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Support for Munis Seen on Capitol Hill; Tax Reform May Be Next Year.

WASHINGTON - Two corporate executives and lobbyists told treasurers meeting here on Monday that they are hearing positive things about municipal bonds from legislative staffers, but a senior tax staffer from the Senate Finance Committee said tax reform may slip into 2018.

Larry Chadwick, vice president of federal government relations for TIAA, said he has found support for munis on Capitol Hill. "We think municipal bonds are a critical funding mechanism for infrastructure," he said during a tax reform panel at the National Association of State Treasurers 2017 Legislative Conference.

Chadwick and other panelists, including a senior staffer for the Senate Finance Committee, said the key issue for the Trump administration and the Republican-led Congress is economic growth and infrastructure is viewed as the path for job creation and economic growth.

"I don't think we'll see tax reform without a serious infrastructure piece," the tax staffer said.

Chadwick said he would like to see Congress eliminate or ease the proration provision of the federal tax code so life insurance companies could buy more municipal bonds used for infrastructure.

Pierce Scranton, executive director for global relations & public policy at JPMorgan Chase, said, "The municipal bond [interest] exclusion seems to be in pretty good shape."

But Scranton cautioned, as did the other panelists, that with tax reform, "We're in an environment where everything is on the table."

Though a number of House Republicans talk about having tax reform legislation in August, the senior tax staffer said there are a number of obstacles to that and it may be pushed into 2018.

Nothing will happen with tax reform until the Republicans in Congress and the administration follow through with plans to repeal and replace the Affordable Care Act, the senior tax staffer said at the National Association of State Treasurers 2017 Legislative Conference here.

The lawmakers have to resolve the ACA issue, even if they do something less than repeal and replace or decide they can't do anything and leave it alone, he said.

Legislatively things are already moving slowly, as lawmakers found they could not get support for repeal without some sort of replacement, the tax staffer said. Trump's cabinet officials are not in place, though Congress confirmed Steve Mnuchin as Treasury Secretary Monday night, with only one Democrat, Sen. Joe Manchin, D-W.Va., voting for him. Given the Democrats' opposition to Trump's nominees, including Mnuchin, there may be battles over assistant secretary positions, he said. Treasury's assistant for policy typically quarterbacks tax reform, he said.

Republican lawmakers hope to repeal and replace the ACA, as well as comprehensively reform the

federal tax code, through the budget reconciliation process to expedite the legislation and get it through the Senate with only 51 instead of 60 votes. Normal legislation needs 60 votes to limit debate, avoid a filibuster and move forward. But reconciliation is only for legislation that changes spending, revenues and the federal debt limit. And provisions in a reconciliation bill cannot increase the deficit during a second 10-year window – two challenges to using that legislative vehicle.

The budget resolution for fiscal 2017 includes the ACA, but not tax reform. If Congress wants to do comprehensive tax reform through the reconciliation process, it will have to be for fiscal 2018. But it cannot start the process for fiscal 2018 until it finishes reconciliation for fiscal 2017.

Congress must also deal with other potentially controversial issues during the next few months. It will need to increase the federal debt limit on March 15. Also the latest continuing resolution keeping federal spending going in the absence of appropriations bills will expire on April 28, the tax staffer noted.

A “wild card” for any congressional action is April 30 expiration of legislation that temporarily shored up health care and pension benefits for retired miners. Manchin stopped work on the last CR until lawmakers provided the short-term fix. “Keep your eye on that,” the tax staffer said.

Key financial issues will also affect how tax reform plays out, the staffer said. If the border adjustment tax envisioned in the Republican blueprint for tax reform doesn’t pan out, then the \$1 trillion in revenues it was to bring in will have to be found elsewhere. “If it fails, we’ll need a whole lot of money from a lot of sources,” the tax staffer said.

Medicaid is another issue to watch, he said, adding how it is dealt with in ACA action will also affect revenues for tax reform.

“But don’t underestimate the president, the tax staffer said. If Trump decides to throw his weight behind tax reform, he can do a lot to push it forward, he said. The president has promised a phenomenal announcement on tax soon.

The Bond Buyer

By Lynn Hume

February 14, 2017