



Washington Update



SEC LEVIES FINES ON UNDERWRITERS THROUGH MCDC INITIATIVE

The U.S. Securities and Exchange Commission announced last week that it has taken enforcement actions against 36 municipal underwriting firms for violations in municipal bond offerings. The cases are the first brought against underwriters through the Municipalities Continuing Disclosure Cooperation (MCDC) Initiative, a voluntary self-reporting program targeting material misstatements and omissions in municipal bond offering documents. In the charges, the SEC alleged that between 2010 and 2014 the 36 firms violated federal securities laws by selling municipal bonds using offering documents that contained materially false statements or omissions about the bond issuers' compliance with continuing disclosure obligations. The underwriting firms also allegedly failed to conduct adequate due diligence to identify the misstatements and omissions before offering and selling the bonds to their customers.

LeeAnn Ghazil Gaunt, chief of the Enforcement Division's Municipal Securities and Public Pensions Unit, stated:

“The settlements announced today reflect these underwriters' cooperation in self-reporting their own misconduct and agreeing to improve their procedures going forward. Because these 36 firms underwrite a substantial portion of the country's municipal bonds each year, we expect a large number of bondholders will benefit from the resulting improvements in due diligence and disclosure.”

The largest fine was for \$500,000. In announcing these MCDC cases, the SEC did not name any of the state or local government issuers whose bonds had been cited in the underwriter violations.

The list of the 36 underwriters can be found at www.sec.gov/litigation/admin/2015/33-9848.pdf.

REVAMPED ONLINE SALES TAX BILL INTRODUCED

Rep. Jason Chaffetz (R-UT) has introduced a revamped online sales tax bill that is garnering support across a broad spectrum of affected groups, including state government associations. The bill, the Remote Transactions Parity Act (RTPA), or H.R. 2775, includes significant audit protections for small businesses and, except in the case of intentional misrepresentation or fraud, exempts businesses under \$5 million in gross receipts from remote state audits entirely. The bill also exempts more small businesses from collection requirements in the first year (exempts small businesses under \$10 million, phasing to \$5 million in the second year and \$1 million in the third). The RTPA also calls for states to give remote sellers the software needed to collect and remit the taxes due and will require states to pay for set-up, installation and maintenance costs on the software. It is estimated that states lose over \$23 billion a year in uncollected sales taxes from online retailers.

RTPA has received a favorable response from state government associations, including the National Governors Association and the National League of Cities.

In announcing the bill, Rep. Chaffetz stated:

“A broad coalition of large and small businesses, online and brick-and-mortar retailers, and state and local government leaders asked Congress to modernize our nation's outdated sales tax collection framework. RTPA would modernize current law and strike the appropriate balance between sales tax parity and a state's right to manage tax policy within its borders. This bipartisan legislation was developed as part of an open and transparent process, with input from stakeholders on all sides of the issue. I look forward to working with all members of the House and Senate to return more power to the states and create parity within the retail community.”

The bill has 19 cosponsors, but no companion legislation in the Senate at this time. Full text of the bill will be at www.congress.gov/bill/114th-congress/house-bill/2775/text.

NASBO RELEASES FISCAL SURVEY OF STATES

The National Association of State Budget Officers has released its latest report on the fiscal health of the states. The report, “Slow and Stable Budget Growth Expected to Continue for States in Fiscal 2016,” found that state budgets continue to grow at a moderate pace, and that 42 governors recommended spending increases in fiscal 2016 compared to the current fiscal year, helping to bolster core services such as K-12 education and healthcare. One of the more interesting items that NASBO found is how varied the states are in getting to that point:

“Governors in 16 states proposed net tax and fee increases, while governors in 12 states proposed net decreases in fiscal 2016, resulting in an aggregate net increase of \$3.0 billion. For the most part, increases were proposed for general sales taxes and cigarette taxes – ten states recommended a sales tax increase and nine states recommended increased taxes on cigarettes and tobacco products. Meanwhile, a dozen states proposed decreases for personal income taxes. Governors have also proposed \$1.7 billion in new revenue measures in fiscal 2016.”

The report also notes that Medicaid spending and enrollment growth accelerated in fiscal year 2015, largely attributable to the fact that this is the first full fiscal year reflecting the impact of Medicaid expansion under the Affordable Care Act for almost all of the expansion states. The growth in spending and enrollment is projected to decline accordingly in fiscal year 2016. NASBO concluded that “State finances continue to improve, but growth is modest and governors’ spending proposals for fiscal 2016 remain cautious.”

The full report can be found at www.nasbo.org/publications-data/fiscal-survey-of-the-states.

THE WEEK AHEAD: MEDICAID, SNAP AND INFRASTRUCTURE FINANCING

Wednesday

The **House Energy and Commerce Subcommittee on Health** will look at “Examining the Administration’s Approval of Medicaid Demonstration Projects.”

- <http://energycommerce.house.gov/hearing/examining-administration%E2%80%99s-approval-medicaid-demonstration-projects>

The **House Education and Workforce Subcommittee on Early Childhood, Elementary, and Secondary Education** will hold a hearing on “Child Nutrition Assistance: Looking at the Cost of Compliance for States and Schools.”

- <http://edworkforce.house.gov/calendar/eventsingle.aspx?EventID=399091>

The **House Natural Resources Subcommittee on Indian, Insular and Alaska Native Affairs** will conduct an oversight hearing on “Examining Procedures Regarding Puerto Rico’s Political Status and Economic Outlook.”

- <http://naturalresources.house.gov/calendar/eventsingle.aspx?EventID=398833>

Thursday

The **House Agriculture Subcommittee on Nutrition** continues with their investigations into states’ SNAP programs, with a hearing entitled “Past Present and Future of SNAP: How Our Welfare System Can Discourage Work.”

- <http://agriculture.house.gov/hearing/subcommittee-nutrition-joint-hearing-ways-means-subcommittee-human-resources>

The **Senate Finance Committee** will feature a hearing on “Unlocking the Private Sector: State Innovations in Financing Transportation Infrastructure.” Scheduled to testify is Shailen Bhatt, executive director of the Colorado Department of Transportation.

- www.finance.senate.gov/hearings/hearing/?id=571670eb-5056-a032-52b2-d8407a6f4374

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