Contents

Preface ix

Writer’s Acknowledgments xi

CHAPTER 1
Overview of the Municipal Bond Market 1
  Introduction 1
  The Issuers 4
  Municipal Bond Dealers 7
  The Lawyers 10
  Financial Advisors, Specialists, and Other Consultants 11
  The Rating Agencies 12
  Bond Brokers 13
  The Credit Enhancers 13
  The Trustees and Paying Agents 17
  The Investors 17
  Information and Technology 18
  The Regulators 19
  Other Participants 21

CHAPTER 2
The Basics of Municipal Securities 23
  Description of Municipal Securities 23
  Yield and Price 26
  Types of Yields 28
  Tax Exemption of Municipal Bonds 29
  Types of Municipal Bonds 35
  Short-Term Securities 36
  Other Characteristics of Municipal Bonds 45
CONTENTS

CHAPTER 3
The Issuers 55
   Introduction 55
   Authorities and Special Districts 56
   The Theory of Municipal Debt: Pay-As-You-Use versus Pay-As-You-Go 57
   The Uses of Municipal Debt 59
   The Security for Municipal Bonds 61
   The Financing Process 68
   The Financing Documents 71
   Structuring the Debt 81
   State and Local Government Accounting 87

CHAPTER 4
The Primary Market 93
   Issuance Trends in the Primary Market 93
   The Basics of Underwriting 96
   Negotiated Underwriting 101
   Competitive Underwriting 105
   Orders and Procedures 111

CHAPTER 5
The Secondary Market 117
   Introduction 117
   The Over-the-Counter Market 117
   E-Commerce, Information, and Technology 119
   Selling Municipal Bonds 121
   The Basics of Municipal Bond Trading 123
   Municipal Bond Trading 124
   How a Trade Is Done 128
   Municipal Futures 130
   Providers of Data in the Municipal Market 131
   Market Statistics and Indexes 132
   MSRB Record-Keeping Rules 136

CHAPTER 6
Investing in Bonds 139
   Introduction 139
   The Basic Principles of Investing in Bonds 139
   Measures of Yield and Return 143
   Yield to Maturity and Price 145
Contents

Investment Objectives 147
Risk Factors 148
Investor Strategies 150
Taxation of Municipal Bonds 152
Other Investment Factors 161
Investor Categories 163

CHAPTER 7
Credit Analysis 173
Introduction 173
The Rating Agencies 175
The Rating Process 176
General Obligation Bonds 179
Revenue Bonds 197
Other Factors Affecting Credit 207

CHAPTER 8
Understanding Interest Rates 211
Introduction 211
Determinants of the Overall Level of Interest Rates 212
Term Structure of Interest Rates 216
Municipal Bond Rates 221

CHAPTER 9
Regulatory and Disclosure Requirements 225
Introduction 225
The Basis of Federal Tax Exemption 226
History of Federal Tax Legislation Affecting Municipal Securities 228
The Current Statutory Exemption 230
Application of Federal Securities Laws to Municipal Securities 233
The Municipal Securities Rulemaking Board 239

CHAPTER 10
Financial Products 247
Introduction 247
Interest Rate Swaps 247
Interest Rate Caps, Floors, and Collars 252
Other Swap Products 253
Managing the Asset Side 253
Credit Default Swaps 254
CONTENTS

viii

APPENDIX

Municipal Securities Rulemaking Board Rule G-33 257

Glossary 265

Bibliography 283

Web Sites 283
Books and Publications 284

About the Writer 285

Index 287