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What Investors Look for When States Come to Market With Bond Sales

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Revenues, expenditures, pension liabilities and debt outstanding. Those might be the easier items that investors can evaluate when states release official statements for new bond sales. There's also the less tangible items, like states' willingness to pay back creditors. State credits have come under the microscope this year due to concerns about high fixed costs, budget impasses and concerns — whether realistic or not — that states may one day be able to file for Chapter 9 bankruptcy protection. Bloomberg Briefs talked to municipal investors and analysts about what the most important things are that they look at when states come to market.


Source: Eaton Vance

Craig Brandon, vice president at Eaton Vance Management:
"You ultimately want to look at the drivers of the state's economy. States are very large entities with a lot of levers to pull. Local governments have less levers to pull. States generally have broad economies, a relatively broad tax base, so I think when you're looking at a state like Illinois or Connecticut or New Jersey, some of these more difficult states, you want to look at what their economy looks like today and what their long-term economic outlook looks like. That's what drives both revenue and your spending."


Source: Carret

Neil Klein, senior managing director at Carret Asset Management:
"The first thing is we want to know about are population growth and the demographics of the state. The reason behind that is we know that as states, for example, are growing from a population perspective or demographic perspective, we can infer that revenues can grow. The big focus over the last several years has been outstanding debt as a percent of revenues. We know a lot of states are challenged from health care and pension perspective. We want to know there are suitable revenues to offset the negative things going on within a state."


Source: Sage

Jeff Timlin, managing director and portfolio manager Sage Advisory:
"You want to look at what Puerto Rico and Illinois have done for the last decade or two and find credits that have done the opposite. Find credits with lower credit risks... It's willingness to pay, that's what it comes down to in the end. We want to see that multiple administrations have done a good job balancing their budget and not utilizing debt financing or gimmicky accounting tricks to shift revenue from one year to another."


Source: MFS

Thomas Compton, research analyst at MFS Investment Management:
"A key trait we look for when evaluating state credit would be 'flexibility.' Does the state have the ability and willingness to bring revenues and expenditures into balance? We analyze this on a current year basis as well as assess the capacity to address longer-term liabilities, such as debt and pensions.


Source: Envision

Marilyn Cohen, president and CEO of Envision Capital Management:
"We look at how fiscally responsible the state has been. Do they have a rainy day fund? Have they paid it back?... And then last, but not least, I like to look at what the projected revenues are versus the realized revenues are. Is that state good at projecting? California has been off 1.2 or 1.5 percent. Some of the revenue projections are not coming to fruition. That's not a good sign, not in a decent economy."


Source: Gurtin

Tom Schuette, co-head of investment research at Gurtin Municipal Bond Management:
"We're certainly focusing a lot on pension burdens. But we're also looking at predictability and a trajectory that we can understand. That means we can see a path forward for a state solving any fiscal problems they have. Illinois and New Jersey, those are two states where I'm not saying they're not going to solve their problems, but I have a tough time sitting down and figuring out how they're going to do it. You need to see some sort of willingness to use the significant sovereign power at states' disposal."