



March 27, 2019



GFOA Strategic Roles



RESOURCE

- Best practice guidance
- High-quality technical resources
- Research on current issues



EDUCATOR

- Ongoing professional development
- Transparency and overall understanding of public finance concepts



FACILITATOR

- Member networking and member communications
- Recognition for innovations and leading governments



ADVOCATE

- State and Local government issues at the federal government level
- Development of accounting and financial reporting standards
- Recruitment and development of public finance leaders

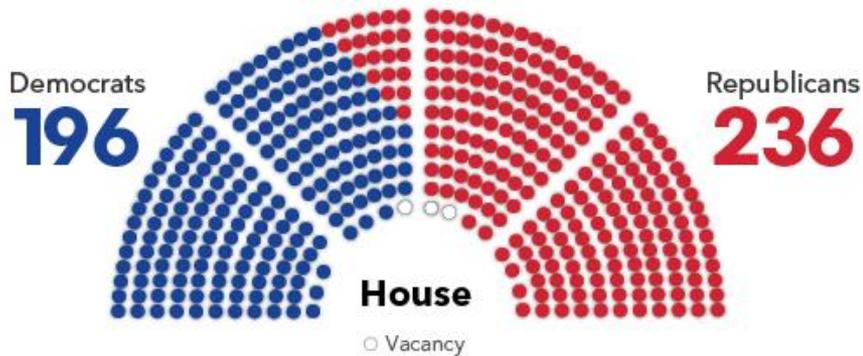
Federal Advocacy

- 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

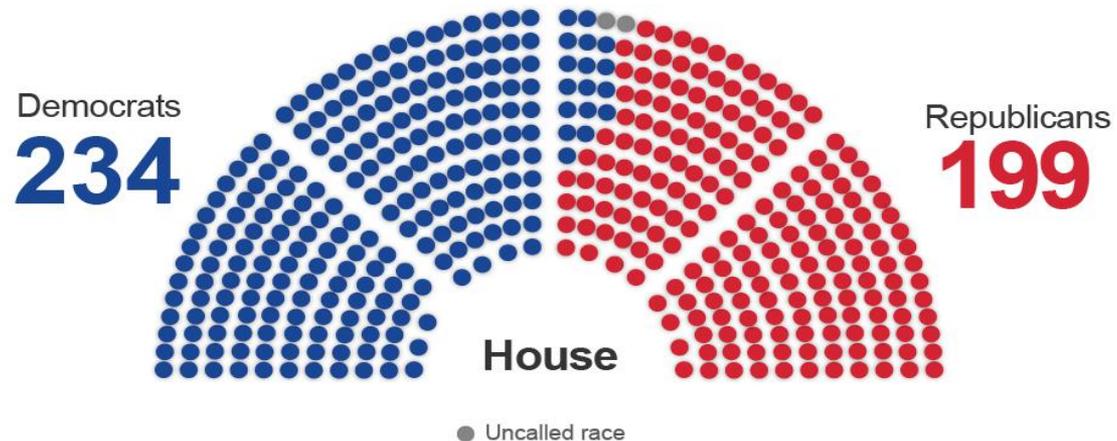
House Balance of Power

Democrats flip the House and gain powerful committee gavels

115th Congress



116th Congress



Senate Control

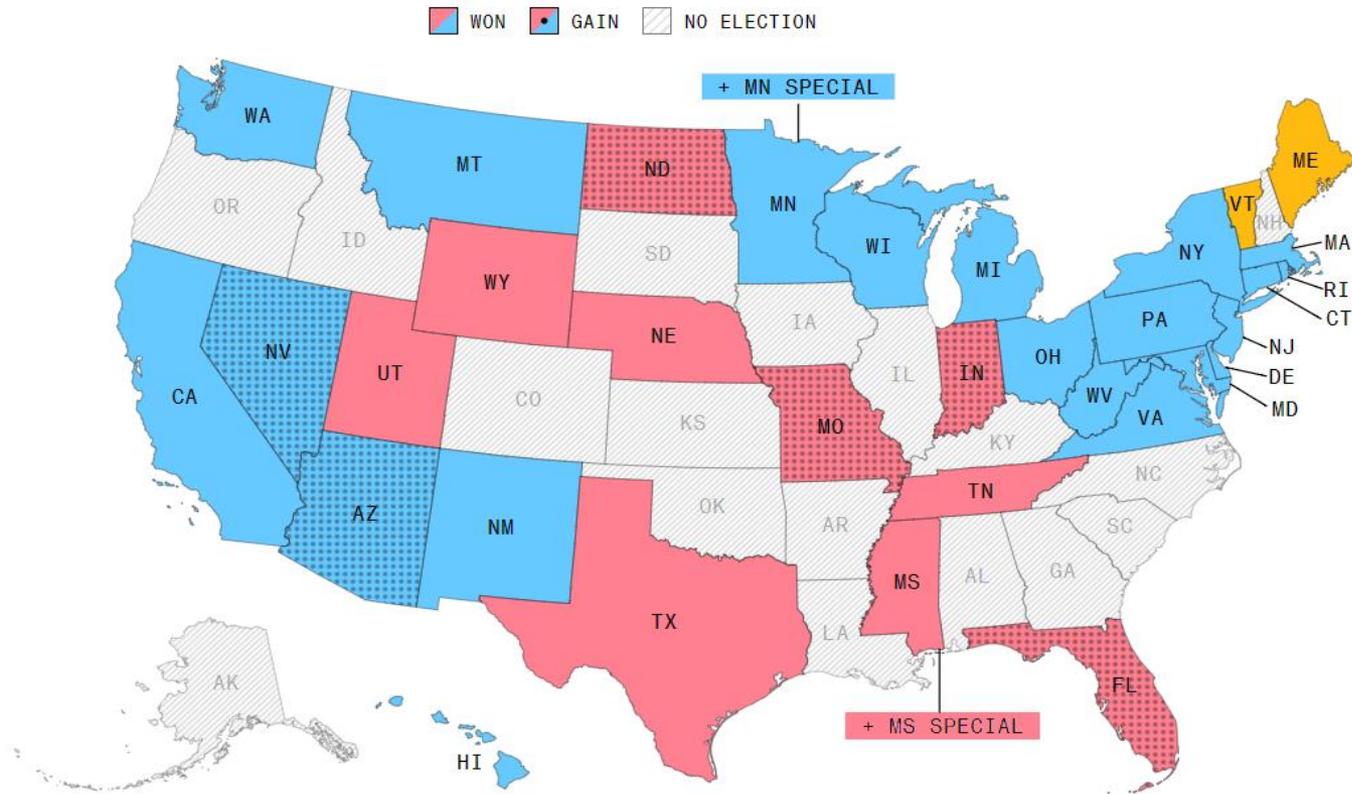
47 Democrats

50 SEATS

53 Republicans ★

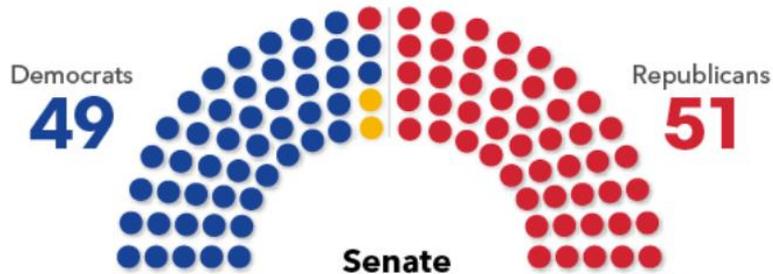
23 Democrats not up for election

42 Republicans not up for election

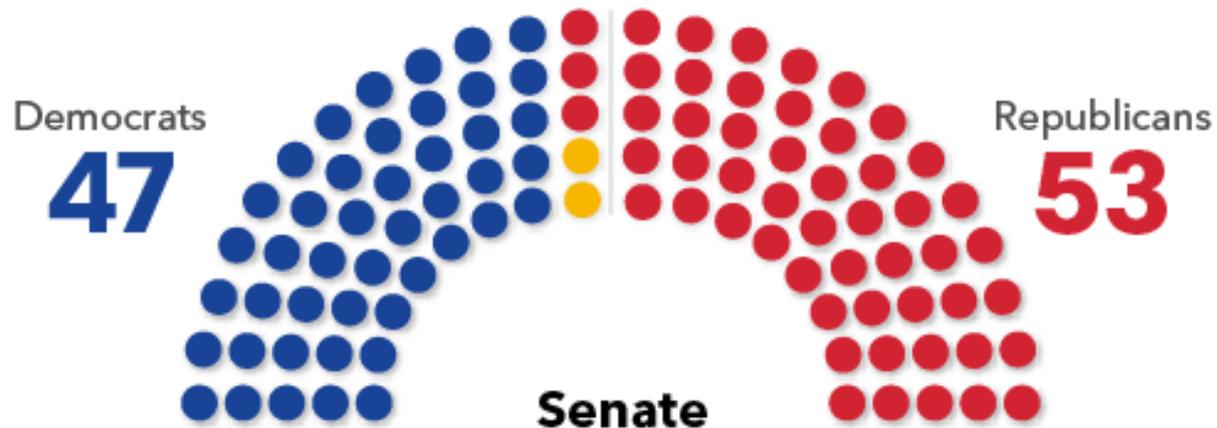


Senate Balance of Power

Senate Republicans maintain and expand their majority
115th Congress



116th Congress



New on Capitol Hill

➤ **Committee assignments; Staff Relocations**

- Newly-Elected Members are assigned to committee
- Former senior staff at the committee level have moved on to lobby on K Street and new staff are at the helm

➤ **House Municipal Finance Caucus**

- Co-Chairs: Representatives Ruppberger (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

➤ **Congressionally Directed Spending (formerly known as Earmarks)**

- Lawmakers more knowledgeable about needed projects in their districts than the executive
- Can help garner support for larger bills

Freshmen Members of 116th Congress



- Protection of the Municipal Bond
 - ❖ Gridlock is our friend
 - ❖ Munis are bipartisan and apolitical
 - CHAMPION: Dutch Ruppersberger, Steve Stivers (OH)
 - Munis are an easy story to tell (#buildbybonds)
 - ❖ Munis constitute a strong, vibrant capital market for infrastructure

Table 8. 20 Year Average History of Holders of Municipal Securities

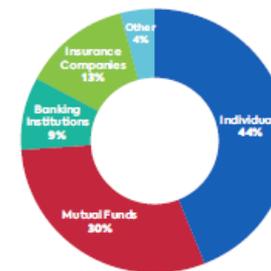
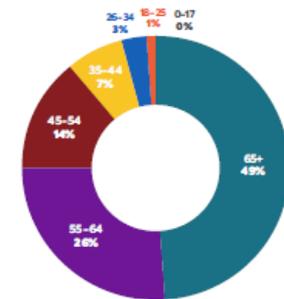


Table 9. Retirees as Bond Holders

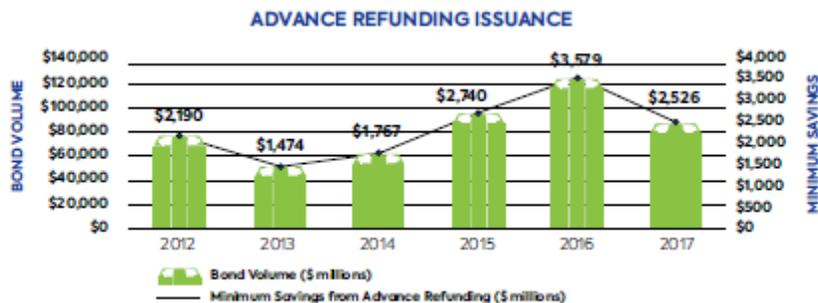


Number of Returns with Tax-Exempt Interest Deduction by Age Group, Tax Year 2016

* Moody's Investor Service, US Municipal Bond Defaults and Recoveries, 2017

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?



	2017		2018		% Change (Volume)
	Volume (\$ Millions)	Number of Issues	Volume (\$ Millions)	Number of Issues	
Total	293,254.7	9,479	252,234.1	7,063	-13.99%
Tax-Exempt	257,626.2	8,498	217,122.3	6,212	-15.72%
Taxable	25,391.0	868	21,963.8	768	-13.50%
Minimum Tax	10,237.4	18	18,148	83	28.43%

Source: GFOA analysis of Thomson Reuters data available as of 9/30/18



Bank Qualified Debt (aka Small Borrower Exception)

S12

- ❖ 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!



Other Legislative Priorities

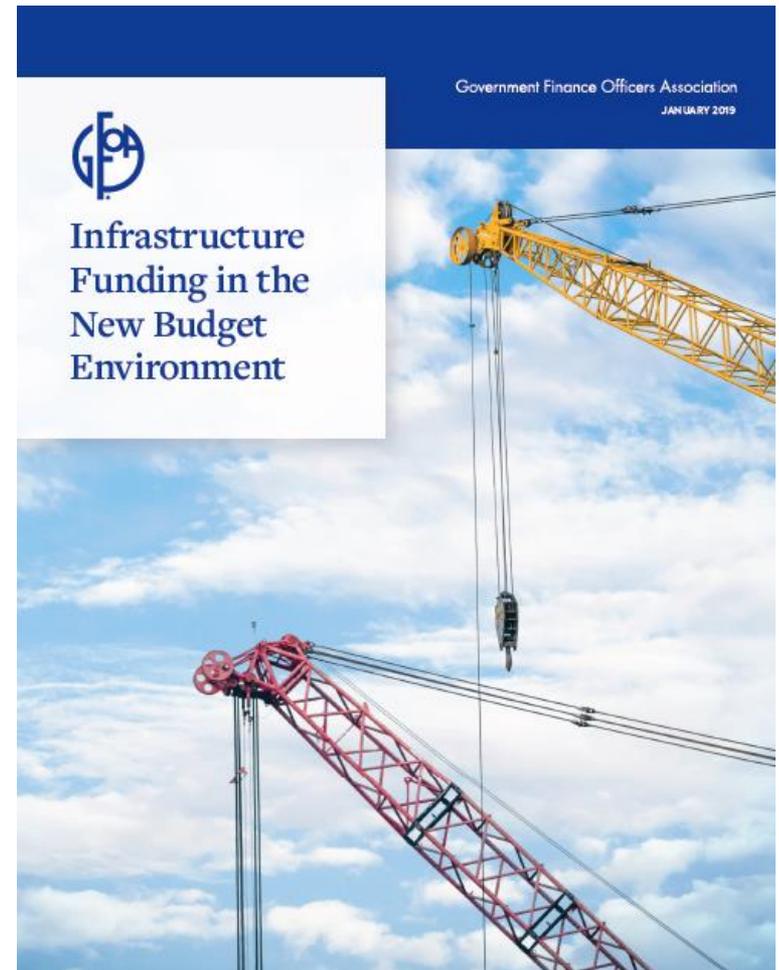
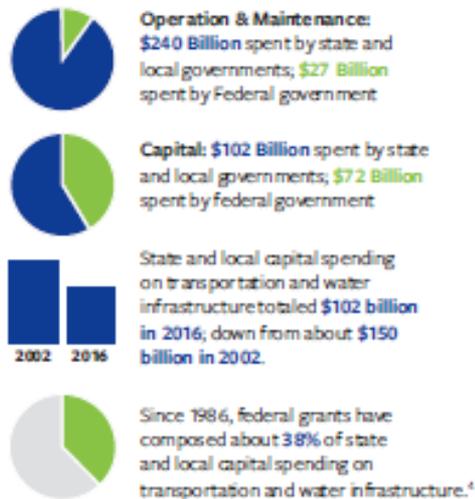
S13

- ❖ BABs – Sequestration impacts are a wet blanket
- ❖ SALT – efforts are well underway to relieve the \$10k cap on SALT
 - Some efforts pay for themselves
 - Other efforts do not take these into account, which may ultimately have less of a chance
 - Importantly, non-balancing tax reform will have to go through the process of Reconciliation (60 votes in the Senate)

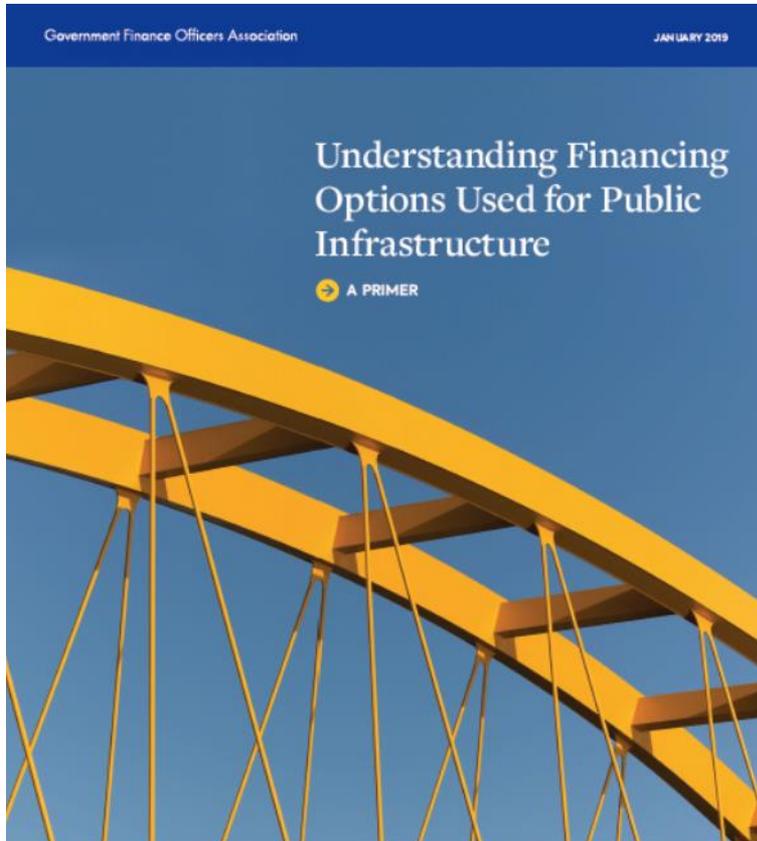


Infrastructure Funding

- ❖ One in 6 congressional representatives are new, creating new informational pieces to be released next week
 - Funding piece
 - Financing Piece
 - Issue Brief

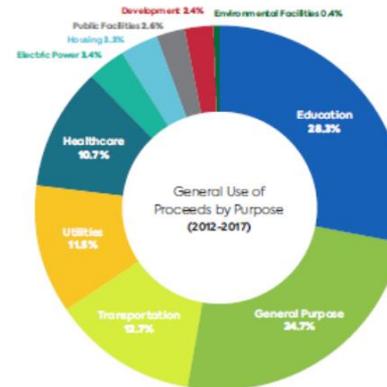


Infrastructure Financing



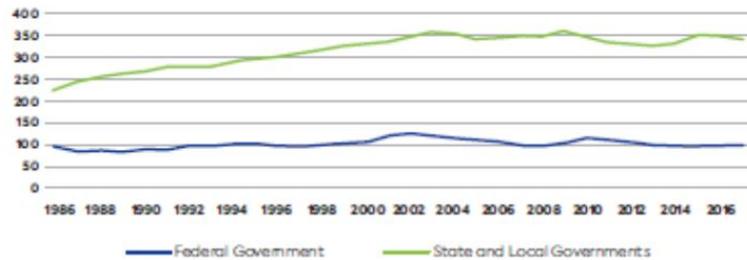
PROJECTS FUNDED BY TAX-EXEMPT BONDS

Table 2. Projects funded by bonds by type and five year average



Source: Thomas Reuters

Table 6. Public Spending on Transportation and Water Infrastructure, By Level of Government, 1986-2017



Municipal Market Disclosure



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.

15: What Are Material Financial Obligations?

- The term “*materiality*” is still unspecified in SEC Rule 15c2-12
- Financial obligations are related to debt and debt-related products and not normal business operations. This potentially includes:
 - ❖ bank loans
 - ❖ capital leases
 - ❖ swaps
 - ❖ guarantees
 - ❖ and other types of financial products that “operate as vehicles to borrow money”

16: What Qualifies as a Financial Difficulty?

- Financial difficulties are defined as certain events such as default, acceleration, modification of terms or similar events under the terms of the financial obligations.

Why Should I Care?

- While outside professionals will ensure that continuing disclosure agreements are in line with the new requirements, governments will continue to be responsible for their own disclosure documents and ensuring that material event notices are filed on EMMA.
- Not fulfilling these duties could
 - ❖ at least: cause underwriters to hesitate to enter into new transactions with issuers that do not demonstrate proper disclosure practices
 - ❖ at worst: the SEC could pursue legal action against parties it deems to be responsible for potential wrong-doing, including issuers, similar to what occurred with the SEC's Municipalities Continuing Disclosure Cooperation (MCDC) project.

How Do I Comply?

- **STEP ONE:** In order to understand how these changes specifically relate to your debt program and future bond issuances and other financial transactions talk with your bond and/or disclosure counsel.
- The MSRB EMMA system
 - ❖ Manual available <http://emma.msrb.org>
- GFOA Best Practice: [Using Technology for Disclosure](#)

GFOA Best Practices

- 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](#)
- [Debt 101 \(Volume 1\) - Issuing a Bond](#)
- [Debt 101 \(Volume 2\) - Responsibilities After Bond Issuance](#)

What Else Emily?

S23

- LIBOR is going away January 1, 2022
- Treasury has identified an overnight financing rate (SOFR) as the replacement
 - ❖ Still trying to figure out the exposure. Yes, largest is the FRN but what about the smaller issuers who have LIBOR based bank loans...
- GFOA sits on the Alternative Reference Rates Committee, which meets monthly



What does “stale” financials mean?

- Set Financial Policies
- Issue Debt
- Prepare the Budget
- Employee Benefits
- Pensions
- Reporting
- ...many others

Thank you!



GOVERNMENT FINANCE OFFICERS ASSOCIATION