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SIFMA Survey: Total Muni Issuance to Edge up 2.7% to $357.5B in 2015.

WASHINGTON – Total tax-exempt and taxable municipal bond issuance in 2015 is expected to edge up to $357.5 billion, an increase of more than 2.7% from the $348.1 billion forecast for this year, according to respondents of an industry survey.

The 2015 estimated level would be a 17.3% drop from peak muni issuance, which was $433 billion in 2010, according to Thomson Reuters data.

Issuance would rise slightly to $315.0 billion from $305.3 billion this year for long-term munis, while it would remain almost unchanged at $42.5 billion from 42.8 billion for short-term munis, according to median estimates from the 14 bank and broker-dealers firms that responded to the Securities Industry and Financial Markets Association's annual survey. They made their projections between Nov. 7 and Nov. 21.

Issuance of long-term tax-exempt munis not subject to the alternative minimum tax is expected to be up only slightly in 2015 to $275 billion from $273.5 billion this year, according to survey respondents.

"I think of that as essentially flat issuance for next year," said Michael Decker, a managing director of SIFMA and co-head of its muni division. "Bank lending is continuing to draw from public issuance. Many issuers are able to get very attractive terms from banks for short- and medium-term borrowings. That's a driving factor of continued weak issuance."

Bank borrowings include both loans and private placements, he said.

In addition, state and local governments are still not borrowing to the extent they were prior to the Great Recession, Decker said.

The survey respondents estimated bank lending would fall to an estimated $35 billion, or 9.8% of issuance of long-term munis, from $45 billion this year.

But Decker stressed that these are just estimates. "We don't really know what the total of bank lending is," he said. "I'm not aware of a good data source."

Refundings are projected to remain mostly unchanged in 2015 at 45% of issuance of long-term munis, compared to 46% this year.

But survey respondents projected the issuance of taxable munis and munis subject to the AMT to rise. They estimated 2015 issuance of taxables will increase to $30 billion, a 29.3% increase over this year, and that issuance of AMT munis would rise to $10.0 billion, a 16.7% gain.

They also projected issuance of variable rate demand obligations to increase to $9.0 billion in 2015, from a record low of $6.6 billion in 2014.

Decker said the survey found that, “from a credit perspective, the market is sound.”

“We’re not going to see any systemic credit issue in 2015, but we may see some isolated credit events,” he said, explaining when asked that these could range from technical defaults to distressed financials for issuers, or even bankruptcy filings.

Asked what could have the greatest impact on the muni market in 2015, most respondents put curtailment of tax exemption for munis at the top of the list.

President Obama, in his budget requests, has proposed capping the value of tax exemption to 28%. The tax reform draft offered by House Ways and Means Committee chairman Dave Camp, R. Mich., which could form the basis for future plans, proposed what would amount to a 25% cap on the value of tax-exemption, as well as the elimination of tax exemption for private-activity bonds issued after 2014.

Survey respondents were also concerned about the underfunded pensions of many state and local governments, as well as general economic weakness and the tendency of some issuers to defer maintenance or improvements of capital projects.

THE BOND BUYER

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