US CONFERENCE OF MAYORS IN SUPPORT OF STRENGTHENING MUNICIPAL FINANCE BY DRIVING DOWN FINANCIAL SERVICE FEES AND BORROWING COSTS[1]

WHEREAS, numerous American cities and towns rely on major financial service providers for managing financial accounts, structuring bond deals and the like; and

WHEREAS, municipal finance services in the US comprise a $4 trillion business;[2] and

WHERES, in many cases said services entail excessive cost impacts on municipalities;[3] and

WHEREAS, in 2012-13, one city alone paid financial service providers more than $204 million in fees, contributing to harmful reductions in municipal services;[4] and

WHEREAS. in 2012 another city paid financial service providers $193 million in debt service, equal to 19% of total municipal expenditures, much of it for toxic debt;[5] and

WHEREAS, major service providers in 2012 were forced to pay $673 million in restitution for systematic rigging of municipal bond auctions spanning ten years or longer;[6] and

WHEREAS, financial service providers have sold complex, substantially defective municipal financings while misrepresenting inherent and actual risks;[7] and

WHEREAS, such financial products include various interest rate swaps, pension obligation bonds, auction-rate securities, credit enhancements, capital appreciation bonds and, despite a municipal default rate of only 0.012% (1970-2012),[8] unreasonably high-interest financings;[9] and

WHEREAS, many such products and services may be inherently flawed and violate Rule G-17, the “fair dealing” rule of the Municipal Securities Rulemaking Board (MSRB);[10] and

WHEREAS, in the past three decades, outstanding US municipal bond debt has soared from $400 billion to $3.7 trillion,[11] a ninefold increase; and

WHEREAS, financial fees, not interest, may now comprise 70% of income at three of the largest municipal finance service providers, up from less than 45% in 1995;[12] and

WHEREAS, financial service fees charged municipalities are often exorbitant, arbitrary and unreasonable, bearing no relation to costs of delivering the respective services;[13] and

WHEREAS, this fee-based model enables financial service providers to profit even when municipalities suffer financially from certain types of deals and, in fact, to profit *especially* in such cases; and

WHEREAS, this model creates perverse incentives in certain cases for financial service providers to aggressively work against the best interests of municipalities and taxpayers; and

WHEREAS, municipal officials commonly believe they have little leverage and ultimately no alternative but to pay exorbitant financing and management fees;[14] and

WHEREAS, multiple attractive alternatives exist that can ease municipalities' dependence on predatory financial services;[15] and

WHEREAS, a pioneering city council voted to bar a major financial service provider from city business if this provider refused to release the municipality from a costly rate-swap arrangement;[16]

NOW, THEREFORE, BE IT RESOLVED, that the US Conference of Mayors does hereby condemn predatory financial service practices, products and fees; and does hereby insist that fees should bear a rational relationship to costs of providing the respective services.

BE IT FURTHER RESOLVED, that municipalities should seek to internally identify, and to voluntarily publish, their fee and interest payments for financial services and debt; examine past and present financing arrangements to detect any predatory features and their costs; and, via such means as renegotiation, seek to strengthen their finances by recovering public funds taken in unfair deals.

BE IT FURTHER RESOLVED, that municipalities should seek to explore making agreements among themselves to:

- act in concert against financial service providers that engage in unfair dealings with municipalities and related pension funds; and
- bar financial service providers engaging in unfair practices from doing business with participating cities and towns; and
- collectively bargain for more equitable, affordable deals with service providers; and
- explore municipalities establishing among themselves a common set of guidelines for efficient finance, thereby creating a de facto industry standard; and
- conduct business only with financial service providers that comply with said guidelines and that consent to be rigorously monitored for compliance; and
- explore establishing an independent entity answerable only to the municipalities themselves, said entity to oversee financial service providers' compliance with said guidelines; and
- explore more equitable, reliable and trustworthy financing and management models aimed at strengthening municipal finances, such as:
  - municipalities individually or collectively providing certain financial services themselves, either by hiring appropriate staff or sharing such staff with other municipalities; and
  - individually or collectively establishing their own public banks, such banks to potentially deliver a range of services to municipal administrations, pension funds, public agencies, local community banks and credit unions, local businesses and nonprofits, and taxpayers.

NOTES

1. The sponsoring Mayors of this resolution wish to thank Commonomics USA for editorial assistance; and Saqib Bhatti, director of the ReFund America Project and author of *Dirty Deals: How Wall Street's Predatory Deals Hurt Taxpayers and What We Can Do About It* (Roosevelt Institute, November 2014) for his extensive research and analysis; as well as the Nathan Cummings Foundation, whose vision and financial support made Mr. Bhatti's report possible.

2. *No Small Fees: LA Spends More on Wall Street Than Our Streets*, Fix LA Coalition, March 2014, p. 7.

3. Jef Feeley, "Ex-BofA Executive Pleads Guilty in Muni Bond Rigging Case", Bloomberg, February 10, 2014.

4. No Small Fees (ref.: Note #2), p. 4

5. *The Looting of Oakland: How Wall Street's Predatory Practices Are Costing Oakland Communities Millions and What We Can Do About It,* ReFund & ReBuild Oakland Coalition, June 2013.

6. Matt Taibbi, "The Scam Wall Street Learned From the Mafia," *Rolling Stone*, June 21, 2012.

7. Saqib Bhatti, *Dirty Deals: How Wall Street's Predatory Deals Hurt Taxpayers and What We Can Do About It*, Roosevelt Institute, November 2014, pp. 5-10.

8. *Municipal Bond Defaults Have Increased Since Financial Crisis, but Numbers Remain Low,* Moody's Investor Service announcement, May 7, 2013; cited in *Dirty Deals* (ref.: Note #7), "Credit Enhancements", p. 9.

9. *Dirty Deals* (ref.: Note 7), pp. 6-10.

10. Ibid., p. 7.

11. *U.S. Bond Market Issuance and Outstanding* (xls) - annual, quarterly, or monthly issuance to February 2014 (issuance) and from 1980 to Q4 2013 (outstanding) Updated 3/17/14; cited in *No Small Fees: LA Spends More on Wall Street Than Our Streets,* p. 9.

12. *Dirty Deals* (ref.: Note #7), p. 3.

13. *Dirty Deals* (ref.: Note #7), "Predatory Fees," p. 10.

14. Ibid., "Making Our Money Work For Us", p. 11.

15. Ibid., pp. 12-15.

16. Halah Touryalai, "City of Oakland Taps Occupy Wall Street To Take On Goldman Sachs," *Forbes,* July 11, 2012.