THE BOND BUYER

Build America Bonds could be zeroed out by pending tax bills

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WASHINGTON — Hundreds of millions of dollars of outstanding Build America Bonds, along with more than $85 billion of other mandatory federal programs, would have to be zeroed out in fiscal 2018 if Congress passes the Republican tax bills by year-end, according to the Congressional Budget Office.

CBO Director Keith Hall reached this conclusion, though he did not specifically mention BABs, in a two-page letter he sent to House Minority Whip Rep. Steny Hoyer, D-Md. on Tuesday.

Roughly $182 billion of BABs were issued in 2009 and 2010 and most of them are still outstanding, as well as other direct-pay taxable bonds under which the Treasury Department pays issuers a subsidy equal to a percentage of their interest costs.

Hoyer had asked the CBO what the impact would be from a tax bill that wold raise deficits by by an estimated $1.5 trillion over the ten-year, 2018-2027 period. That would include the bill in the House offered by Rep. Kevin Brady, chair of the House Ways and Means Committee, which passed it last week.

It would also include the bill offered by Sen. Orrin Hatch, R-Utah to the Senate Finance Committee. Hatch has modified that bill, but revenue estimates still show it would till raise the deficit by an estimated $1.4 trillion over the ten-year, 2018-2027 period.

Hall responded that any bill enacted would be subject to the Pay-As-You-Go (PAYGO) Act of 2010, which was written into law to generally ensure that most new spending by Congress during any session is offset by either spending cuts or added revenue elsewhere so that it does not increase estimated deficits.

The PAYGO Act requires the Office of Management and Budget to keep scorecards to report the cumulative revenues and outlays over five and ten year periods from new legislation passed during each session and to then determine if sequestration of mandatory federal programs is required to offset them.

If Congress passed the Republican bill in the House by year-end, for example, OMB would have to record average annual deficit increases of $150 billion per year for 10 years. Legislation during the current congressional session already shows a $14 billion credit. Without any legislation to offset the estimated deficits or to wave or otherwise mitigate the PAYGO Act,

OMB would be required, by Jan. 15, to reduce spending via sequestration in fiscal 2018.

The annual deficit amount of $150 billion, reduced by the $14 billion credit during the session, would result in $136 billion.

Further, the PAYGO Act limits reductions to Medicare to four percentage points, which would be roughly $25 billion for fiscal 2018, CBO said, leaving $111 billion.

In addition, the law exempts some large accounts from any cuts, such as social security and low-income programs, leaving OMB only $85 billion to $90 billion from which OMB could draw for cuts.

CBO said this amount would be “significantly less than the amount that would be required to be sequestered.”

“Given that the required reduction in spending exceeds the estimated amount of available resources in each year over the next 10 years, in the absence of further legislation, OMB would be unable to implement the full extent of outlay reductions required by the PAYGO law,” CBO’s Hall said.

Bill Daly, director of governmental affairs for the National Association of Bond Lawyers, said that if the Republican bill in the House passed Congress and lawmakers took no action with regard to the PAYGO Act, “it looks like the BAB program could be zeroed out.”

Steve Bell, senior advisor for economic policy at the Bipartisan Policy Center who is former staff director of the Senate Budget Committee, said, “That is my reading of if, as well as the reading of a couple of our OMB/[Governmental Accounting Office] folks here.”

Bell pointed out that while the House Rules Committee has the power to waive all points of order against legislation, it would take 60 votes in the Senate to waive the PAYGO Act