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October 6, 2011

The Honorable Elisse B. Walter
Member
United States Securities and Exchange Commission
100 F St NE
Washington, DC 20549

Re: Study of Municipal Securities Market

Dear Commissioner Walter:

I am a Managing Director of Public Financial Management, Inc. ("Public Financial").

I had hoped to introduce myself to you last week at the MSRB/SIFMA conference in New York to express Public Financial's interest in being a resource for the Commission's Staff in its preparation of the Study of the Municipal Securities Market ("Study") under your direction. I was a participant in one of the discussion panels that followed your introductory remarks. Because it was necessary for you to present your remarks by video conference, I did not have the opportunity to meet you, hence this letter.

By way of background, Public Financial is the largest financial advisor to local and state governments in the United States. We are registered as a municipal advisor with the Commission and with the MSRB. During 2010, Public Financial was engaged by the issuer or public finance agency as financial advisor in respect to an aggregate of 988 bond issuances with a par value in excess of \$57 billion, and we have maintained our leading position in 2011, as we have advised with respect to more bond issues for a greater principal amount than all other municipal market participants, including investment banking firms. Public Financial employs 279 persons in 28 offices throughout the United States. Public Financial's affiliate, PFM Asset Management LLC, is a registered investment advisor to governments and public service institutions, with approximately \$52 billion under short-term investment management.



I am taking the liberty of offering to make available to the Staff the resources of Public Financial's particularized experience in the municipal financial market and its perceptions of future developments. We do not suggest, of course, that we are disinterested in the conclusions of the Study, but we note that that is true of all participants, from whom the Staff must draw facts and ideas in a marketplace that may be generally unfamiliar.

To begin with, PFM has an unsurpassed knowledge of municipal financing vehicles, the interplay of the participants in a transaction (and, for want of a more precise financial term, the "rhythm" of a municipal securities financing), and the significant sets of alternatives that are available to be responsive to governmental capital needs, refinancing requirements, arbitrage and other requirements on the investment of proceeds, and the use of derivatives to structure both borrowing terms and reinvestment outcomes. And, within that enumeration of structural components, there are multiple tactical responses which make municipal finance a lifetime learning experience.

Second, we believe that it may be useful to the Commission and the Staff to have Public Financial available to discuss the economic interplay among participants in the municipal financing process. The path from the identification of a governmental capital project to the accomplishment of its financing is not linear. Although a professional team, once formed, generally works well in concert, there is significant economic and positional tension among municipal finance institutions. In the context most familiar to us as financial advisors, there complex interplays. Underwriters try to persuade municipal issuers that the issuer does not need a financial advisor. This is because the financial advisor makes its living both counseling potential issuers on the most effective debt profile and capital funding mix - - which often is not the same as proposed by the prospective underwriters, who have their eye on the new issue market - - and, as the Commission has recognized, negotiating for the issuer the best price for the securities, which directly affects the underwriters' profit. And when the issuer insists on having a financial advisor to argue its cause with the underwriter, the underwriter would prefer that that advisor be another broker, who next time may turn up in the underwriting syndicate with financial arrangements with other banks, rather than an independent firm, like Public Financial, which has no clients other than issuers.

For the lifetime of the securities laws, until now, the Commission largely could ignore those and other dynamics of the municipal finance process. It



was enough for the Commission to step in when something went seriously wrong - - by way of disclosure to investors or where brokers engaged in manipulative conduct, as in the yield-burning episodes of a decade ago. The Dodd-Frank Act has changed that landscape by broadening the securities regulators' charter to mandate the protection of issuers as well as purchasers and by calling for conduct rules to encompass brokers and the newly-classified municipal advisors. It will be necessary for the Commission, as the writer or arbiter of such rules to take account of the economic forces which shape the municipal bond market.

Public Financial believes that it has knowledge and perspectives that the Commission and Staff would find useful. We have in mind not only the concern of issuers to have an independent advocate in dealing with underwriters, as previously was noted, but recent structural changes in municipal finance - - such as substantial direct lending by banks, the reduced credibility of the rating agencies and the need to refinance unworkable variable-rate debt - - some which have little public visibility but all of which will have a lasting impact on the market.

I request that you afford me and Public Financial's Chief Executive Officer, John White, an opportunity to meet with you at your early convenience. If you would prefer, an initial meeting with the senior Staff preparing the Study would be entirely satisfactory to us. In the course of planning for either such meeting with your assistants, it will be possible for us to suggest attendees that are most useful for the Commission. In all events, we view our offer as a continuing undertaking to make our firm's experience and perspectives available to the Commission for so long as we may be seen as a helpful resource.

Thank you for your consideration.

Respectfully,

A handwritten signature in black ink, appearing to read "John A. Bonow", written in a cursive style.

John Bonow

JB:plj