GFOA Legislative and Regulatory Update

Sunday, May 19, 2019
Los Angeles, California

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How is everyone feeling on this sunny LA day?
• Congressional Advocacy
  • Tax exempt municipal bonds
    • Deductibility of state & local taxes
    • Marketplace Fairness Act
    • Pensions & benefits

• Executive Advocacy
  • SEC
  • MSRB

• Amicus Briefs to the Supreme Court
Democrats flip the House and gain powerful committee gavels

**115th Congress**

- Democrats: 196
- Republicans: 236

**116th Congress**

- Democrats: 234
- Republicans: 199
Senate Control

47 Democrats
50 Seats
53 Republicans

23 Democrats not up for election
42 Republicans not up for election

WON • GAIN • NO ELECTION

MN SPECIAL
MS SPECIAL

Map showing the control of Senate seats between Democrats and Republicans.
Senate Republicans maintain and expand their majority

115th Congress

Democrats 49

116th Congress

Democrats 47

Republicans 53
New on Capitol Hill

• Committee assignments; Staff Relocations
  • Newly-Elected Members are assigned to committee
  • Lloyd Doggett on House Ways and Means majority, Brady and Marchant in minority

• House Municipal Finance Caucus
  • Co-Chairs: Representatives Ruppersberger (D-MD) and Stivers (R-OH)
  • Key issues they focus on include: protecting the tax-exempt status of municipal debt, understanding how financial regulations treat such debt, and ensuring there is a robust market for municipal securities

• Hearings in Full Force
  • Transportation & Infrastructure, Ways & Means

• Importantly, non-balancing tax reform will have to go through the process of Reconciliation (60 votes in the Senate)
Freshmen Members of 116th Congress
• One in 6 congressional representatives are new, creating new informational pieces a priority
  • Funding piece
  • Financing Piece
  • Issue Brief
$2 Trillion: Fact or Fiction?

What are the chances a large infrastructure package will pass in 2019?

- 46%: I can see some cooperation/coordinating that will work out in our favor
- 47%: Snowball's chance in you-know-where.
- 0%: We will easily get back AR and...
Let’s Discuss

• Two Trillion Dollars: Fact or Fiction?

• If it’s Fiction, what will GFOA members need to (continue to) do to provide infrastructure?

• If it’s Fact, what do you want to see in a bipartisan infrastructure plan? What would be your priorities?
In one or two words, what would you put in an infrastructure package?
• Protection of the Municipal Bond
  • Munis are bipartisan and apolitical
    • Munis are an easy story to tell (#buildbybonds)
    • Munis aren’t *just* roads
  • Munis constitute a strong, vibrant capital market for infrastructure
Let’s Discuss

• Why does the Muni need defending when it’s not under immediate threat?

• What about private participation in public infrastructure? Any Successes and Challenges to Share?
  • Does GFOA have best practices on how to proceed?
TCJA Impacts – Advance Refunding

- Savings of 3-8% of par foregone
- Bringing back AR is our number one goal
  - Will it stand alone? Not likely!
- A standalone bill addressing AR is imminent
  - Cost- how do we ensure that it pays for itself, or rather, how do we “unpack” the JCT score?

### ADVANCE REFUNDING ISSUANCE

<table>
<thead>
<tr>
<th>Year</th>
<th>Bond Volume ($ millions)</th>
<th>Minimum Savings from Advance Refunding ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$2,190</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$1,474</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>$1,767</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$2,740</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$3,579</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$2,526</td>
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</tbody>
</table>

Source: GFOIA analysis of Thomson Reuters data
• Small Issuer Exception allows smaller jurisdictions working with community banks to issue TE BQ debt
  • Pegged to the Borrower!

• Right now the cap is $10m per issuer, we are asking to raise the cap to $30m, pegged to inflation and based at the level of the borrower
  • Cost- NOMINAL!
Build America Bonds (or Direct-Pay Subsidy Bonds)
  - Open the prospect for new buyers
  - Sequestration effects stop the conversation before it starts

SALT – efforts are well underway to relieve the $10k cap on the state and local tax deduction
  - Some efforts pay for themselves
  - Other efforts do not take these into account, which may ultimately have less of a chance
The industry has long advocated for quality, timely and meaningful disclosure.
SEC Rule 15c2-12: What is the Change?

• Aka “Fifteen and Sixteen”
• Broker/Dealer (Underwriter) Rule – Issuers are not directly regulated by the SEC or MSRB

Governments will have to state in CDAs entered into on or after February 27, 2019 that they will

• 15: Disclose to the market any new and material financial obligations
• 16: Notify the market when certain events occur with respect to an outstanding or new material financial obligation that reflect financial difficulties.
Does your entity have updated debt management policies and procedures that take the new amendments into account?

Haven't given it much thought...

Yes, we are ready to go!

No, we will wait until we issue next.

Working on it now - that's what I'm doing here!
Let’s Discuss

• What have you done to prepare? Any key questions still outstanding?

• Do you recommend any key first steps to those who are working on it now?
GFOA Best Practices

- Debt 101 (Volume 1) - Issuing a Bond
- Debt 101 (Volume 2) - Responsibilities After Bond Issuance
- GFOA Best Practice, Debt Management Policy
- GFOA Best Practice, Understanding Your Continuing Disclosure Responsibilities
- GFOA Best Practice, Post Issuance Policies and Procedures
- GFOA Best Practice, Primary Market Disclosure
- GFOA Best Practice, Using Technology for Disclosure
- GFOA Best Practice, Bank Loans
- GFOA Best Practice, Maintaining an Investor Relations Program
- Best Practice, Using the Comprehensive Annual Financial Report to Meet SEC Requirements for Periodic Disclosure
- GFOA Advisory, Use of Debt-Related Derivatives Products
- Best Practice, Investment of Bond Proceeds
• LIBOR is going away January 1, 2022
  • Treasury has identified an overnight financing rate (SOFR) as the replacement
  • What is the municipal/nonprofit exposure?

• What does “stale” financials mean?
  • SEC Chairman Clayton coined the term during the Municipal Bond Conference December 2018
Panel Discussion and Questions
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