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Muni, State, Local Groups Worry About Tax Reform, Sanctuary Cities, ACA.

WASHINGTON - Republican lawmakers' aggressive 200-day agenda to overhaul the tax code by August and to repeal the Affordable Care Act, with some replacement by March or April, is certain to worry and mobilize muni market and state and local groups.

House Speaker Paul Ryan, R-Wis., and Senate Majority Leader Mitch McConnell, R-Ky., who laid out the agenda at the GOP retreat in Philadelphia and a follow-up news conference this week, acknowledge the schedule is ambitious. The Senate is currently tied up with confirmations of Trump's nominees for Cabinet positions. The chamber also needs at least 60 votes to limit debate and push through any legislation and has only 52 Republicans. The exception is a reconciliation bill that can be passed with only 50 votes and is therefore being considered as a vehicle for repeal of the ACA.

Ryan said the sweeping tax reform bill will lower individual and corporate rates, broaden the tax base and be revenue neutral, noting that will upset lobbyists.

"I think it's a cause of great alarm," said Emily Brock, director of the federal liaison center for the Government Officers Finance Association, referring to the timeline. "We are storming the Hill as we speak."

"This thing is moving," said Jessica Giroux, general counsel and managing director of Bond Dealers of America.

Muni market groups, which have been vigorously lobbying members of Congress about the importance of tax-exempt bonds, worry that a tax reform bill will eliminate or restrict tax exemption for certain kinds or all munis.

The Republican blueprint for tax reform proposed eliminating "special-interest" deductions and credits. The comprehensive tax reform plan proposed in 2014 by former House Ways and Means chair Dave Camp, who has some former staff still on the committee, would have imposed a 10% surtax on muni bond interest for high-income households retroactively and eliminated advance refundings, bank-qualified bonds, and private activity bonds, including 501(c)(3) bonds for hospitals, universities and other nonprofits.

Reps. Randy Hultgren, R-Ill., and C. A. Dutch Ruppersberger, D-Md., co-chair of the Municipal Finance Caucus, are circulating a draft letter for signatures that will be sent to leaders of the House Ways and Means Committee to stress the "vital role of tax-exempt bonds" as tax reform legislation is drafted. The letter points out that nearly two thirds of core infrastructure investments in the U.S. are financed with municipal bonds, including \$400 billion of munis in 2015 alone.

Meanwhile, state and local groups are up in arms about the executive orders recently issued by President Trump to block federal grants from cities serving as sanctuaries for undocumented immigrants and repeal the Affordable Care Act - both of which could seriously hurt their finances.

Trump's Jan. 25 executive order: "Enhancing Public Safety in the Interior of the United States," directed the Secretary of the Department of Homeland Security to designate jurisdictions as sanctuary cities. The Attorney General would deny them federal grants, except for law enforcement purposes.

Tom Cochran, executive director of the U.S. Conference of Mayors (USCM), along with the Major Cities Chiefs Association president Thomas Manger of Montgomery County, Md., said in a release: "Cities that aim to build trusting and supportive relations with immigrant communities should not be punished because this is essential to reducing crime and helping victims, both stated goals of the new administration."

Mayors in many of the nation's cities, including New York, Chicago, Los Angeles, Denver, Syracuse, and Austin opposed the executive order, with some of them, such as New York's Bill de Blasio and Denver's Michael Hancock stating or suggesting they will sue to block implementation of it.

The nation's 10 largest cities could lose an estimated \$2.27 billion of federal grants, according to Reuters. But Trump's order does not include definitions of sanctuary cities or federal grants, as many mayors, the USCM, and some muni market participants pointed out.

Would the order affect federal subsidy payments for direct-pay bonds such as Build America Bonds or federal allocations of private activity bonds to states? Probably not, said sources, adding that there are many unknowns, according to the mayors and some market participants.

"I would say that a BAB payment is not a federal grant, it is a tax credit. But what will the Trump administration say?" asked Bill Daly, director of governmental affairs for the National Association of Bond Dealers. Daly pointed out that Trump cannot override legislation that provides federal grants. Congress would have to change the legislation.

"There's going to be a lot of litigation over this," said Daly. "It's going to be very unclear for a while what this means."

The USMC and MCCA suggested the executive order is illegal. "The U.S. Supreme Court has held that denying federal funds to cities to coerce compliance with federal policies may be unconstitutional," they said.

Trump's executive order on repeal of the ACA: "Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal," was issued on Jan. 20. It orders the Secretary of Health and Human Services and other federal agencies, "to the maximum extent permitted by law" to "waive, defer, grant exemptions from, or delay implementation of" any provision or requirements of the Act that "would impose a fiscal burden on a state of a cost fee, tax, penalty, or regulatory burden" on families, individuals, and health care providers, insurers, and others.

The USCM sent a letter to Congress urging members "to build upon, not tear down the progress that has been made to our healthcare system and to ensure that none of the 20 million newly covered individuals is left without health care coverage." The group said the costs and effects of repealing the ACA "will be felt most heavily at the local level" because "it is the cities and counties that will see increases in indigent care costs for our hospitals, in uninsured rates and uncompensated care costs." The mayor said they also strongly oppose efforts to convert Medicaid to block grants.

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