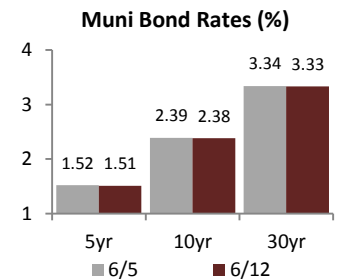
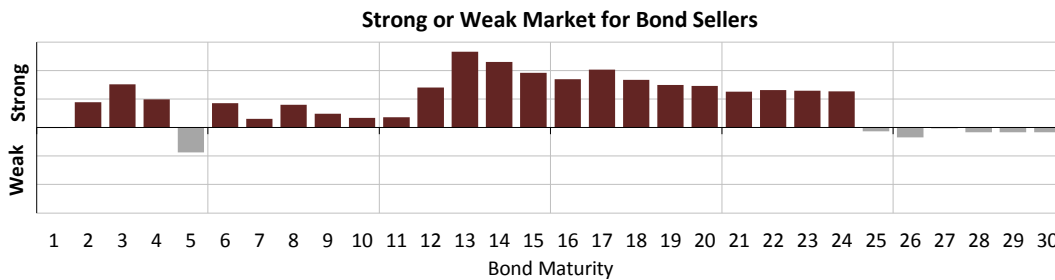


# MUNICIPAL ISSUER BRIEF



Heading into this week, there is value along much of the yield curve for issuers coming to market. The improvement in the sector late last week has put a strong pricing dynamic along much of the curve with the exception of bonds maturing 25-years and longer—it is there where value lies in investor’s hands.

## MARKET UPDATE

**VOLATILITY WORLDWIDE INCREASES RISK BUT MARKET ENDS WITH POSITIVE TURN:** Interest rates worldwide saw big swings back and forth, making price discovery for issuers challenging last week however dynamics improved by Friday.

**INVESTORS & ISSUERS:** Rates have risen considerably through Q2:

- The big swings in interest rates last week put municipal issuers at somewhat of a disadvantage as **price discovery was challenged**.
- The week did end with a better tone and yields are now at nearly 12-month highs, which is **compelling to many retail investors**.
- Still, **mutual funds saw investors continue to pull out cash**, which resulted in secondary selling pressure to pay back those investors. Elevated selling pressure can be negative for issuers.
- **New Jersey appropriation debt improved** after a court ruled the Governor did not have to fill a pension budget gap. **MMA** does not see this as a credit positive in the long-term.
- Issuance this week declines modestly, **which helps municipalities borrowing in the near-term** with less competition for investor attention. New York issuers lead the slate.

### BUYERS BITES:

#### WHAT IS TRENDING HOT:

- 1) New Jersey appropriation debt
- 2) New York City issuers outperforming
- 3) Georgia improves post-pricing

#### CURRENTLY HARDER SELLS:

- 1) Puerto Rico GO sell-off

#### WHO IS REPORTEDLY BUYING:

Large banks, insurance companies, separately managed accounts

## TOPIC OF THE WEEK: A ROUND-UP OF DC HAPPENINGS

**A LOOK AT WASHINGTON, D.C.:** While not specific to municipal bonds, finance officers should be aware of legislative initiatives that could curtail tax revenues by interfering with state and local tax policies. Thus far this year, the following bills have been introduced and/or passed. If passed, these items could affect your ability to maintain and collect revenues in these sectors.

**Internet Access.** Last week the House passed H.R. 235, the *Internet Tax Freedom Forever Act* (ITFA). ITFA would permanently ban governments from taxing internet access and placing multiple or discriminatory taxes on electronic commerce. The current ban expires October 1, 2015. The key concern for state and local governments with this legislation is how Congress and communication companies define “internet access” as well as “multiple or discriminatory taxes on e-commerce.” Of note, the original legislation that banned internet access taxes was passed in 2003 – a time when communications technology looked much different – and simpler – than it does today. Similar legislation has also been introduced in the Senate (S. 431).

**Digital Goods.** The *Digital Goods and Services Tax Fairness Act of 2015*, that has been introduced in both the House and Senate, would prevent state and local governments from imposing multiple or discriminatory taxes on the sale or use of a digital good or service that is delivered or transferred to the customer through electronic means. While there are exemptions to the term “digital good,” including telecommunication services, governments should again be concerned with the terms used in the legislation, combined with the always expanding and changing technology landscape that could hinder their ability to assess taxes in the future.

**Cell Phone Taxes and Fees.** Efforts to restrict state and local sales and use taxes on wireless telecommunication services, can be found in House legislation, the *Wireless Tax and Fee collection Fairness Act of 2015* (H.R. 1087). **See page 2 for more.**

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The legislation would limit the ability of state and local governments to tax wireless phone lines and devices. Such legislation could be problematic since traditional state and local taxes on communications are related to ‘wired’ phones, which continue to see usage decline in households across the country, while wireless devices grow in demand as well as becoming the sole ‘phone’ used by individuals and households.

Rental Car Taxes and Fees. State and local government rental car taxes and fees are under assault in the House’s *End Discrimination of State Taxes for Automobile Renters Act of 2015* (H.R. 1528). This bill would prohibit governments (effective upon date of enactment) from levying any new taxes on rental cars, increasing the amount of current taxes or changing the definition of the tax base.

Hotel Room Taxes and Fees. Proposals to create a federal standard that would supersede state and local policies related to the amount of state and local occupancy taxes that can be charged for hotel rooms booked over the Internet may also see the light of day this year. This type of legislation has been proposed in previous Congresses.

Possibly some good news. The *Marketplace Fairness Act* (S. 698) has been introduced in the Senate and it would mandate the collection of taxes on most sales made over the Internet. This legislation has been offered numerous times in the past and would bring parity to sales tax collection between online retailers and brick and mortar stores – a concept endorsed by many in the state and local government community. One key item to keep an eye out for are proposals that would mandate a one tax rate per state clause. This could preclude local governments from receiving their taxes from online retailers and instead have to contend with their state to receive their portion of a blended sales and use tax rate.

### **MEANWHILE, A FEW UPDATES ON THE REGULATORY FRONT, WITH MORE TO COME IN FUTURE EDITIONS OF MIB:**

New SEC Muni Chief. SEC Chair Mary Jo White announced last month Jessica Kane as the new head of the Municipal Securities office, and Rebecca Olson as deputy director. Jessica and Rebecca first joined the muni office in 2013, when John Cross served as the Muni Office Director. Both have been essential in addressing the division’s growing workload due to implementation of the *Dodd-Frank Act* and regulation of municipal advisors, changing rules for broker/dealers, and an overall emphasis on issuer disclosure practices. These selections imply little near-term change in the office’s policy direction being internal hires.

Treasury Department Bond Activity. John Cross, who is now the U.S. Treasury Department’s associate tax legislative counsel, spoke at a recent American Bar Association meeting, and provided some insight on the office’s activities for the year. In addition to working on the Administration’s interest in new direct subsidy bond programs and increasing the bank-qualified bond limit to \$30 million (these proposals can be found in the President’s FY16 budget), the office is focusing its attention on new proposed issue price rules, allocation and accounting rules for private-activity bonds, providing a safe harbor so that the use of management contracts by governments and entities (e.g., water districts) don’t trigger private business use, and guidance on the definition of a political subdivision.

IRS Hosting QSCB Webinar. The IRS will be holding a [webinar](#) on June 18 where staff will discuss various aspects of the Qualified School Construction Tax Credit Bond program. Specifically, the webinar will address: QSCB’s origins, purposes and characteristics; governing rules and requirements; information reporting and post issuance compliance; and resources available to issuers.