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4 Public Finance Predictions for 2014.

Public finance in 2014 looks to be more stable than in previous years. But stable doesn't mean easy. Here are some predictions for the coming months.

Less action in the municipal market

The recent trend of money flowing out of the municipal market will continue into 2014. Several analysts are predicting a 12 percent decline in overall municipal bond sales (called new issue volume) next year to $285 billion total. This is mostly due to rising interest rates (thanks in part to the Fed slowing its bond buying program) curbing refinancing (or refunding) activity.

So what does this mean for governments that issue bonds? It'll be more expensive to borrow money but it's not all bad. Rising interest rates are not expected to dampen the trickle of new bond sales. RBC Capital Markets' Chris Mauro predicts that "pent-up demand, in conjunction with improved state and local government fiscal profiles" will actually push an increase in new bond sales for governments. He estimates that new issuances like these will total $185 billion in 2014 from approximately $160 billion in 2013. That's a far cry from the $252 billion-per-year average between 2000 and 2010, but it's at least moving in a positive direction.

Still more ratings confusion

The credit ratings agencies will continue to disagree on the financial stability of municipalities. Fitch Ratings Agency this month announced it expects to continue its trend of downgrading more local governments than it will upgrade. Fitch, which gives a negative outlook for local governments, cites slow revenue growth and increased spending pressures on localities.

Meanwhile, Moody's Investors Service revised its outlook this month for the U.S. local governments from negative to stable. The outlook cites stabilizing housing markets and municipalities' fund balances, and notes that cities and school districts have adjusted their expenses. Still, Moody's notes that conditions will remain more difficult for local governments than they were before the 2008 recession and pockets of serious credit pressure remain. "The 'new stable' will be an era of constrained resources, but the worst is over for local governments in most of the country," wrote Naomi Richman, a Moody's managing director, in the report 2014 Outlook — US Local Governments.

Budget stability

Capitol Hill watchers are quick to point out it's not time to sing Kumbaya and break out the marshmallows for roasting around the campfire just yet. But the proposed bi-partisan budget deal, which has cleared Congress and observers expect the president to sign, at least gives a two-year window of stability to what has been an incredibly hard four years since the economy bottomed out in 2009. The deal would increase the cap on defense and non-defense discretionary spending for the remainder of the 2014 fiscal year, which began on Oct. 1. This means that state and local programs that rely on federal grants and other funding should have a clearer picture of their operating budgets through the next two years.

That kind of relative certainty is a reprive from several years of lurching from one continuing resolution to the next and political brinksmanship forcing stalemates, which culminated in a 16-day government shutdown in October. As Chris Coleman, the National League of Cities president told Governing earlier this month, "We just can't go through what we went through this past year, the uncertainty for our communities but also the uncertainty for the market and for businesses. It's a disaster."

Of course one tiny little snag — the nation's debt ceiling — could result in another showdown when Treasury reaches its borrowing limit some time in February. Still, the consensus is that congressional lawmakers are inclined to avoid such drama after the negative fallout from October's shutdown.

Seeking advice on advising

The Securities and Exchange Commission finally issued its highly-anticipated rules on who constitutes a municipal adviser this fall and the nearly 800-page document has raised some questions. By the end of the year the commission will publish a Q&A on its definition of municipal advisers (financial advisers to state and local governments) as an effort to help folks understand how the rules should be applied come Jan. 13. But the transition will be bumpy and will likely require even more clarification as the rule is put into practice.

One big issue so far is that while the SEC's rules say who constitutes an adviser, the definition does not address what constitutes advice. Numerous groups representing issuers, bankers and lawyers have already requested clarification from the SEC on how to engage with issuers without it being considered advice (for example, providing issuers statistics compiled by the firm) as well as other aspects of the definition.

BY LIZ FARMER | JANUARY 2, 2014