

PA Treasurer Testifies Before Congress About Turmoil In Municipal Bond Market
PA Department of Treasury
03/12/2008

HARRISBURG — Pennsylvania Treasurer Robin L. Wiessmann today testified before the U.S. House of Representatives regarding the current turmoil in the municipal bond marketplace and its effects on state and local government operations. Treasurer Wiessmann presented her testimony to the House Committee on Financial Services this morning.

Treasurer Wiessmann drew on her nearly 30 years experience in public and private finance, which includes municipal and bistate agency supervision, 10 years as an owner of a broker dealer investment banking firm, and 15 years of asset management oversight, to provide testimony about the collateral damage and repercussions of the current credit crisis, as well as possible remedies for the municipal bond market.

“The crisis created by the deteriorating credit profile of the bond insurers has increased interest costs, limited access to financing, undermined confidence in the capital markets, and reduced the investor base in tax-exempt bonds,” Treasurer Wiessmann said. “Securing the future of this financing tool is critical to the fiscal health of governmental units in this country.”

Wiessmann testified that the volatility in the capital markets and in public financing in particular has wide-ranging implications for governments and the tax-paying constituents. The instability in the fixed income markets, stemming from a lack of liquidity for auction rate bonds and pressure on other investment vehicles, means that many municipalities may have difficulty accessing capital markets or face extremely high borrowing costs. Average taxpayers will be further stressed in difficult economic times with foreclosures and declining property values affecting tax rolls, increased budgetary constraints, and rising demand for public services.

“Market disruptions are costing taxpayers in terms both of increased expenditures and constrained budgets,” Wiessmann said. “Further, the potential exists that an already tenuous financial situation may worsen and disrupt the provision of basic government services, including the availability of student loans for the next school year.”

“Today’s situation calls for timely action by the federal government to support and stabilize the short-term municipal bond market so that these municipalities are not placed under further stress,” Wiessmann continued.

Wiessmann suggested several immediate solutions to enhance the municipal marketplace:

- Federal stopgap measures to support and sustain the municipal markets in times of liquidity crises;
- Raising the bank-qualified limit from \$10 million to \$25 million to assist smaller governments in financing their capital needs;
- Permitting one additional advance refunding to allow governments to secure better rates, reduce debt service, and save taxpayers money;
- Applying corporate-equivalent standards to municipal bonds and altering the rating requirement of SEC Rule 2a-7 to expand the market for tax-exempt money market funds, benefiting both issuers and investors;
- Allowing federal home loan banks to offer letters of credit, allowing for more options in the guarantor market; and
- Allowing governments to purchase their own debt, operating under specific SEC regulations.

Recognizing the need to move beyond temporary fixes, Wiessmann identified three major factors necessary to effectively direct capital markets going forward: a principles-based code of conduct for business operations that takes into consideration market ramifications relating to consumers, capital markets, and the economy as a whole; transparency and complete disclosure of financial operations and securities structures; and a regulatory discipline that accurately reflects the realities of today’s marketplace.

Also testifying at the hearing were other state officials, including the Treasurers of California and Mississippi and the New

York Superintendent of Insurance, and representatives of the Securities Exchange Commission, bond insurer companies, and ratings agencies.

###

The Pennsylvania Treasury Department, under the leadership of Treasurer Robin L. Wiessmann, acts as the Commonwealth's bank, serving as custodian, investor and disbursing officer of the Commonwealth's funds. Treasury also offers a variety of programs and services that help Pennsylvanians find money with the Unclaimed Property program, save money with the nowU College Savings Program and the KeystoneHELP low-interest loan program, or invest money with the INVEST program for local governments and nonprofits. For more information about Treasurer Wiessmann and the Pennsylvania Treasury Department, visit www.patreasury.org.