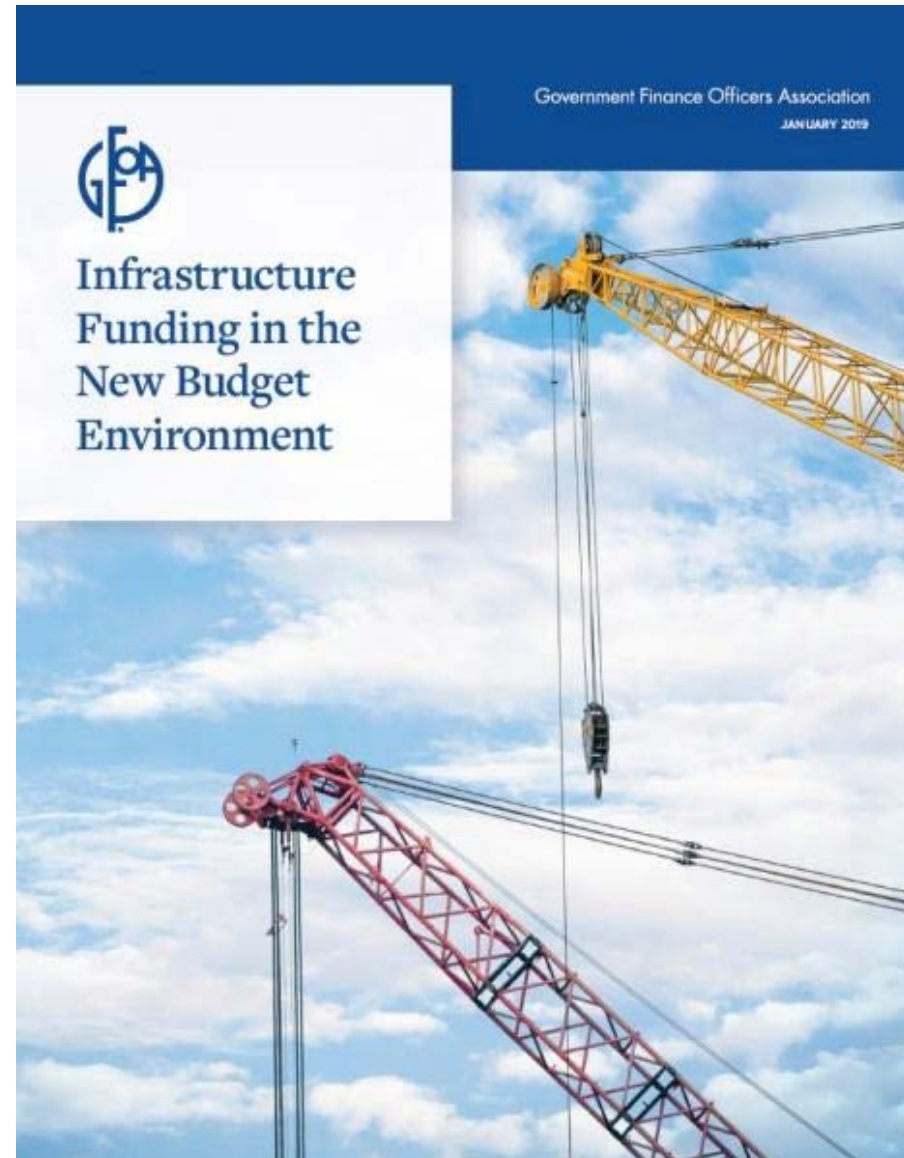
- Funding piece
- Financing Piece
- Issue Brief

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

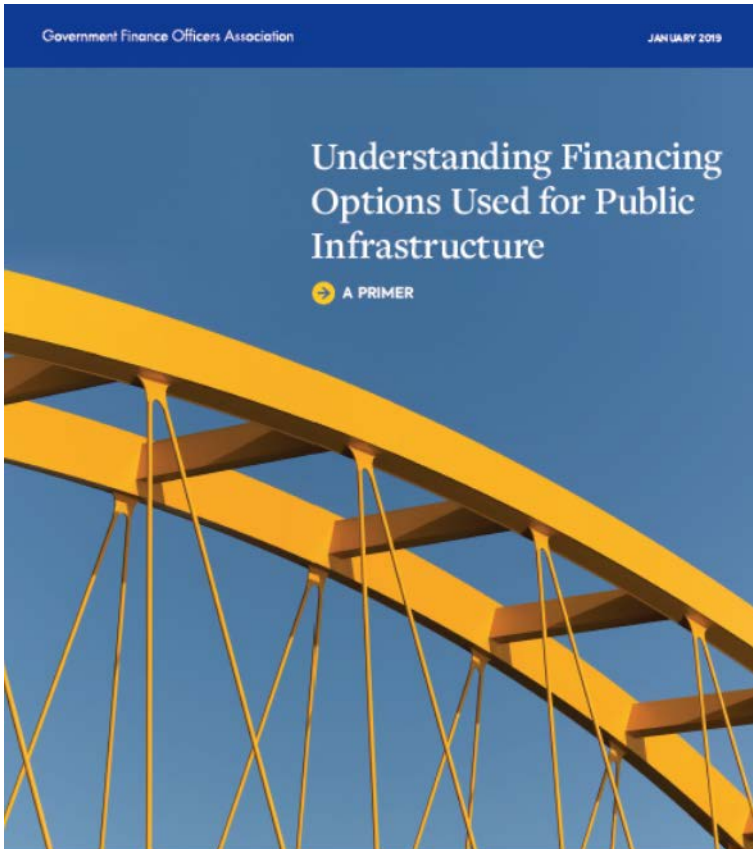


Source: U.S. Bureau of Economic Analysis, Net government investment: Federal: Nondefense [B892RC1A027NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/B892RC1A027NBEA>, January 19, 2019.

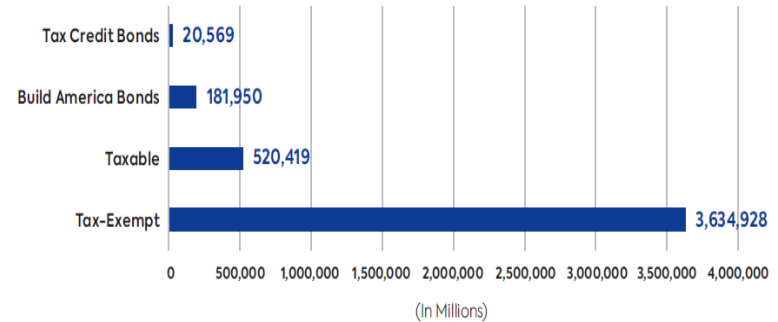
<sup>5</sup> American Society of Civil Engineers "Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future"



# Infrastructure Financing

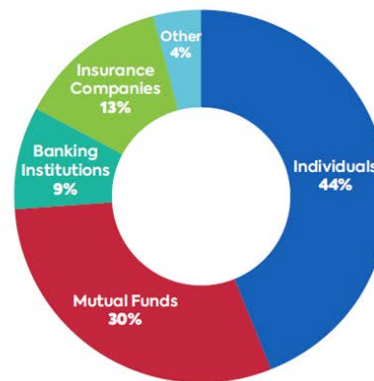


**Table 4.** Bond Issuance Volume by Type, 2007 to 2017

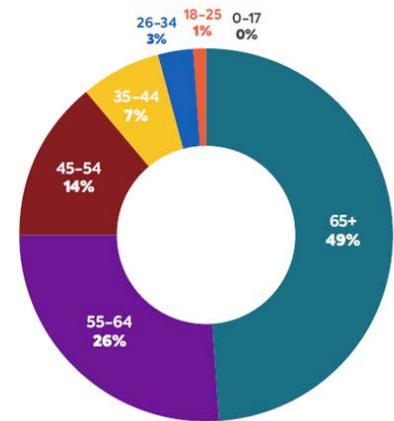


Source: Thomson Reuters

**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

<sup>3</sup> Moody's Investor Service, US Municipal Bond Defaults and Recoveries, 2017



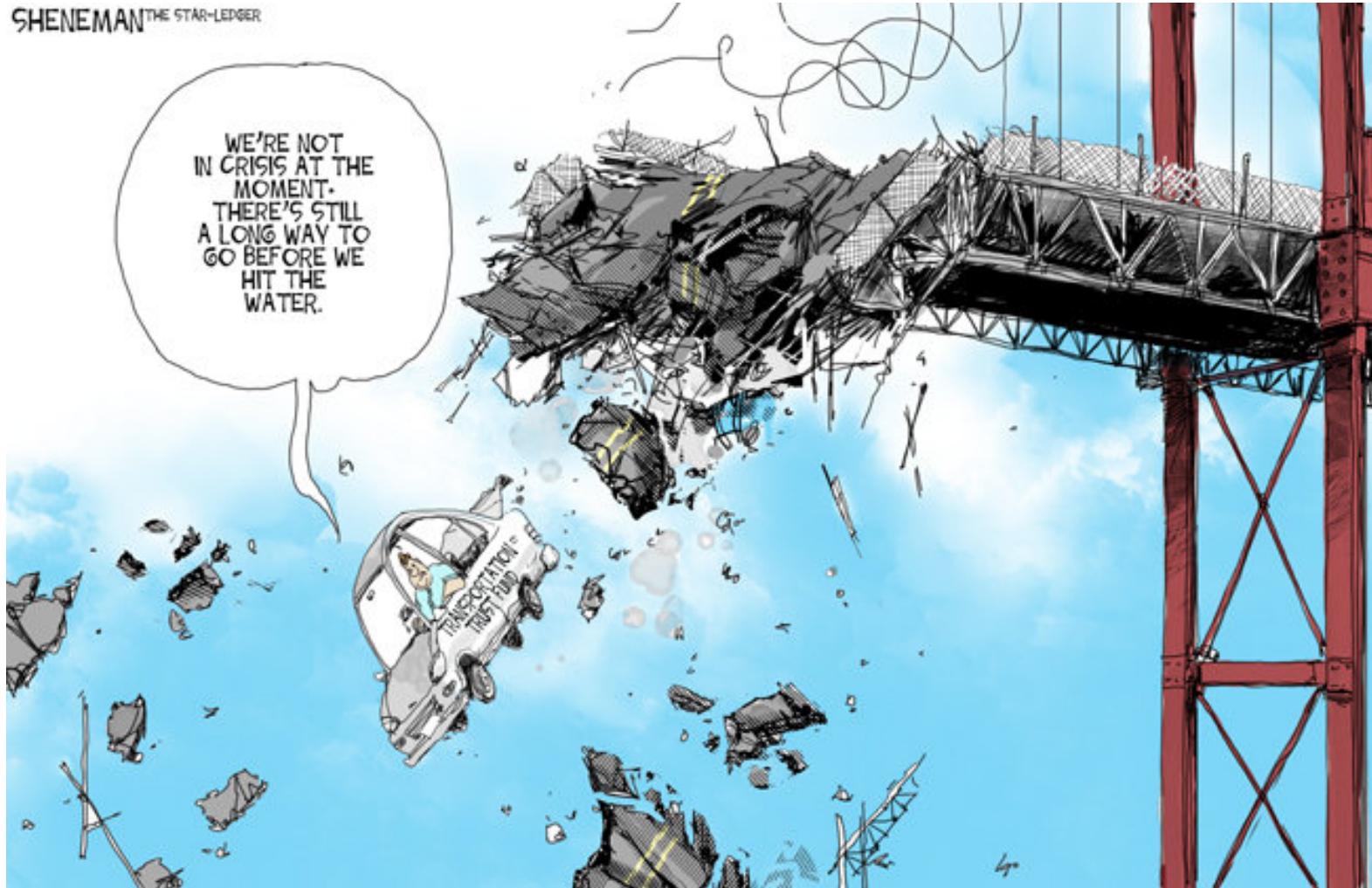
# Where We Are on Infrastructure

- Earlier this year, 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
- How will it be paid for???



# Transportation Reauthorization

SHENEMAN THE STAR-LEDGER

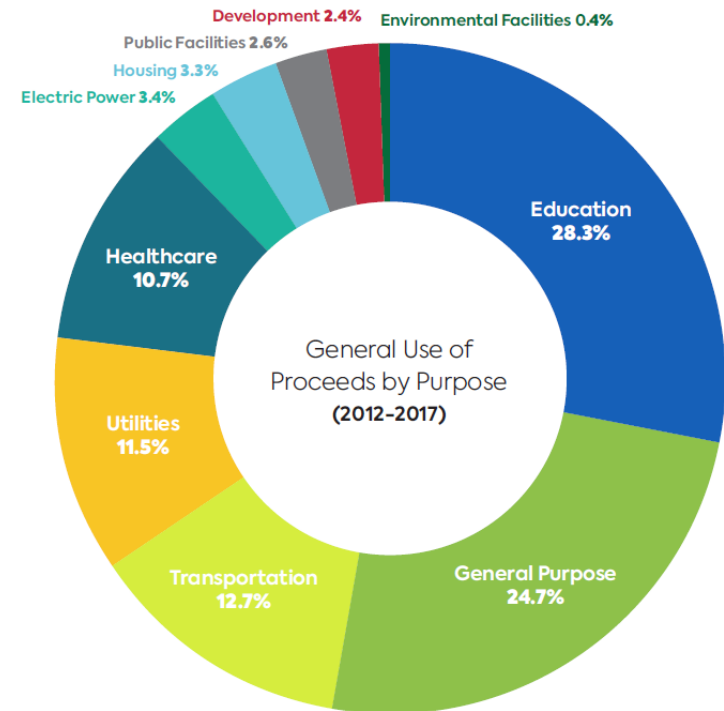


# GFOA Legislative Priorities

- 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

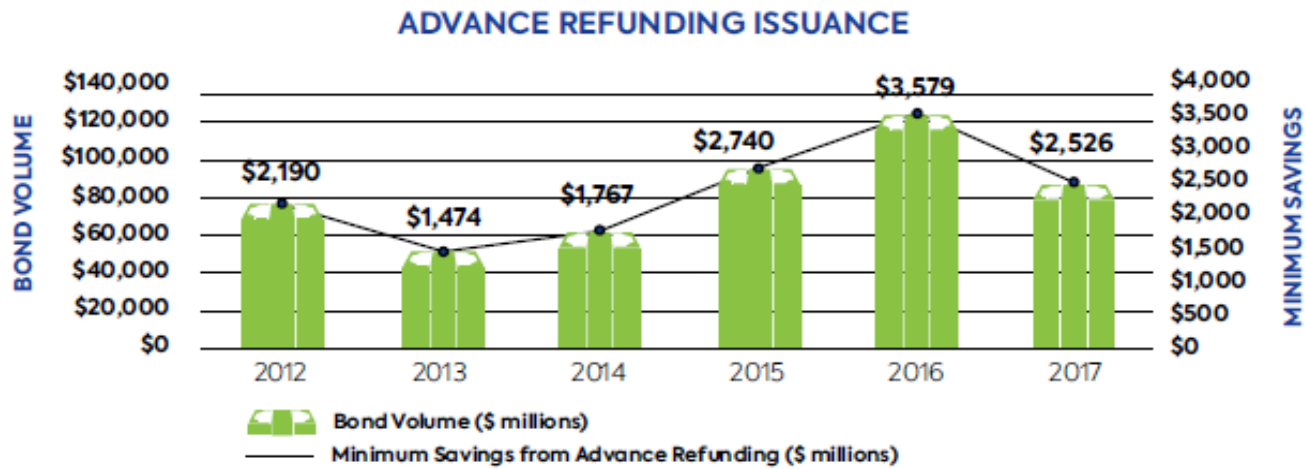
Table 2. Projects funded by bonds by type and five year average



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 more OH Reps to join 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>

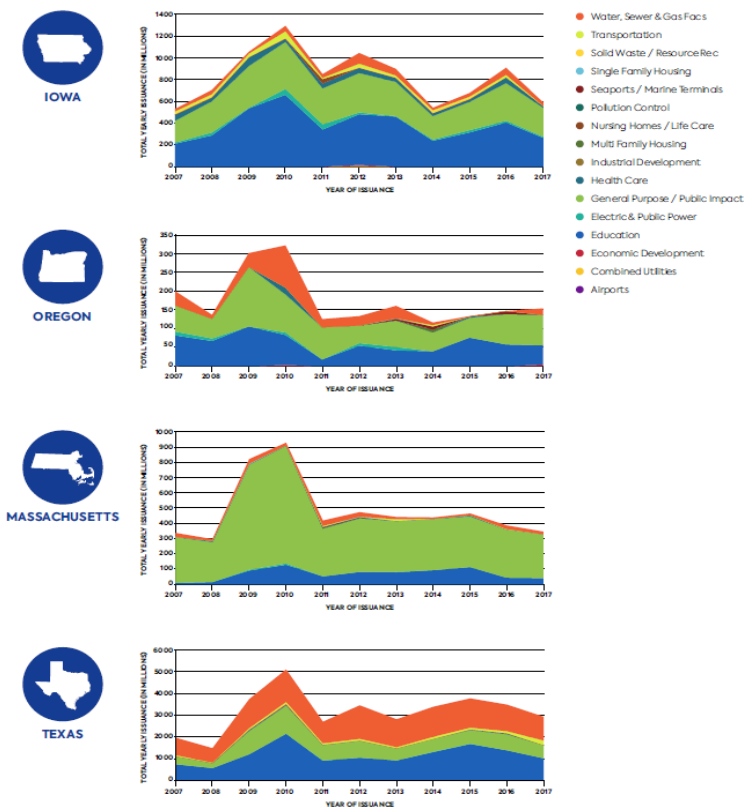




# Bank Qualified Debt (aka Small Borrower Exception)

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
  - Pegged to the Borrower!
  
- ❖ 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
  - No Ohio Representatives

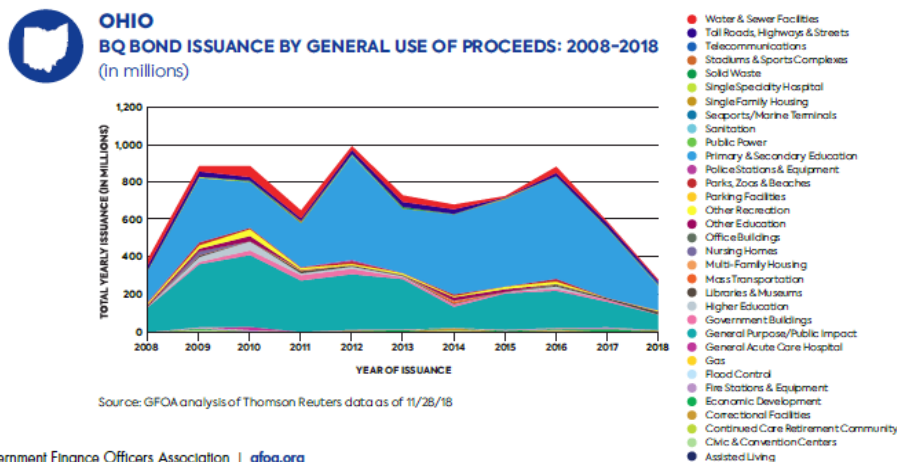


# Bank Qualified Debt (aka Small Borrower Exception)



■ <https://youtu.be/8Pk1tvYyM6M>

■ BQ one-pagers developed for each state



# Other Legislative Priorities

- ❖ Cadillac Tax Repeal – HR 748 overwhelmingly passed by the House 419-6
- ❖ SALT – efforts are well underway to relieve the \$10k cap on the state and local tax deduction
  - Some efforts pay for themselves
  - Other efforts do not take these into account, which may ultimately have less of a chance
- ❖ Build America Bonds (or Direct-Pay Subsidy Bonds)
  - Open the prospect for new buyers
  - Sequestration effects sometimes stop the conversation before it starts



# 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](#)



Thank you!



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GOVERNMENT FINANCE OFFICERS ASSOCIATION