

Congressman Gerald E. Connolly
Opening Statement
Financial Services Committee
Legislative Proposals to Improve the Efficiency and Oversight of Municipal Finance

Mr. Chairman,

Thank you for the opportunity to join you and the Committee as you take up what I believe to be critical legislation to shore up the financial health of our state and local government partners.

Mr. Chairman, you captured it best during our colloquy on the House floor in January when you called municipalities "the most sympathetic victims of this financial crisis" and you pointed out that the ability of local governments to fund necessary capital projects "has been impaired by factors well beyond their control."

After spending the last 14 years in local government in Fairfax County, Virginia -- just across the Potomac River -- I can attest to the fact that our municipal governments are among the safest of investments. They also are among the most effective engines for creating jobs on Main Street.

Whether it is building new schools, fire stations, water treatment plants, or repairing our nation's ailing transportation infrastructure, when jurisdictions float municipal bonds, they put people to work quickly and efficiently, and give a boost to the regional economy.

Capital outlays by states and localities exceed \$280 billion a year with nearly two-thirds of that sum -- \$180 billion -- being spent each year by localities on bricks-and-mortar projects. Yet, despite the historically solid performance rating and low default rate of munis, investors fled from the municipal bond market to U.S. Treasury notes following the economic meltdown last fall. As a result, the nation's 55,000 issuers of tax-exempt bonds, our state and local governments, are experiencing limited access to the capital markets due to the liquidity crisis.

Further complicating the issue is the fact that the private insurance market virtually disappeared overnight, eliminating a viable means of credit enhancement for our smaller muni issuers across the nation. The drying up of bond markets and lack of insurance created a double-whammy for many state and local governments that continue to grapple with tough financial choices caused by steep revenue shortfalls.

If Congress does not address this serious problem, we could wind up in a situation where this squeezing of the municipal bond market has a counteractive effect on the benefits of our hard-fought economic recovery package.

It is my firm belief that one of the primary vehicles for delivering on our pledge to turn the economy around will be our investments in state and local governments, but we first need to relieve the financial stresses faced by local and state governments.

Reviving the municipal bond market is a critical factor in this process.

As you know, earlier this year I introduced H.R. 1669, the Federal Municipal Bond Marketing Support and Securitization Act, as a way to kick off this very discussion.

Among other things, my bill would give the Treasury Secretary the authority, either directly or through the Federal Financing Bank, to provide credit enhancements to issuers or to outright purchase municipal bonds. It also would allow the Treasury to serve as the insurer of

last resort and to charge a modest premium so it could provide this service at little or no cost to taxpayers.

At its core, my proposal directs the Secretary of the Treasury and Federal Reserve Board to work together to strategically intervene in the municipal bond market to restore liquidity and spark local job creation.

I continue to hear from state and local government officials and industry representatives who say this is still a problem in search of a solution, particularly with respect to short-term variable rate debt.

As I have said since I got involved in the efforts to revive the municipal bond market, what is most important here is not which solution we pursue but that we do, in fact, pursue a solution. We need to resolve this matter whether it requires government involvement or a revival of the reinsurance industry.

The bottom line is let's *get it done* -- so municipalities, local authorities, and state governments can issue their bonds at a fair rate -- and help our nation move down the road to economic recovery.

I also want to congratulate the Chairman and his staff for drafting four pieces of thoughtful legislation to tackle this issue including, the regulation of financial advisors, the unfair treatment of munis by the ratings agencies, and measures to create new instruments within the Treasury and the Federal Reserve to provide targeted, short-term relief aimed at restoring liquidity to the market.

I look forward to today's robust discussion of the potential solutions that have been laid on the table. I am confident that in the end we will move legislation to the floor that will help revive the municipal bond market.

Again, Mr. Chairman, I thank you for including me in this critical discussion.

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