

TAXATION

Schumer, in Line For Senate Leadership, Is Friend to Munis

BY NAOMI JAGODA
APR 2, 2015 1:06pm ET

WASHINGTON — The municipal bond market will have an ally in the top echelon of Senate leadership if Sen. Chuck Schumer, D-N.Y., becomes the Senate Democratic leader in 2017, as is widely expected, tax and municipal bond experts said.

Senate Minority Leader Harry Reid, D-Nev., announced on March 27 that he will retire and not seek re-election in 2016. After Reid leaves the Senate, Schumer is expected to become its top Democrat and either minority or majority leader depending on the outcome of the November elections next year. He is currently the third-ranked Senate Democrat, behind Sen. Dick Durbin from Illinois.

Schumer currently serves on the Senate Finance, Banking, Judiciary and Rules Committees. The finance committee has jurisdiction over taxes and the banking committee has jurisdiction over financial institutions, housing and urban mass transit.

Ed Kleinbard, a professor at the University of Southern California and former chief of staff at the Joint Committee on Taxation, said that Schumer "is an extraordinarily intelligent man" with a good grasp of tax and financial issues.

A Senator since 1999 and a House member for 18 years before that, Schumer has taken an interest in muni-related issues.

"He's already been quite influential when it comes to policy on municipal bonds," said Susan Collet, president of H Street Capitol Strategies.

Schumer's status as a senator from New York — home to the center of the financial industry and many large issuers — has made him knowledgeable about, and a proponent of, municipal bonds, tax experts said.

"He understands the industry," said Anthony Figliola, vice president of Empire Government Strategies, a Long Island-based economic development consulting company. The industry "has a friend in Senator Schumer," he said.

Schumer was a state assemblyman for six years and one of the things that the state legislature does is support capital projects.

"He's certainly someone who gets it," Figliola said.

Schumer has relationships with people on Wall Street that have existed for many years, Collet said. "He's extraordinarily well-positioned to access thorough information" about the impacts of muni-related policies, she said.

New York has significant infrastructure needs in areas such as transportation and low-income housing, and has a lot of its population in urban areas. As a result, curbs on munis would be felt acutely in the state, Collet said.

While congressional leaders make decisions on a national level, they "still remain really sensitive to how their states would be affected by policies," Collet said. She expects Schumer would be cautious about policies that would increase issuers' borrowing costs.

Micah Green, a partner at Squire Patton Boggs here, said that what drives Schumer's support for munis is not really Wall Street's presence in his state but rather the fact that New York has many major issuers and bond-financed projects.

"The municipal bond market has been critical to the financial viability of the city of New York and the state of New York," Green said.

Schumer understands the importance of low borrowing costs for state and local governments, and

having a leader who has that perspective "can only be helpful in ensuring that those issues are fully debated" in a tax reform debate, Green said.

Schumer makes an effort to visit all of New York's counties each year and understand how federal policies affect the state and its localities. "That is relatively rare for a Senator to do," said Frank Shafroth, director of the Center for State and Local Government Leadership at George Mason University.

Municipal finance would be a key issue for Schumer during tax reform, and his knowledge of the market would be helpful for state and local governments, Shafroth said.

In New York, there may be projects that can't get enough capital and Schumer might be able to help. "Being the top Democrat will only bolster New York's ability to get additional capital funding from Washington," Figliola said.

Reid hasn't been very visible in the municipal bond area and Schumer could be more vocal on the topic, Shafroth said. He is more likely to be visibly engaged in legislation and will incorporate his own interests into bills.

"Chuck Schumer is a New Yorker," Shafroth said. "He's going to be noisy. He's going to be in people's faces."

While Reid has not been outspoken about munis, he has not been bad for the market. He was Senate Majority Leader when the Build America Bond program was authorized and other tax-advantaged bond programs were expanded, primarily through the American Recovery and Reinvestment Act in 2009 and Hiring Incentives to Restore Employment Act in 2010.

While the ideas for these actions didn't necessarily originate with Reid, they wouldn't have happened if Reid hadn't supported them, Collet said.

Republicans have criticized BABs and fought against reinstating them since the program expired at the end of 2010. They have argued BABs provide lucrative fees to underwriters and encourage states with lower credits to issue more munis. New York issuers ranked second highest for BAB issuance, with roughly \$20.35 billion in par value, behind California governments.

Private-activity bonds also have received criticism from several lawmakers because they benefit private parties. Former House Ways and Means Committee chairman David Camp, R-Mich.'s tax reform draft proposed eliminating tax exemption for new PABs. New York issuers, in 2013 (the most recent year for available statistics), had the highest amount of issuance for PABs subject to state volume caps, at \$1.86 billion.

Schumer has been pushing hard for municipal bonds to be included as high-quality liquid assets under a federal banking rule designed to ensure large financial institutions have enough assets that could be quickly and easily converted to cash during periods of liquidity stress.

"Senator Schumer has been an outspoken advocate for municipal bonds in arguing that they be included as high quality liquid assets under the liquidity coverage ratio," said Jessica Giroux, general counsel and managing director of the Bond Dealers of America. "We expect his financial services expertise and understanding of the fixed income market will be helpful in his anticipated new role as Democratic leader and we welcome the opportunity to work with him on issues of mutual importance."

Last year, Schumer sponsored a bill that would allow New Clean Renewable Energy Bonds to finance qualified biogas property, though it didn't move forward.

Schumer also has been an advocate for disaster relief. He sponsored a disaster tax relief bill last year that included several bond provisions, which failed to gain traction. He did, however, help New York get federal funds after Hurricane Sandy. On Tuesday he announced the Federal Emergency Management Agency is providing its largest grant ever — \$3 billion — to repair and protect 33 public housing developments that sustained severe damage from the hurricane.

Bill Daly, the director of governmental affairs for the National Association of Bond Lawyers and a former director of New York City's Washington office, said Schumer and his staff paid a lot of attention to New York Liberty Zone Bonds and extending the program. Liberty Zone bonds could be issued to finance projects in lower Manhattan after the Sept. 11, 2001 terrorist attacks.

Schumer and his staff were also very interested in other issues affecting New York City's government, such as reimbursements for Medicaid, Daly said.