Dear GFOA-PA members,

Summer has officially begun: the days are long and the sun is warm! Our Annual Statewide Conference in April was a huge success. I had the pleasure of presenting plaques of appreciation to Rick Grove and Marita Kelley for all of their hard work and dedication to our state board of directors, as well as presenting Terri Windstein with the Past President’s plaque for her leadership to this organization over the last two years. I extend my true appreciation to Judy Kording, her committee, and Atlas Management Resources for all of their hard work on this year’s conference.

With that said, we are already organizing the planning for next year’s conference! The committee for 2018 will be chaired by Bruce Koller. If you are interested in volunteering some time, please feel free to drop me a note.

If you ever have any thoughts, ideas, or concerns, please feel free to share them with me or any other board member. I can always be reached at nhiriak@umtownship.org or at (610) 205-8541.

Wishing all of you a happy summer!

Nicholas F. Hiriak
GFOA-PA President

In June, the Government Accounting Standards Board (GASB) released its second quarter issue of the GASB Outlook e-newsletter. This issue is available online, and you can subscribe to receive future issues.
SOME FACTORS AFFECTING A MUNICIPALITY’S BOND RATING

By David Fiorenza, Villanova School of Business

Since the GFOA-PA members are very capable of performing their fiscal duties, I wanted to write my first column as a refresher course, since your daily routine does get disrupted and you are pulled in several directions.

Most importantly, creditworthiness is of great interest to all public-sector entities. This creditworthiness is reflected in your bond ratings. Even if you never or seldom go to the bond market, creditworthiness is still important to the relationship you have with your banks and financial institutions. If you are experiencing a decline in your municipality’s economic health or stagnant growth, you should be concerned about any impact on future bond ratings.

Obviously, the fiscal health of your municipality is related directly to the various revenues it consistently receives and the money it expends for services, both operating and capital, and personnel. The fiscal capacity of a municipality is determined by the size of area that can be taxed or assessed some sort of fee. Since we rely heavily on property values, the level of sales, Act 511 taxes, wages for the Earned Income Tax, and to a lesser extent fees for various services, these revenue sources are a result of economic conditions in your municipality.

Some of the primary factors that need attention during a long-term rating period are population, income, employment levels, and their earnings for the rating agency’s credit analysts to absorb. Your goal is to have a very strong or extremely strong capacity to meet financial commitments. Additional long-term factors that should also be considered for preparation of a bond rating are type of sectors or employers in your jurisdiction, commercial vacancy rates, infrastructure, parks and recreation, and any other amenities. Is it better to have one higher paying employer in the community or a well-diversified group of employers offering a mix of wage levels, as seen in some boroughs in the Commonwealth? Boroughs that are part of the Main Street Program can draw on the Main Street Manager as they can be of assistance in the bond rating process. They should have the long-term trending demographic and housing data available for your financial reporting.

Financial reporting and the budget process is important to you, the municipality, and the elected officials. It can assist in the bond rating and in the Official Statement. If you able to complete a Comprehensive Annual Financial Report (CAFR), I strongly recommend it, even if you do not plan to issue debt in the next few years. The national GFOA website has useful information for bond ratings. Also, you can visit the Samples Policies and Procedures page of our GFOA-PA website for resources related to bond issues, debt, fund balance.
CUES MUNICIPAL MARKETS CAN TAKE FROM CORPORATE DRIP INVESTING PROGRAMS

By Mark H. Vacha, Cozen O’Connor

Introduction
Municipal markets can find inspiration in surprising places within the corporate sector if they know where to look. This article examines the popular corporate investment vehicle known as a dividend reinvestment program or dividend reinvestment plan (DRIP) with an eye toward its potential value in the municipal realm. While this is an equity concept and not without complications for the municipal sector, DRIP programs have some characteristics that could be desirable for municipal issuers and investors even if emulated only in part.

DRIP Program Basics
A DRIP is an equity investor option offered directly by the stock-issuing company. While the investor still earns dividends, he or she does not receive them as cash; rather, they are directly reinvested automatically in the company’s underlying equity securities. The investor will generally have tax liability on his or her dividend income, whether it is received or reinvested.

Designed to enable investors to grow their positions in an equity security on a continuous and gradual basis, DRIPs may or may not be free of charge by the issuer, but they do not involve brokerage fees because there is not a financial intermediary broker-dealer. DRIPs allow for an investment of odd-lot or partial portions in an equity security without the investor having to wait to accumulate sufficient funds to buy a full share of stock. This is a substantial program benefit considering, for example, the significant size to a modest retail investor of a minimum denomination for a bond and the common stock share price of many of the largest blue chip companies.

The DRIP Concept Applied to Municipal Markets
A municipal securities market DRIP analogue would likely work by having interest payments to investors immediately recommitted through some mechanism to the purchase of additional principal of a bond. Thus, the investor would still be holding its original principal investment and would have an additional principal holding tacked on. In some ways, this evokes the idea of capital appreciation bonds (CABs), particularly if the maturity date for the newly purchased principal and the originally purchased bond were the same. In such a case, an investor would be continuously making reinvestments of stated interest into principal of gradually shortening durations (i.e., from the respective points in time of reinvestments). This investment would differ from a CAB in that the new rate of interest on the additional principal presumably would be subject to prevailing market conditions at the applicable future interest payment/reinvestment dates (and would likely have to be set through an objective index or measurement) rather than accreting according to a yield formula known at the time of original issuance.

Alternatively, the reinvestment feature could involve the newly purchased principal amount having an incrementally extended maturity date (e.g., 6 months or so after the maturity date for the initial principal investment). That is, the maturities for the reinvested amounts could be made to have relatively consistent durations from the respective dates of reinvestment, thereby creating a type of laddering effect for an investor.

DRIP Characteristics May be Desirable for Municipal Sector Issuers and Investors
As the description above suggests, reinvestment mechanics and timing could become complex for a municipal bond DRIP analogue, and setting up a program would likely require the expertise of an investment banking firm and/or municipal advisor. However, the potentially desirable aspects of such a program for investors or issuers are more straightforward (albeit subject to overall market conditions and the particular needs of an issuer in light of its overall debt structure). The following are the most obvious potential benefits for a municipal DRIP analogue:

• The ability for issuers (or investors) to issue (or purchase) in small amounts with some predictable future inflows of capital (i.e., an in-
crease in holdings) due to the reinvestment features;
• Expanded access to smaller retail investors (due to, for instance, investing in odd lots and very small denominations);
• Potentially reduced or eliminated intermediary costs, and other costs of issuance over time, for both investors and issuers (albeit initial program set up costs may be somewhat larger);
• Dollar-cost averaging (from both an investor and issuer perspective);2
• Reduced shorter to mid-term cash flow requirements for issuers;3
• Compatibility of a DRIP program with internet offerings and crowdfunding techniques; and
• Potential for investors to have a DRIP investment without phantom income concerns.4

Some Initial Legal and Practical Considerations
The scope of this article is necessarily preliminary in nature, but the following are some basic practical and legal issues which municipal markets would have to consider before adopting a DRIP analogue:

• Managing the increase in principal outstanding due to the reinvestment feature for compliance with state law debt limits and the limitations of a particular ordinance or resolution’s authorization;
• Providing for a final maturity for the DRIP plan bonds due to state law limitations and ordinance/resolution parameters;5
• Managing capital plans and the spend-down of bond proceeds in connection with frequent new issuances of bonds (related to the reinvestment feature) for compliance with federal tax rules such as those against early issuances and over issuances and hedge bond rules;
• Determining the extent to which an issuer may have to assume responsibilities in the nature of an underwriter under SEC Rule 15c2-12, or otherwise under the securities laws, given that the issuer is arguably functioning as its own underwriter;
• Dealing with certain practical limitations, such as the likelihood that call features are not practicable (and somewhat contrary to the reasons an investor would want to invest in a DRIP), certain types of complicated
DRIP INVESTING, CONTINUED

finance plans would not be manageable (such as various refundings), and the DRIP securities would likely have limited liquidity due to inefficiencies for trying to accommodate trading in small positions; and

• Providing for periodic disclosure updates about the issuer (because the DRIP program is in the nature of a continuous offering of securities).

Concluding Thoughts
A municipal bond DRIP suggests new access possibilities for smaller retail investors and could possibly capitalize on crowdfunding and internet platforms for issuers and investors. Yet at the same time, a DRIP program offers the possibilities for a slow and steady tortoise-style approach that works gradually over long-term time horizons for market access. To the extent DRIP-inspired concepts could take hold in the municipal sector, they would most likely be employed in the narrow, but still useful, context of financing discrete portions of capital improvement programs gradually over time.

1 This discussion of DRIPs is gathered from general public sources and is intended for background for the analogy in this article suggested for municipal securities. It is not intended to be oriented for corporate DRIPs in and of themselves.

2 Over the last several years, dollar-cost averaging has been a smaller concern for issuers due to generally low and favorable rates.

3 However, this requires larger debt service payments (at least in nominal terms) in the future.

4 This benefit flows from the likely tax-exempt status, for federal and state income tax purposes (in the issuer’s home state), of the interest payments to be reinvested.

5 This is a significant difference from equity securities, which theoretically could be held for the life of a company.
FOMC and Interest Rates
Fed Lifts Benchmark Rate for Third Time in Six Months
At its June 14 meeting, the Federal Reserve raised its benchmark lending rate a quarter point to a range of 1.00% – 1.25%. Federal Reserve statements after its meeting conveyed its determination to raise rates one more time in 2017 and three more times in 2018, even as some investors expect slowing inflation to derail additional rate moves. New York Federal Reserve President William Dudley continued the rate hike rhetoric during his speech on June 20, suggesting that recent reports of slowing inflation haven’t caused any worries at the Fed. Mr. Dudley went on to state that he was “very confident” that there is “quite a long ways to go” in the economic expansion, already the third-longest in U.S. history. U.S. interest rates have risen sharply over the last 7-8 months, but have stabilized recently as markets focus on muted inflation data and modest U.S. economic growth.

The U.S. Economy
Continued Moderate Growth
Global economies and market prospects have improved, while the outlook for the U.S. economy is less certain. The improvement in European markets gained some momentum from Emmanuel Macron’s victory in the French presidential election as it calmed populism fears in Europe. Meanwhile, U.S. markets are increasingly focused on whether the Trump administration can put forth workable policies that promote economic growth as it is bogged down with numerous domestic and international issues. U.S. real domestic product (GDP) grew 1.2% in the first quarter; while personal consumption and business investment, specifically fixed investment, accelerated the most since 2012. The Fed projects 2% growth during the next few quarters as the low, near historic unemployment rate at 4.3% buoyed both consumer and business confidence, which it believes will rejuvenate price pressures. Both the Dow Jones and S&P 500 stock indexes hit records as technology stocks have risen 16.43% as of June 23, leading both indexes and creating over $3 trillion in wealth. Upward momentum in new home sales resumed last month as mortgage rates fell below the peak in March. New home supply is desperately needed in many parts of the country as inventory scarcity has pushed prices beyond the reach of many first-time buyers.

How Higher Interest Rates Can Affect Public Funds Investors
Short-term rates have risen very sharply over the last year. Three Federal Reserve rate hikes, the potential for another rate move in 2017 and additional moves in 2018, if they occur, will push rates higher. Attractive rates on investments, approved with the enactment on May 24, 2016, of PA Act 10, provide an excellent opportunity for public funds investors to earn increased interest income on investable funds within their liquidity needs. Public funds investors can take advantage of both higher investable rates and low borrowing costs.

Michael R. Varano is a managing director at PFM Asset Management and portfolio manager for the Pennsylvania Local Government Investment Trust (PLGIT).
The 111th Annual GFOA Conference was held in Denver, CO, from May 21-24, 2017. More than 4,500 delegates attended this year. There were a number of pre-conference sessions on Friday and Saturday for early attendees. The opening session on Monday morning featured keynote speaker Jim Collins, who was a great motivational speaker. He focused on establishing a vision, building a great organization, and developing leadership behaviors that are necessary in a world beset by turbulence, disruption, uncertainty, and dramatic change. His session hit a home run for those attending that are from small governmental agencies, with regard to the current state of politics in the country and world today.

The sessions scheduled for Sunday, Monday, Tuesday, and Wednesday focused on a variety of topics and were well distributed so that any attendee could find a session to learn and share knowledge. The conference allowed for adequate free time to connect with other GFOA-PA members or to explore the Mile High City. It was a great experience, and I thank GFOA-PA for the opportunity to attend.

At the annual conference, the new GFOA president was introduced to all attendees. The new president is Patrick McCoy, director of finance for the Metropolitan Transportation Authority, New York. In addition, new board members were introduced. They are as follows: President Elect – Steven Gibson, Assistant City Manager, City of Rock Hill, SC, and board members Michael Bryant, Management & Budget Director, County of Mecklenburg, NC; Veronica Carrillo, Fiscal Administrator, City of San Antonio, TX; Deborrah Cherney, Deputy General Manager, Eastern Municipal Water District, CA; Glen Jarbeau, Finance Manager, City of Spruce Grove, Alberta Canada; and Andrew Scott, Budget Director, City of Portland, OR.

Best wishes to the new president and his board. It’s a lot of work, but very rewarding, and we wish you the best as you prepare for the 112th annual conference in St. Louis, MO.

National Representative’s Report

By Judy Kording

The 111th Annual GFOA Conference was held in Denver, CO, from May 21-24, 2017. More than 4,500 delegates attended this year. There were a number of pre-conference sessions on Friday and Saturday for early attendees. The opening session on Monday morning featured keynote speaker Jim Collins, who was a great motivational speaker. He focused on establishing a vision, building a great organization, and developing leadership behaviors that are necessary in a world beset by turbulence, disruption, uncertainty, and dramatic change. His session hit a home run for those attending that are from small governmental agencies, with regard to the current state of politics in the country and world today.

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Best wishes to the new president and his board. It’s a lot of work, but very rewarding, and we wish you the best as you prepare for the 112th annual conference in St. Louis, MO.
Welcome New Members
(March 22, 2017 – June 12, 2017)

Kojo Asiedu
Raymond Jones

Brian Bond
Borough of Stroudsburg

Donna Brobst
Central Bucks Regional Police Dept.

Ruth Casterline
Athens Township

Bikram Chadha
PFM Asset Management, LLC

Kerry Eltman
Borough of Downingtown

Michael Glackin
INR Advisory Services

Leonard Gricoski
Whitemarsh Township

Jeff Hugo
INR Advisory Services

Ryan Jeroski
Peters Township

Melissa La Buda
Philadelphia Water Department

Sandy Ratcliffe
Springettsbury Township

Alicia Robertson
Philadelphia Water Department

Jaclyn Rogers
Philadelphia Water Department

Carolyn Strunk
Borough of Franklin Park

Carolyn Thompson
PSDLAF

Central Region
Rick Grove, Regional Chair

The second educational session of 2017 was held June 15 at the offices of Maher Duessel in Harrisburg. The topic was economic development and residential/commercial grant aid, conducted by excellent speakers from DCED and the York Planning Commission. Many in attendance said they have refocused their financial planning outlook because they had underestimated the value of this information for their governmental operations.

A third education session will be held the morning of November 17 on the topic of risk and loss assessment. The location will be determined.

Central is pleased to announce the appointment of Sara Brensinger, of Adams County, to fill the spot left vacant by Roberto Rivera, who left local government. In other news, the scholarship committee is finalizing their design efforts in what is likely to become the region’s first scholarship program.

West Region
Judy Kording, Regional Chair

The GFOA-PA west region sponsored a joint session with the WPMM with the topic of “Succession Planning.” There were more than 24 attendees, and the session was great. We are hoping to coordinate a session on contract negotiations in the month of July. A session is scheduled for August 24 with the topic “Understanding your Financial Statements,” followed by a night at PNC Park for a 4:05 p.m. baseball game.

In other news, board member Dan Berty has agreed to serve as captain of the GFOA-PA west traveling bowling team. The “GOFFER” team will travel the state and challenge school board business managers to a fun game of bowling, followed by a good fellowship at a local pub featuring pizza and brews. If you are interested in joining this fun team, please email Dan at: DBerty@ross.pa.us. Dan has also offered to show any interested GFOA member his video presentation of his recent African safari with a focus of African elephants.

The GFOA-PA west board wishes everyone a safe and fun filled summer.
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