

TAX REFORM IMPLICATIONS FOR MUNICIPAL ISSUERS

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Election Raises Tax Reform & Regulatory Rollback Issues*

***Puerto Rico's problems will make things worse for the tax exemption**

Different Scenarios, Similar Implications

- Most likely scenarios are closest to the status quo
- Narrowing exemption away from certain entities (e.g., hospitals) & projects (e.g., advance refundings)
- Adding exempt income to some Federal income calculations (e.g., MAGI)
- Capping value of exemption for all, or just new, bonds
- Removal of exemption for all, or just new, bonds
- Potential offsets: low subsidy BABs, TIFIA, PPPs, or even categorical aid

Borrowing Costs Are Not The Only Issue

- **Loss of Tower; EMMA replaced by EDGAR**
- **Full registration of municipal issuers is possible**
- **Much larger economic advantage for financings where taxpayers shoulder all the risk (GOs)**
- **Smaller, more rural local governments (and special districts) may lose effective market access**
- **Pressure to homogenize means state-by-state differences will need to give way to more uniform national standards**
- **Less callability, less customization**
- **Investors will begin to read the documents!**

Alternatives Crafted To Improve Fed Control

- **Build America Bonds, TIFIA, etc. steer infrastructure projects according to Federal priorities**
- **Direct subsidy programs in general can entangle infrastructure payments with other priorities (e.g., pension accounting)**
- **Public private partnerships deliver value to Federal (versus local) level lobbyists**
- **Evolutions like these are probably unavoidable as Congress seeks to maximize influence amid long-term, structural budget deficit**