The Last Word: What Are the Prospects for a Return to “Normalcy” in the Municipal Credit Markets?

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September 14, 2009
The Markets Will Recover

• There will only be one “end of the world” – . . . this probably wasn’t it!
• When we recover, will we recognize:
  – The protocols?
  – The instruments?

“The best way to predict the future is to create it.”
– Peter Drucker
First, the Protocols . . . .

• Credit matters . . . . again!
  – Remember the “Five Cs” of credit:
    • Character – self-explanatory
    • Capacity – arguably the most critical
    • Capital – meaning the relationship of the borrower’s level of investment to that of the lender’s
    • Collateral value – what the borrower “stands to lose”
    • Conditions – covenants, repayment terms, etc.

• Disclosure matters . . . . still!

“It’s déjà vu all over again.”
– Yogi Berra
Why Credit Will Matter “More” This Time

• The operating and financial apparatus of government is more complicated
• There is a greater “fragmentation” of the public’s responsibility for community assets and obligations
• The financial products we’re using are likely to become more standardized and less “customizable” than we ever imagined
• Other “credit stressors” still lie ahead . . . .
  – Keeping the promises made to our aging workforce
  – Catching up on the deferred maintenance of our aging infrastructure
Disclosure Matters . . . . Still!

• The aftermath of the “meltdown” is still being scripted
  – In Washington
  – On Main Street

• Last time (1970s), the belief was that better disclosure was the balm for the troubled soul of the markets after NYC, UDC, etc.
  – Result: disclosure where often “more” may have been confused with “better”

• So, what do “they” (the investors) really want, and why we should all care . . . .
What the Market Really Wants

- Good systems, controls and procedures with adequate supervision
- Coherent, straightforward policies on what to expect in your financial reporting
- Evidence of appropriate training of your staff
  - “clerk to council” pathway
- Focused on the “big picture” – the goal isn’t the process, it is in answering:
  - What issues are you facing?
  - What issues are you avoiding?
  - What is both relevant and material?
- Using “good” professionals
  - Accountants, engineers, lawyers, etc.
  - Hired on talent, not on price
- Representations and warranties at closing are understood and agreed to
- Transparency – both of the issuer and the intermediaries
The Instruments

• In the near term, it will not be sufficient for a “financial product” to be technically superior
• It must also:
  – Demonstrably solve the financing problem AND
  – Not introduce new or undiscovered risks or problems
• The “Steckel rule”
• Replacement of the monoline insurors as surrogates
• The role of “prudence” in avoiding another “tulip mania”
Conclusions

• Gravitate to the simple, straightforward tools already in the box
• Avoid financial engineering “pyrotechnics”

“Every normal man must be tempted, at times, to spit on his hands, hoist the black flag, and begin slitting throats.”
~ H. L. Mencken

“Normal is in the eye of the beholder.”
~ Whoopi Goldberg