

## Municipal Market Will be Topic of Bond Buyer Conference

Washington DC, January 10, 2013--Municipal issuers, especially in Texas, will be able to take advantage of a favorable market in 2013, though uncertainties over federal tax exemption status cloud the picture.

Panelists at The Bond Buyer's 17th Annual Texas Public Finance Conference said the municipal market is faring well in the Lone Star State, and if trouble comes it will come from Washington, D.C.

Texas issuers are viewed in a favorable light, according to Bill Laverty, vice president of municipal underwriting for Fidelity Capital Markets.

"When we do deals from Texas, we get orders from every state in the union," he said. "They like school district bonds. Retail is here in Texas because of the steadiness in Texas."

The biggest potential danger to the muni bond market is the potential for a reduction or even elimination of the federal income tax exemption, said Chris Mauro, head of municipal research at RBC Capital Markets.

"There is absolutely too much uncertainty," he said.

"This is not a joke," Mauro warned. "Call your congressman, get your local elected officials to lobby Congress, and fight for the tax exemption."

The effort to retain tax-free municipal bonds is more of a political struggle than an economic battle, Mauro contends.

"The Democrats see tax-free bonds as the playground of the idle rich that reduce revenues; Republicans see it as promoting unnecessary spending on projects that will benefit the municipal service employee unions, who tend to support Democrats," he said.

"The bottom line is that we don't have many friends in Washington anymore," Mauro added.

Any intention to cap the municipal tax exemption needs to be resisted, Mauro said, because once it is included in a proposed bill, the idea may never go away.

"If the exemption is capped at 28% as has been discussed, there is nothing to stop Congress from reducing it to 25% or 10% or even getting rid of it entirely."

In Texas, despite a judge's ruling this month that the state's school funding system violates the state constitution, there is not likely to be any school funding action in the Legislature during its ongoing biennial session, accordnig to keynote speaker Rafael Anchia, a Democratic state representative from Dallas.

In the wake of a serious drought, prospects for a \$53 billion drinking water program in the state are much stronger because the issue crosses party and geographical lines, he said.

Although funding sources for the water bonds could come from proposed new tap fees, Anchia says lawmakers are more likely to take a one-time approach in this session by tapping the state's rainy-day fund, also known as the economic stabilization fund.

"What I'm feeling is momentum for pulling \$1 billion to \$2 billion from the rainy-day fund for grants," Anchia said.

Members of a "State of the Market" panel took varying views on what will happen in the municipal primary market in 2013.

They agreed that new-money issues will take a larger share of sales this year than last, but varied in their projections for the size of the total market that in 2012 hit \$376.2 billion.

"I think we'll see sales of \$400 billion," said Don Farrell, head of public finance for the Eastern region at bond insurer Build America Mutual. "New-money sales fell in 2011 and 2012, but cities and school districts have big needs in infrastructure. Administrators and elected officials will take advantage of the market."

The low note came from Mauro.

"We're on record with an expectation of \$325 billion in sales," he said. "Refundings will be dramatically lower because the pool of eligible candidates is greatly diminished."

Significant changes in primary volume, up or down, are unlikely, Lavery said.

Lavery said the arrival of BAM is a significant factor in the bond market after the collapse of the bond insurance companies ratings in the wake of the of the 2008 financial crisis.

"There are two insurers now," Lavery said. "It will never be the same. But it's very, very important for our marketplace."

There may be a healthy appetite for Texas municipal debt, said Houston Controller Ronald Green, but that doesn't mean issuers in the state can take it easy.

"We have to help our investment bankers sell our bonds," he said. "You have to be aggressive, and we are. We all have our competitors. Be open about the facts and be available to investors."

Houston has slated an investment conference for March 27.

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