

# Bond Case Briefs

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## The Week in Public Finance: Haunted Budgets, a Bustling Market and Bad Headline News.

### **Haunted state budgets**

A new report from Wells Fargo's Natalie Cohen took a look at state fiscal health midway through the 2015 fiscal year. Conditions for states are generally improving and showing fewer signs of budget instability, she said. However, some states reduced taxpayer burdens through tax cuts in prior years and anticipated revenue from expected economic activity hasn't yet offset those revenue cuts. "Kansas is a notable example of this, where Gov. Sam Brownback's individual and corporate income tax cuts in 2012 have only exacerbated the state's fiscal status, as revenue collections dropped more than anticipated," Cohen said in the Feb. 5 report.

There are others. Wisconsin is facing lower revenue partly because of a change in tax withholding rules that lets earners get more from their paychecks. Louisiana is facing challenges with low oil prices, but more of its revenue decline is tied to corporate tax breaks. The state had to make midyear budget adjustments in six of the past seven years. Michigan has a revenue shortfall thanks to earlier business tax credits. Arizona's business tax cuts in 2011 and 2012 are also haunting the state's current budget picture, Cohen wrote.

The revenue challenges come at a time when there is a lot of pressure to enact tax cuts now that the national economy has recovered from the recession and some states are in a position to either spend more money or allow for revenue cuts. These pressures are particularly forceful in Illinois and New Jersey, Cohen said, which both face structural budget problems and are led by Republican governors just itching to lower income taxes. The report also noted that the drop in oil prices and Medicaid expansion are playing roles in state budget adjustments this year.

### **Hustle and Bustle**

Municipal bonds saw a lot more action in January than anyone predicted — but don't get used to it. According to preliminary figures compiled by The Bond Buyer, the total value of bonds issued last month totaled more than \$27 billion — despite the fact that bad weather artificially depressed issuance in the final week. (It may be a virtual market but bad weather still looks works like old retail.) According to RBC Capital Markets' Chris Mauro, the total means that last month was the busiest January for the municipal market in five years. If the trend continues, 2015's total volume could turn out to be a lot higher than many analysts' predictions that new volume would total \$335 billion. Mauro attributes the burst to a drop in interest rates. The drop prompted more governments to refinance existing bonds to save money. The Texas Department of Transportation refinanced \$1.68 billion alone- it will save \$380 million, the greatest savings on a single bond deal in the state's history.

Historically, a heavy January has correlated with annual volume totals of over \$400 billion (2007 and 2010). Still, governments are reluctant to take on new debt — new bond issuance was down 30 percent in January — and Mauro said, "we question whether the market can maintain this pace of

issuance throughout the year.”

### **Bad times ahead?**

Now that the Securities and Exchange Commission program encouraging governments and underwriters to disclose any inadvertent financial omissions about their bond deals has closed, there’s been a lot of speculation about what the SEC will do with the offenders. But one thing’s for sure: the string of settlements the organization releases this year, big and small, will create bad headlines for the municipal market. This, said Municipal Market Analytics’ Matt Fabian, will likely highlight disclosure problems and “incrementally raises the potential for new regulation and/or damage to [municipal bonds’ tax exempt status] in years ahead.”

Noting that governments politically sensitive to admitting past failings, Fabian predicted that means there is more potential for SEC actions against issuers versus underwriters. “The fact that potentially thousands of outstanding bond prospectuses have been flagged as inaccurately depicting past disclosure compliance,” he wrote, “does not exactly bode well for outsiders’ opinions of market operations.”

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