# Bond Case Briefs

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## Muni Finance Caucus Launched in House.

WASHINGTON – Reps. Randy Hultgren, R-Ill., and Dutch Ruppersberger, D-Md., have launched a Municipal Finance Caucus made up of House members from both political parties who will fight to protect the tax-exempt status of municipal debt and ensure there is a robust market for municipal securities.

The new caucus was announced on Tuesday by the two representatives and they talked about it while they were speaking on a panel at the National Association of State Treasurers' annual meeting here.

The caucus is designed to be a place to discuss opportunities and challenges for state and local governments to independently fund initiatives as well as to advocate for bipartisan policies to enhance the entities' access to the capital markets, the two lawmakers said.

"We need a voice coming together in Congress," Hultgren said, adding that "what's unique about what's happening is we're taking it on before it really becomes an issue."

While the two legislators have just begun soliciting members to join the caucus, they said they are confident a number of the nearly 120 representatives that signed a 2015 letter opposing a proposed cap to the muni tax exemption would be interested in joining.

NAST partnered with the two representatives to create the caucus and plans to send letters, co-signed by four other groups including the Government Finance Officers Association and more than 600 state and local officials, to leadership on the House Ways and Means Committee and Senate Committee on Finance. NAST members also will meet with legislators during a planned "Hill Day" Wednesday to advocate on muni bonds and other state and local issues.

Hultgren said during the meeting that the caucus responds in part to recent proposals and rulemaking that shows the various authors either do not fully understand municipal securities or did not think through the proposals' likely impacts on the market.

The caucus' planned advocacy on protecting municipal debt's tax-exempt status responds primarily to a proposal President Obama has included in several of his past budgets to cap the value of the muni tax exemption at 28%. Former House Ways and Means Committee chair Dave Camp, R-Mich., had also proposed a 10% surtax on municipal bond interest for high earners.

The legislators and treasurers attending the meeting said that while tax reform is not likely to come until after the presidential election, such proposals would drive up the cost of issuing debt and hamper infrastructure development across the country.

NAST's letter says an American Society of Civil Engineers study from 2013 predicted the country would have to spend $3.6 trillion by the year 2020 to meets infrastructure needs and warns that any change to the tax status of munis would inhibit state and local governments' ability to meet that goal.

“Proposals to change this commitment to tax-free municipal bonds would not only be costly for state and local taxpayers, but also would result in fewer projects, fewer jobs, and further deterioration of our infrastructure,” NAST said in its letter.

Ruppersberger said that municipal bonds are the most important tool in the country for financing developments like new roads and schools, adding he is excited to be a founding member of the bipartisan caucus.

Steve Benjamin, the mayor of Columbia, S.C. and chair of the Municipal Bonds for America Coalition, said MBFA greatly appreciates the lawmakers’ efforts and has plans to work closely with them as the caucus grows. MBFA is a coalition of municipal market professionals launched in 2012 that represents dealers, issuers, and local leaders, and is committed to protecting munis’ tax exempt status.

“In meetings on Capitol Hill in the past several years, the MBFA has seen a surge of interest in understanding municipal bonds, the benefits of the municipal exemption, and learning how potential legislation could impact the ability of state and local governments to finance critical infrastructure projects,” Benjamin said.

In addition to focusing on tax-exemption, the group also plans to address concerns with banking liquidity rules passed in 2014 that do not treat municipal securities as high quality liquid assets, Hultgren said.

Rep. Luke Messer, R-Ind., authored a bill last year that would treat investment grade and readily marketable municipal securities as HQLA under the liquidity rule. The bill passed the House in February on a voice vote but has not moved in the Senate, despite efforts from Messer and others to get sponsors in that chamber.

Hultgren, who co-sponsored Messer’s bill, said the liquidity rules are an example of the regulators not understanding the reality of municipal bonds, specifically the frequent serial structure of the their issuances.

“If you go into Senate offices tomorrow, please encourage them to take this up,” Hultgren told NAST members listening to the panel. “Municipal bonds fit every [qualification] to a tee. If we fail to correct this, it’s going to drive up issuance cost.”

Hultgren also said the caucus may work to update the number of projects that could be financed by qualified small issue manufacturing bonds, a type of private-activity bond whose proceeds can be used to finance manufacturing facilities for small- and mid-sized manufacturers. The tax code provisions on small industrial development bonds have not been changed since the 1980s, he said.

THE BOND BUYER

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