Thank you for the privilege of participating in this event. It is an honor to be here. As a finance professor in the state of Alabama for the past 25 years, I would like to personally thank the SEC staff for maintaining an attractive environment in which my students may flourish in their various finance vocations.

In these opening remarks, I would like to make five brief points.

First, it is a given that the regulatory environment governs how municipal finance is practiced day-to-day, but what may not be obvious is that it also influences who chooses to enter this vocation. If the municipal finance landscape resembles a prison environment, then we should not be surprised that many highly ethical, competent, creative professionals opt for an alternative finance profession. If the financial landscape instead encourages innovation and creativity where self-enforcement is reliable, then we will observe more highly ethical professionals opting for the municipal finance profession.

Like most communities, self-enforcement is an excellent deterrent for criminals (we are in Alabama where hunting is very popular, giving pause to many would-be intruders). For example, if a large financial institution is found to have ravaged a specific municipality through malicious swap advice, then through industry-wide self-enforcement that particular financial institution must find itself unable to create demand for their services. This loss of market share, coupled with severe regulatory enforcement action, would provide a healthy deterrent. The municipal industry, perhaps through its professional organizations, should provide a clear message to those institutions that instigate harm on municipalities.

Second, there are at least three presuppositions for well-functioning financial markets, clear rule of law, clean property rights, and a culture of trust. Complex and ambiguous laws and regulations may result in tyrannical enforcement where particular regulators arbitrarily bring enforcement actions. Well-defined and well-protected property rights are essential for efficient financial transactions. Activities, such as rampant naked short-selling, should never have been permitted to flourish. A culture of trust cannot be legislated, rather it flourishes when nurtured from within. The CFA® Institute, through its Code of Ethics and Standards of Professional Conduct, is a great example of a professional association setting a very high bar within the finance community- which helps to build a stronger culture of trust.

Third, the municipal finance industry historically has demanded transaction-driven financial consulting. Consider the following analogy: Suppose I am experiencing heart problems (say pressure from appearing at a SEC Field Hearing) and have the choice of two different cardiologists. Dr. Red Cuttem only receives compensation if he conducts open-heart surgery. On the other hand, consider Dr. Green Soy who is paid for whatever services are provided, including her time for routine office visits. Who is more likely to provide the unbiased advice that diet and exercise is all that is needed? The municipal professional associations should be at the forefront of leading a cultural change. The municipal finance advisory providers will adapt their business model to whatever their customers demand.

Fourth, the optimal debt structure is somewhat unique for municipalities. For our purposes, it is important to note that the optimal quantity of municipal debt depends on whether you are the bond underwriter, the current elected official, or the tax-paying member of the municipality. The incentive to
borrow more than optimal exists for the underwriter and elected official. However, somehow the interests of the tax-paying member of the municipality need to be served.

Finally, the optimal maturity structure is also unique for municipalities. Existing elected officials as well as municipal bond underwriters may be tempted to push principal payments into the distant future. However, the lower cost and lower risk solution is likely to be shorter maturities. The municipal finance community must abandon their fixation on speculative, view driven, interest rate risk management. Rather, they should embrace the hedging and needs-driven approach used by most financial institutions (often termed asset-liability management).

In summary, the municipal finance industry is regarded as dubious by many finance professionals, there appears to be little downside risk for criminals, and no real representation of interests of the tax paying public. We must resolve the numerous existing structural problems in municipal finance so there exists an attractive environment for highly ethical, innovative and creative professionals to enter and serve the municipal finance industry. There are many young professionals today interested in public service. We should create an attractive environment for them to flourish.