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We Forgot to Mail the Check and Other Municipal-Bond Excuses.

- **Bond issuers forgot to pay 119 times since January 2017**
- **In most cases, payment was made to holders within a week**

It's a promise almost as old as debt itself: The check's in the mail.

People forget to pay a bill now and then. But it happens with surprising regularity by states and cities that owe money to investors in the municipal-bond market, one of the world's safest havens.

A small Wisconsin school district was late because it didn't know where to send a check. New York's capital city cited an accounting error when it shortchanged its monthly debt payment. Even Pennsylvania was delinquent. They had plenty of company. Municipalities inadvertently missed or were late to make payments to investors at least 119 times since the beginning of last year, according to public records.

These aren't monetary defaults – where an issuer is unable to pay — they're mistakes, quickly rectified and often accompanied by intense embarrassment. It's usually because of a clerical error, staffing changes or a typo in an email or trustee address. In most cases payments were made within a week without penalty, but the steady rate of lapses raises false alarms and creates headaches for analysts on Wall Street paid to gauge real — not phantom — risks in bondholder portfolios.

"There is typically one or two a week. It's extremely common," said Matt Fabian, partner at Municipal Market Analytics. "It happens constantly. When you're dealing with small, unsophisticated governments that's what happens."

No Paperwork

When a school district of Augusta, Wisconsin, missed a payment in September, red-bolded letters on the bottom of the disclosure document said that the previous financial manager retired and, according to the new manager, there "was no paperwork to show me who to make the check out to or where to send the payment."

The one-square mile Village of Oxford, Michigan, had personnel turnover last summer "and the ship was without a captain for a while," said Joseph Madore, village manager, causing the town to make its payment 10-days late. "They let the manager go in March and the clerk retired in June, and that was everyone who knew anything about it. They were scrambling."

The forgetfulness isn't limited to small one-man shops in rural America. Mississippi missed interest and principal payments on a call option due to a "clerical error" last June. Albany, New York paid $30,000 less than what the debt service required when officials accidentally sent $565,106.25 to the Depository Trust Company instead of $595,106.25.

Boston officials "inadvertently neglected" to transfer $6,940.63 to their paying agent although it was

prepared in advance. Due to an “oversight” the funds were distributed six days late, according to the delinquency notice. Pennsylvania had a late payment on its Build America Bonds in 2017, a misstep Fabian said was noteworthy because mistakes by large, state-level issuers are unusual.

Such bureaucratic blunders aren’t limited to simply forgetting to pay the bills. A clerk in Detroit once lost a $1 million check until it was found in a city hall desk drawer a month later. There was, of course, the worker in Hawaii who accidentally panicked the island-state by sending out a false alert of an incoming ballistic missile.

Debt Collector

When Joe Citizen fails to pay his credit card bill, he racks up steep penalties, can see his credit score plummet and may find himself in the sights of a debt collector. That’s not the case with local governments.

Usually it doesn’t cost the town anything, as long as the late bill gets paid quickly. There isn’t any overarching rule or regulation that gives issuers a grace-period if they are late making a payment. It’s a case-by-case basis described in the contract between the issuer and trustee.

One small town learned the hard way not to make the same mistake twice. Maine, New York, missed two payments in the last year. S&P Global Ratings on Thursday put the town of 5,200 on a negative outlook, saying that if it happens again it could face a multi-notch downgrade to its credit score.

These missed and late payments usually are not concerning if there was a reasonable reason, such as a technical glitch or bad weather, said John Bonnell, a portfolio manager at USAA who oversees $4.2 billion in municipals from San Antonio, Texas. “What it does raise is what kind of procedures and controls are in place?” he said.

Some towns take that notion to heart and turn the misstep into a learning experience. Jamesville Fire District in New York revised its payment procedures to include additional district trustees in the payment process as an safeguard. Back in the village of Oxford, officials sat down and drafted a schedule of all outstanding bond issues and their payment dates after it paid ten days late in July.

“It’s not going to happen here anymore, not while I’m here,” said Oxford’s Madore. “That’s for sure.”

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