

Bond Case Briefs

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Why It's Time To Investigate The Wisconsin Public Finance Authority.

For some time I have been critical of this regional Wisconsin Public Finance Authority that has taken on the role of willing issuer for bonds anywhere in the United States. I don't know what its motivation was in presuming such a prominent role in the municipal bond market, but professionalism and expertise are certainly not what comes to mind. They have no dedicated professional staff and its board members experience show no particular skill in evaluating the bonds they approve. In fact, if what they review is no more than what the MSRB receives and post on the EMMA system, then they would have little or nothing substantial to evaluate.

I don't know how many of these out-of-state bond issues they have approved, but I do know that so far, some 23 issues totaling \$1.9 billion have defaulted or are in distress with 19 of them occurring in 2020-2021. No other issuer, never mind state, comes even close to this number. In fact, during this time period I recorded 130 distress/defaults on \$9 billion of debt. Hence, this one small regional authority accounts for 14.6% of the number of distressed or defaulted issues (or 20.5% of the dollar amount) during the last 13 months.

Most of these defaults are in the retirement and health care area, a type of bond that has historically had the worst default track record. All the more reason then for added scrutiny. A common element for the Wisconsin bonds is that there is little or no information in terms of audited financial statements or official statements. We know that audited financial disclosure has not been a requirement of the authority. Its website advertises its services and makes no pretense at providing anything more than a rubber stamp.

I understand that they took on this nationwide authorization authority at the behest of a financial institution. Just four counties and a city that decided they had a calling. Aside from the abuse we see here, there is a huge infringement on the rights of each state to police the issuance of bond debt for project within its borders. There are also caps on the volume of tax-exempt issues that represents a quota that a state has a right to allocate.

There is also a responsibility to bond buyers who show a great deal of trust in the municipal market despite the fraud and abuse we have seen over the years. It is for these and other reasons that the MSRB, SEC, Congress and state securities regulators should look into this, starting with the state of Wisconsin.

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by Richard Lehmann

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