

**Government Finance Officers Association
International City/County Management Association
National Association of Counties
National Association of State Auditors, Comptrollers and Treasurers
National Association of State Retirement Administrators
National Council on Teacher Retirement
National League of Cities
US Conference of Mayors**

April 14, 2011

The Honorable Darrell Issa
Chairman, Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Issa:

The organizations listed above, representing state and local governments, wish to set the record straight about the current status of the municipal bond market in relation to today's Committee's hearing, *State and Municipal Debt: Tough Choices Ahead*.

The facts about the current state of the municipal securities market are clear. As the Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs heard earlier this year, the rating agencies and other industry experts have stated consistently that it is highly unlikely that massive defaults will occur in the municipal securities sector, especially with state and local debt.

Specifically:

- No states have defaulted on their debt since Arkansas in 1933.
- Since 1970 only four local governments have defaulted on their bonds (excluding technical defaults).
- In 2010 there were fewer municipal defaults than the year prior.
- The historical default rate in the entire municipal sector is less than 1/3 of 1%, compared to a corporate default rate that exceeds 10%. (Fitch)
- Between 1970 and 2006, triple-A municipal bonds' default rate was 0% compared to a 0.52% default rate for triple-A corporate bonds. (Moody's)
- The recovery rate of payment for governmental debt exceeds the corporate recovery rate, with a recovery rate for general obligation and tax-backed debt at 100%.
- Debt service typically is only about 5% of the general fund budgets of state and municipal governments.
- Long-term debt is not issued for operating budgets but instead for capital projects that help governments pay for public projects, such as the construction or improvement of schools, streets, highways, hospitals, bridges, water and sewer systems, ports, airports and other public works.
- In many municipal bankruptcies, the jurisdictions have not defaulted on their debt/municipal bonds and have protected investors (including the largest in history—Orange County, CA in 1994).
- Most state and municipal governments operate under a standard practice of paying their debt service first before covering all other expenses; in some cases this is required by law or ordinance.

Additionally, although the Subcommittee in its previous hearings has linked the short-term post-recession fiscal challenges facing state and local governments with long-term issues such as public pensions and benefits. These two categories are distinct. There is not an immediate crisis related to public pension funding but rather it is a long-term concern, which state and local government leaders are addressing specifically for each entity. Recently 30 states and many local governments have made changes to their public pension plans.

Furthermore, state and local government officials neither seek nor want federal authority to declare bankruptcy or other specific 'bail out' legislation related to public pensions and the municipal securities industry. We simply ask that the federal government "do no harm" and not create additional unfunded mandates and burdens on state and local governments that would hamper their ability to recover from the recession as quickly as possible.

We would welcome the opportunity to discuss these issues with you in further detail.

Sincerely,

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International City/County Management Association, Beth Kellar, 202-289-4262

National Association of Counties, Mike Belarimo, 202-942-4254

National Association of State Auditors, Comptrollers and Treasurers, Cornelia Chebinou, 202-624-5451

National Association of State Retirement Administrators, Jeannine Markoe Raymond, 202-624-1417

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