MMA The Power of Independence

UNITED STATES SENATE COMMITTEE ON FINANCE

MMA's PERSPECTIVE

FINANCING OF INFRASTRUCTURE AND THE ROLE THE MUNICIPAL MARKET PLAYS

MUNICIPAL MARKET ADVISORS

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INTRODUCTION:

Chairman Baucus, Senator Hatch and Committee members: It is a distinct pleasure that I come before you today to share my perspective on the financing of U.S. infrastructure and the role the municipal market plays. I am Matt Posner, director at Municipal Market Advisors (MMA) that for the past 15-years has been the leading independent research and data provider to the industry.

Founded in 1995, MMA is the leading independent strategy, research and advisory firm in the municipal bond industry. MMA's intelligent approach to timely issues and analysis of market events has proven invaluable to a wide range of clients. As conditions have become more complex and difficult, MMA's recognized ability to concisely comment on the key issues of the market is of critical importance and value. The firm's independent research, data, market coverage and insight educate and inform without bias or product agenda.

Discussions regarding the condition of the United States' infrastructure needs have tended to focus on items consistent with those of 100 years ago – bridges, dams, highways, railroads, water & sewer, transportation hubs and clean water. U.S. infrastructure has generally been the responsibility and in the domain of states and local governments and therefore much has been financed through municipal bonds. Studies by the Society of Civil Engineers have provided staggering estimates of a U.S. in great disrepair and in need of additional funding. The $3 trillion price tag to fix the U.S. is daunting. While today's focus is on traditional infrastructure—the needs of the 19th and 20th century—I would be remiss not to encourage you to also think more broadly of infrastructure in an information, global economy where highways are the internet, clouds are the warehouses, and public wireless connections level the playing field.

The municipal market is not high profile and rarely in the public eye but the role it plays in infrastructure cannot be understated. Over $300 billion bonds last year were issued into the municipal market that went towards financing and maintaining our nation's infrastructure—a large portion of the nation's overall infrastructure spending. Transportation bonds alone last year alone totaled just under $70 billion. While some of the explanation of the market in the last 5-years may be overly technical, a general understanding of it is integral and I look forward to working with any interested parties in aiding this process. MMA believes that working with what we have in place is the proper road to take but there are currently limitations within the current construct that should be rectified. Maintaining a healthy tax-exempt market along with providing issuers new tools is the best and most cost efficient way to support the next generation's infrastructure needs. The situation as it now stands is not dire, but if Congress does not act to support the market, future needs will cost the Federal Government more.

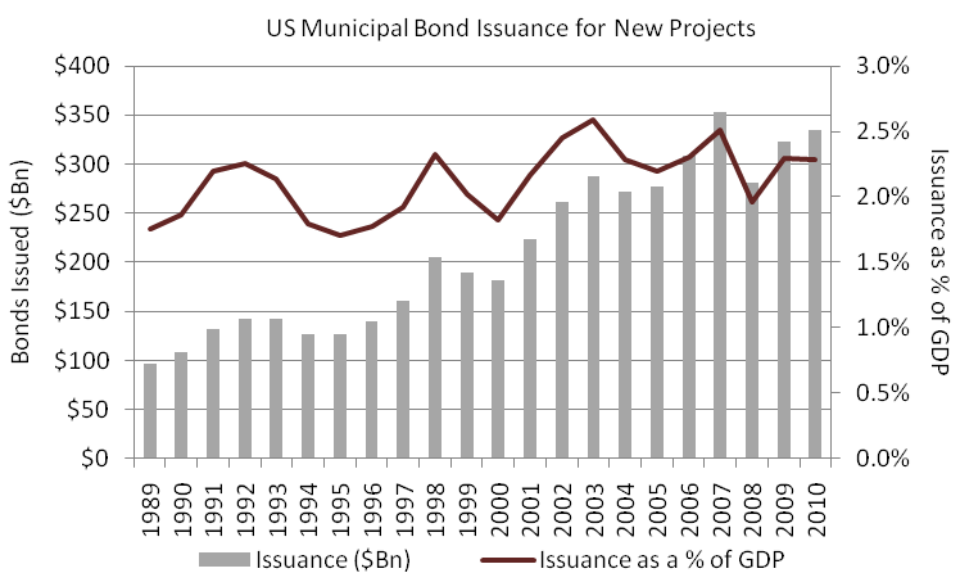
There are currently several existing proposals before Congress that would assist infrastructure finance. MMA supports many of them as we believe that providing issuers a variety of tools to finance projects is a positive. However, we want to remind this Committee that the tax-exempt municipal market remains the most important vehicle to finance infrastructure. We must operate under the assumption that the tax-exempt status of the municipal market exists because it is considered good policy for the Federal government to offer state and local governments favorable borrowing rates. At the same time, there is a limit to just how favorable interest rates should be. After a certain point, it becomes a drain on the taxpayer and over the long-term is a disadvantage to our country. Of recent proposals, there have emerged three general concepts to aid infrastructure finance through capital markets. They have come in the form of a subsidy to the issuer, tax-exemption to the investor or a tax-credit to the investor. All three have upsides and downsides but the central question that is left to policy makers is what the best manner is for money to leave Washington in a fair and equitable way. Step one in order to understand this question better is to understand how the cost of the most used option – tax-exemption – is calculated by the Federal Government. The Joint Committee on Taxation calculates the cost of tax-exemption to the taxpayer but the public does not see the assumptions behind this calculation. If we are to decide the best way to finance infrastructure in the future, we must understand how this number is derived.

The remainder of my testimony will focus on the role of the municipal bond market plays in financing infrastructure and a review of existing programs under current law. I will then explain how the market evolved in recent years beginning with the market collapse concurrent with the worldwide credit crisis that began in 2007. This testimony then turns to current market conditions and how they impacting financing. I will conclude with a series of recommendations that I believe the 112th Congress should seriously consider if this Committee decides to support the municipal bond market in sustaining and advancing infrastructure.

THE ROLE OF THE MARKET & EXISTING PROGRAMS TO SPONSOR INFRASTRUCTURE

There are nearly 65,000 issuers in the municipal market that are predominantly states and local governments. Recent figures identify an estimated $2.8 trillion in outstanding municipal debt. This is debt that aids our communities in meeting budgets and financing society's essential needs. In addition, the average municipal issue size is approximately $30 million, a size unattractive to institutional investors and better suited to individual purchase.

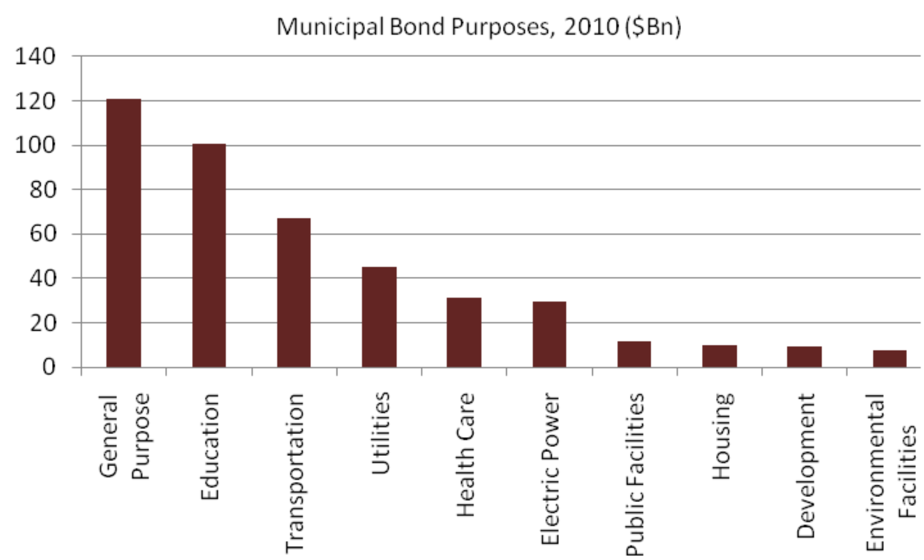
The exact scope in terms of volume that the municipal market plays in financing our nation's infrastructure is difficult to break down into an exact science because of the flexibility associated with the use of the bond pro-



ceeds. A starting place is to look at a combination of new-money bond issues combined with new-money/ refunding finances. The amount has grown in overall volume since 1988 (from just under $250 billion to just over $300 billion) but the percentage of the United States' Gross Domestic Product has remained generally between 2.0% and 2.3%. From this, it appears that the municipal market has provided a relatively consistent share of new infrastructure, regardless of business cycles. If Congress wants to maintain total projects being financed, alternative channels may be needed. In the next few years, issuer's prudent fiscal management may curtail new municipal issuance, amplifying the need for new tools for new projects.

Next, the general obligation (GO) bond is one of the most commonly issued tax-exempt municipal securities and generally used to finance infrastructure projects. From January through April of 2011, GO bonds totaled $26.2 billion of the total $62 billion issued – or 42%. In 2010, GO bonds totaled $147.5 billion of the $433.3 billion issued – 34%. A GO bond is secured by the full faith, credit and taxing power of the issuer.

We do have statistics on bonds issued specifically for development, electric power, transportation and utility projects, separate from GO issuances. In January through April of this year, these categories made up $15.5 billion, or roughly 25% of all bonds issued during this time. From 2006 through 2010, these four categories represent 26.5% of all bonds issued each year, averaging $109.46 billion annually. Again, these figures do not



include GO bonds issued for infrastructure projects, but combining the two begins to offers another way to look at how large a role the market plays in building and maintaining the country.

There are also a number of Federal and state-sponsored debt financing programs that benefit from the tax-exemption and encourage investment in infrastructure. GARVEEs, PABs and SRFs are among these programs.

GARVEEs (Grant Anticipation Revenue Vehicles): GARVEEs are tax-exempt debt financing instruments that enable an issuer to monetize future Federal-aid receivables to accelerate the construction of approved projects under Section 122 of Title 23, U.S. Code and spread the costs over the project's useful life. Issuers of GARVEEs can receive Federal-aid reimbursements for interest, principal and costs of issuance for an approved project. The debt is repaid from these future Federal-aid reimbursements ,which take place when debt service is due versus when construction costs are incurred. GARVEEs are typically used to finance large projects that would not be feasible to finance on a pay-go basis where the benefits, such as those related to quicker project construction, outweigh the financing costs associated with GARVEEs.

PABs (Private Activity Bonds): Specific legislation, Section 11143 of Title XI of SAFETEA-LU, amended Section 142(a) of the Internal Revenue Code to enable issuance of up to $15Bn of tax-exempt debt to finance highway and freight-transfer facilities involving private developers and operators. The debt is issued by a state or local government as a conduit for the private entity and is repaid by the private entity. The legislation was an effort to increase private sector involvement in transportation infrastructure by providing access to the tax-exempt capital markets. The amount authorized under this legislation is outside of the allocation cap for other types of PABs.

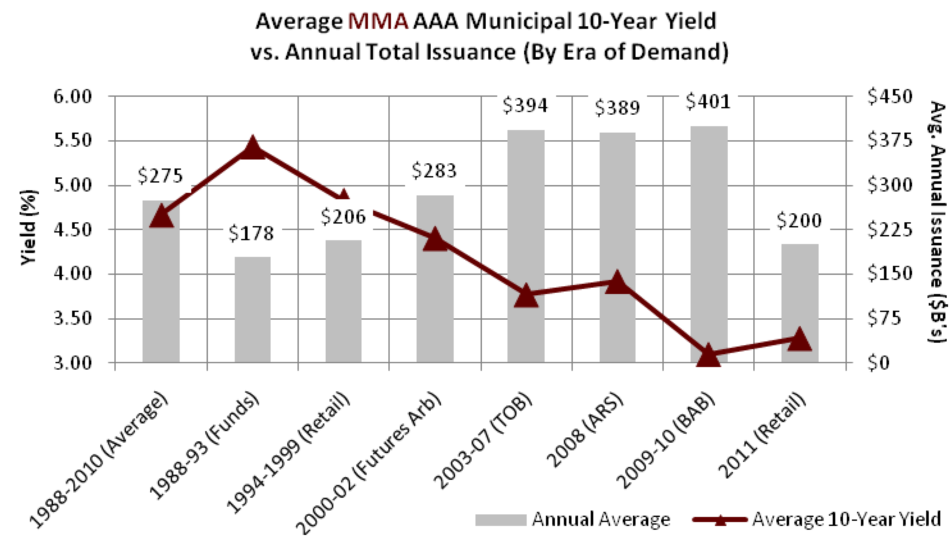
SRFs (State Revolving Funds): Established by amendments to the Clean Water Act in 1987 and the Safe Drinking Water Act, as amended in 1996, SRFs are financing vehicles administered by state agencies. Funds to establish or capitalize the SRFs are provided by federal grants that are matched by a state contribution of 20%. The funds have an array of assistance options they can provide for eligible projects, including making below market rate loans. Eligible projects include infrastructure improvements for drinking water systems and a wide variety of water quality projects. Loan repayments are recycled back into the SRF to provide a continued source of financing for these types of projects. Many of the programs have leveraged their funding by issuing bonds that are payable from loan repayments and other financial resources of the SRF.

MARKET EVOLUTION OVER PAST 5-YEARS:

Understanding what has happened in the last 5-years to the municipal market sets the stage for the current environment. The market has suffered repeated shocks from the credit crisis since August 2007. In a very primary sense, our sector was exposed to the same systemic risks that collapsed the housing and securitization markets and undermined our nation’s banks. The deep interconnectedness of the municipal market with the global financial and interest rate markets was unforeseen by most municipal regulators, issuers, investors, advisors, lawyers, and dealer banks; their surprise at, and misunderstanding of, the systemic risks at work has consistently exacerbated problems over the last few years.

The initiation of the credit crisis in municipals, as it was elsewhere, began in 2001 and 2002, with the integration of leverage into municipal bond buying strategies. Leveraged investment vehicles, called Tender Option Bond (TOB) programs, borrowed low interest (floating-rate) cash from the tax-exempt money market funds to invest in higher yielding (fixed-rate) municipals. These programs were largest among banking institutions.

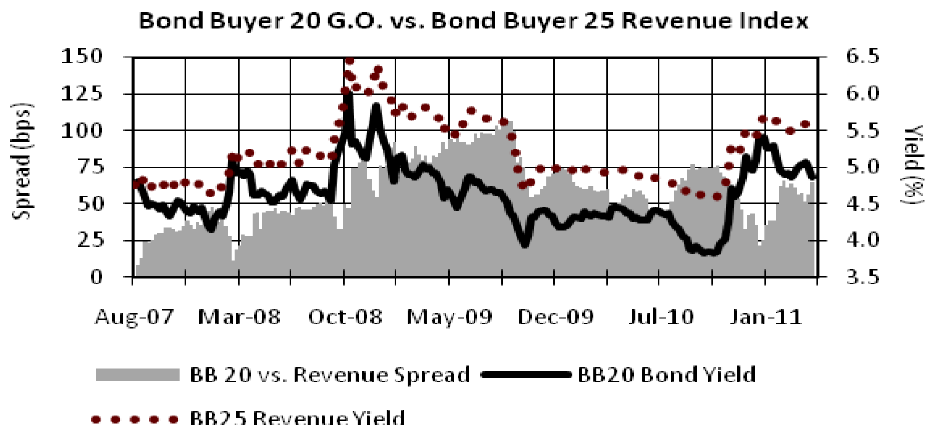
Because of TOB’s use of leverage, they could purchase municipal bonds at substantially higher prices than other investors were willing to pay, so the primary market rapidly adjusted to their needs. This entailed the pervasive use of AAA-rated bond insurance (creating the appearance of safe homogeneity). For the period between 2002 and 2007, these adjustments permitted the near doubling of annual bond issuance (from about $200Bn to about $400Bn), and the amount of par volume municipal bonds outstanding swelled 77% from $1.5T in 2001 to $2.8T today. In additional, municipal bond evaluations were amplified, prices higher/yields lower, saving issuers hundreds of millions in borrowing costs. The following chart demonstrates how even with record issuance in the TOB era, interest rates remained low. This chart can also be used to reference other time periods I will discuss shortly.

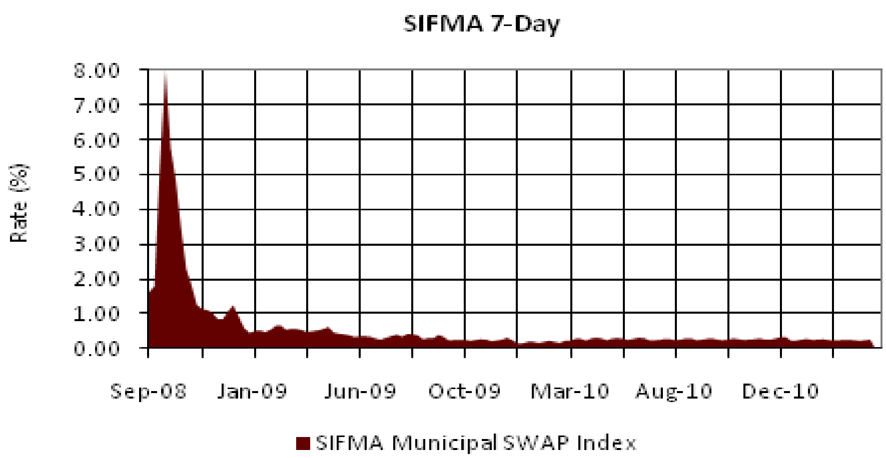


Problems were exposed in August 2007 with the first surge of flight-to-safety buying of Treasury securities on news of worsening damage to the housing sector. Stronger Treasury prices created losses in TOB hedges, forcing margin calls that rapidly consumed available cash. In addition, sharp increases in overnight lending rates pushed floating-rate product credit spreads wider: the source of TOB leverage, loans from the money funds, grew much more expensive, to the point where the money funds were demanding almost as much interest than the TOBs were receiving from their long-term, fixed-rate municipal position. Some TOBs thus began to liquidate their positions, forcing sales of their fixed-rate bonds into a municipal secondary market that quickly became oversupplied and illiquid.

Market participants had by this time also become increasingly concerned about the future of the bond insurers, which had guaranteed subprime residential mortgage securitizations along with municipal credits. In particular, more cautious corporate cash managers began selling auction-rate securities that had been marketed to them, in part, based on the apparent safety of AAA-rated bond insurance. Once again, dealer banks managing auction-rate programs provided liquidity in the absence of incremental investor demand, but in December 2007, the rating agencies sounded formal warnings about the bond insurers. This precipitated vast selling pressure among auction-rate investors that, in January, overwhelmed dealers' risk tolerances for buying back additional auction paper, and auctions began to fail.

Once again, high yields galvanized demand in March, and from that point until December 2008, the municipal market continued to face boom and bust pricing cycles of sometimes extraordinary depth. In general, these entailed yield-fueled, or media-driven demand bubbles that were ultimately pricked by yet another bond insurer downgrade that renewed fears and sometimes forced selling by leveraged bondholders. The worst of these cycles began in September, when the collapse of Lehman Brothers plus concerns over other broker-dealer counterparties were realized in investor redemptions from municipal money markets, which put large numbers of variable rate obligations back to dealers. The next two charts demonstrate the volatility during this period along with the spike in variable-rates (SIFMA 7-Day) during the Lehman crisis.





The excess supply created by forced TOB selling in September to November of 2008, along with downgrades to the bond insurers, pushed municipal yields sharply higher, prices lower. Spread widening and price declines hurt tax-exempt mutual fund net asset values, giving the appearance of undue credit risk to their investors and initiating perhaps the second largest sequence of mutual fund investor outflows on record. And, as was well covered by the media, with fixed-rate yields having risen to extraordinary heights, *many state and local issuers chose to table the majority of their planned primary market loans*, waiting for conditions to improve. Indeed, smaller, lower-rated, and riskier credits may have at least temporarily been unable to access capital at all and many large states and cities postponed issues due to the cost of borrowing. **MMA estimates that, in 2008, more than $100Bn of planned new-money infrastructure projects were delayed, the majority of that occurring in the fourth quarter.**

CURRENT MARKET CONDITIONS:

UNITED STATES SENATE COMMITTEE ON FINANCE

In response to the worldwide financial crisis, President Obama signed into law the America Recovery and Reinvestment Act of 2009 that included a set of provisions aimed at stabilizing the municipal market, stimulating infrastructure spending and promoting job growth. The most effective provision was the creation of the Build America Bond (BAB) program.

Build America Bonds are a taxable municipal security that the Federal government pays a 35% subsidy of the coupon to either the issuer or a tax-credit to the investor. The purpose of the program was to reduce borrowing costs for state and local governments and to expand the investor base of the municipal market to the larger spectrum of taxable investors. From the first issue in April 2009 to the expiration of the program in 2010, roughly $186 billion BABs were issued. Borrowing rates decreased significantly for issuers because of the 35% subsidy and issuers utilized the program to a higher degree than many expected. As shown in the chart below, MMA estimates the cost of the BAB program to be $98 billion over the life of the bonds assuming no taxes collected. The extent to which the Federal Government will recover the $98 billion in interest subsidies is dependent on the ownership of the bonds of which there is no public data. Using the industry consensus range of estimates of an effective tax rate (actual taxes collected from owners of the BABs) between 7% and 15%, the actual lifetime coast to the Federal Government of the BABs is between $79 and $57 billion.

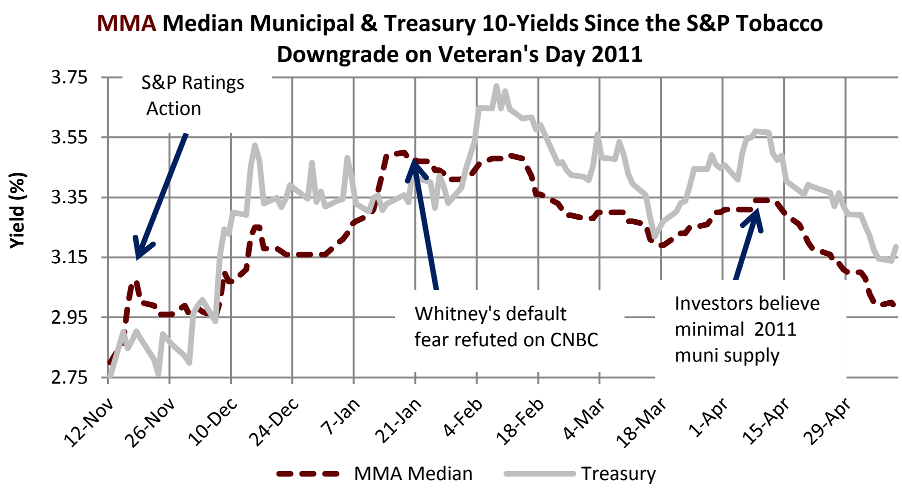
Lifetime Fed Government Cost for $187Bn BABs ($Bn)	
Total Lifetime Coupon Payments, All Issuers	$278
Lifetime Federal Subsidy Payments to All Issuers	$98
Subsidy Payments as % of Par Financed	53%
Est. Gov't Cost, Net of Taxes Collected (@15% Tax Rate)	$57
Est. Gov't Cost as % of Par Financed	36%
Est. Gov't Cost, Net of Taxes Collected (@7% Tax Rate)	$79
Est. Gov't Cost as % of Par Financed	42%

With the 35% subsidy, many infrastructure deals that were scheduled to come as tax-exempt issues instead came as BABs. An unintended consequence of the program was that with so many deals being moved into the taxable realm, the supply of tax-exempt issues decreased enough to shift the supply/demand balance for tax-exempts. As a result, we also saw tax-exempt borrowing rates decrease, which aided many issuers that decided not to utilize the BAB option. This phenomenon is similar to today's current market environment where the speculation of the elimination of the tax-exempt and reduced issuance has contributed 10-year benchmark municipal yields falling nearly 1.00% in 2011.

The expiration of the BABs program was one of two central themes as we entered this year. The fourth quarter of 2010 saw a surge of BABs issuance as issuers took advantage of the program before it expired. This led to a dearth of issuance in January and February of 2011. As we've entered the second quarter of 2011, issuance has remained very low compared to the last 10-years. In fact, through April of 2011, roughly $62 billion bonds have been sold. In 2010 we saw $131 billion (of which $33.9 billion were BABs) during these first four months of the year, a drop of over 50%.

We must re-examine why issuers are not utilizing the tax-exempt market. Borrowing rates for issuers stand at the lows of the year and have remained relatively low to historical standards. With borrowing rates at or near the year lows, many market participants expect an uptick in issuance as issuers normally look to capture advantageous borrowing rates when they can – but thus far it has not happened. MMA attributes the lack of issuance to the pervasive anti-borrowing climate that has entered the current political arena across the country. Aside from issuer austerity, borrowing is down because of the end of bond insurance, the lack of VRDO derivatives and to an extent limited leveraged demand that persisted during the TOB era mentioned above. These three influences will not so forcibly impact the market as they did in the mid 2000's and are affecting issuer's access to the market.

The following chart demonstrates interest rates moves through the fall of last year into this year's rally of April. The impact of credit risk is apparent with the S&P ratings action on tobacco bonds, which is then refuted on CNBC by MMA. As supply continues to dwindle, the market has rallied since April:



The second major theme this year has been credit. In November of last year, a string of high-profile analysts and major news publications predicted waves of municipal defaults in the coming year. The news created a sell-off in the municipal market as retail investors – the central buyer of tax-exempt debt – fled the market. A principal way smaller individuals invest in municipals is through mutual funds. Municipal bond mutual fund outflows began in November of 2010 as a result of negative headlines. As of early May 2011, the tax-exempt sector has yet to see a single week of inflows into mutual funds. This has made for 24 consecutive weeks of outflows totaling roughly $47 billion a record since this information has been tallied since 1980. Starting in January of this year, the weekly outflows have generally diminished as investors have become better educated as to the actual credit and default risk of the bonds they hold. As of July 2010 through May 9th of this year, MMA's credit impairment database shows there are mere $28 million safe sector bonds that have gone into default and not rectified the situation, or 0.18% of all outstanding debt. In this same time period, there are $1.488 billion transit or toll road bonds that have gone into default. (see table on next page).

Par (and #) of Outstanding Muni Bonds With an Uncured Default, Reserve Draw, or Other Impairment ($MM)						Support Detail:
Sector	APRIL	All Notices	DEFAULT	Support	Other	Insurer/LOC Pay
ALL	$7,658 (87)	$31,141 (647)	$8,979 (284)	$9,650 (220)	$12,512 (143)	$5,511 (41)
Land Secured	$356 (22)	$4,715 (256)	$2,264 (127)	$1,733 (104)	$717 (25)	$71 (5)
Toll Road/Transit	$3,038 (1)	$4,798 (6)	$1,488 (3)	$143 (1)	$3,167 (2)	none
Tribal	none	$1,202 (7)	$1,187 (6)	none	$15 (1)	none
Housing	$38 (7)	$945 (71)	$771 (53)	$136 (12)	$38 (6)	$43 (6)
Retirement	$907 (14)	$2,300 (68)	$896 (31)	$437 (10)	$967 (27)	$242 (5)
Hotel	$148 (4)	$696 (12)	$379 (6)	$219 (5)	$98 (1)	none
Hospital	$177 (4)	$1,968 (38)	$288 (7)	$760 (8)	$920 (23)	$698 (4)
Other Risky Sectors	$1,975 (32)	$7,001 (139)	$1,678 (49)	$2,059 (60)	$3,264 (30)	$367 (12)
Safe Sectors (GO,Wtr/Swr,SalesTx)	$1,020 (3)	$7,517 (50)	$28 (2)	$4,164 (20)	$3,325 (28)	$4,091 (9)
Initially Non-Rated Bonds	$2,239 (64)	$10,636 (453)	$5,315 (235)	$3,113 (142)	$2,208 (76)	
Initially Insured/LOC Bonds	$4,413 (13)	$12,942 (94)	$828 (6)	$5,691 (49)	$6,423 (39)	
Initially Rated, Uninsured Bonds	$963 (7)	$6,349 (53)	$2,076 (17)	$515 (20)	$3,758 (16)	

In the past, these types of outflows would create significant pressure on the tax-exempt sector. In fact, it did in January and March of this year, but since the start of April, tax-exempts have entered a month-long rally. The lack of issuance has created a scarcity bid in the municipal sector and it is outweighing the impact of mutual funds selling bonds to raise cash as investors exit these investment vehicles. Still, issuance remains extremely low and projects continue to be postponed, pushing the need for new ideas.

The decline in new-issuance this year is reflective of the prudent fiscal strategist adopted by issuers. This does not necessarily mean that infrastructure projects have been tabled forever, but clearly many are getting postponed because of the current dynamic. It is hard to conceive a $3 billion Municipal Electric Authority of Georgia nuclear deal getting financed in the current tax-exempt market while it was so easily facilitated in the BAB market in 2010. Large issues over $1 billion are having difficulty coming to market in the current environment. In fact we have only seen 5 tax-exempt deals come to market over this threshold in 2011. This creates a problem for financing new projects or maintaining major infrastructure.

The dearth of new issuance this year has created a lack of secondary liquidity and less price transparency for tax-exempts. If we were to see a surge in issuance in this current environment, we expect the tax-exempt market to experience a sharp rise in yields until investors recognized the value in the opportunity. This lack of secondary activity also makes the market much more prone to headline risk, such as a major credit event of a large state or city. This type of volatility would be harmful to both investors and issuers.

MMA forecasts 2011 issuance of tax-exempt debt to be $217 billion, a large step down from the $433 billion issued last year or the $409 billion issued in 2009. We do expect the market to continue to struggle with price discovery and as a result volatility should remain high. Individual investors are likely to remain fluid in shifting their investments between fixed-income, commodities, equities and cash. The ongoing ambiguity regarding the health of the U.S. and global economy remains the dominant theme for the balance of the year. Specific to the municipal bond market, individual investors are migrating from the mutual funds to individual managers in order to have more direct access to information regarding the credits that they own, which is so difficult to access given current disclosure standards. Macro economic uncertainty, municipally-specific credit concern, a lack of price transparency and the lack of bond financing tools should lead to continued difficulty in accessing the municipal market to finance infrastructure. Because states have to balance their budgets annually, the planning of infrastructure projects is contingent on future revenues and states are more apt to be more receptive to Federal assistance for critical projects that are not line items expenditures of their annual budgets.

RECOMMENDATIONS:

The following five recommendations would protect state and local governments current means of raising capital for infrastructure as well as offer additional tools to obtain the best cost of financing at the lowest cost to the tax payer while maintaining investor confidence to continue to lend for tomorrow's needs.

First and foremost, the tax-exempt market as it now stands should continue to exist.

The current US municipal bond market exists largely because of the tax exemption of interest on qualified municipal bonds. This exemption has come under fire recently, with an eye toward helping close Federal budget gaps and improving the "efficiency" of infrastructure subsidy distribution. Some have noted that the amount of subsidy actually delivered is, on average, greater than the subsidy needed for bonds to clear the primary market. We don't entirely disagree; however, there are important reasons for this disparity that many have overlooked and why we believe a mix of both tax-exempt and taxable bond options are ideal to move our country's infrastructure forward:

A) The tax exemption makes the U.S. municipal bond market the most politically efficient financing vehicle in the world. Any local government or park district, so long as they keep their financial house in order (49 out of 50 states are legally required to balance their budget every year), can sell bonds and finance capital projects. The exemption is, in effect, an inducement for investors to lend in a seller-oriented market that features 65,000 different issuers. By contrast, the corporate bond and equity markets are built to be investor friendly and are easier to navigate. Correspondingly, corporate and structured finance bond yields are relatively lower than their tax-exempt counterparts, adjusting for relative credit quality. Municipal efficiency could be improved, but then at the cost to political autonomy. Pushing a taxable structure on the current tax-exempt model would simply leave out the majority of current issuers into the municipal market. If tax-exemption were removed, smaller governments would have a dramatic loss of market access leading to a tapering of infrastructure finance. The average size of a municipal bond issue is $30 million while the average size of taxable corporate deals that JPMorgan Securities underwrote last year was $1.3 billion. It is simply not in the taxable buyer's interest to purchase small deals because of the size of their needs. Also, the credit research to be done on so many different issuers is not in the taxable buyer's interest.

B) The other, maybe even more vital point about the tax exemption is its linking of borrowers and creditors: local people supporting local bonds. This idea reflects assumptions that 1) local buyers are better able to discipline local issuers leveraging their tax base for potentially speculative reasons. And 2) there is some sense of shared responsibility to see the transactions work out normally. The example of an opposite transaction is the average subprime RMBS, where lenders were deeply dissociated from underwriters and further from borrowers. When the system hit turbulence, homeowner vacated and aggressive foreclosures followed.

Second, a direct-pay subsidy to issuers should be re-enacted at a revenue neutral rate and made permanent. Discovering a true revenue-neutral rate is dependent on the disclosure of Congress's methodology of determining the cost of the current tax-exemption. If the Federal Government believes that the municipal borrower should have a favorable interest rate in accessing the marketplace then this bond finance option is a very efficient one. The size and structure of direct-pay bonds will fill a the need to finance larger infrastructure projects and would work hand-in-hand with a tax-exempt market that is better suited for smaller, more local projects. <u>However, the 35% rate that was offered in 2009 and 2010 was too excessive</u>**.** It was as teaser rate to kick start the program but now that it has existed for two years, it is time to make it permanent at a lower rate. Direct-pay bonds will still be utilized if subsidized correctly and by making it permanent, a larger market could be created that would see spreads shrink over time meaning a reduced cost to the Federal government.

Third, a federal and state tax-exempt, tax-credit bond program is an excellent idea in theory; however current proposals in draft form need to be altered in order for them to function properly. We support tax-credit bonds but so far they have been unable to catch on in the market. The primary reasons for failures in the past has been that they have either not been made permanent and hence give investors concern about having an orphan product down the road, but also that they were not large enough to really attract broad support. Larger deals tend to have greater liquidity and will fare better as a result. The $50 billion with $5 billion allocated for the first two years and $10 billion for the remaining 4-years that we have heard discussed in the media is amenable. We also suggest that those in support of this concept have a better dialogue with the market. In the past, there have been certain issues where a lack of clarity from the policy side has created problems in the market.

Fourth, a bi-partisan bill to launch an "American Infrastructure Financing Authority" would create yet another tool for issuers to access in order to finance their infrastructure needs. This Authority would, in theory, capitalize projects that have been unable to get financed in the current construct of the capital markets. We support the mix of funding from the sale of Treasury bonds and private capital. The Authority's managers would also be given flexibility to determine how to structure individual loans or funding lines to maximize efficiency under different market conditions. The AIFA would also steer funding for infrastructure where it is needed as decided by a team of infrastructure and policy experts. It would also mitigate Federal and state lawmakers influence over these decisions, which we see as a positive.

The program would concentrate on transactions not easily completed by muni bonds because of our market's single-issuer orientation. For example, regional power transmission lines, rail programs, or interstate aqueducts are politically and economically difficult to fund by individual states. By relying on private capital for a substantial portion of its funding, the AIFA would broaden knowledge and understanding of the US municipal market, to the benefit of net demand. And its encouragement of private capital lending could advance broader privatization trends among states and cities looking to restructure long-term asset-liability mismatches in the coming decade.

One market consequence if this Authority is created in its current form, is that it could exacerbate some of the problems we've noted with the current municipal market, namely that issuance is likely to remain lackluster going forward as issuers decide to utilize the tax-exempt market less. New deals make for secondary activity in the municipal market and we would see less trading as a result.

One other area of note, it appears this Authority would be focused on financing new projects specifically but it may be a good idea to dedicate a certain amount of its spending to maintenance of existing infrastructure. The bond markets also tend to focus on new projects and one area that needs to be addressed is maintaining an area where that is needed. If the Authority were directed to spend a certain amount towards maintenance that might help bridge a gap in the current system.

Fifth, improve municipal disclosure. Better disclosure in the municipal market would lower borrowing costs, protect investors and continue the trend of broadening the investor base of the market. The current regime does not enforce a lack of disclosure compliance . As unregistered securities, regulators have limited abilities to enforce issuer compliance even with the limited demands set out by rule 15c2-12. As a result, issuers who enter fiscal distress, or those with limited administrative resources, can sometimes stop disclosing information altogether.

MMA believes the following would be a solution to current problems with municipal disclosure:

1) We believe Congress should require that the Municipal Securities Rulemaking Board or a new, independent body (the entity) act as arbiter to determine whether each issuer is in compliance with stated disclosure requirements.
2) Bonds found to be not in compliance would be flagged. We are reluctant to advise that the relevant entity be able to compel disclosure directly from the issuers for fear of abridging state autonomy.
3) The entity would keep a database to track, for every Cusip and borrower, the number and percent of days it has been out of compliance on all of its outstanding bond issues. This statistic would be vitally important for potential buyers evaluating new purchases of the borrower's securities.
4) Additionally, all firms trading municipal bonds, regardless of their status, would need to track how many trades, and the volume of par traded, that firm had made with disclosure-flagged municipals Cusips. Again, this could be very important data for investors evaluating with which firm to invest their money.

This proposal would not force disclosure but instead allow the market to decide how to penalize issuers not in compliance.