



Brief Communication

July 27, 2010

Quick Links

[Free Newsletter](#)

[About Us](#)

[Our Website](#)

Dear Hildy,

Many of our clients have asked us about the risk of muni bonds defaulting as state and local government tax revenues decline. These declines are due to record unemployment and deflated real estate values, pushing tax collections to 2006 levels, according to the US Census Bureau.

Brief Communications are intended to address questions and concerns experienced by our clients. If you have specific questions you would like us to address, please ask [here](#).

Best regards,

Hildy Richelson, Ph.D.
215-646-7693

Thoughts on the Risk of Municipal Bond Defaults

According to William Selway of Bloomberg.com there is some good news for muni bond holders: "Lawmakers are willing to anger voters with reduced services and higher taxes to retain the favor of investors, who buy more than \$400 Billion of state and local debt each year to finance roads and bridges, pay for new schools and maintain parks and libraries," [No Defaults for States as California Favors Bonds Over Workers](#), William Selway, Bloomberg.com, July 14, 2010).

The bad news is that some municipalities are legislating tax cuts or tax caps that limit revenue increases. At the same time, they are renegotiating union pensions and benefits.

In a February 2010 report, Moody's stated that the average failure rate for investment-grade municipal debt from 1970 through 2009 was 0.03%. Although there were 54 municipal defaults in this period, only three were defaults of general obligation bonds backed by the full faith and credit of the issuers.

Most of the muni default events that have occurred since 2008 involved debt backed by specific revenue streams from failed projects (rather than by a government's obligation to repay investor from taxes). A typical example is bonds for a new Florida housing development that was never

completed. One exception is the city of Vallejo, CA that has been in bankruptcy proceedings for two years. Settlement there has been impeded by the Electrical Union that continues to appeal court rulings against them.

Selway states that "With the Federal Reserve keeping interest rates near zero, the cost of servicing debt hasn't grown more burdensome for governments." He cites a recent interview with Alan Krueger, assistant US Treasury Secretary for economic policy, "The problem of states is a problem of deficits, not debt. They have the ability to carry their debt."

Our philosophy has always been to seek out highly rated general obligation bonds, and bonds backed by revenue streams from essential services like water or sewer that generally carry the lowest risk of default. These are examples of what we call "plain vanilla" bonds in our bestselling book [Bonds: The Unbeaten Path to Secure Investment Growth](#), (Bloomberg Press, 2007).

Just click on the link below to forward this email to your family, friends and associates who might benefit from seeing this article. We would be pleased to set up a call to discuss our bond investment program with you or anyone you might refer to us.

[Forward email](#)

✉ **SafeUnsubscribe®**

This email was sent to hildy@allbondportfolios.com by hildy@allbondportfolios.com.
Instant removal with [SafeUnsubscribe™](#) | [Privacy Policy](#).

Email Marketing by



Scarsdale Investment Group, LTD. | 340 Miles Drive | Blue Bell | PA | 19422