Bond Case Briefs

Municipal Finance Law Since 1971

Analysts: Muni Disclosure Varies by Sector.

PHOENIX – Analysts see major discrepancies in the quality of disclosure available across different sectors of the municipal market, while regulators would like to see good disclosure across-the-board.

Investor analysts had high praise for the quality of disclosure in the healthcare and senior living spaces generally, but had more mixed responses when it came to charter schools and certain revenue and general obligation debt for governments and essential services, particularly for smaller or less frequent issuers. Regulators have made improving muni market disclosure a priority in recent years, with enforcement actions aimed at underwriters and issuers as well as a new proposal to expand the scope of information investors would have access to.

Lisa Washburn, managing director with Municipal Market Analytics, said that the sectors with issuers that operate more like for-profits and companies generally have better disclosure, but that it "defies across the board categorization." Hospitals are generally better disclosers not only in terms of the timeliness of filing, in part through quarterly disclosures, but also because they have been doing interim reporting for years, she said.

"If you look at it, the sector is smaller and the investors in health care are more concentrated so the investors were able to request and get more information from the hospitals and health care organizations," Washburn said. "If you have a very concentrated investing base or you have a few very large investors, typically they can at least wield more influence on what you would get."

Arthur Schloss, a senior analyst at Invesco, said that hospitals tend to provide good disclosure in a clear way due to their business-like structure.

"Areas like healthcare, hospitals … they tend to be very numbers-oriented," Schloss said. "You tend to get very good presentation of the numbers."

Schloss said he finds it extremely helpful to see detailed breakdowns of how management arrived at their calculations, because he sometimes finds methodology that could raise an eyebrow.

"I have seen several occasions where a borrower will calculate days of cash on hand, but they will include restricted cash," he said by way of example.

Dean Lewallen, a high yield analyst at AllianceBernstein, said that healthcare and senior living generally have a universal way of presenting their information to investors that makes it easy for investors to navigate.

"Healthcare and senior housing have the most standardized presentation formats and are the most user-friendly for bondholders," he said.

Julie Egan, chair of the National Federation of Municipal Analysts, agreed that hospitals are generally seen as strong issuers with regard to disclosure.

"Historically, hospitals have been a bit of a riskier sector and more difficult to analyze because often

they have obligated groups and require more groups to be analyzed as well as reimbursement questions regarding payor mix," Egan said. "It was probably more prudent to get quarterly information."

Egan added that while quarterly reporting is not widespread for munis, it is something NFMA and analysts generally would like to see from the market. Egan said that fiscal troubles in Detroit and Puerto Rico have gotten analysts questioning some prior beliefs that general obligation bonds are "pretty golden and pretty safe."

"We've been asking for quarterly disclosures for a long time and if our beliefs are changing we may very well require issuers to be more accommodating as far as disclosure," Egan said.

Sectors with limited pools of investors, like those with higher risk securities, can generally get more types of disclosure on a more routine basis, like conference calls, access to managers, and things of that nature, Washburn said. Analysts consistently said that conference calls and issuer willingness to answer questions from bondholders is extremely helpful, but lamented that many issuers have been scared into being relatively unresponsive.

"There is frequently a reluctance to answer detailed questions," said Joseph Rosenblum, AllianceBernstein's director of municipal credit research. Rosenblum said that issuers are sometimes frightened that they could get into trouble for making information available to only a small segment of investors. He suggested that issuers faced with that problem could solve it by scheduling a conference call for all investors.

"It's not as if we want insider information," said Rosenblum.

"I wish there were more frequent calls," said Lewallen. "If it's an investment grade entity, maybe once a year is sufficient. If things get into trouble, you need to have conversations with your investors a lot more frequently."

Periodic communication is necessary even if the continuing disclosure agreement requires relatively infrequent conversations, analysts said. Bondholders are much more likely to agree to measures to alleviate fiscal distress when they've been kept in the loop, said Schloss.

"I've always said I can't help you if I don't know what's going on," Schloss said.

"Lawyers have people so scared," added Lewallen, explaining that many investors seem to believe that they must tell every single investor every piece of information available, or must say nothing to anyone at all.

Washburn said that weaker issuer disclosure, like strong disclosure, is not always sector specific.

However, she said smaller, infrequent local governments "generally speaking" struggle more with disclosure.

Charter schools were another sector that multiple analysts highlighted as sometimes being problematic for analysts. Lewallen said that while the standard quarterly conference calls common in healthcare and senior living would probably be too often for charter schools, there is school specific information such as test results pertinent to investors that could be disclosed in a more timely manner.

"They've got six months to get this general information out, and it's not hard to do," said Lewallen.

“Charter schools are sometimes difficult,” said Rosenblum.

Richard Ciccarone, president and chief executive officer of Merritt Research Services in Chicago, said water and sewer issuers could generally improve their disclosures.

“I think a lot of people take water and sewer bonds as being an essential service and therefore less rigorous disclosure is required for them to feel comfortable with it,” Ciccarone said. “There is a lot of work that needs to be done on water and sewer, particularly on getting better metrics in order to measure the quality of their security and their ability to make good on it.” Those metrics should include data usage, customers, water supply, quality of infrastructure, and maintenance programs, Ciccarone said.

While accuracy and fullness of disclosure are important, Ciccarone said, there is also the consideration of issuers’ timeliness in disclosing. Merritt does an annual survey on issuer’s timeliness of disclosure that measures the amount of time between the end of the issuer’s fiscal year and the time the audit is signed. The median reporting time for all issuers Merritt looked at for 2015, the most recent survey, was 151 days, a rise from 142 in 2014 and the first time the number had gone above 150 since 2008.

Of the issuers, wholesale electric, hospitals, and private higher education were the most timely in 2015, taking 105, 112, and 115 days to disclose, respectively. Counties and states took the longest with 180 and 182 days, respectively. Cities were close behind taking 172 days, according to the survey.

While disclosures can be improved, the analysts who spoke with The Bond Buyer generally agreed that disclosure overall has been getting better with time.

“My perspective is that there are gaps and there are things that need to be done, but over the last 30 years we’ve come a long way,” Ciccarone said. “I don’t mind mentioning that because I think it’s only fair to governments that we say that.”

“There’s been a big improvement, I’d say, in the quality of information and the timeliness,” said Lewallen.

Washburn pointed to the Securities and Exchange Commission’s Municipalities Continuing Disclosure Cooperation enforcement initiative, which focused on issuers’ and underwriters’ continuing disclosure failures, as a positive for disclosure in the market.

“Love or hate MCDC … I think that it has at least elevated the conversation about disclosure,” Washburn said.

The SEC is now considering another action aimed at ensuring proper disclosure. The recent regulatory proposal would require event notices to be filed for a broad range of “financial obligations,” if material, including private placements, bank loans, leases, guarantees and monetary obligations resulting from a judicial, administrative or arbitration proceeding. The SEC’s proposed amendments to its Rule 15c2-12 on muni disclosure would also require notices to be filed for actions and events related to financial obligations that “reflect financial difficulties.”

Many participants have criticized the proposal, which is meant to ensure investors and others have access to information about alternative financings to public bond offerings, as overly broad and burdensome. But market groups generally agree with the idea that increased disclosure on private placements and bank loans is important. The SEC is currently considering the numerous comment letters participants sent on the proposal.

Schloss said that while 15c2-12 and any amendments to it are fine as a basic framework, but good disclosure goes well beyond that.

“It’s more of a state of mind, or an outlook, than something you can narrowly require,” Schloss said. “It’s very hard to rigidly mandate.”

The Bond Buyer

By Kyle Glazier, Jack Casey

Published June 05 2017, 2:17pm EDT

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com