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Congressman's Interest in Munis Comes from Experience.

WASHINGTON - Rep. Randy Hultgren, R-Ill. got a first-hand look at how municipal bonds can be beneficial when he visited Freedman Seating Company in Chicago.

The company has been in business for more than 100 years. It originally made cushions for carriages and is now one of the largest manufacturers of seating for commercial vehicles such as busses.

FSC has done several new-money bond financings during the last 17 years and has used the bond proceeds to purchase and renovate property in a blighted area in Chicago's west side, as well as to purchase equipment for the facilities, said its president, Craig Freedman.

The bonds allowed FSC to purchase over half a million square feet of manufacturing space and over \$10 million of equipment and facilities. When the company did its first bond deal in 1998, it had fewer than 200 employees, Freedman said. Now it has more than three times that, about 750.

Hultgren, whose district includes some Chicago suburbs and is not far from FSC, said the company is "very impressive, but they absolutely would not have been able to hire as many people as they have or produce as much product as they produce but for access to manufacturing bonds."

He visited the company in September, not long after he introduced the Modernizing American Manufacturing Bonds Act. The bill would increase the maximum size of an industrial development bond issue and would expand the types of projects that could be financed with IDBs.

"We're certainly supportive of what congressman Hultgren has put forth in the bill," Freedman said.

And that's not all Hultgren has done on the muni bond front since joining Congress in 2011. The 49-year-old has been one of the most vocal supporters of municipal bonds in the House and a leading co-sponsor of legislation on bank-qualified bonds. He serves on the House Financial Services Committee, which has jurisdiction over munis and other securities.

In an interview with The Bond Buyer from his Capitol Hill office, Hultgren said he has developed an appreciation for bonds as a result of his past experiences in both the public and private sectors. He has held local and state government positions and has also worked for an investment advisory firm.

"The early public service work and then also ... my career work has sparked an interest in bonds and their value," he said.

Hultgren's Background

Hultgren's first publicly elected post was on the board of DuPage County, Ill., where he served from 1994 to 1998. During this time, he saw how "we, as the county or townships within the county, could get things done so much more effectively and efficiently and transparently and accountably than even [the] state government or federal government."

County board members were also on the forest preserve commission, which was involved in bond-

financed projects for land acquisition.

Hultgren then served in the Illinois General Assembly, first in the state House from 1999 to 2007 and then in the state Senate from 2007 to 2011. The state had several infrastructure programs that were bond-financed, and state legislators could work with local governments to help them fund projects, he said.

"I've been a strong supporter of infrastructure and making sure that we've got safe roads, safe bridges, that we're able to move people safely to and from work and school," Hultgren said.

In the state House, Hultgren was in the minority, and in the state Senate, he was in a minority so small that it could not block legislation the majority wanted to move. As a result, he learned that it is important to build bipartisan support for legislation. He took this lesson with him to the U.S. Congress.

"That has really been the focus we've taken with any new bills that we've had, is getting good, strong Democratic co-sponsors, people ... we're not going to agree with every day, but that we can work together on important issues," he said.

Hultgren has also learned from his time in state and local government "to be realistic, that it takes some time to get things done."

"Ultimately, we want to work towards good laws, good strategy, good plans," and achieving that takes time, he said.

His time in Congress has reaffirmed his belief that "the best things happen locally, and the very best happen when we can work together at different levels of government — federal, state, local government — working together ultimately to serve people."

For part of the time he was in the state Senate, Hultgren also was employed part-time as vice president at Performance Trust Investment Advisors in Chicago. He worked to find investors for bond funds created by the firm, which is now called PT Asset Management. Hultgren said he got interested in the value of bonds in people's portfolios and the predictability and security they provide to investors.

Munis are important to Hultgren's constituents, he said, because with interest rates very low right now, it's hard for people, especially retirees, to find investments with returns that are high enough to live on, but not too risky.

And people tend to invest in bonds issued in their state, "so there is an accountability on the side of the person purchasing the bond also being able to follow the progress or the need for the project that's being done," Hultgren said.

"I think people benefit, because good work gets done and it gets done pretty quickly," he said.

Michael Decker, managing director and co-head of municipal securities for the Securities Industry and Financial Markets Association, said Hultgren's state and local government and financial services background gives him a unique perspective on muni issues.

"We love working with him," Decker said. "He's a great representative of his district and a strong bond supporter."

Legislation

Hultgren said he hopes to reintroduce the bills on IDBs and bank-qualified bonds in the current Congress “as soon as possible and as makes sense to increase likelihood of success. His office is trying to get support for the legislation in the Senate and is trying to figure out when the bills have the best chance of being considered by a House committee and ultimately by members on the House floor.

The bill on IDBs would increase the maximum size of an industrial development bond issue to \$30 million from \$10 million. It would also allow facilities that produce intangible property, such as software, and facilities that are functionally related to and subordinate to the production of property, such as warehouses, to be financed with IDB proceeds.

IDBs have not only benefited Freedman Seating Company, but they have also benefited other companies in Illinois. Bison Gear & Engineering Corp., a company in Hultgren’s district that he’s visited several times, has also taken advantage of IDBs.

The Council of Development Finance Agencies has worked with Hultgren on the IDB bill.

“Congressman Hultgren has been a bold and courageous supporter of tax-exempt bonds, exemplified by his introduction of the Modernizing American Manufacturing Bonds Act last year,” said Toby Rittner, CDFA president and chief executive officer.

SIFMA also supports expanding the use of IDBs, which many of its members underwrite, Decker said.

The bill on bank-qualified bonds, called the Municipal Bond Market Support Act of 2014, would increase the annual issuance limit for issuers of bank-qualified bonds to \$30 million from \$10 million and would apply the limit to nonprofit borrowers rather than to the issuers through which they borrow.

SIFMA also supports raising the bank-qualified bond limit. A temporary increase in the issuance limit under the American Recovery and Reinvestment Act, which has since expired, was successful, Decker said.

“We think it’s a smart idea to raise the limit,” he said.

Hultgren also wants munis to be added to the definition of high-quality liquid assets in a new federal banking liquidity rule. He is trying to figure out the right timing to do something in this area.

The current surface transportation funding law expires May 31, and Hultgren thinks Congress needs to debate how to fund transportation in a new bill. He would not support a gas tax increase, in part because it is becoming less effective as more cars use alternative power sources. He has encouraged and will continue to encourage the use of public-private partnerships, he said, but acknowledged that not every project is a good fit to be developed as a P3.

Congress will need to look at a number of different options to determine the fairest way to fund infrastructure, Hultgren said.

“I think the worst possibility is to make our kids pay for it,” he said. “So we have to be responsible and do the right thing now, find a way to live within our means, and find funding sources that really are impacting people who are using the roads.” Congress needs to find “something again that won’t immediately be cutting ourselves off to not be able to finish the work that we need to do,” he added.

In addition to working on legislation relating to specific types of bonds, Hultgren is also pushing for preservation of the tax exemption for munis.

Currently, he and Rep. Dutch Ruppersberger, D-Md., are circulating a letter for their colleagues to sign that urges House leaders to support the tax exemption for municipal bonds. The two Congressmen authored a similar letter in 2013, and it had the support of more than 100 other members of Congress.

The signatories of the 2013 letter were split roughly evenly between Democrats and Republicans, Hultgren said.

“That’s encouraging that there is still bipartisan support for this,” he said.

Hultgren said he hopes that the new letter will have similar bipartisan support and about the same number of signers.

The letter will hopefully educate members of Congress about the importance of tax-exempt bonds so that there isn’t “a late night surprise of some treatment of municipal bonds getting thrown into legislation at the last minute,” Hultgren said.

The congressman said he would be surprised if Congress passes comprehensive tax reform this year and that if there are changes to the tax code this year they would be more likely to be targeted, particularly on the international tax system.

Last year, former House Ways and Means Committee chairman Dave Camp released a comprehensive tax-reform proposal that would have imposed a surtax on muni interest for high earners and would have prevented new private-activity bonds from being issued as tax-exempt.

Hultgren said he disagreed with significant parts of the proposal and saw the former Michigan Republican congressman’s plan as an opportunity to talk about parts of the current tax code that work.

“Hopefully they will have heard enough from us, from others, of the value here to not do something that further hinders us,” he said.

In addition to circulating the letter, Hultgren said he’s encouraging issuers and borrowers in the muni market to talk to other members of Congress “about how this is a valuable tool for them that needs to be preserved.” Issuer officials should explain that if the exemption goes away to increase revenues, there will be a long-term cost, since it will be harder for them to do good projects, he said.

The Municipal Bonds for America coalition has also had dealings with Hultgren. When the 2013 letter was being circulated, MBFA made its members aware of it. Groups then brought up the letter in meetings with Congress members, said Jessica Giroux, general counsel and managing director of the Bond Dealers of America.

Also, ahead of MBFA’s educational seminar for Capitol Hill staff last July, Hultgren, Ruppersberger, Rep. Richard Neal, D-Mass., and Rep. Tom Reed, R-N.Y., wrote a “dear colleague” letter asking their fellow Congress members to send staff to the event, Giroux said.

Hultgren is an “advocate for munis,” she said.

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BY NAOMI JAGODA

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