
For Muni Bond Sales, Brand Matters

Marketing is especially important for smaller local governments, and states have a role to play.

Earlier this year, Georgia sold $1.2 billion in new bonds. No news there. Like most big states, Georgia goes to the bond market at least once a year with a large new offering. And as in most big states, especially those with strong financial and economic fundamentals, investors snapped up those bonds at competitive prices.

But this time, Georgia's debt managers tried something different. Before they went to market, they put on a series of presentations and conference calls designed to convince investors that Georgia bonds are a great deal. In other words, they ran an investor road show. Such events are common in the corporate world, but are mostly new to states and localities.

Georgia has a strong credit rating and a stellar fiscal reputation. So why did it take the extra time and resources to burnish that reputation? There are three main reasons, and they collectively remind us of the policy challenges that surround brand recognition in the municipal bond market.

One big reason is December's federal tax overhaul, which lowered tax rates for corporations and individuals, meaning investors have less to gain from tax-exempt investments such as munis. A strong investor relations program can help governments attract new investors and encourage longtime investors to stay in the game.

Meanwhile, interest rates are normalizing. They've sat at record low levels for almost a decade, and during that run, municipal bonds offered a bit more yield than U.S. treasuries with effectively no additional risk. That stoked record investor demand for munis and gave governments easy access to cheap money. Now with rates back on the rise, muni borrowers need to offer up more yield to draw the same investor interest. Again, strong investor relations can help highlight the bargain that munis offer.

Finally, there is the lingering threat of severe fiscal stress. Detroit, Stockton, Calif., and other fiscally strapped cities have worked out their most pressing issues, but investors remain understandably weary of fiscal problems just beneath the surface. Better investor outreach can help investors draw their own conclusions about an issuer's actual strengths and weaknesses.

For these and other reasons, investor relations programs are becoming part of the government chief financial officer's toolkit. If you have a great brand to sell, and the resources to sell it, then why not sell it?

But what about the tens of thousands of smaller issuers who don't have that same brand recognition? Tax reform, normalizing interest rates and fiscal stress also present them with some unique challenges.

For instance, a recent paper from Kate Yang at George Washington University shows that in

Alabama, in the aftermath of the Jefferson County bankruptcy, interest rates on bonds from smaller, lesser-known cities in the state increased. That's consistent with the "contagion" effect we'd expect after a major financial catastrophe. Investors unsure about Alabama governments saw them as a bit riskier. But at the same time, larger Alabama borrowers with better credit ratings actually experienced a "reverse contagion" effect. They saw their interest rates decline.

How could one of the biggest local fiscal catastrophes in history actually benefit nearby governments? To repurpose the old Tip O'Neill saying, "All muni markets are local." Alabama investors enjoy unique tax benefits from investing in Alabama governments. That pool of investor money is more or less locked into the state. So as money flowed away from Jefferson County, the other Alabama bonds it flowed to saw higher prices and lower yields. Tax policy changes and normalizing interest rates can also animate this intrastate zero sum game.

All this suggests that states ought to consider how they can facilitate better muni investor relations for all the governments within their borders. Without strong state policy frameworks, and robust private-sector investor relations solutions, many small governments could be left behind in the rapidly changing municipal bond market.

governing.com

By Justin Marlowe | Columnist
Endowed Professor of Public Finance and Civic Engagement at the Daniel J. Evans School of Public Policy & Governance at the University of Washington

August 2018