Credit, Alternative Financing and Disclosure

2018 Municipal Finance Conference

A Discussion of the Draft Research Paper
'The "Privatization" of Municipal Debt'

The New Market Dynamics

To large a extent, municipal issuers are dealing with new market dynamics

Disclosure has become a major area of focus for regulators, as well as investors

Institutional investors are being asked to do more with less

Fragility of the buyer-base, as well as an expectation for higher rates, presents risk and uncertainty for issuers

Disclosure Challenges

In general, disclosure in the muni market is very difficult for investors

1. The data can be hard to find;
2. When its found, it can be very stale; and
3. When the stale data is finally found, it can be difficult to compare issuer-to-issuer efficiently based on the uniqueness of how its presented.

50,000 unique issuers, 1 million unique outstanding bonds

Disclosure Rules of Thumb

Audits versus interim data

- Where you’re going as an issuer is much more valuable to investors than where you’ve been

Let’s Investors Decide What’s Important

- For issuers, get all of your information out to the market as soon as it becomes available
- Get the good news out fast, get the bad news out faster

Look for ways to collapse disclosure cycles

- In the absence of disclosure, investors may assume the worse
- Disclosure – or the lack thereof – can be the canary in the coal mine

Bank Loans

Ivanov and Zimmermann's research is extremely timely

Bank loans have exploded in popularity in the years since the financial crisis - $150 billion to $200 billion?

Despite a low and flat bond YTM curve, banks pitched these as more efficient financing mechanisms for issuers than publicly offered bonds: faster, lower cost of capital

Direct loans are not securities, and thus don't meet mandatory disclosure requirements

For years, the MSRB has called for more disclosure around bank loans

Relevancy of Research

The focus on concerns around “competing claims” amongst various levels of bondholders is also much more relevant now than it was 10 years ago

Small (lower wealth, lower credit) versus big issuers (wealthier, higher credit)

Questions for Researchers to Consider

Major assumption in the research is that these bank loan agreements were uniformly structured in a way as to make them senior to publicly traded bonds

The economic shocks – long and transitory – are excellent tests of the theory

Question as to whether snow storms truly impact a county’s credit situation

Would require a larger share of revenues from tax levies like sales taxes over property taxes

Questions to Consider (con't)

Suggestion: look at housing prices as an additional credit shock to test

For example, changes in local house prices are observable and are correlated with the strength of the local economy (Campbell and Cocco, 2007; Standard & Poor's, 2012)

Although property tax collections are the largest own-source of revenues for most local governments and are responsive to changes in house prices, house prices are largely outside the control of city and county officials (Cuny and Dube, 2017)