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How a Blue Wave May Help the Muni Market in 2019.

WASHINGTON – The federal policy making environment for the muni market will be more favorable next year if Democrats win back majority control of the U.S. House of Representatives in the November election.

With a Democratic majority next year, the new chairman of the tax policy-making Ways and Means Committee would be Rep. Richard Neal of Massachusetts who would succeed Republican Rep. Kevin Brady of Texas. Colleagues told The Bond Buyer that there is a stark contrast in the way the two men view tax-exempt bond financing.

Neal is a former mayor with 16 years of experience in local government whom colleagues describe as knowledgeable and supportive of tax-exempt bonds..

And Neal's re-election is assured in the general election because he is running unopposed after winning a September Democratic primary for western Massachusetts' 1st Congressional District with 71% of the vote.

Brady last year led the failed effort to terminate the tax exemption for private activity bonds. Republican colleagues say Brady is among the least sympathetic to tax-advantaged bonds among GOP members of Ways and Means.

Neal told The Bond Buyer last month Democrats are "confident but not cocky" about regaining the majority in the House. The outlook for the Senate is uncertain.

If Republicans retain their majority, Sen. Charles Grassley, R-Iowa, might succeed retiring Senate Finance Committee Chairman Orrin Hatch, R-Utah. And if Democrats eke out a majority the committee's ranking Democrat, Sen. Ron Wyden of Oregon, would take the chairman's gavel.

That potential change in leadership will have a profound impact because, as the nonpartisan Congressional Research Service noted, a chairman sets the panel's agenda, calls hearings and determine which bills will be marked up.

Democrats in the House, such as House Democratic Caucus Chairman Joe Crowley, D-N.Y., say there's no doubt Neal would ascend to the chairmanship.

"I think Richie is highly respected, not only in Democratic circles, but certainly throughout people who know tax policy," Crowley said.

Neal spoke about how he would approach 2019 during a brief interview with The Bond Buyer following the markup of Tax Reform 2.0 in late September.

"One of the first things that we would do," Neal said, "is that we are going to do hearings on their tax bills, both parts of it including 2.0. And I think that would shed some light on exactly why there are so many requests now to do some repairs on it."

Mayors and governors would be asked to testify on the impact of last year's federal tax bill on their cities and states if Neal chairs the committee.

"We're going to hear from a wide array of sources," Neal said, listing the National League of Cities, U.S. Conference of Mayors and "the bond market people" among those he would invite to testify.

Tax Reform 2.0 is an anathema to state and local government groups because it would make permanent the $10,000 cap on the federal deduction for state and local taxes.

The transfer of power to Democrats from Republicans, if it happens, also would come at a time when Congress is expected to take up major infrastructure legislation.

The tax treatment of bond financed infrastructure will be a key part of any package. Muni groups hope the legislation will expand the use of tax-exempt private activity bonds and will lobby for inclusion of a provision to restore advance refundings.

Infrastructure is one of the areas where lawmakers and President Trump will most likely be able to work together.

Senate Democratic Minority Leader Chuck Schumer of New York had high hopes of working with Trump on infrastructure in the early months of the new administration, before the White House and Republican Congress decided to focus on taxes instead.

Neal has "not just an empathetic ear but an informed ear" on muni issues, said Mayor Steve Benjamin of Columbia, S.C., chairman of the Municipal Bonds for America Coalition and president of the U.S. Conference of Mayors.

Benjamin said Neal "recognizes that protecting the tax exemption for muni bonds is sacrosanct for our federal tax policy."

"We do believe Representative Neal would be an able chairman if in fact the people of America decide that the House will go Democratic and we look forward to working with him and also our friends on both sides of the aisle," Benjamin said. "We've found some thoughtful, articulate members on both sides of the aisle and we look forward to maintaining all of those relationships."

Muni groups have contributed to Neal's re-election campaign, as well as other House and Senate lawmakers who are considered allies. Neal has received $2,500 from the Bond Dealers of America Political Action Committee, $1,500 from the American Public Power Association PAC and $1,000 from the Securities Industry Association PAC.

The Airports Council International-North America PAC, which has given 55% of its 2018 campaign donations to Republicans, gave Neal $1,500.

Control of the House last flipped after the first two years of President Obama's first term, noted Republican Rep. Tom Reed of New York. He acknowledged this year's election could produce a result similar to 2010 when Republicans regained the majority in the House.

Reed, a former mayor of Corning, N.Y., said he has "a lot of respect" for Neal, saying he is "one on the other side of the aisle who you can work with."

"He's a good faith legislator and as a mayor I think that you recognize what you're here for," Reed said. "And that's fundamentally to help people. And he's of that ilk."

Neal and the former Sen. John Kerry, D-Mass., successfully worked to include a provision in the February 2009 Economic Recovery and Reinvestment Act that exempted private activity bonds from the Alternative Minimum Tax for two years.

“Airports saved well over $1 billion in financing costs over that time” because of that provision, said Annie Russo, senior vice president for government and political affairs of the Airports Council International-North America.

“He has spent a lot of time working on projects in his district that have an infrastructure and transportation focus, especially redevelopment projects,” Russo said.

One former senior House staffer pointed to Neal’s longtime work to redevelop the historic Union Station in his hometown of Springfield that serves as an Amtrak stop for the Northeast Corridor, which extends from Boston to Washington.

Neal launched his first campaign for local elected office in 1977 with a pledge to save the station. The redevelopment took more than 35 years to complete.

Neal served 16 years in local government as mayor of Springfield, Mass., as a city council member and mayoral aide before running for Congress.

Another former mayor on Ways and Means is Rep. Bill Pascrell, D-N.J., a former mayor of Paterson, N.J. who described Neal as a “very moderate Democrat who does the right thing.”

“He knows his stuff before he opens his mouth,” Pascrell added. “I think he’ll be very fair to everybody and will want input from the other side.”

Pascrell said the municipal bond market has a friend in both him and Neal. “I was a mayor,” he told The Bond Buyer. “I’m very familiar with what your readers are all about.”

Pascrell said he thinks Neal already has talked to mayors about the role of bonds, which Pascrell said “have been responsible in large part for the growth and rebirth of many cities in this country.”

Republicans “don’t think much of cities,” Pascrell said. “They never talk about them except when you ask them a question. It’s like the president never talks about labor standards when he talks about NAFTA in terms of Mexico. We know where their priorities are.”

By Brian Tumulty

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