

On October 27 and 28 and November 5 and 6, local government staff from the Ouachita, Vernon, Sabine, Jackson, Rapides, and St. Helen parishes, and the cities of Denham Springs, Monroe, Lake Charles, and Baker attended JIT RMT's two-month pilot. Many of the students who attended were impacted by hurricanes Laura, Delta, and Zeta.

The pilot trainings were helpful in identifying how to navigate an online format as well as determining the information most useful for students at the two-month mark. Overall, students reported that the training was informative and that the smaller class sizes allowed them to engage more with the instructors. When asked what the most useful part of the course was, participants responded:

- "Instructors with actual experience and not just book knowledge. Ability to share information."
- "Very informative. The overall presentation was excellent for a virtual setting. Loved the breakout rooms."
- "Good to hear everyone's experiences."
- "Great resources in student handbook. I really appreciated the planning forms provided."
- "The interaction with the other participants."

CONCLUSION

For those on the front lines of emergency management, large-scale disasters are inevitable—it's not a matter of if, but when. Ensuring that local governments are equipped with immediate information to tackle post-disaster recovery is essential for helping communities. JIT RMT is a resource that runs parallel with the recovery phases, providing concise material tailored for local governments to ensure a successful long-term post-disaster recovery. 📖

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FEDERAL UPDATE

2021 Federal Outlook

BY EMILY SWENSON BROCK

2021 marks the beginning of the 117th Congress.

Looking in the rearview mirror, the hectic processes of creating stimulus legislation and implementing the statutes of the 116th Congress were two of 2020's greatest challenges. That said, we look forward to opportunities with a new Congress and a new administration, even as we address legacy issues.

We are entering the exciting time when a new administration lays out its key goals and looks for ways these initiatives can find traction in a politically divided Congress. GFOA has long strived to cultivate relationships with administrations on both sides of the aisle, and we certainly look forward to working with President Joe Biden to address the fiscal issues facing our federal, state, and local governments.

Infrastructure investment is one of the Biden administration's early goals, and GFOA will remind them about the power of tax-exempt municipal bonds to provide those infrastructure investments. We will also remind them about other near-term public finance priorities that can pave the way to long-term economic success, improved public health, and economic recovery.

New, flexible federal funding will be one of GFOA's primary initiatives in the 117th Congress. Additionally, working with the United States Treasury and Federal Reserve, we will address the tools they can use to stabilize the municipal bond market. Restoring several legacy provisions of the 2017 Tax Cuts and Jobs Act may be a focus of this Congress, which would include restoring the advance refunding of tax-exempt municipal bonds as well as the \$10,000 cap on the deductibility of state and local taxes. Finally, raising the ceiling on bank-qualified bonds would provide the capital needed for community infrastructure, increasing the \$10 million ceiling to \$30 million, and applying the statute to the borrower level.

Below is an overview of expected federal activity in 2021, along with information about GFOA's related advocacy campaigns.

LEGACY CARES AND STIMULUS EFFECTS

It was a frenzied year for the 116th Congress, which spent much of 2020 focused on responding to the coronavirus pandemic while fighting to keep standard Congressional business moving. The Families First Coronavirus Relief Act, the CARES Act, and HR133 The Stimulus Omnibus were products of bipartisan and bicameral partnerships to secure trillions of dollars to help individuals and communities overcome the effects of the pandemic. (See Exhibit 1.) What is normally one of the most important functions performed by Congress—funding the federal government—was dwarfed and frustrated by the efforts of legislators to address the ongoing public health crisis. These concerns remain as we enter 2021.

Leaders have indicated that in 2021, more support is coming from the federal government. The costs of purchasing and distributing the vaccine, along with anticipated declines in revenues, will indeed warrant additional fiscal relief. But lawmakers will need to consider the effects of the previous stimulus efforts. For example, extending the Coronavirus Relief Fund leaves several questions unanswered. Will eligible expenditures be better defined? Will the Treasury clarify reporting standards from sub- and prime recipients in the context of the single audit?

We look forward to opportunities with a new Congress and a new administration, even as we address legacy issues.

The Treasury and Federal Reserve are finalizing elements of the closed-out Municipal Liquidity Facility, a program set up through the CARES Act but now prohibited by the second stimulus act of 2020. GFOA is working closely with the federal agencies to help ensure that the market-stabilizing authority is exercised in a way that has the maximum impact on the municipal issuer community most vulnerable in a potential market downturn.

INFRASTRUCTURE AND THE MUNICIPAL BOND

2020 proved to be a record year for issuance in the municipal bond market. Activity exceeded the \$450 billion mark, largely due to states and governments issuing taxable debt, taking advantage of historically low interest rates. In this context, discussions with Congress about its continued support of state and local governments has been complicated.

GFOA anticipates that future discussions about infrastructure will take the recent muni market dynamics into account.

While there have been many proposals on fixing and building new public infrastructure—and how to pay for it—key members of the Biden administration are already coming to the table with a trillion-dollar infrastructure package that they will advance to a Congressional champion. That proposal may include stipulations that could have a significant impact on preserving the tax exemption on municipal bond interest. This is interesting timing, given that the most fundamental building block of our nation's infrastructure is, in fact, the municipal bond market.

State and local governments have strong advocates for the preservation of the municipal bond tax exemption in the House and Senate. Ways and Means Chairman Richie Neal (D-MA), a former mayor, and Speaker of the House Nancy Pelosi (D-CA) both strongly support state and local governments and their role in providing community infrastructure. Another key leader is Senate Finance Chairman Mike Crapo (R-ID), who has been a past champion of raising the ceiling on bank-qualified debt for municipal and nonprofit issuers. GFOA will continue to work with his office to address key policy issues, with a focus on key priorities that would benefit rural issuers.

In addition, a trusted advocate, the House Municipal Finance Caucus, has been engaged throughout the policymaking of the COVID-19 stimulus discussion in its support of the municipal bond market. Representatives C. A. Dutch Ruppersberger (D-MD) and Steve Stivers (R-OH) chair the caucus of 25 bipartisan members. GFOA will work to boost bipartisan membership in this caucus throughout 2021.

OTHER MUNICIPAL BONDS INITIATIVES

While infrastructure will likely be the key topic in discussions about the tax exemption of municipal bonds, several other important concerns regarding the 2017 Tax Cuts and Jobs Act will likely take center stage in the Biden

administration. The 2017 Tax Cuts and Jobs Act (TCJA) made several changes to the tax code that are of interest to state and local governments. Although the full tax exemption for municipal bond interest was retained, other noteworthy changes include the elimination of advance refunding, the elimination of tax credit bond programs, and the reduction of the corporate tax rate and elimination of some corporate, bank, and insurance tax incentives to purchase municipal securities.

In addition to the focus on these important legacy policy issues, GFOA will also maintain its focus on key federal initiatives that would add more tools in the toolkit for all municipal issuers.

Reinstating advance refunding of tax-exempt municipal bonds.

In the previous sessions of Congress, bipartisan and bicameral legislation was introduced to reinstate tax-exempt advance refunding. Advance refunding bonds allow states and localities to refinance existing debt with the greatest flexibility, resulting in substantial reductions in borrowing costs. The TCJA's elimination of advance refunding as a cost-savings tool for state and local governments has limited

options for refinancing debt, especially because interest rates will certainly fluctuate over the lifetime of outstanding bonds (which in many cases is 20 years). As a result, state and local governments are now paying more in interest, a cost borne by state and local residents.

Bank-qualified debt. Bank-qualified bonds were created in 1986 to encourage banks to invest in tax-exempt bonds from governments that issued municipal bonds less frequently, and to provide municipalities with access to the lower-cost borrowing that they need in order to provide services and invest in schools, roads, bridges, and other projects. Governments that issue \$10 million or less in bonds per calendar year can designate these bonds as bank-qualified, which allows them to bypass the traditional underwriting system and sell their tax-exempt bonds directly to local banks. Selling bank-qualified bonds directly to banks decreases debt issuance costs for governments by an estimated 25 to 40 basis points. This is because smaller, less-frequent issuers do not have to pay higher yields to investors because investors aren't familiar with the issuer's jurisdiction, and because bank-qualified debt issuers do not have to pay transaction costs associated with

traditional bond sales. A cost savings of 25 to 40 basis points on a 15-year, \$10 million bond at current interest rates would be between \$232,000 and \$370,000.

Direct-pay subsidy bonds. Direct-pay subsidy bonds like Build America Bonds (BABs) are debt securities (for example, municipal bonds) issued by a state, municipality, or county to finance capital expenditures. Tax credit BABs offered bondholders and lenders a 35 percent federal interest subsidy, paid through refundable tax credits, reducing the bondholder's tax liability. Direct payment BABs offered a 35 percent subsidy that was paid to the bond issuer. As a result of sequestration, issuers saw a consistent annual reduction in their subsidy payments. GFOA's advocacy efforts will include a requirement to incorporate sequestration-proof language for any future iteration of direct-pay subsidy bonds.

Concerns regarding the 2017 Tax Cuts and Jobs Act, such as the elimination of advance refunding of tax-exempt municipal bonds, will likely be a focus of the Biden administration.



Disclosure standards. Throughout the COVID-19 pandemic, municipal issuers, their bond counsel municipal advisors, and many other industry participants including the Securities and Exchange Commission and the Municipal Securities Rulemaking Board have focused on municipal market disclosure. GFOA convened a group of industry associations to draft core principles for issuer disclosure considerations during this pivotal time. We value their partnership in the drafting of this very important document and encourage wide acknowledgment of its core principles. (Read the document at gfoa.org.)

This alert highlights essential practices emphasized throughout GFOA's Best Practices on continuing disclosure, including:

- Complete material events filings within 10 business days.
- Know your annual disclosure filing days.
- Make your annual continuing disclosure filings.
- Provide widespread contemporaneous access to information.
- Carefully consider when and how to make voluntary disclosure filings.
- Ensure voluntary filings are made in the Electronic Municipal Market Access system, operated by the Municipal Securities Rulemaking Board.
- Make sure post-issuance compliance for tax law purposes are still in place.

PENSIONS AND RETIREMENT

Continued scrutiny of state and local government retirement plans is expected to last into 2021. GFOA will continue to educate members of Congress about the true fiscal condition and disclosure practices of public pension systems, consider whether proposed initiatives provide the flexibility the public sector needs to provide retirement security to its employees, and oppose congressional proposals that undermine state and local governments' authority to effectively govern and finance their pension plans.

Congressional proposals often address pension "problems" that are not limited to the plans that are in distress. Instead, they seek to impose a federal mandate on all state and local governments in areas that fall within the fiscal sovereignty of those states and localities. These proposals are conflicting, administratively burdensome, and costly. Moreover, some of their assumptions about management of pension funds directly contradict GFOA's Best Practices.

Legislation that may be a potential threat in the 117th Congress is another iteration of *The Public Employee Pension Transparency Act* (PEPTA), sponsored in the past by Representative Devin Nunes (R-CA) and Senator Richard Burr (R-NC). This bill would require state and local governments to report their financial data to the Treasury Department as though they were invested only in U.S. Treasuries, rather than the diversified portfolios actually in use. This would create a false picture of the true

condition of public pensions. State and local government plan sponsors that do not comply with the legislation's reporting requirement will lose their ability to issue tax-exempt bonds and to receive direct subsidies under the Build America Bonds program and other direct subsidy bond programs. GFOA will continue to express strong opposition to any introduction of PEPTA in the 117th Congress and any attempts to introduce its components through other legislation.

CONCLUSION

Stay tuned and keep an eye on GFOA's weekly newsletter for updates related to what is likely to be significant activity for state and local governments in the 117th Congress. Additionally, GFOA's resources will continually be updated, so be sure to visit gfoa.org/flc often as the new administration and Congress move forward with their initiatives. 📧

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EXHIBIT 1 | Congressional Action to Address the Coronavirus Pandemic in 2020

The Families First Coronavirus Response Act

- Signed into law March 18, 2020
- Expands paid family sick leave, unemployment insurance, food assistance programs, and other economic consequences of the public health crisis

The Coronavirus Aid, Relief, and Economic Security Act

- Signed into law March 27, 2020
- Creates the \$150 billion Coronavirus Relief Fund to provide aid to state and local governments for response efforts
- Authorizes the Federal Reserve to invest up to \$454 billion in support of state governments, local governments, and eligible businesses
- Provides direct payments to individuals and establishes small business loan programs and funding for personal protection equipment

HR 133, The Stimulus Omnibus

- Signed into law December 27, 2020
- Expands education, transportation, and rent relief programs designed to support local communities
- Ensures continuation of unemployment compensation, economic relief payments to individuals, and a continuation of Paycheck Protection Program