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## **Muni Advocates See Bank-Qualified Cap as Attainable Goal.**

With advance refunding currently dead in the water, muni leaders see a change in the regulation of bank-qualified bonds as low-hanging fruit that could help attract more Republicans to get involved in public finance issues.

The Government Finance Officers Association federal advocates advanced this position during the meeting of the group's Committee on Governmental Debt Management before the opening of the group's annual conference in Portland, Oregon. The Bank-qualified cap is one of the core issues for muni advocates, particularly those representing smaller issuers and regional banks and broker-dealers.

"If we get a standalone bill. I would say we're at least 65% of the way there," said Jarron Brady, federal policy analyst, GFOA. The legislative change sought by GFOA and other muni groups would raise to \$30 million from \$10 million the cap on how much an issuer could issue in a calendar year and maintain the ability to sell debt directly to banks as bank-qualified.

The direct sale of BQ debt to banks greatly simplifies the process for smaller issuers. The GFOA believes the qualification lowers debt issuance costs by an estimated 25 to 40 basis points. The Tax Reform Law of 1986 set the bank-qualified limit at \$10 million for a calendar year and allows banks to deduct most of the carrying cost of that debt as a business cost. The American Recovery and Reinvestment Act raised the cap to \$30 million a year in an effort to help pull the economy out of the global financial crisis. ARRA also applied the limitation to individual borrowers rather than conduit issuers.

The effort has a familiar champion in the form of Rep. Terri Sewell, D-Ala., who unsuccessfully introduced similar legislation in 2019.

The National League of Cities, the National Association of Counties, Securities Industry and Financial Markets Association, and the Bond Dealers of America are all pulling on the same rope, as are other groups representing specific groups of issuers such as healthcare and education finance authorities.

"The current bank-qualified bond limits were established in 1986," said Michael Decker, SVP, Research and Public Policy, BDA. "As a result of inflation, they're sorely undervalued relative to where they were decades ago, worth less than half in real dollar terms of what they were then."

GFOA touts a sizable uptick in issuance during the years the cap was lifted. "The data shows that when the cap was lifted to \$30 million during the Obama administration, municipalities all across the country were issuing debt at a much higher rate," said Brady. You see the data go from this flat line to a jump. We're hoping to get back to that jump."

A budget reconciliation bill that surfaced in the fall of 2021 contained provisions to raise the cap back to \$30 million but failed to reach the finish line.

Efforts in Congress to put advance funding back into play are currently hamstrung by efforts to repeal the Tax Cuts and Jobs Act, the legislative cornerstone of the Trump presidency and viewed as untouchable by House and Senate Republicans.

The appeal of raising the BQ limit spreads across party lines. “Most members of Congress have a small town in their district somewhere,” said Decker. “It applies equally to red and blue states so it’s popular, it’s beneficial, and It’s long overdue.”

By Scott Sowers

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