

Bond Case Briefs

Municipal Finance Law Since 1971

Commentary: Holiday Wish List for Muniland.

There is no doubt that this year has created many highs and lows in the municipal market. We have many reasons to be grateful. One of the high points is that for most of the year money has flowed into mutual funds and ETFs except for a periodic single down week.

Another wonderful element this year has been the strong bid for municipals from all demand sides of the market. We have even experienced a spike in the amount of foreign buying in the market. The latter is rare indeed given foreign buyers do not benefit from the tax exemption. These buyers have been participating in municipals because our market has higher rates than in their home markets and our creditworthiness is relatively strong and stable despite the handful of problematic credits.

Although not as strong as last year, refunding activity has been steady. There have been a fair number of transactions that have been over \$500 million that have been distributed with ease. The long end of the curve continued to rally despite an overall flattening of the curve. Long bonds at the offer have frequently been oversubscribed 3x's to over 10x's.

So what more could we desire? Why are we so cranky? Is it just because spreads are narrow and everyone is generating less revenue or is it something more? Why does it take 3 to 5 rounds of interviews to hire someone when there are enough qualified candidates?

Or, perhaps, the regulatory requirements have just become more burdensome, including issue price rules and ever more disclosure requirements. Tax Reform clearly has many troubling aspects to a municipal professional. We do not have one answer to the rhetorical question but we are certain that you have your own answer.

We think it is an appropriate time to ponder the Wish List in earnest. Herein is my humble attempt.

- Please, provide us with an Infrastructure Plan that we can embrace fully. Our appetites were whetted with the promise of a new bold plan last year. The infrastructure initiative was quickly overwhelmed by other priorities. It would appear that tax cuts and reforms were much higher on the priority list than getting more folks to work in necessary public works projects. There has been some very recent discussion that a plan may emerge again as soon as in January. However, according to reports the version that may be floated this time will allegedly put more pressure on state and local governments to provide matching funding of some kind. How will that work? Have they been reading that Connecticut, one of the wealthiest states in the nation, has a budget gap and has a challenge in its transportation funding because it is not keeping pace when the economy is at a high mark. Asking states and localities to do more is acceptable, but, these governments do not have unlimited resources.
- How about assisting the effort with some clearly identified and unencumbered revenue streams from the federal level that can be leveraged in an efficient way. We have no qualms about issuing debt, especially, revenue debt that is backed by user fees and not general taxation. But additional revenues are required. Not many projects can be well funded with "smoke and mirrors."
- Ratings should be assigned with well researched conclusions and rationales. Criteria have to be as clear and transparent as possible. Assessment of the long haul in ratings is essential, while it is

good practice not to ignore the realities of the present. Although matrices and other tools may be useful in attaining good judgments, there should not be an overreliance on these tools. Also, three notch downgrades should happen less frequently assuming reviews are being done in timely fashion.

- Adding regulations at the pace of a few major initiatives a year may be important, but it does have an impact on the functioning of the market. We keep moving toward a fully regulated market, but no participants would be satisfied with that outcome. Refining what is on the books already is a worthy goal, but brand new aspects should be sparse.
- We all have a great deal of information to review each and every day. The Bard of Avon suggested that “Brevity is the soul of wit”. We cannot agree more. We know that some technical aspects require longer explanations with certain critical passages and caveats. But, we hope that if there is a more direct way to present the information that path will be taken.
- Those who have the data prevail and those who do not are challenged. If you have access, there is a level playing field. We also believe that data that is painstaking to gather and labor intensive should be paid for without hesitation. The Bond Buyer has added MBIS data to its platform. We are working to make this service an increasingly useful tool.
- Do not forget the needs of the small Issuer. One of the greater and more democratic principles of the municipal market is that the small Issuer has as good access to the market as the large Issuer. We are not clear that this condition is the case in all markets. We continue to be champions of this principle in the municipal market.
- An informed market is a more efficient market. We fully appreciate the necessity of the Compliance function in the market. But we do believe that being able to discuss critical matters that are important to the business is quite essential to the proper functioning of the market.
- Tax Reform is a defining moment for this market. We appreciate that the tax reductions are designed to be a catalyst for GDP growth. But, let’s not forget the poor, the sick, and the needy. Pass the CHIP funding. And we trust we will find our way in issuing more taxable paper if need be. We just lament the higher costs. We stand for fairness and efficient markets. We want to remain the best market we can be.

The Bond Buyer

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