

**Remarks of Lynnette Kelly, Executive Director**

**at the**

**MSRB Infrastructure Roundtable**

**Washington, DC**

**April 7, 2017**

- Good afternoon. As Executive Director of the MSRB it is my privilege to welcome each of you to the MSRB.
- Arthur Miller, Vice Chair of the MSRB Board of Directors, is my co-host today.
- We are honored to host such a distinguished group of thought leaders and market experts today for what we believe will be a lively and productive discussion
- This gathering today is distinctive in that it unites some of the top minds in infrastructure finance, including researchers, non-partisan policy experts, and the bankers, developers and private equity providers who make infrastructure finance happen across the nation
- I'd like to give a special welcome and thank you to our moderators today.
- We are particularly privileged to be joined by former U.S. Transportation Secretary Rodney Slater, who has a wealth of policy, political and practical experience to share on infrastructure finance.
- He and Chris Hamel, of RBC Capital Markets, will lead our third discussion of the day on emerging proposals from the Trump Administrations that could spur infrastructure investment.
- To start us off, Mitch Rappaport, of Nixon Peabody, will moderate the discussion on tax reform.
- Natalie Cohen, of Wells Fargo, will lead our "lessons learned" conversation about alternative municipal securities structures financing mechanisms that complement municipal securities, and how we can better put investor capital to work.
- Where the MSRB comes in is to act as a bridge for conveying collective wisdom and municipal market data to federal policymakers.
- The MSRB is the nation's deepest source of knowledge on municipal securities regulatory and market activity.
- Our regulations ensure that securities are bought and sold based on principles of fairness and integrity in an environment that operates without unnecessary impediments.

- We also collect all the data about trading and underwriting activity in this \$3.8 trillion market and make that information universally available.
- In recent years, we have seen novel approaches to financing infrastructure from Capitol Hill, and innovations from the marketplace.
- Stimulus bills under the Obama administration added several new types of municipal securities, including the successful but now defunct Build America Bonds program, which opened the door to widespread international investment in American infrastructure.
- We're seeing experimentation in the market with web-based crowdfunding platforms to facilitate hyperlocal investment in infrastructure.
- Direct loans from banks and private placements are on the rise as an alternative to public offerings, and our regulatory framework is adapting.
- Newly proposed disclosure requirements on bank loans by the SEC and work we've done at the MSRB to facilitate improved disclosure in this area are very encouraging developments.
- We know that variations on and alternatives to municipal securities are part of the developing federal policies.
- The new administration has expressed interest in expanding the use of public-private partnerships, including through a federal tax credit for companies providing equity for public projects, and enabling private activity bonds for more purposes.
- Each of these mechanisms supplements rather than supplants the municipal securities market.
- These emerging federal policies will determine some of the options and subsidies available to state and local governments for building and maintaining vital public projects.
- At the MSRB, we are carefully monitoring federal policy developments and market forces that will impact this financing lifeline for state and local governments.
- We don't know whether the tax exemption for municipal bonds will be limited in the future, as part of a push to limit all deductions and exemptions for high earners.

- We also don't know how other tax reform proposals—and even tax cuts—will ultimately affect investor behavior when municipal securities are compared with other investment options.
- From a market perspective, the MSRB is watching closely the trends in ownership of municipal securities.
- Investor behavior and market liquidity are big drivers of borrowing costs for state and local governments.
- There is a trend towards fewer dealers in the market through industry consolidation.
- The remaining dealers are holding about \$20 billion less of municipal bonds in inventory than six years ago, according to Fed data.
- In that same six-year period, mutual fund holdings of municipal bonds have jumped by a corresponding amount to \$978 billion.
- Though not nearly as pronounced, similar trends can be seen with separately managed accounts and municipal bond exchange traded funds, whose holdings of municipal securities increased from \$7.6 billion in 2010 to \$23.1 billion as of last June.
- We are watching these trends in bond ownership, particularly given rising interest rates, which could affect investor behavior, particularly when it comes to mutual fund redemptions.
- The liquidity needs of mutual funds could exceed the willingness or ability of dealers to increase their municipal securities holdings.
- This type of market dislocation could have a significant impact on mutual fund net asset value and the overall value of investors' municipal bond positions.
- Despite what may be a certain level of transient market dislocation, it's important to keep in mind the resiliency of the municipal market.
- And that no matter the outcome of the current federal policies, the municipal market will continue to offer a low-risk, high-quality diversification option for both institutional and individual investors for a long time to come.

- Between 2003 and 2012, states and local governments financed \$3.2 trillion in projects, according to the National Association of Counties. We know that approximately \$400 billion in municipal bonds are issued each year to finance the needs of municipalities.
- By way of comparison, the president's infrastructure plan would funnel about \$100 billion a year into infrastructure for the next decade.
- The vibrancy of our country's local capital market is a reminder that this time-tested system of financing infrastructure dwarfs the supplemental efforts of the federal government.
- While federal money is undoubtedly a critical part of funding projects of national and regional importance, state and local communities will continue to need access to capital from investors in the municipal market.
- We know this market is important to us and you.
- For more than 40 years the MSRB has informed lawmakers about the market and continues to serve as an objective and neutral advisor.
- Given the policies on the federal table, we have a unique opportunity to communicate about the relevance of the municipal securities market.
- In their discussions about infrastructure, tax reform and the federal budget, policymakers cannot bypass, overlook or ignore this major capital market
- We all know that changes in federal policies can affect the cost for state and local governments to borrow in the capital market.
- The federal government can make decisions that shift or relieve the financial burdens of state and local governments.
- And federal policies can alter retail and institutional investor demand for municipal bonds, or shift the composition of that investor base.
- One of our goals here today is to help ensure that policymaking is executed with all these considerations in mind.
- Federal policies should not get in the way of the efficient capital formation.

- While we don't advocate other than in rare circumstances, we do inform the Administration and Capitol Hill so that they can create policies that facilitate capital formation for needed infrastructure.
- Coming out of this session today, we all can gain new observations about the choices that can be made.
- For more than 200 years the municipal securities market has relied on the principle that state and governments are best positioned to make decisions about the public projects they want to develop and to finance them.
- The municipal capital market has endured through centuries of change, but for the last 42 years the MSRB has been working to ensure a more transparent and efficient market.
- We appreciate your time and travel today and are pleased to offer you a neutral place to convene, discuss and learn.
- Please know that the MSRB and its resources are available to you at any time, should you need data or expertise on this market.
- We frequently field questions from academics and policymakers, and make it a priority to make our knowledgeable staff available.
- The EMMA website and the data on it are freely available, 24-7.
- The MSRB can respond to specific data requests and makes municipal market data available through subscription services.
- We can also provide you with municipal market statistics and our annual Fact Book is a terrific reference document.
- With that, let's get started.