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Mnuchin Says He'll Work to 'Enhance' PABs for Infrastructure Projects.

WASHINGTON - President Trump's nominee for Treasury Secretary Steven Mnuchin told lawmakers in writing that he plans to "enhance" private activity bonds so that they can be used to encourage more private investment in infrastructure projects.

In written responses to questions from members of the Senate Finance Committee who will decide whether to recommend the Senate confirm him, Mnuchin also said that he would help administration officials consider all options to ensure the long-term solvency of the Highway Trust Fund.

In addition, he promised committee chair Sen. Orrin Hatch, R-Utah, who is very displeased with Treasury's Office of State and Local Finance, that he will evaluate the office and its activities.

Mnuchin's comments about private activity bonds came after Sen. Sherrod Brown, D-Ohio, asked him what steps he would take to modernize private activity bonds (PABs).

"There are areas where we can improve [PABs], including changing volume caps for certain types of projects," Mnuchin responded. "If confirmed, I plan to review ways to enhance [PABs] with the goal of driving more private investment into American infrastructure."

The Treasury nominee was less specific about governmental tax-exempt bonds. When asked by Sen. Maria Cantwell, D-Wash., if he considers the tax exclusion for municipal bond interest a "special interest deduction," Mnuchin said, "The President is committed to rebuilding America's infrastructure. If confirmed, I will work with Congress to determine the role of tax exempt financing vehicles under that plan and as part of broader tax reform."

Trump and Republican lawmakers have vowed to eliminate special interest deductions as part of tax reform.

Sen. Mark Warner, D-Va., asked the Treasury nominee if he would commit to work to identify potential revenue sources to bring long-term solvency to the Highway Trust Fund (HTF).

Mnuchin responded, "As Treasury Secretary, I will help the administration consider all options for increasing investments in infrastructure and ensuring the long-term solvency of the [HTF]."

State highway officials have been worried that Trump's proposed \$1 trillion infrastructure proposal obscures the need to find a long-term source of federal funding for the HTF, which supports almost all federal highway and transit funding.

The HTF, which contains revenues from federal gas, diesel and other taxes, is anemic and will only remain solvent through 2020, according to the Congressional Budget Office. Those revenues have been dropping because cars are more fuel efficient and, during the Great Recession, families and individuals drove less.

Mnuchin promised to review Treasury's Office of State and Local Finance at the request of Hatch who noted the office was established in April of 2014 "without notification or discussion" with him when he was ranking minority member of the committee.

"That office has engaged many of its activities in recent years to lobbying Congress for bankruptcy authority for Puerto Rico, including what in my view has been highly politicized rhetoric concerning 'austerity' versus creditor 'haircuts,' where many creditors happen to be innocent residents of Puerto Rico who purchased bonds issued by numerous component units of the Puerto Rico government," he said.

The committee chairman noted that while the office was authorized to provide 'technical assistance' to Puerto Rico, it "recently tried to expand that authority" by requesting appropriation committee members to authorize it to give the same kind of assistance to states and municipalities.

Hatch said the office has been unresponsive to requests from his staff for briefings on the "technical assistance" it's providing Puerto Rico "and why at least one Treasury official has signed confidentiality agreements with component units of the Puerto Rico government, including a bond-issuing unit."

Hatch raised this issue last June in a letter to Treasury Secretary Jacob Lew, warning the agreements signed with the Puerto Rico Electric Power Authority (PREPA) "have the potential of granting select federal officials access to possibly market-sensitive information."

Lew responded that the agreements were a "typical arrangement" that helped Treasury officials better understand Puerto Rico's financial condition and that Treasury staff had provided the agreements to the committee.

Hatch, in his written questions, said, "troubling press reports" suggest the office's activities may be "more political than what Congress would reasonably expect to be 'technical' assistance."

Mnuchin responded, "I will be pleased to look into the Office of State and Local Finance and evaluate both its focus and effectiveness as you suggest."

As for the Internal Revenue Service, Mnuchin told Warner that he "will seek to adequately staff and modernize" it. "I do not have access to all of the information, but it is likely that further cuts to the IRS will indeed hamper our ability to collect revenue," he said.

The Bond Buyer

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