

The FISCAL REPORT an informational update

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Volume 28

For Publication Date: September 26, 2008

No. 20

The Municipal Market—Different . . . But Really Good

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[Editor's Note: Amid the chaos of the financial markets, we harken to a positive voice. Our friends, Jim Kleker and Jonathan Edwards at Government Financial Strategies, offer words of encouragement. We are pleased they allowed us to pass them along.]

It's time to quit thinking negative thoughts about the municipal market. Even the prominent newspapers have had little beyond negative comments lately: “. . . things that would be easy decisions in the past you really need to come up with different answers today” (*Bond Buyer*, August 21, 2008). Or, munis are being treated like “just another distressed asset class” (*Business Week*, August 18, 2008). Just about everywhere you turn, you read about a financial crisis or a market barely surviving. There is some other news available—it is a good time to issue municipal bonds.

New Issue Muni Bonds Are Performing Well

While many people have trouble seeing past the State Budget crisis, get mired in the confusion of auction rate securities, or just get trapped on the front page of the business section, it is important for those managing the new issue needs of their counties or districts to not get caught up in the negative musings.

The municipal market is vibrant. Several school districts have had tremendous success, experiencing strong market demand for their bond offerings (see the graphic below). Bonds sold in the last two months from the smaller issue to more than \$100 million have generated multiple bids, and rates are reflecting demand.

\$3,250,000 G.O.		
Dated Date: August 12, 2008		
Competitive Bidding Results		True Interest Cost
Bid #	Name of Bidder	(TIC%)
1	Southwest Securities, Inc.	4.997292%

2	Bernardi Securities, Inc.	5.053100%
3	Sterne, Agee & Leach, Inc.	5.079196%
4	Stifel Nicolaus & Co., Inc.	5,164274%
\$100,000,000 G.O.		
Dated Date: August 14, 2008		
Competitive Bidding Results		True Interest Cost
Bid #	Name of Bidder	(TIC%)
1	Citigroup Global Markets, Inc.	5.022882%
2	Morgan Stanley	5.029842%
3	Prager, Sealy & Co., LLC	5.031149%
4	Lehman Brothers, Inc.	5.066055%
5	Merrill Lynch & Co.	5.098493%
\$6,900,000 TRANS		
Dated Date: August 28, 2008		

Competitive Bidding Results		True Interest Cost
Bid #	Name of Bidder	(TIC%)
1	DEPFA First Albany Securities	1.653286%
2	Zions First National Bank	1.703062%
3	Bank of America	1.706050%
4	Piper Jaffray	1.718002%
\$5,000,000 TRANS		
Dated Date: September 9, 2008		
Competitive Bidding Results		True Interest Cost
Bid #	Name of Bidder	(TIC%)
1	Commerce Capital Markets	1.60666%
2	Wachovia Bank	1.66056%
3	DEPFA First Albany Securities	1.66760%
4	Zions First National Bank	1.76027%
\$19,000,000 G.O.		

Dated Date: September 18, 2008

Competitive Bidding Results		True Interest Cost
Bid #	Name of Bidder	(TIC%)
1	Morgan Stanley & Co., Inc.	4.840657%
2	UBS Securities, LLC	4.848984%
3	Wells Fargo Brokerage Services	4.912511%
4	Hutchinson, Shockey, Erley & Co.	4.986983%
5	BMO Capital Markets	4.998124%
6	Piper Jaffray & Co.	5.073978%

Competition is Strong—and Good for Issuers

Perhaps the most surprising turn in the market is the emergence of new “bidders.” The players bidding on new issues continue to include the big names one would expect, but the market is seeing competitors coming from otherwise unknown places. Recently, the Geyserville Unified School District sold \$3.25 million of bonds and received four very competitive bids—without a single bidder from New York. Smaller regional investment banks and less prominent underwriters are making their presence known. In a sampling of ten recent school district issues over the last two months, there were nine different winning bidders (five of the ten are depicted in the table above).

Strong Competition Equals Good Pricing

It’s simple. Strong competition among underwriters is good news for issuers. Competitive bidding is helping issuers get great total interest cost pricing. The time to issue competitively is now.

posted 09/24/2008 (updated 10/08/2008)