

## Municipal Market Newsletter – May 2018

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This newsletter is a compilation of activities and developments that have taken place in the domestic and global Municipal Government / Urban Local Bodies (ULB) space over the past month.

Despite their administrative importance in India, revenues of Urban Local Bodies only account for Rs 1,50,000 Cr or under 1% of national GDP, according to the NITI Aayog. Municipal bonds are slowly gaining traction as an alternative source of revenue due to their longer maturities, annual payment structures and fixed coupon rates.

### Municipal Governments: Initiatives and Reforms

- **Chandigarh MC Financial Crisis** (Source: Indian Express, 15 May 2018)  
Chandigarh municipality is facing heavy financial pressure due to pending liabilities (Salaries, pensions etc). Despite receiving grants in aid, the body is suffering from a shortfall of at least Rs 54 crore. Development work in the city has also stalled due to a delay in payments to contractors. To meet the gap, the civic body has demanded the implementation of Delhi Finance Commission's revenue sharing recommendations, which would provide Chandigarh with approximately an additional Rs 650 crore annually.
- **GHMC to Invest in Public Securities** (Source: Telangana Today, 13 May 2018)  
The Greater Hyderabad Municipal Corporation is exploring ways to raise revenue by investing in public securities, due to the additional burden of General Provident Fund (GPF) payouts for employees, on account of falling bank interest rates. This no longer enables the municipality to service its obligations via bank savings. GHMC is expected to become the first municipal in the country to invest in public securities.
- **Better Disclosures Key To Developing Municipal Bond Market In India** (Source: BloombergQuint, 09 May 2018)  
A leading international rating agency pointed to low transparency among municipal bodies as being a key feature responsible for low activity in the municipal finance market. Caps on interest rates that municipal bodies can offer also contribute to the weakened interest in the market.

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- **City Resources have Vast Potential for Municipal Finance** (Source: Financial Express, 25 April 2018)

Despite having potential to raise revenue through fees, taxes and other charges, the proportion of municipal finances in GDP have been steadily declining. Municipalities have been facing significant stress in revenue generation (1.7% of India's combined intergovernmental revenue), which is much lower than the global average of nearly 13%. To aid local bodies in raising more revenue, it has been suggested that there be: a) A separate list of local taxes be defined, b) Synchronization of state finance commissions and union finance commission, c) Implementation of a double entry accounting system, and d) Fiscal devolution should be linked with administrative performance.

## Global Developments

- **Greater Transparency in US Municipal Bond Market** (Source: Bloomberg, 11 May 2018)

The Municipal bond market in the USA attracts significant demand from retail investors, especially due to the tax benefits they stand to receive. To bring about greater transparency, the regulators have made it mandatory that brokers disclose specific fees during the sale or purchase of securities. This rule has come in to effect from 14<sup>th</sup> May 2018. Policy makers hope that greater disclosure by brokers within the \$3.9tn market, would result in greater competition and lead to an overall reduction in costs.

- **Blockchain Municipal Bond Plan Inches Forward With Berkeley Vote** (Source: BloombergQuint, 08 May 2018)

Berkeley city has begun evaluating the feasibility of a pilot to sell municipal bonds secured via block chain technology. The proceeds of the program will be utilized for community projects, and will be sold as mini municipal bonds (at a smaller ticket size than would usually apply).

- **Hacking Threats in Municipal Finance** (Source: The Bond Buyer, 03 May 2018)

In the last two years, several American cities have found ports, tax systems and water payment systems vulnerable to cyber-attack – potentially costing cities millions of dollars to restore services. Increasing ransom-ware attacks on US municipalities have prompted senior officials to take protective measures, and have begun to assess the risks of cyber-attacks on municipal services and financial credibility.

In response to this growing threat, Los Angeles established an LA CyberLab to protect critical infrastructure and businesses against cyber criminals. The city of New York has also allotted additional budgetary space to ratchet up cyber security projects.

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