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New Public Finance Funding Sources Spark Transparency Concerns.

WASHINGTON- A decreased reliance on bonds to finance capital investments has created a need for more municipal market research tools to analyze alternative forms of public financing, according to industry experts.

New issue bonds fell 25% between 2005 and 2016 in nominal dollars, according to the Mergent Fixed Income database presented at the Brookings Institution's sixth annual municipal finance conference Monday.

Daniel Bergstresser, associate professor of finance at Brandeis University's International Business School, noted that despite a "significant" decline in new issuance during the last decade, municipalities are still undertaking major capital projects through other funding sources like public-private partnerships and bank loans. He said as a result risk exposure can often be challenging to gauge for state and local governments because of municipal market participants not having adequate access for differing financing strategies due to less disclosure requirements.

Brandeis University professor Daniel Bergstresser spoke at the Brookings Institute's Municipal Finance Conference Monday.

"We're not comfortable that there is total transparency with the risks issuers are taking on," said Bergstresser, who co-authored a paper about changes in the municipal market since the Great Recession with Martin Luby, an assistant professor of public afairs at the University of Texas at Austin's Lyndon B. Johnson School of Public Affairs. "We think it's important for academics to keep a focus on transparency in this changing world."

Bergstresser also noted during the conference how the economic downturn in 2008 has decreased the floating rate bond market, with fixed rate debt rising from 78% of the market in 2007 to around 90% today.

Colin McNaught, CEO of BondLink and former Massachusetts assistant state treasurer for debt management, urged public finance experts to examine in dollars how issuers could have capitalized on floating rates given how low interest rates have stayed in recent years.

"That is billions of dollars of mispricing," he said.

The Bond Buyer

By Andrew Coen

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