

THE BOND BUYER

BABs subsidies continue during spending deadlock

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WASHINGTON – Build America Bond issuers are receiving their interest subsidy payments during the partial government shutdown while Congress remains divided on how to resolve the deadlock.

David Erdman, a member of the Government Finance Officers Association debt committee, said Wednesday that a state government issuer in a different state has reported receiving a wire transfer of a BABs subsidy payment from the U.S. Treasury.

“It was for the subsidy due on Feb. 1 and they received the wire on Jan. 8,” said Erdman, director of the Wisconsin State Capital Finance Office. He declined to name the issuer.

“This is just another administrative concern or headache that relates to these BABs,” said Erdman, noting that under federal sequestration the original BABs subsidy already has been reduced.

Federal subsidy payments made to issuers of BABs and other direct-pay bonds have been cut by 6.2% in fiscal 2019 under sequestration. The reduction reduced the 35% original federal subsidy by 2.17 percentage points to 32.83% for the fiscal year that began Oct. 1.

The trading window for state and local government securities offered by Treasury also remains open during the shutdown. SLGS are purchased by issuers with proceeds subject to yield restrictions and arbitrage rebate requirements under the Internal Revenue Code.

But the IRS has suspended municipal bond audits and negotiations under the Voluntary Compliance Agreement Program because of the shutdown.

In addition, the Securities and Exchange Commission also has suspended ongoing civil litigation, though some enforcement staff remain available to respond to emergencies where investors might be harmed without swift action.

SEC officials are unavailable during the shutdown to field municipal market inquiries about amended additional reporting requirements under Rule 15c2-12 that are scheduled to take effect Feb. 27.

Democrats and Republicans in Congress continue to be deadlocked over how to end the shutdown even at agencies and departments that are not part of the fight over whether to fund further construction of a wall along the southern border.

The House voted 240-188 on Thursday to fund the Internal Revenue Service, Treasury Department, the Securities and Exchange Commission, other financial services agencies and general government operations through Sept. 30.

But only eight Republicans joined Democrats in approving the \$23.7 billion in fiscal 2019 discretionary spending as they heeded President Trump's call to continue the partial government shutdown until \$5.7 billion in new funding is approved for a wall along the southern border.

Democrats noted that the financial services spending bill is virtually identical to the legislation approved by the Senate 92-6 last August as part of a larger spending package.

The spending bill was the first of four bills House Democrats are planning to vote on this week in an effort to separate the controversy over the wall funding in a fifth spending bill for the Department of Homeland Security.

The Republican-controlled Senate would also have to approve those bills, and they would have to earn Trump's signature to become law.

Also in the batch of four votes this week will be 2019 funding the Transportation Department and Department of Housing and Urban Development where formula aid and grants to state and local governments have been suspended.

Only five of the 12 annual spending bills for fiscal 2019 already have been signed into law.

"I was informed that the IRS will release its contingency plan for the tax filing season and issuing refunds in the coming days, which will require a significant number of IRS employees to return to work without pay," House Ways and Means Committee Chairman Richard Neal, D-Mass., said during Wednesday's floor debate. "These developments are no substitute for fully funding the government and reopening these agencies."

Rep. Tom Graves of Georgia, R-Ga., ranking member of the House Appropriations Subcommittee in Financial Services and General Government, objected to the bill as “just another of the Democratic Party’s political stunts.”

“It does not include any of the House priorities and Democrats are not allowing any amendments,” said Graves, noting that the House passed a bipartisan 2019 financial services bill last July with more than 270 votes.

House Appropriations Committee Chairwoman Nita Lowey, D-N.Y., said the bill represents the fastest route to reopening the IRS.

“With taxpayer assistance phone lines and centers closed for business, our constituents don’t have anyone they can turn to,” Lowey said.

President Trump told reporters at the U.S. Capitol after attending a Senate Republican policy luncheon Wednesday that lawmakers back his approach.

“The Republicans are unified,” Trump said. “We want border security. We want safety for our country. And, you know, for 25 years they’ve been trying to do this.”

Trump met later in the afternoon at the White House with congressional leaders, but walked out of the meeting after Speaker Nancy Pelosi, D-Calif., expressed her continued opposition to funding a wall.

Pelosi issued a statement after the early evening vote urging the Republican-controlled Senate to pass the fiscal 2019 financial services and general government operations spending bill.

“If Senate Republicans do not pass this legislation that they have already supported, they will be fully complicit in the chaos and cruelty of the Trump shutdown – which is threatening the vital services that millions of Americans rely on for their health, safety and well-being, and putting many Americans’ paychecks on the chopping block,” Pelosi said.

The 2019 financial service spending bill was approved by the Senate during the last Congress by a vote of 92-6 as part of a package of spending bills.

Pelosi said, “While the president petulantly pledges to keep government shut down until he gets his way, House Democrats are taking swift action to restore certainty to people’s lives and remove all doubt that hard-working Americans will receive their tax refunds in full and on time, by passing legislation to re-open the IRS.”