Coronavirus: Gauging the Impact of Economic Dislocation on U.S. State Tax Revenues (Comparing Differences Between States and Incorporating the Impact into Ratings)

Read the Fitch Special Report.

Fri 17 Apr, 2020 – 3:47 PM ET

S&P: Tax Filing Extensions Create Liquidity Issues For U.S. States

Key Takeaways

- Every state that levies an income tax has adjusted the tax filing date.
- With 25 states receiving more than 50% of operating revenues from income taxes, any interruption could be meaningful.
- The full extent of lost revenues will not be known for months, but will be felt in state budgets for years.

Postponement of state April 15 income tax filing deadlines, announced by every state that imposes an income tax, creates a temporary deferral of revenue that for at least some states is likely to be near in magnitude to the separate amount of potential permanent tax loss caused by the pandemic related economic slowdown. Unfortunately, this will create additional problems for state liquidity, creating uncertainty and challenges in revising fiscal 2020 and 2021 revenue forecasts, as separating out temporary income tax deferrals compared to the permanent loss due to economic activity will be difficult.

Primarily derived from the calendar year 2019 tax filing period, fiscal 2020 income tax payments are not likely to change much, aside from the time of receipt. However, receipts in the three remaining months of most states' fiscal 2020 will not be immune to recessionary pressures, as the monthly wage withholding receipts will be reduced in the current fiscal year due to the sudden spike in unemployment induced by the social distancing measures throughout the economy. The full effect of the permanent loss of income tax revenue collections caused by the recession will not be known for months, but will primarily be reflected in fiscal 2021.

Continue reading.

Fitch U.S. Public Finance First-Quarter 2020 Rating Actions.

Link to Fitch Ratings' Report(s): [U.S. Public Finance Rating Actions Report & Sector Updates: First-Quarter 2020]

Fitch Ratings-New York-09 April 2020: Overall Ratings Stability with Upgrades Outpacing Downgrades
In 1Q20, Fitch Ratings upgraded 18 U.S. public finance ratings and downgraded 12 compared to 54 upgrades and 35 downgrades in 4Q19. Annual upgrades have exceeded downgrades for the sixth year since 2008. Upgrades represented approximately 2.2% of all rating actions in 1Q20, while downgrades represented approximately 1.5%.

Outlooks Trend Mixed with Increase in Negative Watches
There were 92 Positive Rating Outlooks and Watches and 126 Negative Rating Outlooks and Watches in the portfolio as of quarter-end 1Q 20 compared to 93 and 105, respectively, in 4Q19. The increase in Negative Watches was partially driven by coronavirus-related reasons. Positive Rating Outlooks and Watches accounted for approximately 3.2% of the U.S. public finance portfolio and Negative Rating Outlooks and Watches represented 4.3%.

Coronavirus Impact
As of 1Q20 quarter end, Fitch had placed one state rating (Alaska) and 13 local government ratings on Rating Watch Negative due to coronavirus-related credit impacts. Unprecedented effects of the coronavirus on the economy and operating environments will continue to create downward rating pressure throughout 2020, especially for the tax-supported, healthcare and higher education sectors. Fitch will continue to monitor the rapidly evolving situation with additional rating actions and analysis.

Criteria News
Fitch released its updated criteria for housing finance agencies in February 2020 and its finalized criteria for affordable housing in March 2020. Finalized tax-supported criteria were released in January 2020 and revisions to Fitch's tax-supported, revenue-supported, public power and colleges and universities criteria were published in March 2020.

"U.S. Public Finance Rating Actions Report & Sector Updates: First-Quarter 2020" is available at www.fitchratings.com.

Contact:

Arlene Bohner
Managing Director, Head of U.S. Public Finance
+ 212 908-0554
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com.

[S&P: How The U.S. Municipal Housing Sector Is Bracing For COVID-19]

[Related Impact]

Table of Contents

Key Takeaways

- The sudden economic stop has created a backdrop of uncertainty and volatility.
- Unemployment, coupled with eviction and mortgage foreclosure moratoriums, will stress the housing sector, particularly housing finance agencies (HFAs) and stand-alone multifamily properties.
- Age restricted properties in particular could face pressure on net operating income due to extended vacancies and higher expenses from the pandemic.
- Liquidity will be key to navigating through any interruption or decrease in revenues for HFAs, community development financial institutions (CDFIs), and multifamily property owners.

Continue reading.

S&P Outlooks On Four U.S. Muni Retail Electric, Gas Utilities And Electric Coop Utilities Revised To Stable From Positive

NEW YORK (S&P Global Ratings) April 16, 2020–S&P Global Ratings today revised the outlooks on certain long-term debt ratings in the U.S. Public Utilities sector to stable from positive. S&P Global Ratings has affirmed the ratings and revised the outlooks to stable from positive on the following public utilities: Bryan Texas Utilities (BTU) electric system, Garland Power & Light (GP&L) electric system (both in Texas), Georgia Transmission Corp. (GTC), and Southern Illinois Power Cooperative (SIPC).

The outlook revisions to stable from positive of each issuer follows our updated overall view of the Public Utilities sector due to the COVID-19 pandemic. We believe credit quality among U.S. municipal retail electric and gas utilities and electric cooperative utilities will be pressured, as these utilities are increasingly vulnerable to the potential economic effects of the pandemic. In our view, widespread efforts to stem the spread of COVID-19 and protect the population’s health and safety, which we view as a social risk under our environmental, social, and governance (ESG) factors, could lead to budgetary challenges and pressure cash flows and liquidity.

The stable outlooks reflect our view that each utility will be able maintain its current rating despite the challenges presented by COVID-19. Specifically, we believe that each utility’s revenue stream is primarily residential and provides a more predictable revenue stream compared to utilities with significant commercial and industrial revenue concentration. Other factors that support the stable outlook include each utility’s robust liquidity position that can help cushion the effects of budget variances. In addition, the cooperative utilities benefit from serving extremely diverse revenue streams across numerous counties.

Continue reading.

S&P U.S. State Ratings And Outlooks: Current List

View the list.

S&P History Of U.S. State Ratings.

View the list.

S&P: Outlook Revised To Stable From Positive On Tax-Secured Debt Ratings Of Local Governments On Deep Economic Contraction

CENTENNIAL (S&P Global Ratings) April 17, 2020–S&P Global Ratings revised its outlook to stable from positive on certain long-term and underlying ratings on local governments with outstanding tax-secured debt due to heightened risks on various credit factors caused by the COVID-19 pandemic and related recession (see list below).

The outlook revisions to stable from positive reflect our view that previous upward momentum will likely be stunted by the broad challenges facing these organizations due to the COVID-19 pandemic and recession. While we no longer think a higher rating is likely during the outlook period, we consider these local governments' ratings stable at this time. A stable outlook reflects our view that the rating is unlikely to change during the outlook period, which is up to two years.

As described in our article, "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect, the recession's trajectory is much deeper and faster than previously anticipated. S&P Global Economics now projects that the U.S. GDP will contract by 5.3% in 2020. Though we expect the economy will begin to recover in the second half of 2020, we anticipate that the recovery will be gradual and constrained by some form of continued social distancing as fears persist over the continued spread of COVID-19. Given this rapid and severe economic shock, we believe upward rating movement is unlikely over the intermediate term.

Continue reading.

S&P: Outlook Revised To Stable From Positive On Eight Affordable Housing Issues Due To Pandemic Uncertainty

NEW YORK (S&P Global Ratings) April 14, 2020–S&P Global Ratings revised the outlooks on 13 long-term ratings associated with eight affordable multifamily housing transactions to stable from positive.

The revised outlooks follow our updated assessment that U.S. unemployment could approach 20 million by May, due to government measures to mitigate the community spread of COVID-19.

We view uncertainty regarding the timing and duration of the spread of the virus throughout the country as a health and safety social risk under our environmental, social, and governance factors.

Continue reading.

[S&P Criteria | Governments | U.S. Public Finance: Methodology For Rating U.S. Public Finance Rental Housing Bonds]

Table of Contents

OVERVIEW AND SCOPE

1. These criteria outline S&P Global Ratings' methodology for rating bonds backed by rental income from residential properties that serve a public purpose in the U.S. (rental housing bonds). All terms followed by an asterisk are defined in the glossary (see Appendix A). We intend the methodology to be read in conjunction with the related guidance (see "Guidance: Methodology For Rating U.S. Public Finance Rental Housing Bonds," April 15, 2020).

2. In particular, our definition of rental housing bonds includes bonds backed by revenues from:

- Affordable multifamily housing* (including mobile home parks);
- Age-restricted independent* or assisted-living* rental housing;
- Privatized military housing*; and
- Pools* of loans secured by affordable multifamily housing.

3. The methodology does not apply to:

- Continuing care retirement communities (CCRCs) or multifacility organizations where CCRCs comprise the majority of the organization. These organizations are operating entities, and require a different approach to the project-based framework described in this methodology. They are rated based on "Senior Living" criteria, published June 18, 2007;

- Securitizations backed by multifamily properties where the provision of affordable housing is not a primary driver of the development, which are rated under "Rating Methodology And Assumptions For U.S. And Canadian CMBS," published Sept. 5, 2012; and
- Federally enhanced housing bonds (FEH bonds) (housing bonds where full credit enhancement from U.S. federal government agencies is available on the mortgage loans, mortgage-backed securities, or directly on the FEH bonds), which are rated under "U.S. Federally Enhanced Housing Bonds Rating Methodology" published Nov. 12, 2019.

Continue reading. (Registration required.)

S&P Guidance | Criteria | Governments | U.S. Public Finance: Methodology For Rating U.S. Public Finance Rental Housing Bonds

Table of Contents

OVERVIEW AND SCOPE

1. This document provides additional information and guidance related to our criteria, "Methodology For Rating U.S. Public Finance Rental Housing Bonds," published April 15, 2020. It is intended to be read in conjunction with those criteria. For a further explanation of guidance documents, please see the description at the end of this article.

2. The first section includes general guidance applicable across all transaction types in scope of the criteria. Subsequent sections provide further detail on the specific application of the methodology to each property or transaction type. In particular, we detail the application of the adjustment in our coverage and liquidity reserves assessment to reflect our expectation of stability or volatility of net cash flows (hereinafter, the "volatility adjustment"). We also explain the relative importance of different sub-factors in our management and governance and market position assessments.

Continue reading.

S&P RFC Process Summary: Methodology For Rating U.S. Public Finance Rental Housing Bonds

Table of Contents

- Written Comments Received From Market Participants That Led To Significant Analytical Changes To The Final Criteria
- Written Comments Received From Market Participants That Did Not Lead To Significant Analytical Changes To The Final Criteria
- Other Substantive Feedback Received From Market Participants That Led To Significant Analytical Changes To The Final Criteria
- Significant Analytical Changes To The Final Criteria That Did Not Arise From Feedback Received From Market Participants
- Significant Changes To The Guidance Document

On Nov. 4, 2019, S&P Global Ratings published a request for comment (RFC) on its proposed revisions to the approach it uses to rate U.S. Public Finance Rental Housing Bonds.

Following feedback from market participants, we finalized and published our criteria, titled "Methodology For Rating U.S. Public Finance Rental Housing Bonds," on April 15, 2020. We also finalized and published the guidance article "Guidance: Methodology For Rating U.S. Public Finance Rental Housing Bonds," to explain how we apply the final criteria. This guidance article is not criteria, but it is intended to be read in conjunction with the final criteria. For further information regarding guidance documents, please see "Criteria And Guidance: Understanding the Difference," published Dec. 15, 2017.

We'd like to thank investors, issuers, and other intermediaries who provided feedback. This RFC Process Summary provides an overview of the written comments and certain other feedback we received from the market on the proposed criteria, the significant analytical changes we made to the proposed criteria following the RFC period, and the rationale for those changes.

Continue reading.

S&P: Certain U.S. Rental Housing Bonds Ratings Placed Under Criteria Observation Following Criteria Revision

FARMERS BRANCH (S&P Global Ratings) April 15, 2020–S&P Global Ratings today added its under criteria observation (UCO) identifier to certain U.S rental housing bond transactions. These ratings have the "UCO" label in the Regulatory Identifier column on the individual transaction pages of S&P Global Ratings online credit rating products. The UCO identifier indicates a rating that could be affected by a published change in criteria (see "Standard & Poor's Announces "Under Criteria Observation" Identifier For Ratings Potentially Affected By Criteria Changes," published May 7, 2013).

On April 15, 2020, we published our "Methodology For Rating U.S. Public Finance Rental Housing Bonds." The criteria became effective immediately upon publication.

The UCO identifier will remain in place until the conclusion of the review under the changed criteria for all of the affected ratings, at which time the ratings may be affirmed, changed, or placed on CreditWatch. The UCO identifier does not modify any rating definition, nor is it equivalent to a CreditWatch placement. S&P Global Ratings expects to review the ratings identified as UCO within six months of the criteria's effective date.

Continue reading.

S&P Credit FAQ: How S&P Global Ratings' Revised Criteria Look At U.S. Public Finance Rental Housing Bonds

Frequently Asked Questions

Why is S&P Global Ratings publishing new criteria at a time when the COVID-19 pandemic is creating substantial uncertainty across all sectors?

We are monitoring the impact of COVID-19 on rental housing bonds and believe that the new criteria provides a better framework to capture any resulting developments in our ratings. In particular, relative to our previous criteria we believe that the revised criteria better captures emerging instability and the volatility in cash flows that rental properties may experience as a result of COVID-19 and future exogenous events.

How will S&P Global Ratings apply the revised criteria to reflect developments related to the COVID-19 pandemic in its ratings on rental housing bonds?

In comparison to the previous criteria, the revised criteria include a tighter calibration of debt service coverage ratio bands used to arrive at the initial coverage assessment, and the ability to adjust the initial coverage assessment to account for an expectation of deteriorating financial performance or volatility risks for a particular development or type of property. We believe that these changes will allow us to better differentiate our ratings on the basis of credits' relative sensitivity to emerging volatility risks, and to do so in a manner more timely than under our previous criteria.

Why did S&P Global Ratings remove privatized student housing transactions from the scope of the final criteria?

We have removed from the scope of the proposed criteria privatized student housing transactions, which are currently analyzed under separate criteria. We did not expect significant rating impact from the criteria revision for these credits. However, the COVID-19 crisis has had a significant and immediate impact for these credits. On March 25, we revised our outlook to negative on all U.S. higher education privatized (off balance sheet) student housing projects in the wake of the COVID-19 pandemic and the uncertainties surrounding the ultimate economic fallout. This affected 63 ratings (see "U.S. Higher Education Privatized Student Housing Projects Outlook Revised To Negative On Potential COVID-19 Impact," published March 25, 2020).

What types of issues are still in scope?

Ratings on bonds backed by rental income from residential properties that serve a public purpose:

- Affordable housing (including mobile home parks);
- Age-restricted independent or assisted-living rental housing;
- Privatized military housing; and
- Pools of loans secured by affordable multifamily housing.

What are the primary new features of the criteria?

- We are increasing the importance of debt service coverage in our overall assessment of credit quality by weighting the coverage and liquidity factor at 50% of the anchor.
- We are also introducing new adjustments to account for cash flow volatility and liquidity risks that

better capture forward-looking financial performance.
- We are revising the debt service coverage bands, requiring a higher level of coverage at the lower end of the range.
- Our assessment of management includes a broader, more flexible and qualitative evaluation of management's operational effectiveness with less reliance on portfolio size and years of experience.
- For stand-alone transactions we have shifted the focus of our analysis of financial strength to borrower default risk through the coverage and liquidity factor assessment from liquidation value assessed through S&P Global Ratings-calculated loan-to-value derived through application of our Commercial Mortgage Backed Securities (CMBS) criteria.
- We will adjust downward to equalize ratings on all but the most junior tranche in transactions that include structural features that diminish or eliminate the benefits priority of payment to senior bondholders, such as a springing lien provision.

Which sectors are expected to be affected by this new criteria?

We have published a list of 110 ratings that will be put under criteria observation for review (see "Certain U.S. Rental Housing Bonds Ratings Placed Under Criteria Observation Following Criteria Revision") within the next six months. The list primarily includes unenhanced affordable housing transactions, and age-restricted housing. We recently revised the outlook to negative for 16 affordable senior housing ratings, resulting in all ratings in the subsector having a negative outlook or on CreditWatch (two ratings) due to concerns regarding the COVID-19 pandemic and its near term effect on occupancy and increasing expenses. More about the outlook change can be found here.

This report does not constitute a rating action.

Nuveen Accused Of 'Threats And Lies' - Which Is Why NEA And Its Municipal Bond CEFs Are Great.

Summary

- Nuveen has recently lost a court case accusing it of disrupting a competitor's business.
- Paradoxically, them losing this court case is a very bullish signal for Nuveen's muni bond CEFs.
- Understanding this story can help retail investors understand why muni bond CEFs are superior to buying individual muni bonds.

An interesting lawsuit in the municipal bond market has uncovered exactly how and why many debt CEFs can crush their indexes, and why this fact is likely to remain true for a long while to come.

The story revolves around Nuveen Asset Management and its attempts to get all of the major investment banks in America to not do business with an upstart that was disrupting Nuveen's business model as it functions in the muni bond world.

Understanding the details of this case is critical for understanding why CEFs are a much, much better vehicle for buying municipal bonds (as well as several other assets). But in addition, this case is really interesting, as it uncovers some of the tricks of the trade that asset managers use to win.

Continue reading.

Seeking Alpha

by Michael Foster

Apr. 14, 2020

[Bonds Started to Falter. Then, the Fed Came to the Rescue.]

Core bond funds have made money for investors, but it has been anything but an effortless ride.

When seen from a distance, core bond funds lately have had the deceptive appearance of ducks serenely gliding along the waters' surface.

They've made money for investors. The largest bond mutual fund and exchange-traded fund — the Vanguard Total Bond Market Index Fund and the iShares Core U.S. Aggregate Bond E.T.F. — both gained more than 2 percent for the first three months of the year.

But that belies a two-week period in March when every corner of the bond market was furiously paddling to stay afloat. It's worth looking closely at what happened, to be prepared for the possibility of further shocks in the future.

Continue reading.

The New York Times

By Carla Fried

April 16, 2020

Rich Muni Buyers Piled In During Record Crash, Reaping Big Gains.

- **Citi says net buying by individuals hit $920 mln on March 20**
- **Bank says it was the biggest such buying spree since 2008**

When the little guys were fleeing for the exits of the municipal-bond market, it appears that the rich were piling in.

On March 20, at the height of the worst sell-off in at least four decades, purchases of state and local government bonds with maturities of at least 2 years and in blocks of $1 million of less — a proxy for buying by wealthy individual investors — exceeded sales by $920 million, according to Citigroup Inc. Such buying hadn't outpaced selling by that much since the credit crisis of 2008, the bank said.

"It was almost off the charts in terms of retail net buying," said John Heppolette, Citigroup's head of municipal markets and finance. "We've seen it in each of the past crises, as bond funds and other investors sell, munis get cheaper, and eventually high net worth comes in opportunistically."

The fear-driven crash provided brave investors a rare chance to scoop up even the safest tax-exempt bonds at unusually low prices, locking in higher yields until maturity.

In the midst of the sell-off, 5-year AAA rated bonds were yielding 6.5 times more than comparable Treasuries. New York City water authority bonds, callable in 7 years with a AA+ rating, were sold to a customer at a 4% yield — 3.5 percentage points more than five-year federal government debt. Metropolitan Transportation Authority bonds backed by Treasuries maturing in 2027 traded at a 2.4% yield, 2 percentage point more.

“All of a sudden they saw rates on individual bonds that they probably aren’t going to see in years,” said John Bagley, the Municipal Securities Rulemaking Board’s chief market structure officer.

The steep price drops were set off by an unprecedented stampede out of municipal-bond mutual funds, which saw almost $40 billion withdrawn in two weeks in March alone, according to the Investment Company Institute’s figures. With fund managers forced to dump securities to raise cash, yields on 10-year benchmark municipal bonds surged by nearly a full percentage point in two days, an extremely large jump for securities that typically move a few basis points a day if at all.

Less well-off mutual-fund investors tend to focus on share prices and sell as a group when prices fall. They’re also sensitive to what analysts call headline risk, or bad news stories that undermine the market’s perception as a haven.

Wealthy investors who buy individual bonds for their own accounts may be less likely to sell since they tend to focus on a bond’s coupon and getting their principal back at maturity, Bagley said.

In addition to purchases through brokers and wealth managers, the March buying shows how so-called separately managed accounts, which typically require an initial investment of $250,000 or more, are exerting more sway in the municipal market. There was an estimated $700 billion in such tailored accounts at the end of 2019, according to Citigroup, helping to make up for weaker demand from banks and insurance companies.

The buying last month has provided an immediate payoff, with prices surging back since Congress passed the $2.2 trillion stimulus plan and the Federal Reserve moved into parts of the municipal market to help ease the liquidity crunch.

The overall market has gained more than 8% since March 20, according to the Bloomberg Barclays index. But many bonds did even better. The New York water securities have since soared 16% from their low.

Bloomberg Markets

By Martin Z Braun

April 16, 2020, 7:18 AM PDT

Public Banking Would Help Speed the Economic Recovery from COVID-19.

At least 90 percent of the nation’s cities are facing a budget crisis because of the economic shutdown in response to the COVID-19 pandemic, according to a mid-April report by the U.S. Conference of Mayors and the National League of Cities. Because municipal governments cannot run deficits, they will have to respond by cutting staff and programs, which will worsen the economic conditions of the cities they serve.

If cities had public banks, they would be much better equipped to deal with these budget shortfalls and maintain the services and staff most vital to their economic recovery. That’s why state and local political leaders should use emergency powers to rapidly create public banks that can serve as key engines of a just and sustainable economic recovery.

Public banks are new to most of us in America, but they have been a proven institution globally for the past few hundred years. The one place in America where public banking is not new is North Dakota, where the 100-year-old Bank of North Dakota is widely credited with helping the state’s economy weather the 2008 recession far better than other states.

Continue reading.

THE HILL

BY ISAIAH POOLE AND RICK GIRLING, OPINION CONTRIBUTORS — 04/17/20 06:30 PM EDT

THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

Deriving Maximum Benefit from Rural Opportunity Zones

The establishment of Opportunity Zones was intended to encourage long-term investments in underserved, low-income communities by establishing a way to reduce an investor’s capital gains.

The 2017 Tax Cuts and Jobs Act allowed state governors to nominate census tracts as Opportunity Zones, with up to 25% of a state’s low-income census tracts to be eligible for designation. Indiana Governor Eric Holcomb nominated 156 census tracts as Opportunity Zones, which were a mix of underserved urban and rural tracts across the state. Investors interested in taking advantage of the Opportunity Zone tax break must do so through a qualified “Opportunity Zone Fund” investment.

The Treasury Department recently finalized Opportunity Zone regulations and many investors have set up qualified Opportunity Zone funds to take advantage of the legislation. Most of these funds are set up to invest in traditional residential and commercial real estate opportunities by refurbishing or rebuilding low-income properties in underserved communities.

This standard model of real estate investment in underserved communities presupposes that most of the investments occur in urban areas where increases in rental income can be offset by larger, more affluent populations. Investors in these properties will manage the property for ten years and then look to sell them, capturing any incremental gain on the post-acquisition economic appreciation. This type of capital gain will be tax free.

However, this investment model does not work well in underserved, rural areas where the population is disbursed over a large area. In these circumstances, revenues from an improvement of a single property will not significantly, nor beneficially, move the needle on property tax revenues. These communities require sizable investments from external capital sources to grow the local tax base immediately and over the long-term. Opportunity Zones in rural communities are now best positioned to add sizable industrial and infrastructure projects to their portfolios.

Currently, rural Opportunity Zone areas have been the target of warehouses, distribution centers, wafer manufacturers, plastic recycling plants, and other similar commercial and industrial projects. However, the future of rural Opportunity Zone development lies within the solar energy infrastructure industry. Solar panel farms in underserved, rural Opportunity Zones offer an attractive package of economic development, significant increases in local property tax base, direct payments to landowners above “farming margin,” lower electricity costs to all ratepayers, and reductions in environmental issues.

With these important benefits in combination with stackable federal tax benefits (e.g. Investment Tax Credits and Bonus depreciation), solar panel farms can provide the next generation of Hoosiers with a low-cost, long-term energy solution that will improve the economies and environmental health of rural communities throughout the state of Indiana.

Inside Indiana Business

By Tim O’Hara, Managing Director, Energy Systems Network

Thursday, April 9th 2020, 10:19 AM EDT

The Case for Adequate Public Transportation Funding During the COVID-19 Pandemic: Nossaman

In his Infra Insight Blog post on April 9, Frank Liu reported on the uncertain status of the long awaited federal infrastructure bill. As the federal deficit balloons and election season intensifies, the likelihood of prompt Congressional action on a major infrastructure bill is diminishing. All indications are that it will be sidelined as Congress works on a “Phase 4” coronavirus relief bill to ameliorate the unprecedented loss of jobs throughout the nation and provide further direct assistance to the business community. The Phase 4 bill also should include ample stop gap … Continue

By Fredric Kessler on 04.15.2020

Nossaman LLP

U.S. Public Finance and Infrastructure: Coronavirus Response So Far

Read the Fitch Report.

Wed 15 Apr, 2020

GFOA: Utility Outreach to Congress Key to Inclusion of Water Funding in Future Stimulus Legislation

GFOA, NACWA and our partners in the water sector, are closely engaged with Congress to ensure that future stimulus legislation in response to the COVID-19 pandemic includes assistance to public clean water utilities. Members of Congress, however, need to hear directly from water utility stakeholders to outline specific challenges. GFOA encourages utility stakeholders to use this template letter to write your federal House and Senate delegations to urge additional federal support to the water sector.

While the timing and makeup of the next stimulus package remains unclear, assistance to the water sector is actively in play in both the House and Senate in large part due to the Congressional advocacy of our water utility partners who have helped lay the groundwork. ***But it is critical all members consistently and continuously reach out to their congressional delegations to ensure inclusion.***

Key congressional staff have continued to emphasize the need for public utilities to reach out to their respective Senators and Representatives and provide them with facts and figures on the direct economic impacts they are incurring or expect to incur as a result of the coronavirus pandemic.

According to a conservative estimate by NACWA, revenue shortfalls to the public clean water sector is approximately $12.5 billion, which assumes a 20% annual revenue loss. This estimate has been helpful in elevating the economic needs of the clean water sector to Congress, as has the growing media attention around the issue.

Going forward, individual utility outreach, especially to key members of Congressional leadership and committees, is critical to ensuring the sector's economic needs are met in any further stimulus legislation, both for low income household assistance programs and industrial and business revenue loses.

For more information on assisting low-income water utility customers, see the American Water Works Association's (AWWA) report, Thinking Outside the Bill: A Utility Managers Guide to Assisting Low-Income Water Customers.

BDA Submits Municipal Note Guarantee Recommendation to Fed.

Today, the BDA submitted a one-pager to the Fed in response to the recent announcement of the Municipal Liquidity Facility stemming from passage of the CARES Act. In the one-pager the BDA calls on the Fed to create a Note Guarantee Program for State and Local Governments.

The Municipal Guarantee recommendation can be viewed here.

Municipal Note Guarantee Recommendation

The recommendation is a response to initial outline of the Municipal Liquidity Facility announced yesterday. In the one-pager the BDA calls on the Fed to create a Note Guarantee Program for State and Local Governments.

The BDA calls on the Fed to develop a program that will:

- Provide credit guarantees to issuers who sell TANs and RANs with maturities up to 12 months during the duration of the program;
- Provide a credit backstop similar to a bank Letter of Credit to any investment-grade issuer who met reasonable requirements; and
- If the issuer failed to retire TANs or RANs covered by the facility on time, the Fed would advance

the par amount to investors and would become the creditor to the state or local government.

Bond Dealers of America

April 10, 2020

GFOA Fiscal First Aid Resource Center.

A financial crisis can take many forms:

- A major local employer lays off much of its workforce.
- Property values plummet due to a shrinking population in the area.
- A natural disaster inflicts significant infrastructure damage.
- A mass-quarantine halts economic activity.
- A cyberattack shuts down online commerce.

Any of these events would likely cause significant financial distress for even the best-prepared local governments. Whether they lead to increased expenditures, decreased revenue, or a combination of both, the effect is the same: the local government finds itself without enough money to do everything that people expect it to get done. GFOA has put together this set of resources to help local government finance officers facing these types of situations. The centerpiece is a 12-step process we call **Fiscal First Aid: Recovering from Financial Distress**. Use the following diagram to navigate through the different steps of the financial recovery process.

12-Step Fiscal First Aid Recovery Process
Step 1: Recognition
Step 2: Mobilize
Step 3: Generic Treatments
Step 4: Initial Diagnosis
Step 5: Fiscal First Aid
Step 6: Detailed Diagnosis
Step 7: Recovery Plan
Step 8: Long-Term Treatments
Step 9: Long-Term Financial Planning
Step 10: Recovery Leadership
Step 11: Manage the Recovery Process
Step 12: The Outcome of Recovery

New GFOA Research
Working Remotely: A Guide for the Public Sector
Cash is King: Short-Term Strategies to Slow the Flow of Money Out the Door and Keep the Budget Balanced

Upcoming Training
April 13: Procurements Under FEMA Awards During Periods of Emergency or Exigency
April 15: Assessing Risks Related to Cyber Crime

Past Training
Click on each webinar to access a recording of the webinar, the PowerPoint presentation, and other supporting materials.

[March 27, 2020. Financial Decision Making Under Uncertainty]

[April 1, 2020. Budgeting During a Recession: Principles, Practices, Processes, and Politics]

[April 8, 2020. Financial Scenario Planning: Visualizing and Strategizing for Uncertain Times]

[April 9, 2020. Take the 2020 Financial Policy Challenge]

Free Limited-Time Offers from Third-Party Firms
In order to get as many good Fiscal First Aid resources to GFOA members as quickly as possible, GFOA is working with private sector firms that have graciously agreed to provide their expertise free of charge. Please be aware that there is no financial relationship between these firms and GFOA. Also, GFOA does not endorse any products or services.

Risk Assessments for Municipal GO and Revenue Debt Investors During Economic Downturn.

In the midst of COVID-19, the domestic and global financial market outlooks are grim and the collective blow to the markets highlight the convoluted nature of their dependency and interconnectedness.

This notion applies to all financial markets, both domestic and globally: municipal debt markets, corporate debt, equities, commodities, etc. Furthermore, the notion that fixed-income markets often see a surge in capital influx during market downturns and recessions – because fixed income is generally considered a safer option than other instruments – may not be entirely true, given that investors are skeptical of the overall performance of both private and public sectors. This is also because both debt and equity markets are heavily reliant on consumer spending, which has come to a considerable halt.

In this article, we'll take a closer look at whether the economic downturn will impact GO and revenue-backed municipal debt in a similar way, and we will also highlight key signs for investors to look out for within their municipal debt holdings in order to assess risk exposure.

Continue reading.

municipalbonds.com

by Jayden Sangha

Apr 08, 2020

When Can Bond Investors Lie to Banks?

The thing which is not

The usual way that municipal bonds get issued is that a city or state or agency or university or whatever calls up its investment bankers, and the investment bankers call up a bunch of muni investors and get them to put in orders to buy some of a new bond. Buying newly issued bonds is generally a good way to make a little extra money—muni bonds, like corporate bonds and stocks and most other things, tend to "pop" when they first start trading—so it is good for the investors to get these calls. On the other hand sometimes a new muni deal will struggle to find buyers, so it is good for the investment banks (and the municipalities) if the investors take these calls. It is a business of relationships: The banks like being able to call investors to place deals; the investors like getting the calls to buy lucrative new issues; everyone is better off if they stay friends and work well together.

Another, less usual way that municipal bonds sometimes get issued is that one investor calls up a city or state or agency or university or whatever, or its investment banker, and says "hey if you want to issue a new muni bond just sell all of it to us." For the issuer this approach—called a "100% placement"—might be faster or more certain or more convenient than the usual approach of having banks market the deal to a lot of potential buyers, but it might also be more expensive: If you're only selling the bonds to one buyer, you're not getting a market check on the interest rate. For the investor buying all of the bonds, there are obvious advantages: You're buying a lot of bonds from an issuer that you've checked out and like, for one thing, plus you are hopefully getting a bit of a higher interest rate than you'd get in a regular marketed transaction. For the investors not buying all the bonds, there is something obviously annoying about the existence of 100% placement deals. A lot of your advantage, as a big muni bond investor, is getting calls from banks when a new deal is launched. If you don't get those calls because deals are 100% placed with one investor, you lose out.

Nuveen LLC is a big municipal bond investor, a mutual fund manager with, by its own account, "the largest high-yield [municipal] fund in the world," running about $150 billion of muni assets. Preston Hollow Capital LLC is a newer, smaller municipal bond investor, running about $2.1 billion of assets using permanent capital. Nuveen invests in municipal deals in the regular way, though it does some 100% placements. Preston Hollow is a 100%-placement specialist; it "styles itself as a 'bespoke solution provider' that custom-designs its deal structures to lend flexibility and security to issuers through 100% placements."

This made Nuveen mad. If a municipality sells a 100% placement to Preston Hollow, that is bad for Nuveen. Nuveen can get mad at the issuer, but there are lots of issuers and they mostly don't issue that frequently and it's hard to communicate with them in a coordinated way. It can get mad at Preston Hollow, but Preston Hollow doesn't care about Nuveen's feelings; Preston Hollow wants to disrupt and annoy big incumbents like Nuveen. But if it gets mad at the investment banks—a small group of repeat players who do a lot of deals with Nuveen and care about its business—then it might get somewhere.

So Nuveen focused on the investment banks:

> In evaluating broker-dealers for partnering, Nuveen consistently rates "seeing deals" as the most important factor in the relationship. …. When Preston Hollow conducts 100% placements, it funds the entire issuance, and consequently Nuveen does not "see" these deals before the bonds reach the wider market. This lessens Nuveen's ability to meet market demand because it diminishes the array of purchase options available to it. …
>
> In an internal chat, Nuveen's Chief Investing Officer John Miller described broker-dealers working with Preston Hollow as "stab[bing] us in the back" and suggested his stance to broker-dealers would be that "if you want to build your business around Preston [Hollow], go ahead, but don't think you can ever call us again."

So Nuveen called up some brokers and basically said that. Preston Hollow sued, arguing that

Nuveen is not allowed to do that. Last Thursday a Delaware Chancery Court judge, Sam Glasscock, decided the case. Here is his opinion (from which I have been quoting). Basically Preston Hollow won: Vice Chancellor Glasscock ruled that (1) Nuveen was doing that and (2) it's not allowed to do that. On the other hand he didn't award any damages to Preston Hollow, because Preston Hollow didn't ask for any, and he declined to order Nuveen to stop doing this, since it had apparently already stopped. So it's a weird win, though a win nonetheless. "In light of this decision, it would be exceedingly unwise for Nuveen to mount a similar campaign of malicious behavior," he wrote, which is almost as good as ordering Nuveen not to.

It is a little unclear to me, reading the opinion, whether it would in fact be illegal for Nuveen just to call up investment banks and say "if you do deals with Preston Hollow, you can't do any deals with us." The rules for "tortious interference with business relations"—the bad thing that Nuveen did—are strange; you are obviously allowed to interfere with your competitors' business by *competing with them*, and you're even allowed to interfere by expressing the opinion that their business is bad. In fact, "as long as a party avoids an illegal restraint on trade, 'he may refuse to deal with the third persons in the business in which he competes with the competitor if they deal with the competitor,'" which is the gist of what Nuveen was accused of. You can "exert limited economic pressure" but not "improper economic pressure," which is a little vague.

But Vice Chancellor Glasscock effectively resolved the issue by finding that Nuveen didn't just call up investment banks and say "if you do deals with Preston Hollow, you can't do any deals with us"; it also called up the investment banks and *lied about Preston Hollow*, which probably tips the whole thing into impropriety. Here is his memorable summary of the situation:

> In *Gulliver's Travels*, Swift puts Gulliver in contact with the Houyhnhnms, beings so moral and rational that they cannot comprehend the art of lying. They do not even have a word for the concept, and are forced to describe a lie as "the thing which is not." After hearing the testimony of some of Nuveen's witnesses, one might think they were such beings. Their circumlocutions for falsehoods—"hedge," "bluff," "exaggeration," "role-play," "scenario," "overstatement," "blustering," "short-cutting," "puff," "shorthand," "overblowing"—in situations where more quotidian creatures would simply say "lie," might make one doubt that the latter word is in their vocabulary. Their testimony was generally that institutional investors and their bankers speak in an argot of forceful misstatements that all parties involved know is posturing, so that no real untruth is conveyed. Perhaps. Far more likely is that institutional investors, like the rest of us Yahoos, make statements of fact, true or false, with the intent to be believed. In this post-trial Memorandum Opinion, I find that Nuveen used threats and lies in a successful attempt to damage the Plaintiff in its business relationships. Accordingly, Nuveen is responsible for the tort of intentional interference with business relations.

He is not kidding. Here is how Nuveen's John Miller and Steve Hlavin put it to Deutsche Bank AG (emphasis added):

> Hlavin called Deutsche and stated that Nuveen "will not be conducting high-yield business with anyone who is involved in these types of transactions [i.e. 100% placements] with Preston Hollow." Hlavin represented on this phone call that Nuveen was "going to every single bank and broker-dealer" that day, and that "the policy going forward is that if you are doing – if you are actively doing business with [Preston Hollow], Nuveen will not be doing business with you." **At trial, Hlavin testified that**

> **he did not intend his words to be taken seriously, but that he needed to "make exaggerated statements" to "strengthen [his] position."** Hlavin testified that when he referenced Preston Hollow, he was "shorthanding" for 100% placement transactions.
>
> In addition to this "devastating" ultimatum, Hlavin represented to Deutsche on this call that Preston Hollow lied to issuers by misrepresenting things about Nuveen. Hlavin said Preston Hollow was "demonstrating predatory lending practices" toward borrowers and would "take [the borrowers] into bankruptcy." In a second call with Deutsche later that day, Hlavin claimed he possessed "direct evidence" of Preston Hollow's lies, though it is apparent from his testimony that he based this statement on what he overheard at Nuveen's trading desk. **At trial, Hlavin testified that he did not need to verify his allegations because he was "role playing" to "build a position" and "challenge someone in debate."**
>
> On December 21, 2018, Miller also called Deutsche. In that call, Miller stated that he had a "firm commitment" from Wells Fargo, BAML, Goldman, and JPMorgan to "never do business with Preston Hollow again." **At trial, Miller testified that he exaggerated these statements; by "firm commitment," he meant the broker-dealers "were going to look into their private versus public practices." He testified he "was overstating, shortcutting, and blustering a little bit to try and get their attention." Miller did not consider these statements to be problematic, as he testified that in the high-yield municipal bond market, other parties "[are] blustering and exaggerating to me. And I'm blustering and exaggerating back to them. And we kind of know what's going on."**

Here's what they told Goldman Sachs Group Inc. (emphasis added):

> On December 21, Miller called his contact at Goldman. After discussing Preston Hollow's growth as a company, Miller said that "to be a partner with Nuveen . . . you can't do any of this private … business with Preston Hollow." He also stated that Goldman would "have to choose who [it does] business with. Because I don't want to do business with those firms that do business with Preston Hollow." At trial, Miller testified this was "a very blustery introduction . . . to get his attention." He also testified that referencing Preston Hollow was only "a shortcut" to discuss 100% placements. Miller represented to Goldman that he had "five dealers so far" in agreement not to do business with Preston Hollow, and that he would be attempting to get more. **Again, at trial, Miller testified regarding this purported agreement that he was "exaggerating a little . . . to get a reaction."**
>
> In addition, Miller told Goldman that Preston Hollow lied to issuers. He told Goldman that issuers fell for Preston Hollow's "predatory practices" after hearing its "predatory sales pitch." He also stated that "issuers are being told things that are not true," and that Preston Hollow would "rush the issuer into" unfair or suspect transactions. He proffered that he had "a lot of evidence" to support the allegations. Attempting to put some of this evidence forward, Miller told Goldman that multiple states' attorneys general had contacted Preston Hollow over "unethical practices," sent it "nastygrams," and told it, "[d]on't come into my town again." Miller based this allegation on a letter from a single city attorney that suggested one of Preston Hollow's transactions might not meet state attorney general requirements with regard to a bond issue. **Miller testified the dissonance presented by his allegation and his evidence was "a little bit of a**

> **shortcut."**

Ah. I actually find Nuveen's view a *bit* more plausible than the Vice Chancellor does. Like, when Nuveen called up investment banks and said (1) "if you do deals with Preston Hollow we will never do deals with you again" and (2) "every other investment bank has made a firm commitment not to do deals with Preston Hollow," the banks had to know Nuveen was, you know, bluffing or blustering or exaggerating or whatever you want to call it. (Deutsche Bank, which got the worst of Nuveen's bluster, seems to have ignored it and kept dealing with Preston Hollow, though Nuveen did actually reduce its business with Deutsche Bank.) Investors *love* to bluster about stuff they dislike and swear that they'll never do business with you again, but what else are they going to do? If you bring them good bond deals, they're gonna pick up the phone. And if they tell you that all of your competitors have agreed to give up a profitable business, great, more for you.

Or here is Vice Chancellor Glasscock's fun summary of "the box," an important bond-trader threat:

> One tool municipal bond traders use to leverage desired actions is to express displeasure by putting another party or entity "in the box." This bond-trader colloquialism is well-known in the industry, and both Nuveen and Preston Hollow use it regularly. A broker-dealer can also put a trader or other counterparty in the box. At its most basic, it is simply a way for a party to leverage action. Being "in the box" has no official repercussions and so can be used somewhat casually. At the same time, being "in the box" can lead to more serious consequences, such as a temporary cessation of business between parties.

Being in the box—it's a hockey metaphor, the penalty box—sort of notionally means that the party who put you in the box is not going to trade with you for a while, but as the Vice Chancellor says it doesn't necessarily mean that. It could just mean that they're mad at you and want to express that they would *like* to stop trading with you for a while, but the world is what it is and if you've got a trade for them they're gonna take it. "Well, you're in the box, but you are a tick tighter than anyone else so I guess we'll trade with you," that sort of thing.

We have talked a lot over the years about bond traders at investment banks who have gotten in trouble for lying to their customers. Their awkward defense is always of the form: Look, I am a *bond trader*, my whole business is lying to my customers, it is what they expect, since they spend all day lying to me too. Judges are always a bit horrified, but not always unpersuaded, by this argument. It's got some truth to it! Here one of those customers, Nuveen, launched a pretty broad program of lying to its bond dealers, and didn't even think that was a bit unusual. They were "role playing" to "build a position" and "challenge someone in debate"; it is just what one does.

Bloomberg Opinion

By Matt Levine

April 13, 2020, 9:28 AM PDT

Matt Levine is a Bloomberg Opinion columnist covering finance. He was an editor of Dealbreaker, an investment banker at Goldman Sachs, a mergers and acquisitions lawyer at Wachtell, Lipton, Rosen & Katz, and a clerk for the U.S. Court of Appeals for the 3rd Circuit.

Nuveen Improperly Tried to Destroy Rival, Judge Concludes.

The Chicago-based bond market powerhouse "was not simply attempting to achieve a competitive edge. . . .It meant to use the leverage resulting from its size in the market to destroy Preston Hollow."

(Bloomberg) — U.S. bond-market powerhouse Nuveen LLC wrongfully interfered with the business of Preston Hollow Capital LLC by organizing an intimidation campaign to coerce broker-dealers from doing business with its smaller rival, a judge ruled.

Delaware Chancery Court Judge Sam Glasscock III found that Chicago-based Nuveen misused its market power as one of the biggest buyers of state and local government bonds to freeze out the smaller firm from doing business with Wall Street banks and brokers.

"Nuveen was not simply attempting to achieve a competitive edge," Glasscock said Thursday in a 59-page ruling. "It meant to use the leverage resulting from its size in the market to destroy Preston Hollow."

Still, Glasscock declined to issue an injunction barring Nuveen from further wrongdoing because the company has agreed to stop the boycott and not disparage its rival.

Preston Hollow sued separately for damages in Delaware Superior Court. That suit is still pending.

"We respectfully disagree with the court's finding that Nuveen tortiously interfered with Preston Hollow's business," Jessica Greaney, a Nuveen spokeswoman, said in a statement.

The judge's ruling is the latest twist in a high-profile fight in the normally staid bond market. Preston Hollow sued last year, complaining Nuveen used its "unfettered power" to strong-arm banks into blackballing it.

Jim Thompson, Preston Hollow's chairman and chief executive officer, said the firm wasn't concerned with Glasscock's refusal to issue an injunction to prevent Nuveen from starting another disinformation campaign.

"The court's stern language will serve as the injunction we sought, as we are confident Nuveen will follow the court's admonition that it would be "exceedingly unwise for Nuveen to mount a similar campaign of malicious behavior," Thompson said in an emailed statement.

The judge heard testimony at a trial last year that Nuveen executives, including muni-bond titan John Miller, threatened to pull tens of millions of dollars in business from banks that underwrote offerings with Preston Hollow and financed its loans. Miller is co-head of Nuveen's fixed-income unit and oversees more than $160 billion in municipal bond assets.

Preston Hollow is best-known for making $2 billion in loans to finance hospitals, real estate developments and student housing. Nuveen, which had almost $1 trillion in assets under management as of March 31, is the investment manager of TIAA, best known for offering financial products to teachers.

At trial, Preston Hollow's lawyers played tapes of calls Miller made to bond traders at Goldman Sachs & Co. and Deutsche Bank AG in which he threatened them with loss of Nuveen's business if they continued to do deals with Preston Hollow.

Testimony in the case showed Miller and other company officials disparaged Preston Hollow, including claims that the company's "unethical practices" caught the attention of states attorneys general. Glasscock said that amounted to a single letter from one city attorney.

"Miller's testimony that this lie was 'a little bit of a shortcut,' does not keep it from constituting a knowing misrepresentation intended to interfere with Preston Hollow's business."

Miller still has the company's support, Greaney said.

"John and his team remain motivated by a desire to protect client investments while also supporting a fully transparent municipal-bond market for all participants," she said.

Crain's Chicago Business

April 09, 2020

Preston Hollow Capital Gratified by Delaware Chancery Court's Finding That Nuveen Used 'Threats and Lies' to Stifle Competition in Municipal Bond Market.

– Ruling Affirms that Nuveen Undertook a Systematic, Destructive Campaign Against Smaller Rival, Preston Hollow Capital –

Preston Hollow Capital ("PHC"), an independent specialty municipal finance company based in Dallas, today outlined its response to the recent ruling by the Delaware Chancery Court, which found Nuveen guilty of using "threats and lies in a successful attempt to damage [PHC] in its business relationships." The ruling was delivered on Thursday, April 9, 2020 in a 60-page Memorandum Opinion from Vice Chancellor Sam Glasscock III. Vice Chancellor Glasscock found Nuveen liable for the anti-competitive and injurious actions of its team led by Nuveen Head of Municipals, John Miller, in intentionally and illegally interfering with PHC's business relations with its primary lender and six major Wall Street investment banks.

Jim Thompson, Chairman and Chief Executive Officer of Preston Hollow Capital, stated, "Municipal borrowers deserve a truly competitive marketplace where they are able to select the capital provider that meets *their* needs in funding their vital projects, not the needs of a large money manager like Nuveen. This is, in essence, the very injustice that the Vice Chancellor exposed. His ruling meticulously details Nuveen's campaign of anti-competitive, untruthful, unfair and destructive conduct carried out by Miller and his team against Preston Hollow in our marketplace. It's important to remember that the real 'winners' are municipal borrowers across the country, as we expect Nuveen to heed the Court's stern admonition that it would be 'exceedingly unwise for Nuveen to mount a similar campaign of malicious behavior' against Preston Hollow going forward."

Nuveen's Anti-Competitive Conduct

The Court's ruling painstakingly reveals Nuveen's organized, methodical attack against its smaller rival, which Miller had come to view as a competitive threat. In the words of the Court:

The facts revealed in litigation … show that as Preston Hollow was becoming a contender in the high-yield municipal bond market, Nuveen, the self-styled "largest high-yield [municipal] fund in the world," sought an industry-wide agreement not to conduct business with Preston Hollow. Although part of Nuveen's motive was its interest in 'seeing all the deals,' its behavior shows that its object was also an attack directed at Preston Hollow's ability to operate. The evidence demonstrated an aggressive and widely dispersed campaign to use almost any pressure necessary to cut off a competitor from its chief source of business as well as its financing. I find that Nuveen was not simply attempting to achieve a competitive edge; it meant to use the leverage resulting from its size in the market to destroy Preston Hollow. [Memorandum Opinion, p. 51]

These and related findings made by the Court reflect intentional anticompetitive conduct of the kind often punished by regulators charged with supervision of financial markets.

Nuveen's Pattern of Deceit Concerning Preston Hollow Capital

The Memorandum Opinion also catalogues the array of falsehoods about Preston Hollow that Miller and his team spread throughout the municipal marketplace:

[The Nuveen witnesses'] circumlocutions for falsehoods—"hedge," "bluff," "exaggeration," "role-play," "scenario," "overstatement," "blustering," "short-cutting," "puff," "shorthand," "overblowing"—in situations where more quotidian creatures would simply say "lie," might make one doubt that the latter word is in their vocabulary. Their testimony was generally that institutional investors and their bankers speak in an argot of forceful misstatements that all parties involved know is posturing, so that no real untruth is conveyed. Perhaps. Far more likely is that institutional investors, like the rest of us Yahoos, make statements of fact, true or false, with the intent to be believed. In this post-trial Memorandum Opinion, I find that Nuveen used threats and lies in a successful attempt to damage the Plaintiff in its business relationships. [Memorandum Opinion, pp. 1-2]

The Vice Chancellor lays down withering criticism of Nuveen's trial witnesses' credibility, characterizing their explanations as "both self-serving and disingenuous." [Memorandum Opinion, p. 39]:

Business Wire

April 13, 2020

Municipal Bond Defaults Will Be A Wake-Up Call For Bond Insurers.

The coronavirus has had a devastating effect on the short-term finances of every state and municipal entity dependent on sales and payroll taxes for the revenues. The short-term effect, however, may well have very long-term implications for the finances of these entities. In turn, insurers of the bonds—those that guarantee interest and principle against default—are going to be asked to share the pain.

The 2008 Financial Crisis had a devastating effect on the monoline bond insurance industry, which used to be dominated by names like Ambac Financial, MBIA MBI and FGIC. Only one insurer, Assured Guaranty, came through the crisis relatively unscathed and rose to become the industry leader from a previous third or fourth place. Its success, however, was unrelated to its municipal bond underwriting. Rather, it was due to its prudence in not plunging into the insuring of corporate and structured mortgage backed securities.

It was this segment of the business that brought down all the industry leaders. The actual business of insuring municipal bonds came through the crisis without immediate losses, so Assured Guaranty gained market share and prospered. But the industry shrunk dramatically and the seeds for future troubles soon became clear.

Two major changes came out of the financial crisis that threatens the health of this important industry. The first was that interest rates declined to where the insurance fees dropped as much as 80 percent. This is because bond insurance had traditionally been structured to be of no cost to the issuer, i.e. the fees were based of the savings in interest expense due to the bonds being rated AAA versus the issuers rating which were usually A- or BBB.

In theory, this ignoring of traditional underwriting principles was justified on the assumption that the insurer was writing coverage to a zero losses standard. This was, of course, a stretch in logic but was supported by Moody's and Standard & Poor's so long as they could get a piece of the fees on each deal for rendering their AAA imprimatur. The insurance fee structure was furthermore negatively impacted when S&P, and eventually the other rating agencies, downgraded the United States from AAA to AA+. This led to then downgrading the monoline bond insurers as well as the credit enhancement they actually could render. Along with the decline in interest rates, this proved to be a massive hit to the industry's fee structure. Still, they forged on, but failed to convince bond buyers that their insurance was worth more than the credit enhancement differential which had become miniscule. This of course was reflected in minuscule yield differentials.

A second negative event for bond insurers since 2008 has been a redefining of just who is being insured. The financial problems of states and municipalities have been growing for decades as unfunded obligations for pensions and health care have ballooned in anticipation of a crisis sometime in the future. In my view, the pandemic has accelerated that crisis point.

I have been reporting on municipal bond defaults for more than thirty years through the Forbes/Lehmann Distressed Municipal Debt Report. We are seeing numerous municipalities assuming that, since they paid for the bond insurance, they are entitled to its benefits. Hence, there are an increasing number of instances of municipalities refusing to make their contractual debt service payments thereby requiring the bond insurers to step up and pay. Puerto Rico has gone so far on its insured issues that it now collects the interest payments as they come due from the insurer, and keeping the money rather than pay out interest to bondholders! The presumption in such actions by the municipal bond issuer is ludicrous, but defensible with taxpayers. Bondholders have yet to be heard from.

This pandemic provides an opportunity for distressed bond issuers to come together, declare a financial emergency and essentially renege on future interest and principal payments. And why not, they may even decide to renege on their uninsured debt as well. We see the extraordinary actions taken so far at the federal level by both the Federal Reserve Bank and the Federal Government. Some of these municipalities only have enough cash to either pay employees or to make interest payments. Their choice is obvious. Will the Fed or Washington intercede, probably, but this is far from certain.

For monoline bond insurers the future choices are clearer. For too long, bond insurance has been treated as a credit enhancement tool. It has become a true insurance product. It's time to treat it and price it as such or face possible ruin. One solution is to focus on selling insurance to the bondholders rather than the issuers. This concept has been tried in the past with very limited success since it could not compete with the low fees and higher costs from the credit enhancement approach. Now is the time for change.

Forbes

by Richard Lehmann

Apr 13, 2020

Community QE - An April Game Plan for States and Cities.

Late last week, just before the holiday weekend, the Fed announced that it would be opening a new financing facility for hard-pressed States and Cities dealing with our COVID-19 pandemic – a facility fully deserving of the name 'Community QE.' This is a truly 'game changing' development that is just as critical for States and Cities as it will be *unfamiliar* to them for a while. Both for that reason, and because it will be crucial for our States and Cities to start using the new Facility *immediately*, this Column will provide a bit of background and then recommend a 'Game Plan' for the coming week for hard-pressed States and Cities.

Background

On April 9, the Board of Governors of the Federal Reserve System ('Fed') announced plans to open a new Municipal Liquidity Facility ('MLF,' 'Facility') to assist U.S. States and Localities suffering acute liquidity shortages while working to address the current COVID-19 pandemic.[1] A number of compelling considerations have prompted the move.

Prominent among the mentioned considerations are three mutually reinforcing developments that have intensified in recent weeks. *First*, States and Cities are facing spikes in required expenditure as they take on the role of front-line responders to the pandemic and its consequences. *Second* and simultaneously, States' and Cities' principal sources of revenue – in particular, sales taxes, income taxes, and property taxes – have dramatically contracted as businesses suspend operations and taxpayers 'shelter in place.' Finally *third*, the $4 trillion municipal bond market, the health of which is critical not only for States and their Subdivisions, but also for other securities markets, has experienced unprecedented volatility since February.

Against the backdrop of these developments, public health officials, State and Local officials, and bond market professionals have called since March for Fed intervention in the markets for State and Municipal securities ('munis') to stabilize prices, restore confidence to muni-investors, and ease the liquidity strains already hampering State and City pandemic response efforts. With passage of the Coronavirus Aid, Relief, and Economic Security ('CARES') Act by Congress last month, it became clear that both our federal legislature and our Fed and Treasury would be heeding these calls.

What remained unclear till the 9th of this month was what precise form the relief to States and their Subdivisions would take. That *remains* at least *somewhat* unclear, inasmuch as (a) U.S. Governors this morning requested that Congress appropriate more funding for States, and (b) the new Fed Facility has only just been announced and is accordingly only beginning its existence even as a 'work in progress.' But we know much more now than we did before the 9th, and it is all very good news for everyone concerned about the three developments enumerated above.

I'll accordingly first lay out what new details we now have, then offer informed predictions as to what more is likely to come, and then lay out the aforementioned Game Plan for States and Cities to follow in making optimal – and *immediate* – use of the new Fed Facility as it currently stands. In effect, as I noted the morning of the Fed's announcement last week, we have entered a world of *Community QE*, which it is critical for States and Cities to master and put to use quickly.

The Municipal Liquidity Facility

The new Municipal Liquidity Facility will operate under the auspices of Section 13(3) of the Federal Reserve Act ('FRA'), which grants the Federal Reserve emergency lending authority in exigent circumstances. The Fed typically exercises this authority through purchase and hence 'monetization' of short-term debt instruments – a practice known in finance parlance as 'discounting.'

In effect, the Fed temporarily swaps its own dollar liabilities, which are legal tender, for liabilities of its counterparties, which are not legal tender. The counterparty is thereby rendered 'liquid' – possessed of sufficient cash to spend on what ever it must spend to work past whatever difficulties it might be facing – until its debt instruments reach maturity. At that point the instruments are either redeemed in full or 'rolled-over' (when such option is available).

Perhaps needless to say, the Fed made abundant use of the Section 13(3) authority to afford liquidity assistance to many institutions and markets during the financial troubles of 2008-14, and thus has considerable experience with this funding mechanism. It is thus not the use of 13(3) that will be new now, but the use of the facility to aid States and their political Subdivisions in particular. That is unprecedented, and its significance is accordingly apt to be under-appreciated at first.

The new Municipal Liquidity Facility (again, MLF) that the Fed will now open under Section 13(3) will, like its predecessor facilities during the last financial crisis, operate through a newly formed special purpose vehicle (SPV) – in essence, a legal trust able to purchase, hold, and sell financial assets. In this case the assets in question will be State and Municipal paper, presently called 'Eligible Notes' in the MLF Term Sheet, whose salient characteristics I will lay out in a moment.[2]

The MLF SPV will be initially capitalized with $35 billion from the U.S. Treasury, Congressionally appropriated for the purpose by the aforementioned CARES Act. On this basis, the Fed will itself lend $500 billion, rendering Treasury the equity investor and hence first risk-bearer in the SPV while the Fed serves as leverage-provider.

While the structure just described has, as noted before, been a familiar one since the last financial crisis, the 'substance' of its particular operations is new and noteworthy – indeed unprecedented and 'game-changing' – in ways that are critically important for States and their Subdivisions now faced with pandemic-caused hardship. At least three features bear special mention in this connection.

First, the MLF SPV will purchase securities *directly* from States or their Subdivisions – they will not have to be sold first on the 'open market' to private sector financial institutions as is the case with Fed purchases under the FRA's Section 14 authority.

Second, the months-to-maturity on the paper in question will, for now at least, be 24 rather than 12 months as originally anticipated.

And *third*, most importantly of all, the Fed will retain discretion (a) to *extend* the mentioned months-to-maturity requirement, (b) to extend the *timeframe* within which it is willing to buy – currently set to expire September 30th – and (c) to *loosen* the qualitative *criteria* that Eligible Notes must meet.

In addition to these three most salient features, several others are also worth bearing in mind at least as background conditions, even though they are subject to change – and, in this observer's view, in some cases *likely* to change – going forward …

First, where *apportionment* of funds is concerned, the Fed appears to intend, at least for the time being, to calculate on a per capita basis. States or Cities with large populations would in that sense be eligible for more funding than States or Cities with smaller populations – but only in proportion to those populations themselves. This means that in effect every citizen and legal resident of the U.S. will be eligible for the same benefit as everyone else. Whether departures from *pro rata* distribution of this kind might be forthcoming if some States or Cities recover quickly from the pandemic while others recover more slowly remains to be determined.

Second, at present Eligible Notes are required, not only to mature within 24 months of issuance, but also, per the Term Sheet, to be 'tax anticipation notes (TANs), tax and revenue anticipation notes (TRANs), bond anticipation notes (BANs), [or] other similar short-term notes issued by Eligible Issuers,' and can only secure lending up to 20% of each relevant issuer's 'general revenue from own sources and utility revenue' for the fiscal year 2017. Crucially, however, 'States may request that the SPV purchase Eligible Notes *in excess* of the applicable limit in order to assist political subdivisions and instrumentalities that are not eligible for the Facility' (emphasis added).

Third, proceeds of Note sales to the MLF SPV are to be used, again per the Term Sheet, 'to help manage the cash flow impact of income tax deferrals resulting from an extension of an income tax filing deadline; potential reductions of tax and other revenues or increases in expenses related to or resulting from the COVID-19 pandemic; and requirements for the payment of principal and interest on obligations of the relevant State, City, or County.' The Fed is in these words encouraging public perception of the MLF as a tide-over liquidity facility meant to assist counterparties in, as the Term Sheet puts it, 'managing [their] cash flows' – even as other sections of the Term Sheet leave open the prospect of longer-term 'rollover' of Note debt should the present pandemic and its sequelae continue to pinch.

Finally *fourth*, Eligible Issuers will be all U.S. States and the District of Columbia, U.S. Counties with populations exceeding two million, and U.S. Cities with populations exceeding one million. The Term Sheet also stipulates in this connection that only one issuer per State, County, or City is eligible. While this requirement might be read to mean that for each State, only it itself or one of its Subdivisions may access the MLF, the fact that the Term Sheet also permits 'States [to] request that the SPV purchase Eligible Notes in excess of the applicable limit in order to assist political subdivisions and instrumentalities that are not eligible for the Facility' suggests that this restricted reading would not be correct. It suggests that instead as many eligible Counties and Cities as there are in a State may access the MLF in *addition* to, and hence in *parallel* with, the State itself.[3]

Two further, what I'll call 'interpretive' points bear noting before we summarize the upshot of the foregoing.

First, Chairman Powell and the Fed Board of Governors have effectively encouraged, in their public pronouncements of the past several weeks generally and the last several days particularly, a 'flexible' interpretation of all restrictive language found in the MLF's Term Sheet. The Chairman and the Board have also stated that they will continue to monitor the secondary muni markets for signs of resumed volatility, with an eye to possibly intervening further to stabilize them. Combined with the many openings for extension and exception specified in that Sheet itself as described above, these amount to assurances that the MLF is not only a 'work in progress,' as noted above, but also a work whose scope will *expand* should the *need* for it expand. We are, in other words, very much in 'whatever it takes' territory right now, and the Fed is prepared to improvise further as necessary.[4]

Second, bond market and public finance experts in recent weeks have been calling upon the Fed to purchase State and Municipal debt with maturities not only in excess of traditional 6-month and 12-month durations, but also in excess of the new 24-month duration. The Fed for its part has said nothing to discourage such calls. Most commentators, not to mention 'smart money' on the markets, seem now to anticipate upwards of three- to five-year State and Municipal debt to find its way onto the MLF balance sheet. While this cannot be predicted with certainty, of course, States and Cities faced with serious crises will do well to judge maturity lengthening on the part of MLF-eligible paper more likely than not – or perhaps better put, to be no less likely than any eventual need to issue it.

The Fed is, in short, keen not to repeat the mistakes of the 1930s, but instead to repeat the successes of 2008-14. That is to say it will err, if it errs, not on the side of caution but on the side of its opposite – bold, decisive, and crisis-ending *action*.

Putting all of the above together, reading it against the backdrop of the aforementioned 'whatever it takes'-style public comments made this week by Fed Chairman Powell, and synthesizing it all into a one-paragraph description of the new MLF, it appears then that we have the following:

The Fed will immediately begin directly monetizing 2-year State and Municipal debt, in order to ensure that all States and their Subdivisions are sufficiently financed to continue their current roles as front-line responders to the nation's ongoing COVID-19 pandemic. While in the immediate term it will supply funding up to 20% of what States and their Subdivisions normally take in through traditional revenue sources, it stands ready to lever-up that amount, as well as to lengthen the maturities of eligible paper, should the pandemic and its collateral damage continue to work hardship for longer than now is anticipated. It also stands ready to 'roll over' even 2-year State and Municipal debt, once it has purchased it, should crisis conditions continue past present expectations.

This is effectively *Quantitative Easing for Communities*, or *Community QE*. Our States and their Subdivisions will do well to begin using it at once.

An April 'Game Plan' for States & Their Subdivisions

In light of the above, it seems to this observer that States and their Subdivisions should begin making use of the new MLF immediately. Because those federal instrumentalities that would normally have taken the lead role in addressing the Coronavirus pandemic have not done so, it has devolved upon our States and Cities to play the role of these federal agencies. What the Fed has effectively just announced is that these *de facto* new federal *instrumentalities* will now receive *de jure* federal financing. *Acting* as federal entities, they will now also be *funded* much like federal entities.

There is not a moment to lose in accessing and using these funds. For one thing, every lost day amounts to hundreds or thousands of lost lives. For another thing, harm to State and Local economies is much easier to do than to undo. Best then to employ all means of 'damage control' now, at the earliest possible opportunity, rather than later – when thousands more will have died and much more productive capacity will have been lost.

It should also be noted that, in addition to all of the reasons elaborated above, there is *another* reason to treat the new MLF as affording us much that is needed right now to address and reverse our pandemic: that is the very fact that the MLF is, as emphasized twice now already, a *'work in progress'* …

The Fed is *improvising* right now. That means that what *we* do in response to the improvisation will be very important in determining the shape it assumes as it unfolds. We – the States and the Cities – are in other words *co-authors* of this new authority. It will ultimately be partly *what we make of it.* That is precisely why this observer is writing this Memorandum.

What, then, to 'make' of the MLF? This author believes all State Governors and Legislatures should be called into emergency session at once, 'virtually' if need be, to begin serious deliberation over how to begin using the MLF immediately. These sessions should also be attended by representatives of the States' largest Counties and Cities, as well as by appropriate personnel from all relevant State and Municipal Public Finance Departments.

Counties and Cities should hold counterpart Mayoral and Council meetings as quickly as possible too. For smaller ones, this will be to determine what aid to seek from their States as the latter tap into the new MLF. For the larger ones, it will be both for that reason and in order to determine what to seek *directly* from the Fed through the MLF.

All States and Cities that go into session as just described should also engage representatives of all regional Federal Reserve Banks in whose operational jurisdictions they are located as quickly as possible – ideally requesting their attendance at the sessions themselves. This will be important because the regional Federal Reserve Banks are the primary 'interface' between our federated Federal Reserve System and the nation's various State, Local, and Regional economies.[5] In virtue of that role it will be easiest for the Federal Reserve System both to learn as quickly as possible what State and Local MLF needs are going to be, and to set into motion all procedures that will be necessary for States and Cities to *access* the Facility, if these regional Fed officials are involved in deliberations – even if only as observers – from the very beginning.

Because the need of funds generally is likely to be recognized and agreed upon even more quickly than the full panoply of specific *uses* of funds, it will probably also be best for State and City officials to 'segment' the deliberations that they commence in the emergency sessions that I am recommending here. First can come deliberation and decision over how much funding to seek and whom to authorize to begin preparations for the new issuances that the States and Cities will sell to the MLF SPV. That will of course involve *preliminary* vetting of specific needs and ongoing crises, if only to ensure everyone is clear on the urgency of the funding need itself. But more detailed decisions as to specific intra-State and intra-City *allocation* of funds then can be deferred to a second deliberative phase commencing immediately after decisions about what funding to seek have been made.

Call the first, *quantitatively* oriented discussion of funding needs and issuance authorization, then, '*Phase One*.' And call the second, more *allocatively* oriented deliberation and decision-making '*Phase Two*.'

If at all possible, this author believes States and Cities should begin holding their *Phase One* sessions immediately following the Easter weekend – that is to say, the week of April 12th – or as soon thereafter as possible. This is, again, both because the public health and economic devastation being wrought by the pandemic is happening quickly, and because the sooner that States and Cities begin weighing-in on how the MLF is implemented, the more influence they will have on its ultimate contours and characteristics. Once these Phase One decisions have been reached and the appropriate State and Local personnel have been assigned their issuing and Fed-liaising tasks, States and Cities can proceed directly to Phase Two preparations – that is, to gathering information, testimony, advice and all other deliberative 'inputs' necessary to make sensible allocation decisions in respect of the new funding that will be coming from the MLF.

Once Phase Two deliberations end in allocation decisions, States and their Subdivisions might next consider what I'll call '*Phase Three*' deliberations over whether to press the Fed for further liberalization of the terms of the MLF Term Sheet. It might be decided, for example, that authorization to purchase State and Municipal paper of longer maturity than 24 months should be sought, or that a rollover option should be made more explicit. These questions can presumably wait, however, until current uncertainties 'on the ground' are resolved. With any luck, for example, the pandemic might be contained before summer ends. Or the States' Governors might succeed in their current effort to secure more direct funding from Congress.

However that may be, what matters now is that Phase One commence, and that it commence ‘with all deliberate speed.’ This observer will continue to watch events unfold, and will follow-up with further reporting and recommendations on an ‘as [seems to be] needed’ basis.

---

[1] See Board of Governors of the Federal Reserve System, *Press Release: Federal Reserve Takes Additional Actions to Provide Up to $2.3 Trillion in Loans to Support the Economy*, April 9, 2020, available at. In what follows the terms ‘City,’ ‘Locality,’ and ‘Municipality’ are used more or less interchangeably to refer to what the law labels ‘municipal corporations.’ The terms ‘Subdivision’ and ‘Political Subdivision’ are in turn used to embrace both entities of that first type and Counties, which the new Facility described in this Memorandum distinguishes and treats differently from Cities.

[2] Board of Governors of the Federal Reserve System, Term Sheet: Municipal Liquidity Facility, April 9, 2020, available at.

[3] Hence, for example, in California both the State and the City of Los Angeles would be immediately eligible to borrow under the Facility, while the State would be eligible to petition for additional borrowing on behalf of other cities such as San Diego or San Francisco. New York State and New York City will be similarly enabled. The story will be similar for Texas, save in its case two cities – Dallas and Houston – rather than one will be eligible alongside the State to borrow immediately. The author is currently seeking confirmation of this reading.

[4] ‘Whatever it takes’ has become a catchphrase in central banking parlance since European Central Bank (‘ECB’) President Mario Draghi’s assurance in 2012 that the ECB would do what ever is necessary to stabilize the Eurozone. Use of the phrase in the present context signals a readiness on the part of a monetary authority to interpret terms flexibly or even to rewrite them should the alternative be market collapse.

[5] To recur to the examples mentioned in footnote 3, for instance, officials of the Federal Reserve Bank of New York would be in attendance at State sessions in Albany and City sessions in lower Manhattan. Officials of the Federal Reserve Bank of Dallas would be in attendance at Texas sessions in Austin and Municipal sessions in Dallas and Houston. And so on.

Forbes

by Robert Hockett

Apr 12, 2020

Far Worse to Come: COVID-19 Collapse of State and Local Governments

Another sudden and unexpected factor will transform this year’s elections. Many states, cities and counties are about to, suddenly, run out of money. Wages won’t be paid. Services won’t be delivered. Institutions will shut down abruptly. Many state colleges may fold. And yet most state and local political and administrative leaders just sit and watch. Voters will not be pleased.

Millions of American workers filed for unemployment insurance during the past two weeks. That is a record and represents a collapse of our local economies. Across the country, in every state, county and city, businesses have been shut down, and many will not return after the coronavirus crisis is over. Tens of millions have lost jobs, homes, savings and retirement incomes that will never return. Owners of rental property will go under when their loan payments come due and renters can't pay. Across the country, state and local economies are being badly damaged — many of them permanently.

The result is that state and local tax revenues will plummet. States and localities will burn through any reserves they've maintained like wildfire. Since most of our politicians and government managers have been raised during a decade of expanding economies, their first instinct will be to wait and then panic and then raise taxes to cover shortfalls — perhaps a special "coronavirus surtax." Taxpayers across the country have tolerated various forms of high state and local taxes; the politicians would naturally ask, "Why should now be any different?"

But it is different. The resulting increased tax burden would be a disaster. Businesses that were barely hanging on would go under. Workers and homeowners who were barely surviving would go under. State and local tax bases would collapse even faster. There would be social unrest, possibly requiring martial law. People would migrate from high-tax states toward new jobs, accelerating a downward spiral. These large migrations would make the 2020 census results nonsense.

The only answer for the states, counties and cities that want to survive is to slash budgets now — probably 30 to 50 percent — eliminate all nonessential spending and reduce taxes today. Business leaders know that, in these types of situations, the only way to save a company is to cut costs immediately. There is no other answer, and those who act first and most aggressively are the most successful in saving the company and the greatest number of its employees. In short, "fiscal distancing" — that is, separating politicians from taxpayers' money by cutting budgets and taxes now — is literally the only useful thing that state and local governments can do to prevent further economic and social catastrophe.

There is actually no other significant role that states and local governments can play in saving their economies, tax bases and quality of life. Only the federal government can provide truly useful, significant financial help to businesses and individuals during this historic disaster because only the federal government can print money in a crisis. Cutting taxes is the only state and local option to help their economies. Spending extra money now is throwing rocks into their own lifeboats.

I've talked to and written to many state and local officials over the past couple of weeks. Their recorded messages say they are all "working nonstop on coronavirus task forces." Not to be rude, but most of that is a complete waste of time and public resources. With few exceptions, little or nothing useful will come of that. Only private businesses, individuals and the federal government are able to address this problem. For the most part, state and local governments will be in the way, except for critical, essential services such as police forces, fire departments and health care. Nearly everything else must go, now.

Of course, I'm not optimistic that many officials or politicians at the state or local levels will take massive budget cuts or slashing taxes seriously — yet. They were raised in a different world of explosive economic growth. Most would prefer to promote vanity and virtue-signaling projects from their towering sandcastles they've built with taxpayer money over the past couple of decades, even as their castles crumble around them. They could never grasp that cutting taxes is the only tool they have to preserve their states, counties and cities. The concept is far beyond their political vocabulary — none of them could grasp the public finance, let alone the Darwinian game theory, aspects of the enormous challenge in front of them.

States are now furiously competing for ventilators. Tomorrow they will be fighting for taxpayers. Their primary (only) goal today should be to support and save their local economies — businesses, homeowners and other taxpayers — so that they have a foundation left on which to build later. If they kill off their tax base or drive businesses and taxpayers out of their states or localities, they will have poured salt on their fields and they will starve in the future. Their political careers will be over.

And so, as the coronavirus preys on the weakest human bodies, it also preys on the weakest state and local politicians. We can only hope that the fiscal mortality rate among those will be lower than the models suggest. In the end, though, the ruthless force of American politics probably will claim a new crop of unexpecting victims.

THE HILL

BY GRADY MEANS, OPINION CONTRIBUTOR — 04/12/20 09:00 AM EDT

Grady Means is a writer (GradyMeans.com) and former corporate strategy consultant. He served in the White House as a policy assistant to Vice President Nelson Rockefeller. Follow him on Twitter @gradymeans1.

Can The Fed Save The Municipal Bond Market?

The rapidly-deepening economic crisis keeps threatening financial markets, including the $3.9 trillion municipal bond market. The ongoing economic collapse means state and local economies are plummeting, dragging their government finances with it. Today, the Fed announced a multibillion intervention to stabilize the muni market. But can the Fed save the market?

The Fed has resisted this unprecedented step. But the pandemic-related bad economic news keeps piling up, with today's announcement of six million new unemployment insurance claims (for a three-week total over 16 million, around ten percent of the labor force). And there's no break in sight. The St. Louis Federal Reserve now predicts a loss of 47 million jobs with an unemployment rate rising to 32.1 %, over 7 % above the highest level ever recorded in the Great Depression.

State and local governments are staggering under the spending burdens from health care and other public services imposed by the pandemic. But they also are seeing all tax and revenue sources—sales, income, property, and excise taxes—fall, with sharply negative forecasts for the future at a time when many states ordinarily would be passing a new fiscal year budget. California, Colorado, Alaska, New York, Florida—no state or city is immune.

Continue reading.

Forbes

by Richard McGahey

Apr 9, 2020

States, Cities Set for Deficit-Borrowing Spree After Big Tax Hit.

(Bloomberg) — America's state and cities will likely need to sell billions of dollars of short-term debt to keep running as the fallout from the coronavirus deals a massive hit to tax collections.

With local economies grinding to a virtual halt and tax-filing deadlines pushed back until July, governments across the country are likely to face severe financial strains during a time of the year when they're usually flush with cash.

In New York, where the pandemic is projected to add as much as $7 billion to the budget deficit in the current fiscal year, Budget Director Robert Mujica said on April 1 that the state has "no choice but to issue short term borrowing to bridge the gap" for the three months until annual income-tax payments are due. Rhode Island is weighing whether to borrow $300 million. The New York State Thruway Authority may borrow as much $350 million as toll revenue from drivers plummets.

"It's very likely to see an uptick in the short-term note borrowing as these issuers await their revenue to come through," said Erin Ortiz, a managing director at Janney Montgomery Scott in Philadelphia. "Local governments have a much smaller revenue base and tend to operate with lower fund balances and available cash."

Such short-term borrowing climbed to a record $67 billion in the aftermath of the last recession, when the contraction rippled through tax collections long after it began. The unprecedented speed and scale of the pandemic-induced slowdown is delivering a more immediate financial hit, with the widespread closure of businesses decimating sales-tax revenue and throwing millions of Americans out of work since last month.

The ability of states and cities to borrow on a massive scale this time has been complicated by unusual volatility in the $3.9 trillion municipal-bond market after investors pulled out record sums of cash amid concern that the crisis will create financial distress for hospitals, convention centers and others that have issued debt.

That retreat has caused the pace of debt sales to tumble as the biggest deals are put on hold. Since March 16, only about $6 billion of new state and local government bonds have been issued, a drop of 70% from the same period a year ago, according to data compiled by Bloomberg.

Richard Li, the public debt specialist for Milwaukee, Wisconsin, on April 2 tried unsuccessfully to auction $120 million of nine-month notes to cover the temporary cash shortfalls it was anticipating before the virus struck. His office received just two bids, both from separate arms of JPMorgan Chase & Co., and rejected them both because the cost was higher than expected. The city opted for a loan with U.S. Bank at an offer closer to the market rate, Li said.

"The market is so locked up and it just can't figure itself out," Li said.

That's left state and local government officials looking for the Federal Reserve to utilize the power to buy municipal debt that it was given under the $2 trillion economic stimulus program. The Government Finance Officers Association, a lobbying group for municipalities, last week urged the central bank to create a low interest-rate loan program for governments facing cash crunches from the virus, saying a flood of short-term borrowing could destabilize the public market.

The Fed has already extended some aid by allowing short-term debt to be pledged as collateral under its money-market fund lending program, a step that helped arrest a steep jump in interest rates last month. But it has yet to spell out how — and whether — it will use the powers extended under the stimulus law.

Morgan Stanley municipal strategist Michael Zezas said the central bank could purchase short-term notes directly or buy securities on the secondary market.

"That's the type of activity that could help the market heal faster than it would on its own," he said.

Bloomberg

by Danielle Moran

BloombergApril 8, 2020

Fed Expands Corporate-Debt Backstops, Unveils New Programs to Aid States, Cities and Small Businesses.

Latest round of emergency measures expands central bank's footprint into credit markets it has previously avoided

The Federal Reserve is going farther than ever to shore up the U.S. economy, unveiling programs to lend directly to states, cities and midsize businesses that have seen revenues evaporate amid efforts to combat the novel coronavirus.

The central bank also said Thursday it would expand previously announced plans to backstop lending to large companies by supporting riskier bonds issued by corporations that had recently lost their investment-grade status.

Altogether, the Fed said nine lending programs it is creating or expanding would provide up to $2.3 trillion in loans, and officials signaled they were prepared to expand those programs as needed to stem long-lasting damage to the U.S. economy.

"It's really an awesome display of creativity and decisiveness—the breadth and diversity of programs," said Antonio Weiss, a Treasury official in the Obama administration who is now a senior fellow at Harvard University's John F. Kennedy School of Government. "They are taking a role well beyond any the Fed has played in its modern history, and the economy needs it."

In leading the Fed beyond past efforts to support lending during the Great Depression or after the 2008 financial crisis, Chairman Jerome Powell is pushing deeper into areas of credit and fiscal policy that the central bank has traditionally deferred to elected officials.

During and after the financial crisis, the Fed left it to the White House and Congress to provide financial assistance to failing auto makers and local governments facing declining revenues and rising expenses, viewing such decisions as essentially political.

Now, with a far broader swath of the economy shut down to prevent the spread of infection, companies and local governments of all sizes are struggling to make payroll, pay bills and service their debts.

The Fed last month cut its benchmark rate to near zero at two unscheduled meetings and has ramped up purchases of Treasury and mortgage-backed securities at an unprecedented scale. Its asset portfolio has quickly ballooned to more than $6 trillion from $4.2 trillion in February, and it is on pace to more than double by midyear from its prior high of $4.5 trillion.

"The Fed is at war against the virus, and this is a wartime degree of commitment to credit policy," said Krishna Guha, vice chairman of Evercore ISI.

The superlatives the Fed is setting with the scale of its response have been matched by the speed with which unemployment is rising. An all-time high 7.5 million Americans were receiving unemployment benefits at the end of March, the Labor Department reported Thursday. Another 6.6 million had submitted claims during the week ended April 4.

The severe scale of damage has prompted the Fed to signal its willingness to buy assets or make loans in any market it thinks will be necessary to stave off further job losses and business failures.

The Fed has tried to identify “the priority areas where we thought help was needed,” Mr. Powell said during an online forum Thursday. “As we identify other areas, we won’t hesitate to move.”

Mr. Powell also said it would be important to defer to health authorities in determining how to reopen the economy. “We need to have a plan nationally,” he said. “We all want it to happen as quickly as possible. We all want to avoid a false start.”

The Fed first moved in funding markets last month to prevent a public-health crisis from morphing into a financial crisis, and later said it would assist credit markets that have broken down.

The Fed’s initial response borrowed heavily from the programs developed by former Chairman Ben Bernanke, who during the 2008 financial crisis used lending authorities the Fed hadn’t employed since the Great Depression.

Having exhausted those off-the-shelf tools, the Fed is now devising new ones, relying on the advice of British journalist Walter Bagehot, author of an 1873 book that central bankers still use as a guide for crisis management.

“The holders of the cash reserve must be ready not only to keep it for their own liabilities, but to advance it most freely for the liabilities of others,” Bagehot wrote. “They must lend to merchants, to minor bankers, to ‘this man and that man,’ whenever the security is good.”

Congress and the Treasury have made possible a new generation of loan programs by extending nearly $450 billion to cover losses the Fed might sustain in its lending programs. The Fed relied on $185 billion in additional support from the Treasury in launching the programs announced Thursday.

That leaves the Fed with a significant amount of resources available still to expand these programs or introduce new ones should they be needed. Mr. Powell signaled the central bank was in no hurry to withdraw its crisis support and deflected worries that the expansion of credit by the Fed would lead to inflation.

“I worry that in hindsight, you will see that we could have done things differently. But one thing I don’t worry about is inflation right now,” he said.

The steps unveiled Thursday will finance loans that banks make through the government’s emergency small-business lending program and allow banks to exclude those loans from required capital ratios, freeing them up to make more of those loans, which are separately guaranteed by the Small Business Administration.

The Fed will create two other facilities to encourage banks to lend to midsize businesses, which it defined as those with fewer than 10,000 employees or less than $2.5 billion in revenues last year.

This Main Street Lending Program will enable up to $600 billion in lending to firms that are too large to qualify for the small-business loans but too small to access corporate debt markets. Firms can apply for those loans on top of the forgivable payroll loans from the SBA, and banks will be able to sell 95% of the debt to the Fed.

Due to restrictions placed by Congress, the Fed said loans under the Main Street program would be subject to rules on payments to shareholders and executive compensation.

The Fed earlier announced plans to backstop funding markets for large companies and said Thursday it would expand those programs to accept some riskier classes of corporate debt beyond investment grade.

One corporate credit backstop to support new debt issuance of highly rated firms will now include so-called fallen angels that were investment-grade in mid-March but have subsequently been downgraded. A second corporate credit backstop will similarly allow a limited amount of purchases of non-investment-grade debt in exchange-traded funds.

By dipping a toe into the junk-bond market, the Fed is trying to create space for inevitable downgrades for firms in its lending facilities, reducing the "cliff effect" that companies face when they move from the lower rungs of investment grade to noninvestment grade.

Prices for debt from companies, including Ford Motor Co., registered especially large gains after the Fed's announcement. Ford's 7.45% bonds due in 2031 traded as high as 89.5 cents on the dollar after the Fed's announcement, according to MarketAxess, compared with 71 cents Wednesday. The auto maker has more than $36 billion in bonds outstanding, making it the single largest issuer of below-investment-grade debt.

Other potential beneficiaries include Continental Resources Inc. and Western Midstream Operating LP, which lost their investment-grade status after March 22, the Fed's cutoff date for formerly investment-grade firms. Continental Resources' 4.9% bonds due in 2044 climbed to 73.375 cents from 61 cents.

Another program will accept new classes of debt in the previously announced Term Asset-Backed Securities Loan Facility, or TALF, that were initially excluded from that facility when it was used after the 2008 financial crisis to support consumer and business credit markets. The program will become open to the highest-rated tranches of existing commercial mortgage-backed securities and newly issued collateralized loan obligations.

Under TALF, the Fed lends money to investors to buy securities backed by credit-card loans and other consumer debt. The Fed has made $100 billion available for that program and didn't increase the amount Thursday.

To ease funding strains for cities and states experiencing large revenue drops and rising expenses from simultaneous economic and health crises, the Fed said it would purchase up to $500 billion in short-term debt directly from U.S. states, the District of Columbia, counties with at least two million residents, and cities with at least one million residents.

The facility is designed to provide financing of up to two years to state and local governments dealing with increased demand for services at a time when revenues are plunging. The Fed program aims to restore more buying and selling in a market that seized up in mid-March, causing cities and states around the country to cancel borrowing deals for core infrastructure needs.

Muni-bond prices tanked amid frenzied selling last month. Investors yanked $32.8 billion from municipal-bond mutual and exchange-traded funds, the largest monthly outflows since data collection began in 1992, according to Refinitiv.

By limiting the facility to one issuer for each state, city or county, the Fed is likely to avoid propping up some of the most risky municipal borrowing.

Roughly 10% of muni bonds outstanding are junk-rated or unrated debt, much of it issued with state, city or county permission by a range of private entities including nursing homes and charter schools. Those bonds, many of which are held by high-yield mutual funds or other institutional investors, make up one of the most troubled sections of the market.

Analysts said the Fed's help, while valuable, wouldn't replace the need for more aid from the federal government, which provided around $200 billion to states and cities in last month's stimulus bill.

Unlike the federal government, most states operate with balanced-budget requirements that don't allow them to run deficits. "No amount of borrowing can substitute for actual funding to states that will face really impossible decisions around the provision of essential services, unless Congress alleviates the pressure on state budgets," said Mr. Weiss of the Kennedy School.

During his two years as Fed chairman, Mr. Powell has delicately resisted providing pointed advice about tax and spending decisions outside the central bank's traditional purview of regulating banks and setting short-term interest rates.

While he said the Fed would continue to use its powers "forcefully, proactive and aggressively," he issued a more assertive call Thursday for additional spending from Congress and the White House.

Many borrowers will benefit from the Fed's emergency loans, Mr. Powell said, but "there will also be entities of various kinds that need direct fiscal support rather than a loan they would struggle to repay."

Mr. Powell punctuated his call for additional fiscal support by highlighting how severe economic burdens are falling on low-income workers and other vulnerable segments of society.

The task of delivering financial support "directly to those most affected falls to elected officials, who use their powers of taxation and spending to make decisions about where we, as a society, should direct our collective resources," Mr. Powell said.

The Wall Street Journal

By Nick Timiraos

Updated April 9, 2020 5:15 pm ET

—Heather Gillers and Sam Goldfarb contributed to this article.

Smaller Cities Cry Foul on Coronavirus Aid.

Mayors protesting exclusion get sympathetic ear from some lawmakers for next round of stimulus

Mayors of small cities facing big budget shortfalls say they were unfairly cut out of the $2.2 trillion stimulus law, and they are drawing support in Congress to make them eligible for direct aid in future rounds of coronavirus legislation.

Localities are seeing increased strain on first responders and police departments, in addition to bearing the cost of purchasing personal protective equipment. Meanwhile, revenue streams from sales taxes and income taxes have slowed and unemployment claims are surging. But the rescue law stipulates that only counties and cities with populations over 500,000 residents can apply directly for the $150 billion in emergency funding for state, local and tribal governments.

“It’s a terrible slap in the face to most cities around the country,” Shane Bemis, the mayor of Gresham, Ore., said of the population restriction.

The Republican mayor said he may have to look at cuts to the police force and fire department or add a levy to property taxes to continue the services, should the shutdown continue. His city, a suburb of Portland, has about 110,000 residents.

In an interview with WSJ’s Gerald F. Seib, New Jersey Governor Phil Murphy said there is room to be optimistic after his state saw a drop in the rate of new Covid-19 cases, but warned that more federal support is needed to continue the fight against the novel coronavirus. Photo: Associated Press
Lawmakers are sympathetic but are balancing many urgent priorities in future stimulus bills. Some cities may get funds through grants and aid to hospitals as well.

“This is not a question of picking A over B, it’s saying both A and B need sufficient resources,” said House Majority Leader Steny Hoyer (D., Md.) in an interview. In the next large bill that Congress considers, he wants to get additional assistance to small communities and “get them directly to the locality, as opposed to going through the states.”

House Speaker Nancy Pelosi (D., Calif.) and Senate Minority Leader Chuck Schumer (D., N.Y.) on Wednesday requested an additional $150 billion for states and local governments. They didn’t say if they backed keeping the population requirement for direct aid to cities. An aide to Majority Leader Mitch McConnell (R., Ky.) couldn’t say if the Senate leader would support changing the requirements in future legislation.

Rep. Joe Neguse, a Colorado Democrat, on Tuesday introduced legislation that would allocate $250 billion for local communities, cities and towns that are facing challenges due to the pandemic. The legislation was introduced with 75 sponsors, but it’s not known if that will be incorporated as part of a future economic stimulus package.

Meanwhile, Sens. Michael Bennet (D., Colo.) and Cory Gardner (R., Colo.) wrote to Treasury Secretary Steven Mnuchin this week, asking him to take a broad definition of what he sees as coronavirus-related needs and ensure small and rural communities receive a share of the funds approved by Congress last month.

“I don’t think there should be population limits one way or another,” Mr. Gardner said.

A spokesperson for the Treasury Department didn’t return a request for comment.

Separately, Mr. Mnuchin said that the federal government would soon announce plans to establish a facility to purchase municipal securities, responding to a Democratic effort to get the U.S. to provide a backstop for struggling cities and localities.

Lawmakers are looking at other approaches as well. Rep. Rashida Tlaib (D., Mich.) is working on part of the package of issues that House Financial Services Committee Chairman Maxine Waters (D., Calif.) will submit for consideration in future legislation. She said the goal would be to push the Federal Reserve to buy up municipal debt, providing money to help localities weather the crisis. The stimulus package gives the Federal Reserve the option to buy such debt.

Congressional aides said the 500,000 population stipulation was in the most recent bill as it was being quickly negotiated to move it through Congress faster. States that receive their share of the $150 billion can then send some to local governments, though mayors see a need for money urgently now.

“We could be off by several million dollars in our existing budget, so that’s a problem,” said Andy Schor, the mayor of Lansing, Mich., which has about 120,000 residents.

In addition to losses in tax revenue, the local minor-league baseball team, the Lansing Lugnuts, told the city it wouldn’t pay rent this month on the stadium, and the convention space the city helps subsidize lost $1.5 million in business in two days when the pandemic hit. Mr. Schor told his residents this week to stop putting their yard waste on the curb, as one of his first decisions in the pandemic was to not hire the seasonal help that picks it up.

The law also means cities with big metro areas but relatively small populations were left out.

Miami Mayor Francis X. Suarez, who was the second confirmed case of Covid-19 in his area and has since donated blood plasma to help, doesn’t expect to directly receive funding and is frustrated by the lack of information on how the money appropriated by Congress will be allocated. Miami, with just under 500,000 residents, has spent millions of dollars on personal protective equipment and coronavirus testing and has the most cases in Florida.

“We have reserves, but they are not limitless,” he said in an interview. “Right now we’re estimating a hit of $20 million a month in terms of lost revenue.”

The Wall Street Journal

By Natalie Andrews

April 9, 2020 9:19 am ET

—Siobhan Hughes contributed to this article.

[State Funding Woes Are Dragging the Fed Into Muni-Market Reboot.]

The central bank has been aggressive in supporting the economy, but financing by local governments poses unique challenges

Reviving the market for bonds sold by state and local governments is shaping up as one of the stiffest tests in the Federal Reserve’s campaign to restore financial normalcy.

The Fed has committed trillions of dollars to keep money flowing through markets vital to economic growth, including huge purchases of government and mortgage securities and new programs to backstop money-market funds and corporate-debt markets.

Those efforts have helped to fuel the markets’ partial recovery, say investors and portfolio managers, with the Dow Jones Industrial Average up 26% from its March 23 low.

But the central bank is limited in its efforts to revive the $4 trillion market for municipal securities, which back everything from school facilities to stadiums and highways. The Fed has so far intervened in only a few corners of the market, which is fraught with idiosyncrasies that make it difficult to categorize debt as investment-grade or risky, the line in the sand drawn by the Fed to ascertain what it backstops during a crisis.

The constraints stem in part from the coronavirus's decimation of state and local finances, which could make the risks even harder to judge, and the Fed's traditional deference to Congress in handling local government financing decisions.

"The Fed doesn't want to be in a position to say you have to raise taxes or cut pay to policemen or firemen" to secure or repay a loan from the central bank, said Scott Alvarez, who was the Fed's general counsel from 2004 to 2017.

Treasury Secretary Steven Mnuchin told Democratic lawmakers Wednesday that Fed and Treasury officials would soon unveil a program to backstop financing for states. The devil will be in the details, and those designs—along with other announced plans for lending to small and midsize businesses—could be unveiled as soon as Thursday, according to people familiar with the matter.

While the Fed has the authority to purchase municipal debt with maturities of six months or less, it hasn't exercised that authority. A more likely route would be to establish an emergency lending program to backstop longer-dated muni debt.

The $2 trillion rescue package that Washington approved last month includes $454 billion that the Treasury can use to absorb losses on any Fed lending facilities. That bill provided $200 billion in direct funding for states and cities, but they are likely to need another $300 billion to $600 billion, said Tom Kozlik, head of municipal credit at Hilltop Securities.

The aid to cities and states in the recent rescue package "will not be enough to offset the cost many states and municipalities are encountering," said Boston Fed President Eric Rosengren. The Fed can help with financial markets, but those efforts will be less effective without more direct aid, he said.

Officials are trying to avoid a rerun of state and local government layoffs after the 2007-09 recession, which contributed to an underwhelming economic recovery despite unprecedented Fed stimulus.

The Fed typically seeks to steer clear of concerns about the potential loss of taxpayer funds by focusing on purchases of assets such as highly rated bonds whose default is widely judged to be minimal. Such judgments are harder to come by in the market for municipal bonds, where even the strongest borrowers have been hammered by the challenges arising from an unprecedented shutdown of business and commerce around the country.

States face not just the burden of boosting spending on public-health responses, but also a drop in revenue from sharp declines in sales-tax collections.

"In almost every way, states are at the front lines of fighting this," said Joe Torsella, Pennsylvania's state treasurer.

Fears that state and local finances will be permanently damaged are evident in the investor flight from this market, which until recently has ranked among the most resilient.

In March, investors pulled $32.8 billion from municipal-bond mutual and exchange-traded funds, according to Refinitiv, the largest monthly outflows since data collection began in 1992. State and local governments canceled billions of dollars of planned borrowing. The S&P Municipal Bond Index gave up more than a year's worth of gains.

The Fed has long resisted lending to states and companies, having spurned requests from lawmakers in 2008 to aid ailing U.S. auto makers and ruled out a muni-debt backstop.

The central bank has already broken some taboos during the current crisis. It is in the process of unveiling lending facilities for large and midsize companies, and it has dipped a toe into muni-debt markets by expanding a money-market lending backstop to include certain types of municipal debt—and by purchasing some highly rated municipal debt in a facility backing the market for very-short-term commercial debt.

Analysts and state officials said the Fed could provide support by buying a broad-based muni index, avoiding the prospect of picking winners and losers outright.

Among the issues the Fed must weigh is who ultimately benefits. The yields on bonds issued by Montgomery County, Md., an affluent suburb of Washington, D.C., and Cook County, Ill., home to Chicago and where more than 700,000 people live in poverty, both jumped more than 2 percentage points over a week in March, indicating lower prices.

Yields on the Montgomery County bonds have since declined more than those on the Cook County bonds—indicating that while the market views the Montgomery County bonds as a better risk, the Cook County securities are potentially the ones more in need of support. Those sorts of regional and distributional issues carry significant risk for the Fed, investors said.

“It would be very problematic for the institution and its credibility to decide between New York and Montana,” said Mark Spindel, a Washington-based investment manager who co-wrote a history of the Fed.

The prospect of increased lending to businesses and local governments, often in consultation with the Treasury Department, could reshape the Fed’s longstanding autonomy from the executive branch.

During and after World War II, the central bank pegged Treasury yields to finance war spending and the recovery. A bruising fight with the Truman administration, which resulted in the resignation of the Fed chairman, ultimately led to a formal agreement in 1951 to end the Fed’s policy of fixing Treasury yields.

“I think it is possible that we will have a central bank when this is all over that has sacrificed a piece of its independence,” said Jeremy Stein, a former Fed governor who now teaches at Harvard.

Fears about the loss of central-bank independence are overstated given the gravity of the current crisis, said Mr. Torsella.

While political and constitutional tensions loom, “smart, well-intentioned people can figure out how to do this in a way” that “simply restores functioning of this market,” said Mr. Torsella. “I want to make sure we have a fighting chance of getting back to those more normal times.”

The Wall Street Journal

By Julia-Ambra Verlaine and Nick Timiraos

Updated April 8, 2020 5:56 pm ET

—Siobhan Hughes and Kate Davidson contributed to this article.

Fed Announces Municipal Liquidity Facility.

Announcement Follows BDA Letter / Recommendations to the Fed

The Federal Reserve today announced the guidelines of the Municipal Liquidity Facility, authority that was provided by the recent passage of the CARES Act.

The fact sheet can be viewed here.

Last week, the BDA urged to the Fed and Treasury to take action in the primary market by through direct purchases. The Fed also left the door open to further actions, including limited secondary market activity in which the BDA wrote in favor of.

The letter can be viewed here.

Facility Facts

The Municipal Liquidity Facility will support lending to states, cities with a population exceeding one million residents, and counties with a population exceeding two million residents.

Under the Facility, a Federal Reserve Bank will commit to lend to a special purpose vehicle on a recourse basis. The SPV will purchase Eligible Notes directly from Eligible Issuers at the time of issuance.

The Reserve Bank will be secured by all the assets of the SPV. Treasury will make an initial equity investment of $35 billion steaming from the $454 billion allotted in Sec. 4003 of the CARES Act, in the SPV in connection with the Facility.

The SPV will have the ability to purchase up to $500 billion of Eligible Notes.

Eligible Notes:

- TANS,
- TRANS
- BANS, and
- Other similar short-term notes issued by Eligible Issuers, provided that such notes mature no later than 24 months from the date of issuance

Termination Date

The SPV will cease purchasing Eligible Notes on September 30, 2020, unless the Board and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

April 9, 2020

Press Release: BDA Statement on the Federal Reserve Municipal Liquidity Facility

We welcome the Fed's support for the market and we are hopeful this facility will provide needed help to municipal issuers. We are looking particularly at how smaller issuers will access the facility. We look forward to working with the Fed and others to ensure that any extraordinary help for the market is applied as effectively as possible. We also urge the Fed to use its CARES Act authority to provide support as needed for the secondary market for municipal bonds – providing much needed liquidity, benefiting the overall market.

The Bond Dealers of America is the only Washington, DC based trade association that represents securities dealers and banks whose focus is the U.S. bond markets. We work passionately to promote public policies and market practices that improve the market environment while also providing a forum for its members to learn, collaborate, debate and discuss issues of common interest.

The BDA acts as a clearinghouse for industry information and issues and provides educational opportunities for industry professionals through conferences, seminars and roundtables. By supporting the interests and prosperity of our members, we help to strengthen the companies, municipalities and investors who depend on them for both access to market liquidity and to raise the capital they need to grow and prosper.

Bond Dealers of America

April 9, 2020

Fed Treads Cautiously Into Muni Market With Loan Lifeline.

- **Central bank isn't making open-market buying, as some sought**
- **Fed leaves the door open to more steps if they are needed**

The Federal Reserve is treading carefully into the $3.9 trillion municipal-bond market.

The central bank announced on Thursday that it would lend as much as $500 billion to states and the biggest local governments to cover massive tax shortfalls brought on by the swift slowdown in the economy, preventing a wave of short-term debt sales from hitting the public markets. But it stopped short of swooping in to buy long-term debt to head off another sell-off like the one that erupted last month, as it is doing with corporate bonds, collateralized loans and commercial mortgage-backed securities.

"The Fed is throwing a lifeline to municipal governments," said Gary Pollack, head of fixed income at DWS Investment Management. "This will provide them time to get through this difficult period."

The step will ensure that states and the most-populous cities can raise money to keep operating as tax collections dry up while their economies grind to a virtual halt and annual filing deadlines are pushed back. Wall Street analysts had predicted that such sales would jump in the coming months, which could have put pressure on a segment of the market where interest rates surged sharply last month when money managers dumped the shortest-dated securities to raise cash.

The lending program is somewhat limited in scope, however, since it is open to states and the 10 cities and 16 counties that are big enough to meet the minimum population requirements, according to Census figures. While states would be allowed to borrow money for smaller governments that don't qualify on their own, it's not clear how willing they would be to do so on behalf of financially struggling municipalities.

"While today's action helps the largest cities, it completely misses the mark for those cities, towns, and counties across our country that fall under the population minimums," Chris Iacovella, the chief executive officer of the American Securities Association, a lobbying group for regional firms. "These areas represent the heartbeat of America and for some reason the Fed and Treasury have chosen to exclude them while backstopping the largest cities, which doesn't make any sense."

The Fed's move comes after the municipal-bond market went through an unprecedented sell-off in March as investors pulled record amounts out of mutual funds and governments began to forecast huge deficits from the virus-related shutdowns in activity. That rout stopped after Congress reached agreement on the $2.2 trillion economic stimulus measure, which gave the central bank the power to lend to states and cities and fostered speculation that it would start buying already-issued bonds in order to backstop the market.

"I am a bit disappointed in that the Fed will not be buying muni bonds in the secondary market, something they are doing for investment-grade corporate bonds," RJ Gallo, senior portfolio manager at Federated Hermes. "Perhaps that may evolve in the future if this program fails to provide sufficient capital and liquidity support."

Bond prices gained after the Fed's announcement Thursday, driving the yield on 10-year top-rated securities down 10 basis points to 1.24%, less than half what it hit in March. Even risky securities that feel steeply during last month's sell-off joined in the gains, with Ohio tobacco-settlement bonds due in 2055 climbing to as much as 97.5 cents on the dollar from about 91 cents Wednesday.

The Fed's special purpose vehicle will purchase so-called tax, revenue and bond anticipation notes, which governments sell when they're facing temporary shortfalls in revenues or waiting to sell long-term debt. The notes that the entity purchases must mature in 24 months or less.

That will prevent a massive amount of short-term securities from being issued at a time when the municipal-debt market is only slowly reviving from last month's turmoil, which has starkly reduced the pace of new bond sales as many large deals are put on hold.

John Mousseau, the chief executive officer of Cumberland Advisors, said the Fed's direct lending will help guaranty that the "market will not seize up," which could in turn take pressure off of longer-dated securities as well.

The Fed said in a statement Thursday that it would continue to watch conditions in the municipal market to see if further action is needed. That fits with the central bank's typical approach to wading into new asset classes, said Sean Simko, head of global fixed-income management at SEI.

"What we've noticed from the Fed is that they do like moving in steps — they're taking it in a measured pace," Simko said. "It wouldn't surprise me if they would come into the market with a step two or step three if needed."

Bloomberg Markets

By Amanda Albright, Fola Akinnibi, and Danielle Moran

April 9, 2020, 8:35 AM PDT Updated on April 9, 2020, 11:20 AM PDT

— With assistance by Alexandre Tanzi

[‘Where No Fed Has Gone’: Wall Street Reacts to Muni-Debt Program]

The Federal Reserve on Thursday said it will lend as much as $500 billion to states and the biggest counties and cities, making its first direct move ever into the $3.9 trillion municipal-debt market to help limit the financial fallout of the coronavirus pandemic.

The step will help governments cover the shortfalls they are facing because of the vast shutdowns sweeping over much of the country and prevent waves of short-term borrowing by localities sold to plug budget holes from potentially destabilizing the public markets.

The move was broadly welcomed by Wall Street analysts, municipal bond investors, underwriters and lobbying groups, even though it fell short of buying already-issued debt as some had sought. Moreover, it’s only open to cities with a population above 1 million and counties with 2 million or more, limiting its direct effect on local governments to the 26 that are big enough to qualify, based on Census figures.

Bank Analysts’ Views

- Municipal strategists at Barclays Plc said that the program is a “positive development” because it will relieve pressure on the new-issue market, though it “probably falls well short of investor expectations.” The group led by Mikhail Foux, predicts eligible governments will tap the program “aggressively,” with the tax revenue of states and local municipalities expected to drop by $350 billion or more.
- Bank of America analysts Yingchen Li and Ian Rogow said the move is “broadly positive for muni market” since it should lower interest rates and improve investors’ confidence, likely resulting in lower risk premiums. The group estimates the Fed could purchase as much as $268.2 billion of notes directly from the 50 states and Washington D.C., based on the limits included in the program.
- Jeffrey Lipton, head of municipal research at Oppenheimer & Co., said “the Fed is going where no Fed has gone before” and he expects that it will be followed by other operations directed at the municipal-securities market. Lipton said further thought has to be given to the efficacy of what he called a “short-term fix” and is skeptical of the long-term impact on credit.
- Eric Kazatsky, municipal strategist for Bloomberg Intelligence, said the Fed’s entry on the short end of the market could cloud the pricing of risk for borrowers like Illinois, which is on the cusp of junk. “While the Fed’s deeper involvement is welcome news to those in municipal finance, potential for disruption in credit spreads in the front end of the curve is a real possibility.”

Buyers Weigh In

- The Fed’s decision is positive and will provide state and local government with liquidity to get through what is a very difficult time, said Matthew Norton, co-head of municipal portfolio management at AllianceBernstein. “I think the Fed will do whatever it takes,” he said. If the market needs more liquidity they certainly would step up and do so as they have in other asset classes.”
- Jim Evans, the chief investment officer for fixed-income at Parametric Portfolio Associates, said that the Fed is looking for states to make decisions for smaller entities in order to fully vet their needs. That vetting “encourages issuers that can access markets to do that in the normal market

channels and not use this facility," he said.
- Still, some investors said that more action may be needed. RJ Gallo, senior portfolio manager at Federated Hermes, said he was disappointed that the Fed wouldn't buy municipals in the secondary market like it's doing with corporate bonds. "Perhaps that may evolve in the future if this program fails to provide sufficient capital and liquidity support," he said.
- Thomas Graff, a portfolio manager at Brown Advisory, said the lending program won't help cash-strapped not-for-profit hospitals and nursing homes that are reeling from the impact of the virus. He said a more broad purchasing program could help those credits. "Ultimately that would help a wider range of issuers, including non-profit hospitals and nursing homes."

Lobbyists Want More

- Lobbying groups for state and local governments had pressed the Fed to wade into the market in light of the sell-off last month. Mike Nicholas, CEO of the Bond Dealers of America, said the group representing banks and dealers welcomed the new program but wants the Fed to provide support as needed to the secondary market. "We are looking particularly at how smaller issuers will access the facility," Nicholas said in a statement.
- The American Securities Association, a lobbying group that represents regional financial services firms, said the program "misses the mark" for smaller local governments. "These areas represent the heartbeat of America and for some reason the Fed and Treasury have chosen to exclude them while backstopping the largest cities, which doesn't make any sense," CEO Chris Iacovella said in a statement.

Bloomberg

By Danielle Moran and Amanda Albright

April 9, 2020, 12:25 PM PDT

— With assistance by Fola Akinnibi

Soaring Bond Yields Drive States, Cities to Buy Back Own Debt.

- **Ohio, Pennsylvania buy hospital debt after market selloff**
- **Yields on variable-rate munis have fallen but still above norm**

Investors' swift retreat from a key corner of the municipal-bond market is causing state and local governments to take matters into their own hands.

Governments are wading into the variable-rate market to drive down borrowing costs on the bonds with interest rates that reset daily or weekly. The municipal-bond market's steep sell-off last month led yields on the debt to surge as money managers dumped them to raise cash, costing municipalities as they were facing higher expenses from battling the spread of the coronavirus.

The steps by officials to buy back some of their localities' own debt signal some concern about the health of the state and local bond market even after the Federal Reserve last month included purchases of variable-rate debt as collateral as part of its lending program for money market funds. Yields on an index of the securities fell 2.9 percentage points on Wednesday to 1.83%, still higher than the 0.92% that the index has averaged over the last five years.

Continue reading.

Bloomberg Markets

By Amanda Albright and Romy Varghese

April 7, 2020, 6:18 AM PDT

Small, Mid-Sized Cities Currently Cut Out of Direct Coronavirus Funding.

With tax revenues down sharply, all local governments are hurting. But leaders of small and mid-sized jurisdictions in particular are arguing that they need more support.

The massive coronavirus relief package President Trump signed into law at the end of last month includes a $139 billion pot of money meant to help states and local governments in dealing with the disease outbreak.

But smaller- and mid-sized cities and counties won't get direct access to those funds.

While these smaller governments could get some money from other parts of the package or from "pass-throughs" from states or bigger counties, local officials say the federal government is going to need to provide far more financial support to help them weather the public health crisis.

A group of Democratic lawmakers in the U.S. House on Tuesday put forward a bill that would move in this direction by allotting $250 billion in local government aid for smaller jurisdictions.

And on Wednesday, House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer issued a statement outlining Democratic priorities for an "interim" coronavirus package. As part of it, they are calling for an additional $150 billion that could be used to help state and local governments "mitigate lost revenue" from the crisis.

"We need relief," said Vince Williams, the mayor of Union City, Georgia, which is located southwest of Atlanta and has about 22,000 residents. "This is something that's going to cripple a lot of municipalities."

"Especially smaller cities, we're going to have issues when people can't pay their property taxes," Williams added. "They won't be able to pay their liquor license fees, business licenses. Everything is going to hit us all at once, once all of this passes."

In general, advocates for state and local governments and some public finance experts echo Williams' point. They say that federal help for the states and localities is so far woefully insufficient to cover the escalating costs associated with the public health crisis and the expected tax revenue declines from the economic downturn the outbreak has caused.

The law that Trump signed last month was the third legislative package lawmakers have passed to address the pandemic. A section of it creates a $150 billion Coronavirus Relief Fund to provide payments to local governments with populations over 500,000 and to states.

Each state is guaranteed a payment of at least $1.25 billion from the fund, with money provided to local governments within their borders subtracted from the total that is allocated to them. The amount made available to each state will vary based on their populations. While the fund is $150 billion in total, $8 billion is set aside for tribal governments and $3 billion for territories.

The law specifies that this money has to be spent on “necessary expenditures” due to the public health emergency, incurred between March 1 and Dec. 30, 2020. Eligible costs are also supposed to be previously unbudgeted or unplanned.

Nan Whaley, the mayor of Dayton, Ohio, called it “incredibly concerning” that her city of 140,000 residents, along with other mid-sized municipalities in Ohio like Toledo, Akron and Youngstown, are boxed out of direct payments from the relief fund.

A Congressional Research Service report published last week estimates that Ohio will receive $4.5 billion from the relief fund and that five counties there are eligible for about $775 million.

Whaley said Dayton would fight for some of the state’s cut, but doubts the city will see any of it. “If you give the state money, they’re going to take care of themselves first. And there’s probably not going to be any money left for the cities,” she said. “These pass-throughs don’t work.”

Montgomery County, which surrounds Dayton, appears to meet the 500,000-person population threshold requirement, but Whaley is also skeptical that those dollars will flow to her city.

She and others are now looking towards the possibility of a fourth federal relief package and say that it should include a program that provides federal aid payments directly to small- and mid-sized cities and other local governments.

Michael Gleeson, the National League of Cities’ legislative manager for finance, administration and intergovernmental relations, said the population cutoff for jurisdictions to qualify for the relief fund was among the big issues for the group currently on Capitol Hill. “There are a lot of smaller cities, towns and villages that could be shut out from direct access to federal aid,” he said.

NLC has said that 36 cities meet the population threshold, and together may be eligible for up to an estimated $8.2 billion of direct funding, ranging from about $90 million for Fresno, California to $1.5 billion for New York City.

Hadi Sedigh, chief innovation officer for the National Association of Counties, said the hope is that some of the relief fund dollars would flow down from states to smaller counties.

“Based on our understanding of the intent of Congress, this state stabilization fund was generally intended to provide fiscal support for the recovery of state and local governments of all sizes,” he said. “It has some specific, direct paths for counties of 500,000 or more residents.”

“The calling out of that path doesn’t necessarily need to make a statement about how much of the money should go to those smaller counties,” Sedigh added.

Sedigh noted that NACo represents 3,000 counties of all different sizes and that roughly 130 of them appear to meet the population threshold to qualify for direct funding.

It’s possible but uncertain, he said, that Treasury Department guidelines could establish some standards for how states distribute the money they get from the relief fund to local governments. Treasury did not respond on Tuesday to emailed questions about guidance for the fund.

There’s clearly an appetite for more relief funding at the state and local levels.

In Colorado, Gov. Jared Polis, along with representatives for county and municipal groups, signed onto a letter last week urging the state's congressional delegation to back at least $500 billion in aid for state and local governments—including those with populations below 500,000.

Rep. Joe Neguse, a Colorado Democrat, is one of the sponsors of the new House bill that aims to provide additional funding to local governments. Neguse's office noted that mid-sized municipalities in his district, like Boulder, Fort Collins and Loveland, are too small to have access to direct funds through the existing Coronavirus Relief Fund program.

The bill that Neguse and at least three other Democratic lawmakers are backing would make $250 billion available specifically for local jurisdictions with 500,000 people or less.

NLC has been working with staff for the lawmakers who are supporting that bill, and one of the advocacy group's goals is to get direct federal aid funding for localities with populations under 500,000 people included in the next federal relief package.

Williams, the mayor in Georgia, said it is not clear to him yet whether he would have to go through the county where Union City is located, or the state government, to try to secure money from the relief fund. But either way, he's dissatisfied with the status quo. "I'm totally opposed to them leaving this as only cities of 500,000 or more will get direct funding," the mayor said.

Michael Wallace, NLC's legislative director for community and economic development, said that it has been clear that the $150 billion relief fund would not provide enough assistance for states and localities to get through the public health crisis.

"Small towns, very small cities and towns, are having to do the exact same things cities over 500,000 are doing. It's just a different scale," he added.

The legislation that created the fund—the Coronavirus Aid, Relief, and Economic Security, or CARES, Act—does also contain other provisions to help state and local governments.

For instance, there's $25 billion for transit infrastructure grants, $5 billion for Community Development Block Grants and $4 billion for homeless assistance grants. The bill also opens the door for around $454 billion to go towards Federal Reserve initiatives designed to bolster lending to eligible states and municipalities, as well as businesses.

Wallace described the CARES Act as good legislation for helping communities deal with the immediate economic blow that the coronavirus has dealt. But the financial challenges for state and local governments keep stacking up as the virus outbreak drags on.

Across the country, authorities have ordered a range of business to shut their doors and are urging people to stay at home as much as possible, as the nation battles the spread of Covid-19, the highly contagious respiratory illness the virus causes.

With businesses closed and unemployment skyrocketing, government revenues like sales and income taxes are expected to drop sharply compared to projected levels.

"Think about all the sales taxes we're going to miss," said Williams, the Union City mayor.

Meanwhile, local governments are covering costs tied directly to the public health response, as well as trying to assist small businesses and renters. They're also waiving fines and fees and granting leeway on utility payments to reduce financial pressure on residents.

"All of these things are good public policy, but all of them negatively impact local budgets," Wallace said. “Every kind of revenue is down,” he added.

A plain reading of the language in the CARES Act doesn’t seem to provide flexibility for states and localities to use the relief fund money to backfill lost tax revenues. NLC’s Gleeson said that, based on what he’s hearing, that’s the way that the Treasury Department sees things as well.

This stands in contrast to the “mitigate lost revenue” wording that Pelosi and Schumer used to describe the additional state and local aid that they proposed on Wednesday.

Tom Kozlik, head of municipal strategy and credit with Hilltop Securities suggested in a brief last week that federal lawmakers will need to deliver a fourth relief package that includes at least an additional $300 billion to $600 billion of “unencumbered aid” for state and local governments.

Like other cities in Ohio, Dayton relies heavily on income taxes. When people aren’t working, Whaley said, it undercuts revenue and hampers the city’s ability to provide services. The virus has dealt at least a temporary blow to Dayton’s municipal workforce. Whaley said the city has furloughed the equivalent of 479 full-time employees of its roughly 1,900 workers.

The mayor said she hadn’t seen figures yet for how severely the outbreak will affect tax collections. But asked about what spending cuts the city might make to offset revenue declines, she said Dayton’s budget was already stretched tight. “There is nothing to cut but police, fire, and trash,” Whaley said. “There’s nothing left. And that’s the challenge.”

It’s a similar story elsewhere in Ohio, she added, noting that cities received less support from the state after the last recession and that the job market in Dayton still hadn’t recovered to pre-2009 levels.

“One of the things this pandemic is displaying,” Whaley said, “is where we have not invested in the safety net, and where we don’t have depth of government services anymore.”

Route Fifty

by Bill Lucia

APRIL 8, 2020

Client Alert: Federal Reserve Creation of a Municipal Liquidity Facility

Effective April 9, 2020, the Federal Reserve created a Municipal Liquidity Facility (the “Facility”) to purchase state and local municipal debt. The Municipal Liquidity Facility was authorized pursuant to Section 13(3) of the Federal Reserve Act and will provide lending to states and cities with populations over 1 million, and counties with populations over 2 million using funds appropriated under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), enacted March 27, 2020. The terms described herein may be adjusted by the Board of Governors of the Federal Reserve System (the “Board”) and the Secretary of the Treasury, which such changes will be announced on the Board’s website.

Lending Under the Facility. The Federal Reserve Bank (the “Reserve Bank”) will lend money to a Special Purpose Vehicle (“SPV”) on a recourse basis and the SPV will purchase Eligible Notes directly from Eligible Issuers at the time of original issuance. The Reserve Bank will be secured by all of the assets of the SPV. The Department of the Treasury will make an initial $35 billion equity investment in the SPV in connection with the Facility. The SPV will have the ability to purchase up to $500 billion of Eligible Notes.

Eligible Notes. Eligible Notes are TANS (tax anticipation notes), TRANS (tax and revenue anticipation notes), BANS (bond anticipation notes), and other short-term notes with a maximum maturity of 24 months from the date of issuance. Each note's eligibility will be subject to review by the Federal Reserve and will require relevant legal opinions and disclosures, as determined by the Federal Reserve, prior to purchase.

Eligible Issuers. An Eligible Issuer is a state, city, or county, or an instrumentality that issues on behalf of a state, city, or county for the purpose of managing its cash flows. ONLY ONE ISSUER PER STATE, CITY, OR COUNTY IS ELIGIBLE. However, an Eligible Issuer may use the proceeds of its purchased notes to purchase similar notes or otherwise to assist political subdivisions or instrumentalities of the relevant state, city, or county for the uses specified below.

Limitations. The Federal Reserve limits the amount of purchase to one or more issuances up to an aggregate of 20 percent of general revenue or utility revenue from the state, city, or county's own sources, measured by fiscal year 2017 revenues. States may request purchases in excess of the limit to assist political subdivisions and instrumentalities not otherwise eligible for the facility.

Terms of the Notes. Pricing will be based on the issuer's rating at the time of purchase with details to be provided later. The notes are callable at any time at par.

Fees. There is an origination fee of 10 basis points of the principal amount of notes purchased, payable from note proceeds.

Uses. The proceeds of the notes may be used to help manage the cash flow impact of income tax deferrals, the potential reduction of tax, and other revenues or the increases of expenses resulting from Covid-19, and debt service payments on obligations of the relevant state, city, or county.

Termination Date. The SPV will cease purchasing Eligible Notes on September 30, 2020, unless the Board of Governors of the Federal Reserve System and the Treasury Department extend the Facility. The Reserve Bank will continue to fund the SPV after such date until the SPV's underlying assets mature or are sold.

April 9 2020

Shumaker Loop & Kendrick – Sheila Kles

[The Fed Will Buy State and Local Muni Bonds. It Might Not Cover the Virus Shortfall.]

State and local governments will get budgetary breathing room from the Federal Reserve to cover at least some revenue lost in coronavirus-related shutdowns, but likely not enough to fully plug shortfalls.

The Fed's program, called the municipal liquidity facility, can directly buy up to $500 billion in municipal bonds from states, cities with more than one million people, and counties with more than two million people. That means the program isn't open to most local governments as there are only

10 cities and 16 counties in the U.S. that meet the Fed's criteria. Each muni-bond issuer must obtain Fed approval to use the facility, and states can ask the Fed to lift their borrowing caps on behalf of smaller municipalities and other entities that are ineligible.

State and local governments will be able to sell only bonds maturing in two years or less to the Fed. Each transaction's pricing will depend on the credit rating of the state or municipal government at the time of the bonds' purchase, according to the central bank's term sheet.

It isn't clear whether the $500 billion will be enough to cover the shortfall that state and local governments will face from the pandemic. The answer to that question depends on the size of the budget gaps that remain once Congress's $150 billion appropriation for coronavirus relief for domestic governments is taken into account.

There is a threshold for Fed success, however: The Fed's facility will be able to cover municipalities' budget gaps if they lose no more than 20% of their normal tax revenues.

Here's why: The Fed says it will buy new municipal notes worth up to 20% of each municipality's 2017 revenues, the most recent data available, excluding intra-governmental transfers and including utility revenues. For state and local governments across the entire country, those revenues added up to nearly $2.6 trillion in 2017. And 20% of that total is $515 billion, only a slightly larger sum than the $500 billion of financing the Fed will make available.

In other words, if state and local governments lose nearly 20% of one year's revenues from income taxes, property taxes, sales taxes and utilities, the Fed should be able to lend them money to cover all of that with a two-year loan.

But once that two years is over, the municipalities will need to either refinance their Fed-owned notes with bonds, or hope that the economy has recovered enough to repay the principal.

What's more, some Wall Street strategists don't think the program will even be enough to patch up the hole that the coronavirus will create near-term state and municipal budgets.

"This program does not plug state government budget gaps," wrote Goldman Sachs. "We continue to expect Congress to provide [an additional] $100-200bn in fiscal aid."

Barron's

By Alexandra Scaggs

Updated April 10, 2020 9:39 am ET / Original April 10, 2020 9:10 am ET

Write to Alexandra Scaggs at alexandra.scaggs@barrons.com

Fed to Buy Municipal Debt for First Time, Underscoring Peril Facing Cities.

The central bank is targeting short-term debt because states and cities nationwide have seen an alarming drop-off in revenue.

The Federal Reserve will directly buy bonds issued by states and cities for the first time, in a move that highlights the danger faced by local governments as the fallout from the coronavirus pandemic slams their budgets.

The Fed said Thursday it would purchase up to $500 billion in short-term municipal debt to ease turmoil in the market. It was part of a slew of emergency facilities totaling more than $2 trillion that the central bank unveiled, mainly to boost small and medium-sized companies that are especially vulnerable to a severe economic slump.

The central bank is targeting short-term debt because states and cities nationwide have seen an alarming drop-off in revenue as businesses shutter due to the virus outbreak. Job losses have cut deeply into sales tax income, with the federal government announcing Thursday that more than 16 million Americans have filed jobless claims in the last three weeks. A shift in the federal tax deadline also created unexpected holes in local budgets as officials chose to delay their own deadlines in tandem.

“This is a significant move by the feds to enter the municipal market and in a pretty big way,” said Micah Green, a partner at Steptoe & Johnson and former co-head of the Securities Industry and Financial Markets Association. Still, he said, “There’s much more to be seen as to what role, if any, they will play in the longer-term debt market, which would be an even further step of unprecedented activity by the Federal Reserve.”

The Fed has come under increasing pressure to help out municipalities, but it has long resisted that because of concern about getting involved in political issues that come along with local financing decisions. But now it is skirting the need to make political decisions about which debt to buy by setting up a program under its emergency powers that will allow any state or large city that meets the qualifications to participate.

Federal Reserve Chair Jerome Powell said in February at a House oversight hearing that the Fed has “limited authority” to buy short-term municipal debt and historically hasn’t waded very deeply into state and local government finance. And nine years ago, then-Chair Ben Bernanke told the Senate Budget Committee that “we have no expectation or intention to get involved in state and local finance,” as local budgets were flailing after the Great Recession.

Regulators sounded a different note today, saying the emergency lending would be accessible to states and the District of Columbia, as well as cities with populations over 1 million residents and counties with populations over 2 million residents. The Treasury Department will use $35 billion from the stimulus package enacted in late March to cover any losses from states or cities that default.

Eligible kinds of debt include tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes and “other similar short-term notes” with maturities no longer than 24 months.

Generally, those kinds of notes allow governments to access a larger amount of money upfront in the form of debt instruments using estimations of future revenue. Each debt issuance will be subject to Fed review.

Total debt issuance will be capped at 20 percent of the “general revenue from own sources and utility revenue” of each government applying for the aid, based on fiscal year 2017, the Fed said.

Some issues to watch as this facility rolls out include which individual states the central bank will allow to seek debt purchases in excess of the cap, an exception it provided to help ineligible governments access credit. And the Fed said in its announcement that pricing details for issuing this debt will be provided later.

Analysts and research groups have cited Tennessee, Illinois and New Jersey as among the states at particular risk in the downturn, citing a heavy dependence on sales tax revenue, low level of reserves or high levels of debt.

"We are hopeful this facility will provide needed help to municipal issuers," the Bond Dealers of America, a Washington-based trade group representing banks and securities firms active in the bond market, said in a statement. "We are looking particularly at how smaller issuers will access the facility."

Looking beyond the short-term lending action, the Bond Dealers of America urged the central bank "to use its CARES Act authority to provide support as needed for the secondary market for municipal bonds — providing much needed liquidity, benefiting the overall market," referring to the stimulus bill that President Donald Trump signed into law last month.

Bolstering state and local balance sheets will help the secondary market, but the Fed clearly left open the possibility of broader action, according to its announcement.

"The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments," the central bank said.

Unless extended, purchases established by this facility cease on Sept. 30, 2020.

POLITICO.COM

By KELLIE MEJDRICH and VICTORIA GUIDA

04/09/2020 06:52 PM EDT

Muni-Bond Market Reviving After Fed Moves to Ease Cash Crunch.

(Bloomberg) — The Federal Reserve is helping revive the $3.9 trillion municipal bond market.

Underwriter Raymond James Financial Inc. estimates that as many as 200 new negotiated state and local debt offerings will price over the next few days, almost double the amount issued last week, fixed-income strategist Kevin Giddis said in a note to clients.

That would mark a turnaround for a segment of the capital markets that had virtually shut down after concerns about the coronavirus prompted a series of steep sell-offs last month when investors pulled out their funds. The market has since been steadied, with the Federal Reserve last month moving to increase liquidity for money-market funds and last week rolling out a plan to lend as much as $500 billion to states and local governments to help them avoid a cash crunch in the middle of the pandemic.

Since March 9, there have only been about $15 billion of new municipal bonds issued, a drop of 56% from the same period a year earlier. Many big sales have been placed on so-called day-to-day status, meaning underwriters will sell them when market conditions warrant.

"This improvement in issuance is largely due to the Fed and Treasury's unprecedented support for these markets and it appears to be working," Giddis wrote.

Bloomberg Markets

by Danielle Moran

April 13, 2020

Complimentary Resource for NFMA Members.

IMTC's NOVA platform is a cloud-based fixed income portfolio management tool designed to help investment professionals save time and focus on high-value work.

During the Coronavirus crisis, IMTC is providing investment managers with free fixed income market data to combat the WFH struggles brought on by legacy technology systems.

Benefits of IMTC's Market Data:

- Access over 1m Municipal bonds with complete pricing and reference data
- Gain insights into rating changes and market movements
- Identify relative value or source liquidity with comparable bond functionality
- Accomplish in-depth credit analysis with access to issuer financial statements

If you or a colleague is interested in learning more about our free market data offering, please follow the link to get in touch: click here (or cut and paste https://imtc.com/contact into your browser).

Capitol Hill Update: Infrastructure Push Slowed

Congress Turns Focus Back to Direct Funding to Cities

Last week, the House of Representatives announced its push to include a massive infrastructure package into a future "stimulus phase 4" bill. This idea ran into strong Republican push-back in the Senate, and seems to have been tabled for the potential April stimulus legislation.

This week, both Chambers seem to be coalescing around the idea of more direct funding to cities, particularly smaller cities that were left behind in "phase 3," and the potential for another round of checks to qualified Americans.

While a major infrastructure package now seems unlikely, the BDA and our partners in the issuer community continue to push for member priorities in the potential phase 4 package including:

- The restoration of tax-exempt advance refundings
- Increase in the cap for bank qualified debt;
- Expansion of the use of Private Activity Bonds; and
- Potential exploration of the reinstatement of direct-pay bond and ending exposure to sequestration.

Administration Considering "Coronavirus Bonds"

Yesterday, Larry Kudlow, Director of the National Economic Council teased an idea of Treasury creating a long duration Coronavirus bond program equivalent to a war-bond to help spur the economy. While Congress has yet to adopt this thinking, the administration continues to look at long-term paper options if the initial $2 trillion dollar stimulus package fails to deliver enough economic punch.

The BDA will continue to provide updates as they become available

Bond Dealers of America

April 7, 2020

COVID-19 And Marijuana: Can Cannabis Municipal Bonds Help Government Budgets?

Cannabis Based Municipal Bonds (CMBs) could offer governments and financial institutions a viable and creative way to aid in the recovery of lost revenues due to the COVID-19 pandemic, says a newly released report from cannabis and hemp advisory firm MPG Consulting.

As the cannabis industry continues to grow at a rapid pace and regulations mature, it is time for state and local governments, as well as traditional financial institutions, to start taking a serious look at the validity of CMBs as a source of financing for local initiatives and infrastructure, MPG analysts argue. In fact, they point to similar initiatives in place in the form of special tax bonds, typically backed by taxes, on certain activities or assets classes like tobacco, alcohol and gaming — the so called “sin taxes.”

How This Could Work

To demonstrate how this could work, MPG conducted a theoretical analysis, using Denver as an example.

Continue reading.

Forbes

Javier Hasse

Apr 7, 2020

Aging Populations Strain State Budgets, Pension Funding Varies.

Link to Fitch Ratings’ Report(s): Demographic Trends and Pension Pressures (Aging Populations and Underfunded Pensions May Present Fiscal Challenges for States)

Fitch Ratings-New York-25 February 2020: The aging US population poses a range of challenges to state finances, including providing pensions for the swelling ranks of retired public workers. However, a state’s demographic profile does not necessarily determine its pension funding, Fitch Ratings says. States with weaker demographic profiles are likely to face slower revenue growth and expenditure pressures but some of these states have maintained an approach to pension funding that alleviates pension pressure.

The population profiles of pension systems are aging, with the number of retirees drawing benefits growing, even as the number of active workers lags behind. For many plans, the number of retirees now exceeds the number of active employees. As states see populations age, revenue growth prospects slow and demand for services climb the concurrent demand for higher pension contributions in order to address underfunding may limit fiscal flexibility.

Fitch’s report assesses these pension burdens and demographic trends and differentiates states based on their position relative to 50-state medians, highlighting examples that illustrate the nuances of states’ funding considerations and the importance of sustained policy actions in managing the trajectory of pension burdens over time.

States are categorized by their position above or below the median projected labor force growth of 0.12% annually over the 2017-2026 period as projected by the US Census, and the median pension burden, which Fitch defines as the ratio of state net pension liabilities adjusted to a standard 6% discount rate as a percentage of personal income. The median pension burden measured 3.1% in 2018. Quadrants created by this comparison indicate whether states are well placed to manage their pension obligations based on the size of the liability and their active population.

States with the twin challenges of weaker demographics and higher underfunded pensions are arguably more vulnerable to fiscal pressures over time. Dominated by those in the Northeast and Midwest, many of these states are aging faster than the median, with a rising share of the population aged 65 and older, and barely growing or even declining working age populations. Some states within this quadrant, however, have shown commitment to pension funding that has resulted in an improved funding status.

An equal number of states are in the relatively more favorable situation of having both stronger demographic trends and carrying relatively lower pension burdens. Fiscal vulnerabilities stemming from either demographic trends or pension contributions pressures are likely to be lower for states in this quadrant. Pensions are either well funded, or if not, represent a smaller burden relative to the state’s wealth base.

The remaining states in the other two quadrants either have solid demographic trends but higher pension burdens, or lower pension burdens, despite weaker demographic trends. While still vulnerable based on weakness that could hamper full pension funding, these states arguably retain more fiscal flexibility than those in the upper left quadrant.

Most governments have taken steps to shore up their pensions by shifting to more reasonable assumptions, increasing contributions to the actuarial level and cutting future benefits for new workers. These corrective actions have less of an effect in the context of maturing pension systems. The problem is magnified for states in which pensions are a material burden relative to the state’s resource base.

Contact:

Douglas Offerman
Senior Director, US Public Finance
+1 212 908-0889
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Olu Sonola, CPA
Group Credit Officer
+1 212 908-0583

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com.

Bonds Backed By Special Taxes Hit By Virus, Moody's Says.

The economic slowdown resulting from the COVID-19 pandemic will challenge state and local governments to service their municipal bonds, especially those secured by taxes on hospitality, travel and leisure businesses, a report by Moody's has said.

Tax revenues from hotel occupancy and restaurant sales are the most vulnerable to the slowdown, with monthly collections expected to fall by up to 85% through midsummer and not recover until March 2021, the report issued Monday by Moody's Investors Service said.

Sales and income tax revenues will decline to a lesser extent because they rest on broader tax bases, the report added.

Municipal special tax revenue will be sharply curtailed by "unprecedented restrictions" on social interaction and travel, the report said. The downturn will be especially strong in economic areas connected to the hospitality industry: hotels, casinos, car rentals, parking, and food and beverage services, it said.

Declines in consumption will be marginally offset by federal stimulus measures such as the Coronavirus Aid, Relief and Economic Security Act, it said.

Most bonds backed by special taxes have a reserve for debt service that boosts their creditworthiness against a temporary tax revenue shortfall, Moody's said.

If state or local governments lack the reserves to make bond payments, their willingness to cover any shortfalls can boost a bond's ratings, the report said. A parent government's willingness to step in is not guaranteed, however, and depends on political factors and others that are unpredictable, the report said.

How long the decline lasts depends on the steps taken to contain the virus, Moody's said. It has already projected a 4.3% decline in the U.S. economy for the first two quarters of 2020 and a 2% drop for all of 2020, it said.

A Moody's representative did not respond to requests for comment.

State and local governments have reported tax revenues declining due to the COVID-19 pandemic. New York state's tax receipts will fall by at least $4 billion for the 2020-21 budget year, Comptroller

Thomas P. DiNapoli said in March. A more severe decline in stock markets or a sharp recession could lower revenue by up to $7 billion, he said.

Florida also faces a decline in sales tax revenues as business for its tourist attractions dries up from the COVID-19 pandemic. The state will need to draw from its $4 billion reserve fund to make up the shortfall, a sales tax compliance expert recently told Law360.

Law 360 Tax Authority

By David Hansen · April 1, 2020, 6:03 PM EDT

–Editing by Robert Rudinger.

S&P: Outlooks Revised To Negative On Transportation-Related GO Special District Ratings Due To COVID-19, Global Recession

CENTENNIAL (S&P Global Ratings) March 31, 2020–S&P Global Ratings revised its outlook to negative from stable on several long-term and underlying general obligation (GO) ratings. The affected ratings consist primarily of debt secured by ad valorem property tax revenue, issued by special districts that have transportation-related operations, regardless of the purpose of issuance. These issuers include airport authorities, port districts, and mass transit operators. The negative outlooks provide notification to market participants that the affected credits face at least a one-i--three likelihood of a negative rating action over the intermediate term (generally up to two years).

This action applies to the ratings of 18 issuers, and 86 issue level ratings.

Continue reading.

S&P: All U.S. Public Finance Sector Outlooks Are Now Negative

Table of Contents

- Long-Term Pools

Following mobility restrictions and closure of large segments of the economy due to COVID-19 and the swift onset of recession, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative. At the start of 2020 all sector outlooks were stable with the exception of higher education, ports, and mass transit. The shift in our outlooks to end the first quarter reflects the expectation of sharp decline in the economy through at least the second quarter and uncertainty about the rate of spread and peak of COVID-19 as well as the timing of economic recovery.

Sector outlooks are an indication of credit trends in the year ahead and may be informed by existing outlook distributions or existing and emerging risks that could influence rating actions. By themselves, we do not expect that these sector outlook revisions will lead to immediate issuer- or issue-specific negative rating actions. However, given the confluence of events from COVID-19 and the ensuing recession, we believe that rapid expenditure increases and precipitous revenue declines will generate more negative than positive rating actions across U.S. public finance for the remainder of 2020.

The financial position of governments and not-for-profits was generally healthy at the beginning of the year, which we believe provides flexibility to respond to the evolving situation. However, we see real fiscal challenges ahead across all sectors (see table 1). The rapid onset of the recession with projections of sharp GDP decline, surging unemployment, and decreased consumer spending will pressure credit quality.

Continue reading.

S&P: Outlooks On Certain U.S. Convention Center And Sports Authorities Revised To Negative From Stable On COVID-19 Impact

Table of Contents

FARMERS BRANCH (S&P Global Ratings) April 1, 2020–S&P Global Ratings revised the ratings outlook to negative from stable on certain U.S. convention center and sports authorities in the wake of the COVID-19 pandemic. The negative outlooks provide notification to market participants that the affected entities face at least a one-in-three likelihood of a negative rating action over the medium term (generally up to two years). At the same time, S&P Global Ratings affirmed its ratings on the entities.

"The negative outlook reflects our belief that the advent of "social distancing" and subsequent cancellations of major events, as well as material declines in travel and closing of businesses in response to the global spread of COVID-19, have affected, and will negatively affect convention center and sports authorities' revenue streams," said S&P Global Ratings credit analyst Andy Hobbs. The current negative outlooks are reflective of entities where the operating risk is associated with the particular convention center or sports authority. S&P Global Ratings recognizes that with almost 200 million Americans either under shelter-in-place orders or being urged to stay at home in a concerted effort to contain the spread of the new coronavirus, the longest economic expansion in

U.S. history has come to an abrupt end. The toll on GDP will be far more severe than we once thought–with the contraction showing up in the first-quarter figure and worsening substantially in the April-June period. (see "It's Game Over For The Record U.S. Run; The Timing Of A Restart Remains Uncertain ," published on March 27, 2020, on RatingsDirect).

Continue reading.

Fitch U.S. Water and Sewer Rating Criteria.

This criteria report details Fitch Ratings' methodology for assigning Issuer Default Ratings (IDRs), Standalone Credit Profiles (SCPs),and issue-and obligation-specific ratings to U.S. municipal water and sewer (including wastewater and stormwater) utilities, whether operating as a stand-alone legal entity or an enterprise of a local government. This rating methodology also applies to certain municipally owned combined utilities, for which water and sewer revenue accounts for, or is expected to account for, the largest share of total revenue on an ongoing basis.

Read the Report.

April 3, 2020

Fitch U.S. Public Power Rating Criteria.

This criteria report details Fitch Ratings' methodology for assigning Issuer Default Ratings, (IDRs), Standalone Credit Profiles (SCPs) and issue- and obligation-specific ratings to U.S. public power utilities, including electric systems that are municipally or federally owned, and electric cooperatives.

Read the Report.

March 30, 2020

Helping Public Entities Navigate the COVID-19 Financial Crisis: Squire Patton Boggs

As we've said, The Thing touches everything. Indeed, to quote *No Country For Old Men*: "It's the dismal tide. It's not the one thing." State and local governments are no exception. Our public policy and public finance groups have a four-point action plan for state and local governments to start to pick up the pieces. We're ready to help.

The Public Finance Tax Blog

By Johnny Hutchinson on March 29, 2020

Squire Patton Boggs

[Tax Anticipation Notes: An Option to Alleviate Municipal Cash Flow Shortages Due to the COVID-19 Outbreak - Day Pittney]

As a result of the governmental and business shut downs employed to ease the outbreak of COVID-19, municipalities face the grim possibility of reduced or delayed revenues resulting in cash flow shortages. Faced with lower and/or slower tax collections, municipalities will still need to meet current operating expenses. Short-term tax anticipation notes (TANs) may be a means to bridge this timing gap.

Connecticut municipalities, as well as any political subdivision empowered to lay taxes, are authorized to issue notes in anticipation of their receipt of tax collections. See Conn. Gen. Stat. § 7-405a. TANs are authorized by resolution or ordinance adopted by the municipality's legislative body and are limited to the amount required to pay current expenses and obligations. TANs may be renewed from time-to-time, but all TANs must mature and be payable by the end of the fiscal year in which the applicable tax collections are payable. The amount of TANs issued is limited to the total levy of the then current fiscal year. However, if no tax levy has been made at the time of issue, the size is limited to the tax levy of the prior fiscal year.

For purposes of authorizing TANs, a municipality's legislative body is: (1) for towns, the town meeting; (2) for cities, the board of aldermen, the city council or other body charged with the duty of making annual appropriations; (3) for boroughs, the board of burgesses; and (4) for municipal districts, the district committee or other body charged with the duty of making annual appropriations. See Conn. Gen. Stat. § 1-1(m).

In order to issue TANs on a federally tax-exempt basis, additional requirements must be met. TANs are working capital financings, which are governed by the arbitrage regulations, more specifically those concerning replacement proceeds, temporary periods and accounting rules. These regulations determine both the sizing and the required method for accounting for expenditures.

The proceeds derived from a short-term working capital borrowing are generally permitted a 13-month temporary period. See Treas. Regs. § 1.148-2 and Rev. Proc. 2002-31. During a temporary period, the proceeds are permitted to be invested without any restriction as to yield, provided the issuer reasonably expects to spend those proceeds within the 13-month temporary period. As such, TANs should be sized to meet this 13-month spending requirement.

In order to meet the 13-month spending requirement, the municipality must demonstrate that, absent the issuance of the TANs, a zero balance or operating cash flow deficit would have occurred during the period the TANs are outstanding. The timing of the expenditures is determined by the application of a "proceeds-spent-last" accounting rule. See Treas. Regs. § 1.148-6. Pursuant to this rule, proceeds cannot be considered spent until there are no "available amounts" that could be used in place of those proceeds. "Available amounts" are, subject to limited exclusion, generally funds available to the issuer to pay the type of working capital expenditure being financed. However, a municipality is permitted to maintain a "working capital reserve." The amount in this reserve is limited to 5 percent of the sum of the municipality's working capital expenditures plus capital expenditures paid out of current revenues during the preceding fiscal year. In addition, the amount in the reserve may not exceed the municipality's average balance of "available amounts" during prior annual periods of at least one year.

The 13-month period is also within the safe harbor provided in the regulations against the creation of "other replacement proceeds," which can be the product of an issue being outstanding for a period that is longer than necessary. See Treas. Regs. § 1.148-1.

Even though the statutory time limitation for paying off a TAN should result in the issue meeting the 13-month temporary period, consideration still must be given to the amount expected to be expended during that period when determining the issue's size.

TANs are a borrowing and not a replacement for lost revenues, they do address the timing issues created by delays in revenue collections. For more information, please contact any of the municipal finance attorneys at Day Pitney.

March 25, 2020

Day Pitney Author(s) Glenn G. Rybacki, Judith A. Blank, Douglas W. Gillette, Namita Tripathi Shah, Richard J. Wasserman

Publisher: Day Pitney Alert

A Proposal for the Coronavirus Anticipation Note (CAN).

John Mousseau and I have combined our professional experience with our views of the municipal finance market. With the help of our Cumberland staff, we want to offer a format for immediate assistance designed to address urgent state and local government financing problems. This proposal is only a framework. There are many skilled professionals who can quickly weigh in with ideas; and, ultimately, a final version of our proposed instrument will have to be crafted and brought to fruition at the federal level, combining the U.S. Treasury, the Federal Reserve, and the Congress (maybe?) if the CARES Act doesn't have enough authority.

Here is the basic issue. Under these present emergency conditions, the nearly 90,000 separate municipal identities in the United States are experiencing deferred or permanently lost cash flow. Examples: Tax collections fall or cease. Revenues for services fall or cease. Use and sales taxes, various fees, and all associated sources of revenues decrease suddenly or cease for an unknown period of time. What can these diverse entities do to avoid reducing their important governmental functions and furloughing their labor forces, and to continue to provide essential services?

We propose the creation of a coronavirus cash-flow deficiency anticipation note. Let's call it the Coronavirus Anticipation Note, or CAN, for short. We would model the CAN after other types of anticipation notes. That way, the system does not have to "discover a new wheel." We are already used to tax anticipation notes (TAN), bond anticipation notes (BAN), revenue anticipation notes (RAN), tax increment financing (TIF), and various other types of financing instruments which raise money now and then get repaid after an event is completed or a project is fulfilled or some other target goal is met.

CAN needs a federal backup and a rapid issuance method, either through a national pooled vehicle or a state-by-state pooled vehicle. Because of diverse state taxation rules, we believe that the state-by-state method is probably more suitable. The federal government can backstop the state with a U.S. Treasury guarantee. The guarantee can be pooled. The states can determine allocation to cities and counties and to local or state agencies. Most states have such allocation mechanisms already in place for their various budgets and services. The CANs would have state income tax exemption in the state where they are issued, in addition to being exempt from federal taxes.

Think of the national CAN pool in a form such that the Federal Reserve can add CAN pool notes to the assets on its balance sheet. The Treasury backstop transfers the default risk to the U.S. Treasury, and the states can direct their CAN usage internally, since each state has a better handle on where the cash flow deficiencies reveal themselves. The Treasury already has a municipal information arm in place with the Municipal Issuers Oversight Unit, which was formed in 2014.

Municipal entities are transparent and have audits and usually adopt their budgets in a public meeting. The databases for these entities already exist in regulatory filings of various types, such as MSRB and EMMA.

The idea is to provide a bridge loan to a municipal entity to cover the shortfall in its cash flow during the crisis period. The entity can issue CANs to fill the gap. The states can pool them, as they usually do now with the various forms of pooled vehicles that already exist in the states.

When we get to the other side of this crisis, the CANs can be repaid from revenues, or they can be "termed out" into longer-term bonds with easy amortization. The municipal market is quite capable of handling this process in the normal course of business.

CANs can be the gap funding mechanism for what may be one or two quarters, or one or two years. The timing for launching CAN is important, as those municipal entities are now seeing revenues shrinking every day. One final note: CANs must not be used to make up pension funding gaps or for other longer-term solutions for preexisting structural problems. The purpose of CAN financing is to raise the cash to bridge the coronavirus chasm and its funding gap. Keep it focused and not diluted or diverted to other purposes. There will be infrastructure program proposals for other types of long-term project financing.

We propose that CANs be discussed and developed as a manageable and timely tool for states and municipalities that must now weather both COVID-19 and its impacts on cash flow.

David R. Kotok is the chairman and chief investment officer for Cumberland Advisors. He holds a B.S. in economics, an M.S. in organizational dynamics and an M.A. in philosophy. He serves as a Director of the Global Interdependence Center, is a member of the National Business Economics Issues Council, the National Association for Business Economics, and served on the Research Advisory Board of BCA Research. His monograph, "Lessons from Thucydides" detailing information asymmetries and their implications for investors and world affairs, is freely available in PDF form. He appreciates hearing from readers. Contact him at feedback@cumber.com or 941-926-6279.

John R. Mousseau, CFA, is the president, chief executive officer, and director of fixed income at Cumberland Advisors. In this capacity, Mousseau is a portfolio manager and has overall responsibility for portfolio construction, management, analysis, trading and research for all tax-free and taxable bond accounts. He has over 30 years of investment management experience and appreciates hearing from readers. Contact him at feedback@cumber.com or 941-926-6279.

Fitch: CARES Act Gives Higher Education Some Relief

Fitch Ratings-Chicago/New York-06 April 2020: The $2 trillion CARES Act, signed into law on March 27, provides some relief to colleges and universities facing budget pressures, as a result of the coronavirus pandemic and subsequent decisions to shut down campuses, but will not be sufficient to fully compensate for revenue losses and increased expenses, according to Fitch Ratings.

A prorated decline in some student fees, auxiliary and other revenues, coupled with increased operating expenses, including the shift to online learning, without offsetting revenue has affected the higher education sector. These pressures will be most acutely felt by those with less liquidity, lower margins, and greater budget gaps, and smaller, residential colleges reliant on student-fee revenue. Many institutions are evaluating expense reduction actions, including support-staff layoffs or furloughs. Higher-rated institutions with strong financial cushions should have sufficient resources to cover budget gaps at least through the end of the 2020 fiscal year.

The CARES Act establishes a $31 billion Education Stabilization Fund supporting both K-12 and higher education. Colleges and universities will receive $14.3 billion, 10% of which is divided between historically black colleges and universities (HBCUs) and grants for small institutions with unmet needs related to coronavirus. Seventy-five percent of the remaining 90% will be distributed based on enrollment of full-time students who receive Pell Grants. We expect this will favor those with disproportionately large numbers of low-income students and community colleges. The remaining portion will be allocated by the relative share of enrollment that is not Pell Grant supported. Institutions must use half of the funding for student aid, before the remainder can be used to offset lost revenues or increased expenses.

Two federally chartered entities, Howard University (BBB-/Stable) and Gallaudet University, will receive direct appropriations of $13 million and $7 million, respectively. An additional $99.5 million will benefit research universities that are conducting coronavirus research. Teaching hospitals may also benefit from a $100 billion emergency fund for healthcare providers. Small universities with less than 500 employees may benefit from the Payroll Protection loan program under the Act with up to a maximum loan amount of $10 million.

Using 2018-2019 enrollment data, Fitch estimates the enrollment-based aid equates to roughly $1,400 per Pell student and $200 per non-Pell student if applied uniformly across eligible students. Larger, highly-rated institutions are likely to have more resources available to manage through the coronavirus disruption but are also likely to receive the most aid. Smaller private colleges with thinner financial cushions, typically rated ‘BBB’ and lower, may be in more need of federal assistance. Even with funds earmarked specifically for small institutions with unmet coronavirus-related financial needs, the demand for, and method of, disbursement for these funds is yet unknown and may leave some smaller institutions to face heightened financial strain and rating pressure.

Budget pressures are likely to continue into fiscal 2021 without further federal aid if coronavirus restrictions persist beyond our current expectation of two to three months. Building a 2021 budget will be very challenging given uncertainty of fall enrollment prospects for both first time and returning students, and consequently some universities may have meaningful gaps next year, which would need to be addressed via other funding sources or significant expense reductions.

Broadly, we expect margins will tighten across the sector. Funding of $3 billion provided to states under the Act does include a requirement that state governments not reduce funding for higher education, similar to the American Recovery and Reinvestment Act of 2009 stimulus funds provided during the prior recession. This should help stabilize this important source of funding, although states are facing their own budget and short-term liquidity crunch in the face of delayed tax revenues and coronavirus expenses. Public universities are generally less dependent upon state funding than they were heading into the 2008 recession, although the shift toward more tuition dependence may not be sustainable in the face of the economic crisis and its effects on individual income.

Contacts:
Emily Wadhwani

Director, US Public Finance
+1 312 368-3347
Fitch Ratings, Inc.
One North Wacker Drive
Chicago, IL 60606

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

The Coronavirus Aid, Relief, and Economic Security Act: Assistance Available to Passenger Airlines and Airports - Mintz Levin

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security Act" (the "CARES Act"), a $2+ trillion stimulus package intended to ease the economic and social disruptions facing the country in the wake of the COVID-19 outbreak. Unsurprisingly, the new law includes funding and financing for passenger airlines and airports, which are among those expected to be hardest hit by the outbreak.

While the CARES Act includes targeted funding for certain transportation programs, such as $56 million for the Essential Air Service program, the largest aviation related relief programs are:

- $25 billion for loans and loan guarantees to passenger airlines;
- $25 billion for wages, salaries and benefits of airline employees; and
- $10 billion for aid to airports.

Below is a description of these programs.

Continue reading.

By Timothy J. McKeon, William W. Kannel

Cannabis Municipal Bonds Could Be The Future.

MPG Consulting has recently authored a report looking at the potential of Cannabis Municipal Bonds (CMB). Adam Orens, Founder of MPG and Sal Barnes, Managing Director, MPG have conducted a theoretical analysis using Colorado showing how the state can translate its cannabis revenue into a short-term bond amount of $166 million and long-term bond issued in the amount of $591 million resulting in $123 million and $438 million available for educational initiatives and infrastructure, respectively.

States and municipalities already use revenue bonds as a way to pay for large projects. The investors of such bonds feel that the risk for these investments is lower since there is a captive source of revenue to pay the interest. The report gives Iowa as an example. That state allocates $55 million in gaming taxes every year to pay the debt on revenue bonds that were issued in 2009 and 2010. That money raised selling these bonds was then used for community revitalization, flood mitigation, and bridge improvement efforts.

Test Case: Colorado

MPG used Colorado as an example of how state and municipal governments could tap into this revenue stream as a way to fund large projects. Although the report stresses, that while Colorado makes a good test case because of its well-tracked tax revenue, it isn't necessarily a good candidate for a CMB. Mostly because the state has already been able to capitalize on the growing tax revenue for various projects – mostly involving education. The authors believe it is a concept worth exploring for newly legalized states.

In Colorado's case, Denver collected $46.8 million in tax and license revenue in 2018. The estimated amount for 2019 is $63.3 million. MPG suggests this revenue will grow 21.6% on an annual basis. Using these figures and calculating future growth, MPG thinks that Denver could offer three-year CMB's at a 1.5% interest rate. The city could issue a $166 million three-year bond resulting in potentially giving $123 million to the education allocation. A 10-year bond issue of $591 million would result in $438 million for education and other purposes.

Since Denver's education needs seem to be met with this new influx of cannabis tax revenue, a CMB would not have as much impact. However, a city that is new to legalization and has more pressing and expensive needs like housing – a CMB might be an attractive solution.

Minneapolis As An Example

MPG Consulting looked at Minneapolis Minnesota as a city that could benefit from CMB. The state has not legalized cannabis, but if it did it could a large city like Minneapolis use the money to address its housing problems. MPG calculated that if the state legalized adult-use cannabis its first-year sales could hit $64 million and eventually reach $182 million in the tenth year. MPG believes that the tax revenue in the first three years would be roughly $63million reaching $343 million in ten years.

The hypothetical case for Minneapolis is that the city could issue $49.4 million in three-year bonds raising $44 million for affordable housing in year one. The current balance for the Affordable Housing Trust Fund is $21 million, so an influx of $49 million would be substantial. A ten-year bond could generate $233 million in the first year. The report also looks at the state in the same hypothetical calculation where the state would reap $385 million from a three-year bond and $2 billion in a 10-year bond.

Banking

Of course, the cannabis industry is challenged with a lack of banking and most of the major debt underwriters want nothing to do with cannabis until it is federally legal. With the current pandemic crisis and an upcoming election, the possibility of any cannabis legislation getting enacted in the near term is remote. The authors though believe that CMB's could still be issued in the current environment.

“When state and local governments collect cannabis tax revenue, the funds are commingled in the general fund with revenue from other sources. The funds then enter the Federal Reserve System,” said the report. “Capital raised from CMB’s would be no different than any other tax revenue and therefore, in our opinion, would not require any sort of special regulation.” The authors do concede that convincing the banks and underwriters to offer the products could still be difficult.

Potential CMB States

The report notes that demand for such a bond could grow as cities and states grapple with the economic fallout of the COVID19 virus. The report suggests that seven states could see the potential in CMB’s. These states hold the most promise of legalizing adult-use cannabis in the near term. Those states are Arizona, Connecticut, Montana, Missouri, New Jersey, New York, and Vermont. However, the report notes that only the major east coast markets, Missouri and Arizona could support the CMB. Vermont would not have the tax revenue to make it worthwhile.

“States looking to open adult-use cannabis markets should consider utilizing CMB’s to finance crucial infrastructure or strategic public initiatives,” read the report. “Strong and accurate estimation of cannabis demand, tax revenue, growth rates, and other market development factors are imperative to calculating proper bond issue size, yield and maturity dates. Finally, banks who sell CMB’s must develop diligence methods and models to effectively price these securities.”

MPG Consulting said that cannabis revenues are steadier than alcohol and tobacco and more like casino tax revenue. While the idea of Cannabis Municipal Bonds may be novel, it isn’t completely unfeasible. The question isn’t if they will happen, but when. MPG might be correct that COVID could push states and cities to issue CMB’s. Financial institutions may also ease their opposition as they too may need additional underwriting revenue. CMB’s could be the next step in legitimizing cannabis.

Green Market Report

by Debra Borchardt

April 1, 2020

Bi-Partisan Push for Infrastructure Emerges.

BDA Leading Advocacy for Member Priorities

The President and Congressional leaders have this week turned their focus to infrastructure investments as a major component of the next round of stimulus in response to the ongoing COVID-19 pandemic. Discussions are still in the initial phases, but bi-partisian support for a “phase 4” package that includes direct funding for infrastructure seems to be gaining support.

In anticipation of the next stimulus measures, the BDA is leading advocacy for member priorities, partnering with our state and local partners in calling for Congress to support such measures as:

- The restoration of tax-exempt advance refundings
- Increase in the cap for bank qualified debt;

- Expansion of the use of Private Activity Bonds; and
- Potential exploration of the reinstatement of direct-pay bond and ending exposure to sequestration.

The BDA will continue to provide updates as the become available and in the coming days, provide membership with a targeted, grassroots advocacy plan.

Bond Dealers of America

April 1, 2020

Pelosi Says Infrastructure Talks With Mnuchin Are Accelerating.

House Speaker Nancy Pelosi said talks between Treasury Secretary Steven Mnuchin and Ways and Means Chairman Richard Neal on funding for infrastructure are accelerating.

Pelosi told reporters Thursday that she spoke with Mnuchin the previous night about implementing last week's coronavirus stimulus bill quickly and looking ahead to the next legislation, which could include infrastructure spending.

"Whatever communication we need to move forward, that will be happening," Pelosi said.

The California Democrat said she and Mnuchin also discussed making sure seniors won't need to file special tax returns to get the payments included in last week's stimulus law.

"We also have to implore the Fed to do what it can to help municipalities and states," she said. "They don't really need more debt."

She said Fed Chairman Jerome Powell told her to think big, "and we want him to think big, too."

On Wednesday, Pelosi and other Democratic leaders said the next coronavirus stimulus bill should include at least $760 billion for water projects, broadband and transportation, as well as additional support for community health centers, education and housing to strengthen U.S. infrastructure and the economy.

Senate Majority Leader Mitch McConnell told the Washington Post later Wednesday that Pelosi's comments about a phase-four coronavirus response measure were "premature."

"She needs to stand down on the notion that we're going to go along with taking advantage of the crisis to do things that are unrelated to the crisis," McConnell told the Post.

Bloomberg

By Billy House and Erik Wasson

April 2, 2020, 8:58 AM PDT

Fitch: U.S. Local Government Liquidity to Face Stress Due to Coronavirus

Fitch Ratings-New York-03 April 2020: Challenges to U.S. local governments' ability to maintain historically sound liquidity levels in light of the coronavirus pandemic will come from multiple sources, according to Fitch Ratings. As with states, Fitch considers liquidity to be the most significant near-term risk to local government credit quality related to the pandemic (see 'Tax Filing Delays Will Hit Near-Term Liquidity for State Govts', March 2020). While Fitch expects most local governments — with an average Issuer Default Rating (IDR) of 'AA' — to retain sufficient liquidity to offset significant near-term revenue declines, some will undergo enough strain to trigger rating downgrades. Fitch expects even financially stressed issuers to take whatever measures are possible and necessary to continue to make full and timely debt service payments during this challenging period, which may include deficit financing or other cash flow conservation measures considered unusual through normal economic cycles. Failure to create adequate liquidity and financial buffers that protect debt repayment capacity even during a potentially protracted crisis would be inconsistent with an investment-grade rating. A missed debt service payment, even if on a temporary basis, would be treated by Fitch as a default.

Cash management tools are not typically the focus of Fitch's analysis of U.S. local governments, as liquidity is sufficient for operating needs for nearly all issuers through cyclical downturns. However, given the uncertain nature of the coronavirus pandemic and the depth and duration of its impact on the economy, Fitch believes many local governments may explore extraordinary cash flow support measures in the near term, particularly those governments that do not carry large liquidity balances relative to operating needs. These may include financial market solutions such as lines of credit and tax/revenue anticipation notes, either through public sales or private placements. Since local governments are generally labor-intensive, these working capital management measures might also include layoffs and furloughs that necessitate service reductions, or payroll deferrals. In addition, Fitch expects some entities to delay vendor payments, reduce equipment purchases and postpone capital spending.

Liquidity strains are more likely for local governments that exhibited negative financial trends prior to the outbreak, or those with lower IDRs and financial resilience assessments, reflecting more limited flexibility to address the emerging economic and revenue challenges. Local governments with a disproportionately large exposure to economically-sensitive revenues such as sales and income taxes, or economies with significant tourism and retail sector dependence, are also considered more vulnerable.

Property taxes, which typically are due annually or semi-annually, have been a predictable and stabilizing factor for revenues but even those may be subject to uncertainty. Fitch is not aware of any local governments proposing to delay property tax due dates, although at last count 38 of the 44 states that levy a personal income tax have extended their filing or payment deadlines to as late as July 15, in line with the federal filing delay. For many taxpayers who have mortgages, escrowed property tax payments have historically contributed to high current property tax collection rates. However, a relaxation of mortgage payment due dates, already instituted for Fannie Mae and Freddie Mac borrowers, could result in delays in property tax collections. Fitch expects to develop an analytical framework for measuring this risk relative to an issuer's available cash management options. In addition, the coronavirus pandemic could negatively affect home prices, thereby eroding tax base values and property taxes, although the impact on tax revenues would not be felt until future fiscal years (see 'Coronavirus Could Precipitate Decline in U.S. Home Prices', March 2020).

Fitch also views state aid, upon which school districts and counties typically rely heavily, as at higher risk to cutbacks in fiscal 2021, which begins on July 1 for many. The ability to reduce or delay local government transfers is an important financial tool for states. Fitch believes this flexibility is likely to be invoked given states' near-term revenue and liquidity stress. While the Coronavirus Aid, Relief and Economic Security (CARES) Act will distribute $150 billion in aid to state and local governments in the near term, it provides expense reimbursement rather than a pure cash flow infusion. The high IDRs in the local government sector indicates most will be able to withstand even this period of unprecedented stress; Fitch is reviewing the adequacy of each issuer’s available tools as well as management’s willingness to utilize them.

Contact:

Amy Laskey
Managing Director
+1 212 908-0568
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

Michael Rinaldi
Senior Director
+ 1 212 908-0833

Arlene Bohner
Managing Director
+1 212 908-0554

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Why State and Local Debt Is Fraught Territory for the Fed.

The central bank is weighing what it can do to help local bond markets. Here’s why Democrats’ big ask — direct purchases — is so tough.

Rhode Island will miss out on $300 million in revenue in March and early April as coronavirus delays income tax filings, while shuttered casinos cost state coffers another $1 million per day. Expenses, meantime, are through the roof — the state spent $7 million on ventilators on Monday alone.

Seth Magaziner, the state’s general treasurer, takes comfort in the fact that the federal government should soon cover some coronavirus-related costs, like medical equipment, thanks to legislation President Trump signed last week. But Mr. Magaziner remains worried about the municipal bond market, which state and local governments tap to fund everything from road construction to schools. It could turn messier as government income streams dry up amid quarantines and furloughs, making debt harder to issue. Like many other state finance officials around the country, he’s looking to the Federal Reserve for help.

“Things are very volatile, and we don’t know what the future can bring,” Mr. Magaziner said. “This is a crisis unlike any other that the country has faced in generations.”

Continue reading.

The New York Times

By Jeanna Smialek

April 1, 2020

Pelosi, Warren Press Fed to Ride to Rescue of Cities Slammed by Pandemic.

Congress has given the Federal Reserve a $454 billion pot of money and broad authority to back up the municipal bond market with direct purchases.

House Speaker Nancy Pelosi and Sen. Elizabeth Warren are among top Democrats pressing the Federal government to do more to help salvage municipal finances as the coronavirus wallops state and local budgets.

“We need to do more by way of our appropriations, by way of our tax code, and by way of policy,” Pelosi said Tuesday on MSNBC. “And also by way of the Fed doing more to help the state and local governments with the challenges that they face, which are massive.”

Congress has given the Federal Reserve a $454 billion pot of money and broad authority to back up the municipal bond market with direct purchases. But the fund is also available to corporations and will be administered at the discretion of Treasury Secretary Steven Mnuchin and Fed officials, and the rescue package does not specify how much help local government-backed debt will get.

Continue reading.

POLITICO

By KELLIE MEJDRICH

03/31/2020 03:27 PM EDT

States Start Grappling With Hit to Tax Collections.

COVID-19 has triggered a state budget crisis. States, tribes, and local governments are incurring huge new costs as they seek to contain and treat the coronavirus and respond to the virus-induced spike in joblessness and related human needs. At the same time, they are projecting sharply lower tax revenues due to the widespread collapse of economic activity brought about by the virus’ spread and needed containment activities. The federal stimulus bills to date include fiscal relief — but it’s already clear that it will fall far short of what states, tribes, and localities will need.

It’s impossible to predict what the precise impact of the pandemic will be on the economy, but the consensus is that the country appears to have already entered a recession that could be much worse than the Great Recession. For example, Goldman Sachs projects that the unemployment rate will hit 15 percent in the third quarter (July-September) and remain at 7 percent through the end of the year.

States have only just begun to forecast the pandemic’s likely impacts on their revenues based on the best economic projections available and their experience with past recessions and other shocks to state economies (see Table 1). The early reports are sobering, and as the full scale of the downturn becomes clearer, revenue projections will likely fall further.

Continue reading.

Center On Budget And Policy Priorities

How Will States and Localities Divide the Fiscal Relief in the Coronavirus Relief Fund?

The new bipartisan economic stimulus legislation — known as the CARES Act — contains significant new resources to help states address massive, immediate budget problems due to COVID-19, though states will almost certainly need more aid in coming months.

The centerpiece of this aid is the $150 billion Coronavirus Relief Fund, which state, tribal, and local governments can use this year to meet costs connected to the virus. Each state will receive at least $1.25 billion, while the most populous states (California and Texas) will receive over $10 billion each, we estimate. (See Table 1 for total state allocations.)

A portion of each state's allocation will go to local governments. Only local governments with populations over 500,000 are eligible for funding. In states with no city or county over 500,000 people, the state government will receive the entire allocation.

Continue reading.

Center On Budget Policy And Priorities

March 27, 2020

Democrats Push for Fed to Decide Who Gets Municipal Rescue.

- **Legislation calls for help to state and local debt markets**
- **Opposition party wants to cut Treasury Department out of loop**

Congressional Democrats are pushing to have the Federal Reserve take over the rescue of state and local debt markets — cutting the Treasury Department out of the decision-making.

The central bank is expected to announce a new emergency facility to support municipal debt, part of the $2 trillion stimulus approved last week. It had the backing of progressive Democrats and conservative Republicans alike, including Senators Elizabeth Warren and Mike Crapo. They're urging the Fed and Treasury to move quickly.

The coronavirus pandemic has crimped sources of tax revenue for states and localities at a time when resources, including paramedics and hospitals, are being committed to combat the threat to public health.

In the next round of legislation, House Speaker Nancy Pelosi and some congressional Democrats want to push further. They favor taking decisions about where to use the money out of the political realm and giving them solely to the independent Fed.

The notion has been circulating for months among progressives in Congress. If the law is changed, it would give the Fed another congressionally mandated goal — beyond stable prices and maximum employment — by designating the Federal Open Market Committee to be the buyer of last resort of the debt of troubled states and municipalities.

“If you want money to go somewhere quickly, everybody’s idea right now is to get the Fed involved,” said Ian Katz, an analyst at Capital Alpha Partners in Washington. “That doesn’t take into account that the Fed has to build these facilities and structures to do something they’ve never done before.”

Permanent Change

Legislation introduced by Democratic Senator Robert Menendez would create a permanent change to the Federal Reserve Act to allow the central bank to purchase municipal debt “under unusual and exigent circumstances” through direct purchases via open market operations.

Currently, the Fed and Treasury are operating under Section 13.3 of the Federal Reserve Act. It allows the Fed, with Treasury permission, to open a broad-based facility to support troubled areas of the financial markets in an emergency.

Municipal bonds have rallied in anticipation of the intervention. Last week was the best for state and local debt since 1982, according to Bloomberg Barclays indexes. A handful of debt issuers have been able to price deals in the last few days after billions in transactions were scuttled earlier this month, a signal that the market is starting to regain its footing.

The virus threatens the finances of U.S. states, cities and counties, which rely on taxes on income, sales and stock-market gains. With the much of the country on lockdown, that revenue has slowed to a trickle. New York, home of the most U.S. cases of Covid-19, is projected to lose between $10 billion and $15 billion of revenue in the fiscal year that starts April 1. Ohio state agencies are looking to cut spending by 20%, and Cincinnati is furloughing 1,700 city workers.

Eric Kim, head of state-government ratings at Fitch Ratings Inc., said the $150 billion set aside in the stimulus bill for state and local governments is limited to reimbursement and may not be spent.

Pandemic Hotspots

“Outside of pandemic hotspots like New York, new spending is not the problem for most states, but rather lost revenue brought on by severely reduced economic activity,” he said March 27.

Fed Chairman Jerome Powell recently expanded the central bank’s lending authority to include support for corporations and medium-sized businesses. Democrats have had a long-standing interest, however, in the Fed using its power to operate in open markets to do something directly for troubled localities.

Congresswoman Rashida Tlaib, a Michigan Democrat, had a sharp exchange with Powell in February over his authority to support municipal debt.

Fed’s Job

“Do you not believe that the governments of Detroit and Puerto Rico also play a vital role that should be preserved, even if a financial crisis makes it hard for them to borrow money?” Tlaib asked Powell.

“That’s not a job for the Fed,” Powell said. “Lending to state and local governments and supporting them when they’re in bankruptcy is not — that’s not part of our mandate.”

Tlaib finished by saying: “We are going to strongly disagree.”

Pelosi has also taken an interest in Powell’s ability to directly support states and localities.

“I hope that in this next bill that we will be able to address the concerns of our state and local governments,” Pelosi told MSNBC on Tuesday. “We need to do more by way of our appropriations, by way of our tax code and by way of policy and also by way of the Fed.”

Bloomberg Markets

By Daniel Flatley, Craig Torres, and Amanda Albright

March 31, 2020, 1:09 PM PDT Updated on April 1, 2020, 6:47 AM PDT

— With assistance by Erik Wasson

[States, Cities Already Cutting Jobs With Financial Toll Mounting.]

- **Governments resisted job cuts until well into last recession**
- **Swift reversal of economy to deeply depress tax collections**

State and local governments are eliminating jobs as they brace for the financial impacts of the coronavirus, offering a potential early glimpse of the steps they may have to take as the unprecedented shutdown of local economies devastates tax collections.

The swift action stands in contrast to the approach during the last recession, showing the severity of the revenue losses that some governments expect as businesses are shuttered, millions of workers are idled and tourism grinds to a halt. The shift from a record-setting expansion to a deep contraction in a matter of weeks has caused surpluses to turn into deficits and left mayors and governors racing to gauge the impact, even with Congress discussing a fresh round of stimulus spending that may pump at least $760 billion into local infrastructure projects.

“State and local governments are going to have huge declines in revenue,” said David Cooper, a senior economic analyst at the Economic Policy Institute. “We should definitely anticipate further cuts if there is not additional support provided to state and local governments from Congress.”

The economic slowdown is hitting virtually every major source of government revenue, from sales and income taxes to those drawn from casinos or hotels. Moody’s Analytics has advised states to expect a drop of at least 10% in their general fund budgets. That would amount to almost $100 billion, based on the National Association of State Budget Officers figures.

This week, Cincinnati, Ohio, decided to furlough as many as 1,700 workers after revised budget estimates projected a $27.5 million deficit, a stark reversal from the previous estimate of a $24 million surplus. Mayor John Cranley fought back tears as he announced the decision.

Pennsylvania laid off 2,500 seasonal, temporary and part-time employees, along with interns, due to the “unprecedented impact” of the virus. Wichita, Kansas, has implemented a hiring freeze and a furlough that will affect roughly 300 employees, according to the city.

Akron, Ohio, also furloughed 600 of its 1,800 workers, until further notice. A special park district in Beaverton, Oregon, laid off 792 part-time and seasonal workers as well, or nearly 80% of the staff, with recreational facilities expected to remain closed because of the virus.

The impact is small compared with the business cutbacks that caused 6.65 million Americans to file for unemployment benefits last week alone, and it has excluded public safety workers like police and firefighters. But even the initial moves show a more aggressive approach than during the last recession, when states and cities held their payrolls steady until well after the contraction had gotten underway. Eventually, they cut more than 700,000 jobs, according to U.S. Labor Department figures, exerting a drag on the recovery.

While the more than $2 trillion federal stimulus package will provide relief for the costs governments face in responding to the virus, it won't cover budgetary gaps caused by reduced revenue. The bill includes a $150 billion coronavirus fund for states and municipalities.

But there may be another round of help coming from Washington. House Speaker Nancy Pelosi has said it should provide a boost for state and local governments and spend significantly on local construction projects.

"There's got to be a phase four as far as we're concerned," Lee Saunders, president of the American Federation of State, County and Municipal Employees, a labor union, said on a media conference call.

Local governments didn't start cutting until deep into last recession
Protecting the jobs of government employees would prevent budget cuts from worsening the economic downtown. There's currently about 20 million workers on state and local government payrolls, accounting for about 13% of the workforce, according to the Labor Department.

"State and local governments still haven't recovered fully from the last recession in terms of employment," said Tracy Gordon, a senior fellow with the Urban-Brookings Tax Policy Center. "They were a drag on the national economy for a while because of both job losses and declines in investment."

Bloomberg

By Fola Akinnibi

April 2, 2020, 6:00 AM PDT

— With assistance by Alexander Ebert, Reade Pickert, and Danielle Moran

---

Billion-Dollar Blows to U.S. States Crater Spending Plans.

- **Economic shutdown slashes revenue as budget deadlines loom**
- **New York to lose $10 billion to $15 billion of revenue: Cuomo**

The coronavirus is threatening to blow a massive hole in U.S. state and city budgets as millions of people stay home, workers are idled and the stock market flounders.

New York, the epicenter of the U.S. outbreak, is projected to lose between $10 billion and $15 billion of revenue in the fiscal year that starts Wednesday. Ohio state agencies are looking to cut 20% in spending, and Cincinnati is furloughing 1,700 city workers. Georgia may have to renege on a $1,000 pay raise for teachers that state House lawmakers had budgeted for in the coming year. California is already dipping into reserves and has warned state agencies not to expect full funding next year.

States, cities and counties rely on revenue from taxes on income, sales of goods and even on gains from the stock market — all sources of money that the virus threatens to wipe out as the U.S. is poised for a recession. Despite the unprecedented federal stimulus package that includes $150 billion for states and municipalities, officials like New York City Mayor Bill de Blasio say more help is needed to make up the funds that local governments are losing, and House Speaker Nancy Pelosi has called for "significantly more" aid for states.

Moody's Analytics is advising policy makers to expect no less than a 10% hit to their general fund budgets, with the actual losses likely being much larger for most states, said Dan White, the firm's head of public sector research. That's calculated off a baseline expectation that second quarter gross domestic product will decline 15% to 20% from a year earlier, "which is almost unprecedented," he said.

The outbreak of the virus may mark a quick reversal in state finances, which had slowly improved after the recession. States had seen steep budget cuts after 2008 that caused them to cut services and funding for infrastructure and education. Many had started to rebuild with rainy day funds at a record high before the pandemic struck.

"We had big plans for next fiscal year because the economy was clipping on really well — and then all of a sudden we are in a tail-spin headed right back to where we were before we righted the ship," said Jay Dardenne, commissioner of administration in Louisiana, which relied on sales taxes for about 40% of revenue in its fiscal 2020 budget.

New Orleans' outbreak of the virus has quieted the usually-bustling streets and led its annual Jazz & Heritage Festival, which attracts almost half a million people and their spending, to be rescheduled to the fall.

Unprecedented Shutdown

While the federal government's $2.2 trillion economic stimulus package will reimburse states for some of the costs of responding to the coronavirus outbreak, it doesn't address the revenue problem, according to Fitch Ratings. The funds, which states should receive within 30 days, are intended to be used for virus expense reimbursement, rather than "a pure cash flow injection," according to Fitch.

And the unprecedented shutdowns in economic activity have made it difficult for revenue forecasters to predict what happens next — which is important given this is the time when states put together budgets for the coming year.

The economic shock from the coronavirus is likely to lead to a "very deep decline" in GDP during the second and third quarters followed by an improvement, whereas the slump was spread out over about nine quarters during the Great Recession, Moody's White said. He said some states may call special sessions to update the budget.

"They are scrambling," White said. "Best case scenario, they are going to be very cautious."

The drop in state revenue could easily exceed the 11% drop that states saw in a two-year period after the 2008 recession, said Brian Sigritz, director of state fiscal studies for the National Association of State Budget Officers. While rainy day funds and reserves are at a peak, he said that won't be enough for some states to cover the deficits in revenue.

“All states are going to be feeling the effects of this downturn,” he said. Sigritz said he expects the pinch to be felt in usually-smaller revenue sources like gasoline taxes as people drive less and gaming taxes as casinos are shuttered.

Budget Deadlines

New York is expected to see a loss of $10 billion to $15 billion in revenue in the fiscal year that starts April 1, according to the state budget office. Cuomo and lawmakers were negotiating the spending plan this week as the state’s number of virus-related cases keeps rising, reaching nearly 76,000 on Tuesday — as do associated medical costs. In one week alone, New York spent more than $600 million on health care supplies, such as face masks, gloves, ventilators, and portable X-ray machines, according to the budget office.

“The numbers are what the numbers are,” New York Governor Andrew Cuomo said of the state budget Tuesday at a virus briefing. “The numbers don’t lie, the numbers leave you few alternatives.”

Cuomo said he’s not counting on federal funds to balance the budget, “especially when the political process is the process that’s supposed to deliver money.”

“It’s all basically contingent,” Cuomo said. “We do a budget on the projections that we now have. If we get more funding, we increase the allocations. If we don’t get more funding, we reduce the allocations.”

New York already was facing a projected $6 billion budget gap when Cuomo released his $178 billion spending proposal in January. Cuomo planned on finding $2.5 billion in health-care savings, as Medicaid shortfalls account for a large portion of the deficit.

Michigan expects that it could see $1 billion to $3 billion in lost revenue as a result of the virus. And Alaska is facing a one-two punch from lower oil prices and the virus. The Alaska Legislative Finance Division estimates that the drop in oil prices could drive a $400 million revenue reduction for the current fiscal year, according to analyst Alexei Painter. The lower oil prices, paired with less activity from tourism and fisheries, could help drive an $800 million revenue reduction in fiscal 2021, Painter said.

Other states, like Alabama, said it was too soon to say what impact the virus would have on revenues in the current and upcoming fiscal year.

“There is a lot of uncertainty,” said Josh Goodman, senior officer for the Pew Charitable Trusts who researches public finances. “States are just starting to get a handle on how bad it might be.”

Cuts Already

At least 38 states and territories have issued some version of a stay-at-home order, shuttering parts of the economy as residents stay inside and restaurants and stores close. The result may be the steepest drop in sales taxes ever, according to the Institute on Taxation and Economic Policy, a left-leaning think tank. States like Florida, Texas and Washington are especially susceptible to the declines because the states derive over half of their revenue from sales and excise taxes, while the average is 35%, according to the group’s estimates included in a 2018 report.

The red ink also puts the municipal workforce at risk. During the last recession, states and local governments shed 110,000 jobs in a two-year period, according to a 2009 report by the Center for Economic and Policy Research, a think tank in Washington, D.C.

Ohio Governor Mike DeWine, a Republican, earlier this month announced a freeze on hiring and pay increases, saying in a statement that revenues will go down “dramatically.” He asked state agencies to find ways to cut 20% in spending for the current and upcoming fiscal year. State lawmaker John Rogers, a Democrat, said manufacturing jobs are at risk, which is especially important for the Midwestern state.

“The Covid-19 situation is affecting everyone financially,” he said. “The revenue streams are going to be depleted because people aren’t working or buying anything.”

Bloomberg Markets

By Amanda Albright, Shruti Singh, and Danielle Moran

April 1, 2020, 5:00 AM PDT

— With assistance by Keshia Clukey

Tax Filing Delays Will Hit Near-Term Liquidity for State Govts.

Fitch Ratings-New York-30 March 2020: Extension of tax filing deadlines and reduced economic activity brought on by the coronavirus pandemic will pressure states’ short-term liquidity, although Fitch Ratings says most, and potentially all, states will absorb the deterioration without materially affecting credit quality. April personal income tax (PIT) receipts are a disproportionately large share of many states’ total tax collections as final payment dates are typically aligned with the federal government’s April 15 filing deadline. Importantly, tax deadline extensions do not delay receipt of withholding taxes, the bulk of PIT collections. We do not currently anticipate any states will be unable to meet operating cash demands but consider liquidity the most significant risk the pandemic presents for states and are closely monitoring developments.

Federal aid measures enacted in recent weeks, including an enhanced federal match for Medicaid, direct aid for pandemic costs, and assistance for public transit and schools, will benefit states, although the details remain fluid. Under the Coronavirus Aid, Relief and Economic Security (CARES) Act signed by President Trump on Friday, the US Treasury department will distribute $150 billion to state and local governments within 30 days, essentially on a per-capita basis. While states will receive their funding immediately, the statute intends for it to be used for coronavirus expense reimbursement rather than as a pure cash flow injection.

As of Monday morning, 38 of the 44 states that levy a PIT extended their filing or payment deadlines to as late as July 15, in line with the federal filing delay, and some have granted similar extensions for corporations. To provide additional relief, some states have extended deadlines for monthly sales and related tax payments.

April revenues for PIT states are critical to supporting liquidity and help set expectations for future collections as states prepare next fiscal year’s budgets. According to data from the Federation of Tax Administrators, more than 17% of state PIT receipts for the year ended in June 2019 were received in April. Similarly, many states’ prior cash flow projections showed April 2020 accounting for 11%-12% of total fiscal year tax receipts. Extensions will primarily affect estimated and final payments tied to non-wage income, such as capital gains. Withholding payments tied to wages will continue, although negatively affected by the sharp economic downturn.

We are monitoring states' liquidity management closely and expect the vast majority of states to absorb the impending liquidity squeeze with limited effect on daily operations. States have an extraordinary range of fiscal powers to manage their short-term liquidity, including tapping budgetary reserves or other internal borrowable resources, reducing (temporarily or permanently) planned spending, shifting pay-go capital spending to bonding or delaying it outright, and issuing cash flow notes.

As the crisis unfolds many states have exceptionally high liquidity buffers following the decade-long economic expansion. The National Association of State Budget Officers highlighted in December 2019 in its latest fiscal survey that the median state rainy day fund stood at 7.6% of general fund expenditures in FY 2019, a record level.

Liquidity strains are more likely in some states, particularly those at the center of the pandemic, or with lower IDRs, reflecting more limited flexibility to address the emerging economic and revenue challenges. New York (AA+/Stable), the current pandemic epicenter, has a solid reserve position. The states with the lowest IDRs, Illinois (BBB/Stable) and New Jersey (A/Stable), entered the crisis with very limited reserves, while Connecticut (A+/Stable) has seen rapid reserve growth.

We anticipate, or have already observed, offsetting cash management measures including reductions to core spending (New Jersey) and pursuit of external liquidity (Rhode Island). Fitch believes all states will continue to prioritize key items including debt service, employee payroll and retirement contributions, Medicaid spending, and coronavirus response.

Coronavirus Fiscal Fallout on U.S. Muni Issuers Worries Investors.

CHICAGO, April 3 (Reuters) – Investors in the U.S. municipal bond market are growing increasingly worried over the ability of states, cities and other debt issuers to weather the financial fallout of the COVID-19 pandemic caused by the novel coronavirus.

Those concerns are creeping in to the $3.8 trillion market, where bond yields have whipsawed in recent weeks.

"Most of the activity is still being driven by liquidity factors, but credit quality will rise in importance the longer the social distancing policies remain in place," said Tom Kozlik, head of municipal strategy and credit at Hilltop Securities Inc.

Large parts of the nation have shut down in an effort to stop the virus' spread, with some states extending stay-at-home orders until the end of April. Sales, income and other taxes are expected to drop as unemployment skyrockets and consumer spending falls.

BofA said in a Friday research report it was turning "more cautious" on muni credits in the intermediate term due to growing financial pressures on issuers.

S&P Global Ratings' outlooks on credit trends for 2020, which started out as stable for most public finance sectors, underwent a wholesale change to negative this week.

In New York, the nation's epicenter for the virus, credit ratings for the city and state were given negative outlooks by Moody's Investors Service, which cited expected severe revenue declines. Governor Andrew Cuomo on Thursday pegged revenue losses due to the health crisis at $10 billion in fiscal 2021, which began on April 1.

Some other states have also reduced their revenue projections for the current and next fiscal years. Michigan is eyeing a loss of $1 billion to $3 billion for fiscal 2020, which ends on Sept. 30, and $1 billion to $4 billion for fiscal 2021, according to the state treasurer's office.

Total state taxes grew by 7.6% in February compared with the same month in 2019, according to Lucy Dadayan, senior research associate at the Urban Institute, based on reporting from 45 states. March tax collections from a handful of early reporting states show no major revenue drop so far, indicating April revenue reports may provide a fuller picture of the hit to state budgets.

Richard Ciccarone, president of Merritt Research Services, which provides data on muni credits, said investors will undertake a "sorting-out process" to gauge which issuers and areas of the country are financially at risk.

"Today's regions that are not hurt may be tomorrow's worst case," he cautioned.

He added that so-called credit spreads for some issuers will widen significantly.

Spreads for bonds issued by Illinois, the lowest-rated state at a notch or two above junk due to its chronic structural budget deficit and huge unfunded pension liability, have done just that. After starting March at just 82 basis points over Municipal Market Data's benchmark triple-A yield scale, the spread for the state's 10-year bonds ended Friday at 298 basis points.

Reserve funds, management, and potentially higher pension costs due to investment losses will help determine how well governments ride out the fiscal storm.

Federal support is also a factor. The $2.3 trillion stimulus bill enacted last week earmarks $150 billion for states and local governments but only to cover expenses incurred from fighting the virus and not to replace sinking revenue.

"There may have to be another wave (of federal assistance) to deal with the recovery aspects," said Howard Cure, managing director of municipal bond research at investment banking advisory firm Evercore.

(Reporting by Karen Pierog in Chicago Editing by Ira Iosebashvili and Matthew Lewis)

S&P: The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions

Key Takeaways

- Most U.S. states entered 2020 on a comparatively stable footing, benefiting from a decade-long national economic expansion.
- Ratings on issuers with narrower payment streams are more susceptible to immediate pressures than a state or local government's general credit quality.
- State and local governments with concentrated economic activities are more likely to see revenue declines.

The COVID-19 pandemic and the consequential global economic recession will affect U.S. state and local governments to varying degrees. During this period of pronounced economic volatility, S&P Global Ratings recognizes the public health crisis across the country and the strain on state governments coordinating a response across all levels of government. As economic forecasts change, implementation of federal relief efforts emerge, and other information becomes available, we will continually evaluate our U.S. state portfolio for potential credit implications. On April 1, S&P Global Ratings revised its sector outlook to negative for all U.S. public finance sectors, reflecting in part the precipitous decline in economic conditions to end the quarter, which is anticipated to continue at least through the second quarter. (See "All U.S. Public Finance Sector Outlooks Are Now Negative," published on April 1, 2020 on Ratings Direct).

As the pace of the COVID-19 outbreak accelerates across the country, governments continue to work to help contain its effects on the public's health and mitigate the social and economic toll that continues to rise, in some instances, at alarming rates. A distinguishing characteristic of the COVID-19-induced recession is that efforts to contain its spread have resulted in a sharp decline in economic activity. S&P Global Economics economists now forecast that the resulting economic toll will be extensive, but will occur in a shorter time relative to the Great Recession. Their most recent year-on-year U.S. second-quarter GDP estimates suggest a contraction of at least 12.7% (See "Economic Research: It's Game Over For The Record U.S. Run; The Timing of A Restart Remains Uncertain," published on March 27, 2020 on RatingsDirect). The current policy responses have an immediate effect on U.S. state and local governments' operating environment.

Continue reading.

COVID-19: A Closer Look At How It Affects 10 Major U.S. Cities

Table of Contents

Key Takeaways

- COVID-19 will have a significant effect on major U.S. cities, increasing expenditures and reducing revenues.
- The projected hit to U.S. economic growth from the ensuing recession will exacerbate the situation, presenting even more challenges for cities as they struggle to maintain structural balance, especially for those reliant on economically sensitive revenues.
- While we expect the federal relief package to aid state and local governments in the near term, the timing and support remains unknown, placing more pressure on liquidity levels.

The COVID-19 pandemic continues to evolve rapidly and has already plunged the entire world—and the U.S. with it–into recession. Projections for GDP contraction start in the first quarter (negative 1.3%) and worsening substantially in the second (negative 12.7%). Over the course of 2020, S&P Global Ratings forecasts an annualized decline in real GDP of 2.1%. The forecast is predicated on a precipitous drop in tax collections on consumer spending, coupled with a surge in unemployment. See S&P Global Ratings' most recent forecast, "It's Game Over for the Record U.S. Run; The Timing Of A Restart Remains Uncertain," (published March 27, 2020, on RatingsDirect. As a result, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative (See "All U.S. Public Finance Sector Outlooks Are Now Negative," published April 1, 2020).

Prolonged Revenue Declines Will Lead To Pressure On Liquidity

In our view, American cities that entered the recession with weak liquidity and reserves or with a high amount of economically sensitive revenues will be particularly vulnerable to the looming pressures. When unbudgeted COVID-19 expenditures are added to the mix, the pressure to make ends meet becomes exponentially harder for local governments, straining already tight city budgets. Federal aid from the recently passed relief package, the CARES Act, will likely provide some help but is unlikely to make budgets whole since $150 billion in federal aid earmarked for state and local governments will likely only cover COVID-19-related expenditures and not revenue declines.

For all U.S. cities, sales and uses taxes; leisure and hospitality revenue; lottery revenue; licenses, fees, and permits; and motor fuel taxes will be the hardest hit. Those that rely less on this revenue will be more insulated in the short term. However, even property taxes are likely to be affected should the recession be prolonged.

With Revenue Down, Management Will Make The Difference

In times of crisis, proactive and nimble management with robust governance policies are critical in maintaining credit quality. This includes carefully monitoring liquidity, particularly where revenue streams start to falter, reaching out to access external liquidity sources when needed.

The cities in this article all enjoy proactive management teams focused on both current and future pressures. As the situation unfolds over the course of 2020, cities who respond quickly and adequately to major budgetary shifts will have a much better ability to allay negative credit action, particularly if they start in a position of relative financial strength.

Continue reading.

Coronavirus Is Making the Public Pension Crisis Even Worse.

The pandemic has handed the funds big losses after they ramped up their appetite for risk over the past decade.

For years, the country’s public pension plans have faced a yawning gap between what they owe and what they can pay.

From the State of California’s public employees’ retirement plan, with more than 1.6 million participants, to tiny funds for employees of local mosquito-control programs in Illinois, public pensions are the time bomb of government finance.

Now the coronavirus pandemic has it ticking faster.

Already chronically underfunded, pension programs have taken huge hits to their investment portfolios over the past month as the markets collapsed. The outbreak has also triggered widespread job losses and business closures that threaten to wipe out state and local tax revenues.

Continue reading.

The New York Times

By Mary Williams Walsh

April 2, 2020

Pension Funds Will Take a Big Coronavirus Hit.

Retirees will have to accept sharply reduced benefits that are more in line with what they would get from Social Security and Medicare.

The coronavirus crisis is still unfolding, but it's not too soon to think about lasting financial impact and how to limit the fallout. One major financial crisis that may hit later this year or early in 2021 is the ever-looming collapse in state and local employee pension funds. Although the problem has been growing for decades, the virus may have been the event that pushed it over the edge.

Declines in the financial markets may have cost the funds as much as $1 trillion in assets, or about 25% of their total, according to Moody's Investors Service. That would bring the aggregate funding ratio—value of assets divided by actuarial value of liabilities—from 52% based on the last report by the Census Bureau down to perhaps 37%. Markets may recover, of course, but they may not. The latest aggregate numbers we have are from 2017, and for most individual funds data is available only as of mid-2018. Asset returns are usually smoothed so it could be four or five years until the full effect of the virus is reported officially.

But it's not aggregate numbers or official reports that will trigger a crisis. It's the big funds in the worst shape. My back-of-the-envelope calculations suggest Connecticut could be looking at a 28% funded percentage if the numbers were available now, Kentucky 25%, New Jersey 24% and Illinois 20%.

Those figures rely on optimistic assumptions about healthcare cost increases and discount rates; the true numbers are probably worse. The important statistic is more objective: how many years' benefits do the pension assets represent? That could be no more than about four years in Illinois if true numbers were public today, five in New Jersey and Kentucky, six in Connecticut.

All benefits for active employees, plus all benefits for everyone in the near future, will have to come from employee or state contributions. But states will be strapped for cash, and looking to cut contributions, not raise them. Employees will be unwilling to contribute more since there's little likelihood they'll ever see that money again, especially as post-2008 reforms have denied many of them the gold-plated benefits that employees with more seniority enjoy.

Taxpayers? The least willing of the bunch. Creditors? The states need to keep borrowing money, so they have to appease creditors. Some of the money will come via defaults or restructuring of state and local debts, but this is its own crisis, and it won't fill the gap. The federal government? Maybe, but not for full payments. A more likely scenario would be absorbing retirees into Social Security and Medicare at sharply reduced benefit levels—and those programs face similar problems as state and local plans.

It's true that 48 states have constitutional or other legal protections for pension benefits. These will improve union bargaining power, but it won't squeeze anywhere near the full amounts promised. Courts will both unwilling and unable to force governments to hand over money the governments don't have and can't get.

Will deaths tied to the Covid-19 pandemic save the day? After all, deaths will likely be concentrated among retired employees getting benefits rather than active employees paying contributions. Moreover, active employees who succumb to the virus will be replaced. If we exclude Hollywood disaster scenarios, the highest projections are U.S. death rates doubling in 2020 and remaining 2.5% higher thereafter. Using the age distribution of coronavirus deaths for which information is available, that could cause liabilities to fall by about half the amount that assets fell. But in that scenario assets would probably fall much farther. It's hard to come up with a scenario in which additional coronavirus deaths improve pension funded ratios.

Will these events trigger Illinois or some other state to default? It's plausible. Will that cause other states and municipalities to follow? That's likely, mainly because creditors will stop lending to states with big unfunded pension liabilities. Will that provide the cover for every state except maybe Utah and Wisconsin from seizing the opportunity to renege on promises? I'd bet on that as well.

What we do today is start treating pensions as an issue that must be addressed rather than a can to be kicked down the road. Admit that promises to employees will not be kept, and start figuring out how to direct the cuts to where they will do the least harm: younger workers with more time to prepare and richer workers with more ability to pay. Collecting the maximum contributions possible, but in realistic forms employees can count on rather than unreliable promises about future. Releasing timely and complete data on assets and cash flows.

The basic terms of the fix are obvious. Pension payments will be capped, probably at something like the Social Security maximum of $3,011 per month for someone who retires at age 65. Tax the benefits, again probably like the rules for Social Security (50% of benefits for single filers with total income between $25,000 and $34,000, 85% of benefits for higher income individuals). Make healthcare plans more Medicare-like, with lower provider payments. Employee contributions to be directed either to Social Security/Medicare or individual retirement accounts rather than underwriting payments to retired workers.

This will provoke fierce fights. First to accept the inevitable and second to set the precise terms. How will police officers be treated versus teachers versus Division of Motor Vehicle clerks? Will all state and local plans be put in one bucket, or will employees from more prudent states do better than employees from profligate ones? How will scarce funds be directed to pensions versus health benefits? How much will taxpayers and creditors kick in? These fights will take place in legislatures, courtrooms and union elections. It won't be pretty or fun. But the sooner we admit the problem and start to solve it, the sooner it's behind us.

Bloomberg

By Aaron Brown

April 1, 2020, 3:00 AM PDT

Underfunded Public Plans Facing a New Round of Woes.

The coronavirus has increased pressure on underfunded public pension plans that were already facing significant stress before the crisis.

Not only have plans' investment portfolios taken double-digit losses as a result of the pandemic, but government plan sponsors will need to increase their contributions at a time when revenues are down and expenditures are up.

"This has put a lot of strain and stress on pension deficits, and it's going to get worse," said Kevin McLaughlin, head of liability risk management at Insight Investment. "Pressures that were there before are now magnifying. It's quite worrying."

The pandemic has unleashed havoc on markets — and plans' portfolios. Moody's Investors Service estimates that U.S. public plans are generally on pace for an average investment loss of about 21% for the fiscal year ending June 30.

A report issued March 24 by the New York-based credit ratings agency noted that domestic public plans are facing nearly $1 trillion in investment losses because of the economic fallout from the coronavirus. These losses could exacerbate the pension liability challenges that many state and local governments already are facing. Plus, the economic setback is reducing revenue levels and threatening the ability of state and local governments to afford higher pension costs.

"Without a significant market rebound, that's going to result in some new unfunded liabilities that are going to be material and compounded on top of the already unfunded liabilities," said Tom Aaron, vice president and senior analyst at Moody's in an interview. "This will push up government contribution requirements."

Mr. Aaron added that, "given the already unfunded positions, if governments don't quickly increase their contributions, the longer-term consequences for pensions are severe."

Of the 181 public plans tracked by the Center for Retirement Research at Boston College, National Association of State Retirement Administrators and the Center for State and Local Government Excellence, 31 have funding ratios that are below 60%.

And while American Enterprise Institute resident scholar Andrew G. Biggs agreed that state and local governments should increase their contributions after public plans took "a big hit on their assets," he said that he wouldn't be surprised if governments failed to make their full contributions this year, given the massive costs associated with responding to COVID-19.

"The coronavirus wasn't predicted. But for years outsiders have warned that public-sector pensions have contributed too little, taken too much investment risk and failed to enact sufficiently far-reaching reforms," Mr. Biggs added in an email. "It was only a matter of time before something went wrong."

Budget effects

Another question the crisis poses is how the budgets of public plans will be affected.

"From a liquidity perspective, public funds have two sources to pay for benefits: existing assets and existing contributions," said Greg Mennis, director of public sector retirement systems for Pew Charitable Trusts in Washington. "For underfunded plans, current inflows are very important."

Mr. Mennis said that states like Connecticut and Illinois, which are already making large contributions to their plans, are better positioned to maintain liquidity and work toward their target asset allocation. But a state like New Jersey, which he said has the lowest rate of cash flow among any state, is more at risk.

Some plans facing funding challenges have been preparing for a disruption in the markets. And although none of them could expect a crisis such as COVID-19, they said they are at least better positioned to handle the resulting market volatility.

Shawn T. Wooden, state treasurer and principal fiduciary of the $37 billion Connecticut Retirement Plans & Trust Funds, Hartford, said in a phone interview that he came into office "with a clear sense that the market wasn't going to continue to roar for the next decade."

To prepare the portfolio for a downturn, Mr. Wooden's investment team lowered the state's $18.7 billion Teachers' Retirement System's assumed rate of return to 6.9% from 8%, decreasing its exposure to global equities while increasing its allocation to fixed income and hiring a chief risk officer to monitor risk across the entire portfolio.

The state's TRS has a funded status of 58%, while Connecticut's State Employees Retirement System is 38% funded.

Chicago Public School Teachers' Pension & Retirement Fund also took steps before the crisis to make its portfolio more defensive in anticipation of a market downturn.

"We've been in this cycle for 10-plus years, and we knew at some point something would happen, we just didn't know it would be at this magnitude," said Angela Miller-May, CIO of the $10.5 billion pension plan. CTPF's funded status is 47.9% and the expected rate of return is 7%.

Ms. Miller-May said that the board does not expect the funded status to change as a result of COVID-19.

Funding challenge

Because of its challenged funded status, Rich Robben, CIO of Kentucky Retirement Systems, Frankfort, said that the $16.8 billion pension fund went into the crisis with an already conservative asset allocation (overweight to core fixed income) and about $3 billion of dry powder.

"We were very fortunate with our liquidity position going in," Mr. Robben added.

The funded status for Kentucky's pension system is 32.8%. David Eager, executive director for KRS, said he "would expect the funded statuses to fall somewhat but not drastically since the asset structure is quite conservative."

The actions of these underfunded plans are in line with the expectations of Alex Brown, NASRA's research manager, in Washington.

"Pension plans that are poorly funded don't necessarily behave differently than other plans," Mr. Brown said. "They have policies in place that take their funding position into account."

Meanwhile, New Jersey Treasurer Elizabeth Maher Muoio warned bondholders in a voluntary disclosure statement issued on March 23 that the impact of COVID-19 on New Jersey will produce "precipitous declines in revenues" for the current fiscal year ending June 30 as well as the next fiscal year affecting "revenue collections and pension funds contributions."

Still, Assistant Treasurer Dini Ajmani said at the State Investment Council meeting on March 25 that the state remained committed to making its fiscal third- and fourth-quarter contributions to the $74.2 billion New Jersey Pension Fund, Trenton.

Following Ms. Muoio's warning, the state's top leaders issued a joint statement on April 1 stating they plan to push back the current fiscal year-end to Sept. 30 from June 30.

Have enough cash

Investment consultants with whom Pensions & Investments spoke said the plans they've worked with are not repositioning their portfolios and already have enough cash to pay out obligations.

Jay V. Kloepfer, executive vice president and director of capital markets research at San Francisco-based investment consultant Callan LLC, said that plans, even underfunded ones, “shouldn’t be making sudden changes.”

“You shouldn’t be changing the wheels of the car while you’re driving down the road,” he said, adding that the big question plans should ask themselves is if they have enough liquidity. But based on the conversations he’s had with clients, that hasn’t been an issue.

“We’ve addressed liquidity pretty aggressively with most plans we’ve worked with, especially those in a challenged funding position.”

Kristen Doyle, a partner and head of public funds at Aon PLC’s investment consulting business, said that many plans, particularly underfunded ones, “have a healthy allocation to investment-grade credit and cash, so parts of their portfolios will remain liquid.”

“Allocations are based on funded status. They test these different portfolios against that liability structure and test it across multiple markets, including ones like this one,” Ms. Doyle explained.

She added that the plans she’s worked with aren’t panicking, and those that are rebalancing are doing so “very carefully and prudently.”

“The plans we work with are pretty well-positioned,” Ms. Doyle said. “They have a strong risk-reducing allocation that’s liquid. And all of these plans typically have a robust process in place in where they’re managing their cash flow on a monthly or more regular basis.”

Pension obligation bonds

While revenues are down at a time when contributions need to be up, the pension obligation bond is another option that government sponsors of underfunded plans can use.

Girard Miller, a retired investment and public finance professional and former CIO of the $17.3 billion Orange County Employees Retirement System, Santa Ana, Calif., said that the pension obligation bond is a temporary measure that could put the underfunded pension plan “on firm footing.”

“They only work well if they’re issued in the depths of a recession. Now is the time for that,” Mr. Miller said. “The plan sponsor has a liability with this, but they can stretch that out over 30 years if they need to.” The cost of doing this is lower than the traditional way, so there is potential for some cost savings for the state.

But not everyone agrees.

“I don’t think (pension obligation bonds are) an option in this market right now,” Ms. Doyle said. “It’s a risky endeavor because you’re assuming the pension will outperform the interest rate of the bond, and that’s a huge gamble.”

Going forward, increased contributions alone will not keep struggling plans afloat.

“It will have to come down to structural reform,” Karel Citroen, head of municipal research at Conning said. “I just don’t see how you’re going to address pension funding issues you see in this country without addressing the entitlement side of it.”

Mr. Citroen pointed out that, if it’s not possible to make such changes for current plan participants, structural changes should be put in place for new or future plan participants.

Mr. Citroen added that “it will probably come down to an escalation of this issue for one plan, like New Jersey or Illinois, for that mindset to be accepted by other constituents as well.”

While Insight’s Mr. McLaughlin said that underfunded plans will have to engage in “firefighting” to ensure they have enough cash on hand to pay their obligations in the short term, in the long term, plans will need to craft a “liquidity strategy that’s more formal than they’ve had in the past.”

“When the dust settles, you’ll see plans making more fundamental changes to their investment strategies going forward,” Mr. McLaughlin added.

NASRA’s Mr. Brown said it’s going to take a while before the long-term impact of all of this is known.

“One should remember that these losses and gains are phased in over several years,” Mr. Brown said. “We won’t know what the returns will be until the fiscal year ends, and so it’s going to take a little while.”

PENSIONS & INVESTMENTS

by JAMES COMTOIS

April 06, 2020

[The Coronavirus Crash Reveals a Big Problem In Bond Fund Pricing.]

The exchange-traded fund industry just threw the mutual fund industry under the bus. BlackRock, Vanguard, and State Street have all made statements over the past—very volatile—month that bond ETF market prices are a “price discovery” tool, arguing that prices of illiquid individual bonds held in mutual funds and ETFs are “stale,” while ETFs have greater liquidity and therefore more accurately reflect the value of their underlying portfolios. That was their explanation for why so many ETFs traded at discounts to their underlying portfolio values—their net asset values, or NAVs, in Wall Street parlance.

But if bond ETF market prices are less than their NAVs—yet more accurate than them—that means similar or identical mutual fund NAVs are wrong and overpriced, since they are calculated in the same way as ETFs. (For illiquid securities like bonds, fund-pricing service accountants employ a fair value system to calculate NAV that extrapolates the price of the entire portfolio for the few individual bonds that trade.)

Vanguard’s case is particularly problematic, as some of its ETFs are really share classes of existing mutual funds and have identical portfolios. Jeff DeMaso, editor of the Independent Adviser for Vanguard Investors newsletter, has tracked the performance and discounts of the (ticker: VBTLX)—the largest bond mutual fund in the world at $269 billion—including its (BND) ETF share class. He has noticed some striking differences of late, especially since more than half of the fund’s portfolio is in ostensibly liquid Treasury and government agency bonds.

“On March 11, the mutual fund was down 0.6% while the ETF was down 1.9%,” DeMaso observes. “On the 12th, the bond market fund was down 1% and the ETF was down 5.4%. So those two days you had the ETF selling off much harder than your own mutual fund. And then on the 13th, you had the mutual fund down 0.5%. But the ETF rose 4.2%."

DeMaso says that calling the ETF's varying market moves a "price discovery tool" is "obfuscatory," and believes the Total Bond Market Index's portfolio's "real price is probably somewhere in between" the mutual fund's NAV and the ETF's market price.

Vanguard's Rich Powers is more diplomatic, stating in an email, "It's not that one [price] is right and the other wrong. Each product has a different set of inputs that go into pricing, so there can be variations between the two. Those variations are more pronounced during times of market volatility."

How Investors Get Hurt

The problem with the NAV being wrong for the mutual funds is that on days when the ETF's market price trades at a discount to NAV, that means investors who bought the mutual fund essentially overpaid for its elevated NAV, while those selling received more for their sale than they should have. There is ultimately a delay, as the stale prices for the mutual fund's bond portfolio have to adjust. Investors saw the consequences of that delay on March 13, when the Vanguard mutual fund fell 0.5% on a day when the ETF rallied 4.2%.

Such delayed pricing means that mutual fund shareholders who stay in a fund when prices are finally marked down bear the brunt of losses for those who got out early. When funds process redemptions, money managers usually sell the most liquid securities first. The remaining illiquid ones, once sold and repriced, amplify the losses for the remaining shareholders who would fare better if the entire portfolio had been repriced earlier.

"Shareholders who remained loyal have subsidized investors that had a shorter time horizon," says Todd Rosenbluth, CFRA's director of ETF and mutual fund research, adding that such selling can have a "snowball effect," as "selling begets selling."

The Worst-Case Scenario

One saw this with the infamous case of junk-bond fund Third Avenue Focused Credit, which collapsed in 2015, and in 2007 with Regions Morgan Keegan's funds, which invested in subprime nonagency mortgage debt. More recently, there has been a similar liquidity crunch at nonagency mortgage debt funds Braddock Multi-Strategy Income (BDKAX), which fell 65% from March 18 through March 23, and AlphaCentric Income Opportunities (IOFIX), which dropped 40% from March 18 through March 25. On March 20, in particular, Braddock dropped 34% and AlphaCentric, 17%.

In an email to Barron's, AlphaCentric stated, "We believe the NAV of the AlphaCentric Income Opportunities fund was accurately priced each day. The price reflects the fair value of its underlying portfolio of residential mortgaged backed securities, not equities….The AlphaCentric fund's daily pricing was done by ICE, which is one of the largest and most respected independent pricing services."

Yet ETF experts say that such fair-valuation services employ limited data. "Only about 20% of the bond universe trades every day," says Reggie Browne, a principal at market maker GTS with a long history developing the ETF business. "How do you go about calculating fair value for something that doesn't trade? The ETF is priced minute by minute, not a static NAV."

While Vanguard's ETFs suffered discounts, they were minor compared with some niche ETFs that invest in low-quality illiquid debt like high-yield muni bonds. The share price of the SPDR Nuveen

Bloomberg Barclays High Yield Municipal Bond ETF (HYMB) fell almost 10% on March 16 to trade at an 18.6% discount to its NAV, which only declined 0.7% that day. Meanwhile, the NAV of the Nuveen High Yield Municipal Bond (NHMRX) mutual fund, which invests in the same asset class and holds some of the same bonds, fell only 0.6% that day and then fell 14% over the next four days ended on March 20. Which outcome was more accurate? That depends on whom you want to believe.

Barron's

By Lewis Braham

April 3, 2020 6:10 pm ET

[Trouble Ahead for the Municipal Bond Market in a COVID-19 Pandemic Recession?]

Most investors think of bonds as safer and less volatile than stocks. That may be true for Treasury securities, but going down the line of mortgage-backed securities, corporate bonds and even municipal bonds, they can be a very different story. It turns out that municipal bonds have a lot of exposure to a bad economy.

Fitch Ratings has warned that local governments in the United States may struggle to maintain historically sound liquidity levels and that the pressure is likely to come from multiple sources. The report is not full of downgrades in the municipal bond sector, but it sure sounds like a wave of credit ratings reviews is on the way. Fitch now considers liquidity to be the most significant near-term risk for the credit quality of local governments. Most local governments are expected to maintain sufficient liquidity that would offset "significant near-term revenue declines," but some are expected to see enough strain that will trigger credit rating downgrades.

Fitch does believe that even the financially stressed issuers will do whatever they have to do to keep making full and timely debt service payments. Those efforts could include deficit financing, cash flow conservation and other measures. The report said:

> Failure to create adequate liquidity and financial buffers that protect debt repayment capacity even during a potentially protracted crisis would be inconsistent with an investment-grade rating. A missed debt service payment, even if on a temporary basis, would be treated by Fitch as a default.

While liquidity is said to be sufficient for normal operations through cyclical downturns, the uncertainty from the coronavirus pandemic, as well as the depth and duration of the total economic impact, is likely to push many local governments to look for new ways to support cash flows. Those efforts could include financial market and operational solutions: tapping credit lines, issuing tax or revenue anticipation notes, layoffs and furloughs, service reductions, delaying vendor payments, cutting equipment purchases, postponing capital spending or even payroll deferrals.

Fitch further outlined more specifics about where the weakness would be seen:

> Liquidity strains are more likely for local governments that exhibited negative financial

> trends prior to the outbreak, or those with lower IDRs and financial resilience assessments, reflecting more limited flexibility to address the emerging economic and revenue challenges. Local governments with a disproportionately large exposure to economically-sensitive revenues such as sales and income taxes, or economies with significant tourism and retail sector dependence, are also considered more vulnerable.

Perhaps the most stable historic item that contributes to local governments is property taxes, but these may now face uncertainty as the property markets enter disarray. Fitch warned that the coronavirus pandemic could negatively affect home prices in a way that could erode tax base values and could hamper total property taxes ahead if the fallout remains in place. Fitch indicated that local governments have not proposed delaying property tax due dates. While escrowed property tax payments inside a mortgage have helped high property tax collections, the recent and coming mortgage payment relaxations could push out property tax collections.

Fitch counted 38 of the 44 states that have personal income taxes have extended their filing or payment, out to as late as July 15, to be in line with the recent federal tax filing delay.

Another source of risk coming to the local markets is from the state aid that school districts and counties typically rely heavily. Those are at a higher risk of being cut back in fiscal year 2021. Fitch further said:

> The ability to reduce or delay local government transfers is an important financial tool for states. Fitch believes this flexibility is likely to be invoked given states' near-term revenue and liquidity stress. While the Coronavirus Aid, Relief and Economic Security (CARES) Act will distribute $150 billion in aid to state and local governments in the near term, it provides expense reimbursement rather than a pure cash flow infusion. The high IDRs in the local government sector indicates most will be able to withstand even this period of unprecedented stress; Fitch is reviewing the adequacy of each issuer's available tools as well as management's willingness to utilize them.

Investors often look for safe havens in times of turmoil. The lesson here is that not all bonds are created equal, and the risks often become much more clear in times of market turmoil and economic pain.

247wallst.com

by Jon C. Ogg

April 3, 2020

Case for Fed Rescue of Muni Market Builds With Rout Returning.

- **Yields jump almost 75 basis points this week as prices slide**
- **New deals largely shelved, showing limited access to market**

In the past 48 hours, the $3.9 trillion municipal-bond market is making the case for the Federal Reserve to use its new powers to wade in, whether buyers want it to or not.

That's because the market where states and local governments raise cash is veering back toward the dysfunction that gripped it last month. Bond prices have dropped sharply, sending yields on 30-year debt surging by nearly 0.75 percentage point since Monday morning. Big bond deals are in limbo, effectively shutting off market access. Frightened investors are pulling out.

The liquidity crisis that initially raced through the market has given way to more measured fears about the massive financial toll that the unprecedented economic shutdown will deliver to states, cities, transit agencies, airports and others that stand behind municipal bonds.

The sell-off in the past few days "makes the case that the Fed should get engaged in some capacity in the muni market," said Michael Nicholas, chief executive officer of the Bond Dealers of America, a lobbying group representing banks and dealers. "No doubt."

Groups like the Government Finance Officers Association and National Association of State Treasurers this week sent a letter urging the Fed to start buying municipal bonds in the secondary market, saying that the central bank should purchase longer-dated debt and include both states and smaller entities like towns.

The organizations said they would like to see the creation of a temporary facility to buy municipal debt, as well as a low-interest loan program to help cash-strapped governments that are affected by tax filing deadlines being pushed back.

The central bank is expected to announce a new emergency facility to support municipal debt, as allowed by the $2 trillion stimulus approved last week. House Speaker Nancy Pelosi said on Thursday that she wants Fed chairman Jerome Powell to "think big" about how to help.

Karissa McDonough, chief fixed-income specialist at People's United Advisors, said now the market is waiting for more "clarity" from the central bank.

"We need a little bit in terms of details or actual purchase activity," she said.

Currently, the Fed and the U.S. Treasury Department are operating under Section 13.3 of the Federal Reserve Act. It allows the Fed, with Treasury permission, to open a broad-based facility to support troubled areas of the financial markets in an emergency.

There are questions about what bonds the Fed would buy, given it could open the central bank up to criticism that it's picking winners and losers among states and cities. There's also uncertainty over how it would implement a municipal purchasing program — including whether the central bank would turn to an asset management firm like BlackRock Inc, which it's doing with three of its bond-buying programs.

Even allowing the central bank to help rescue the market from a crisis is a divisive topic in the industry. Citigroup Inc. strategists led by Vikram Rai found in a survey of over 1,146 clients this week that a majority of them would prefer that primary dealers run the Fed's muni buying program instead of an investment-management firm.

Still, the strategists added later that the results of the survey "ripped through the industry and created much controversy."

They noted some respondents had particularly strong views: "We have filtered out the racy comments," the bank strategists said, adding they "tried to synthesize the popular response for most questions."

Bloomberg Law

by Amanda Albright

April 2, 2020

–With assistance from Danielle Moran and Craig Torres.

Skanda Amarnath, Yakov Feygin, And Elizabeth Pancotti On Municipal Bond Market Intervention And The CARES Act As Responses To COVID-19.

Summary

- We want state governments to act ambitiously to take the necessary measures.
- Our proposal is for the Fed to use its 14(2)B authority at least in terms of offering to buy short-term municipal debt, specifically state and local government debt.
- All 50 states have seen a pretty big surge in jobless claims actually, including Alaska and Hawaii.

Continue reading.

Seeking Alpha

by David Beckworth

Apr. 2, 2020

What's Going On In the Municipal Bond Market? And What Is the Fed Doing About It?

When state and local governments need to borrow money, they often do so by selling municipal bonds—promises to pay investors a fixed amount of money at a future date. Before the pandemic began, state and local governments were mostly in very good shape, most of their bonds were considered very safe, and interest rates were low, so they could borrow at low rates without any trouble.

As the coronavirus outbreak worsened, that changed. Investors began withdrawing from municipal mutual funds: For the week ending March 18th, investors withdrew a record-setting $12 billion—almost 2.5 percent of assets—and another $13.7 billion the following week. Between March 9th and March 20th, state and local governments managed to sell only about $6 billion of the $16 billion in bonds they were seeking to issue. These withdrawals were accompanied by sharp increases in the interest rates borrowers were required to pay. From March 9th to March 24th, the Municipal Market Data yield—a measure of municipal bond yields produced by Thomson Reuters and commonly used as a pricing gauge by state and local bond issuers—went up by roughly 2 percentage points, a huge increase for this market.

At a time when they are already under enormous stress from the coronavirus outbreak, state and local governments suddenly found it hard to borrow.

Continue reading.

The Brookings Institution

by Finn Schuele and Louise Sheiner

March 31, 2020

Cracks in Municipal Debt Markets Raise Questions about Future Fed Action.

The coronavirus is taking its toll on state and local governments across the country, as funding strains force municipalities into balancing layoffs against providing essential services to Americans that were laid off themselves.

Investors fleeing from the municipal debt market also means municipalities are having difficulty issuing debt to finance themselves. In Jersey City, Mayor Steven Fulop is trying to plug a $70 million hole; $50 million of unanticipated revenue losses and $20 million in higher expenses to continue offering its community services.

“While layoffs are a last resort, the public should be aware that just because we’re government, we’re not immune from what’s happening.” Fulop told Yahoo Finance.

Continue reading.

Yahoo Finance

by Brian Cheung

March 30, 2020

How the Muni Market Became the Epicenter of the Liquidity Crisis.

A concentration of power and risk has resulted from a fundamental shift in how municipal bonds are bought and sold

The coronavirus triggered a liquidity crisis in municipal bonds, but the volatility that resulted has been brewing for a decade.

Desperate sellers across most markets sold assets at deep discounts last month as the spreading new coronavirus left investors fearful and hungry for cash. Perhaps no investment flipped from coveted haven to spurned hot potato as quickly as municipal bonds.

Prices have started to recover as U.S. lawmakers authorized the Federal Reserve to prop up a wide swath of state and local government debt. But the marketwide breakdown exposed a new vulnerability in the nearly $4 trillion municipal market: a concentration of power and risk resulting from a fundamental shift in how muni bonds are bought and sold on Wall Street and on Main Street.

Continue reading.

The Wall Street Journal

By Heather Gillers and Gunjan Banerji

April 2, 2020 6:30 am ET

BDA Urges Fed to Provide Additional Support for Muni Market.

Today, following extensive work with the Muni Exec Committee, the BDA submitted a letter to the Federal Reserve and Treasury urging them to take action in the municipal market due to historic price volatility, cancellation or postponements of new issuance, and significant deterioration of liquidity.

The letter can be viewed here.

This call to action follows a March 18th letter in which the Fed followed BDA recommendations to expand the Money Market Mutual Fund Liquidity Facility to include a wider range of securities, including municipal variable rate demand notes and as a response to the passage of the CARES Act.

Background of CARES Act (H.R. 748)

Section 4003 of the Cares Act provides the Treasury and Fed with broader standby authority to support the bond markets during times of particular distress and dysfunction, to the immediate benefit of issuers, investors, tax payers.

H.R. 748 would allocate up to $454 billion of cash from the Treasury Department to:

- Provide liquidity to eligible businesses, States, and municipalities related to losses incurred as a result of coronavirus;
- Treasury would "make loans, loan guarantees, and other investments in support of eligible businesses, States, and municipalities."

This includes:

- Purchasing obligations or other interests directly from issuers of such obligations or other interests
- Purchasing obligations or other interests in secondary markets or otherwise; and
- Making loans, including loans or other advances secured by collateral.

The bill would also provide up to $125 billion in direct support to localities that can help bridge the gap with lagging revenues, especially in light of delayed tax filing deadlines.

Bond Dealers of America

April 3, 2020

Case for Fed Rescue of Muni Market Builds With Rout Returning.

- **Yields jump almost 75 basis points this week as prices slide**
- **New deals largely shelved, showing limited access to market**

In the past 48 hours, the $3.9 trillion municipal-bond market is making the case for the Federal Reserve to use its new powers to wade in, whether buyers want it to or not.

That’s because the market where states and local governments raise cash is veering back toward the dysfunction that gripped it last month. Bond prices have dropped sharply, sending yields on 30-year debt surging by nearly 0.75 percentage point since Monday morning. Big bond deals are in limbo, effectively shutting off market access. Frightened investors are pulling out.

The liquidity crisis that initially raced through the market has given way to more measured fears about the massive financial toll that the unprecedented economic shutdown will deliver to states, cities, transit agencies, airports and others that stand behind municipal bonds.

The sell-off in the past few days “makes the case that the Fed should get engaged in some capacity in the muni market,” said Michael Nicholas, chief executive officer of the Bond Dealers of America, a lobbying group representing banks and dealers. “No doubt.”

Groups like the Government Finance Officers Association and National Association of State Treasurers this week sent a letter urging the Fed to start buying municipal bonds in the secondary market, saying that the central bank should purchase longer-dated debt and include both states and smaller entities like towns.

The organizations said they would like to see the creation of a temporary facility to buy municipal debt, as well as a low-interest loan program to help cash-strapped governments that are affected by tax filing deadlines being pushed back.

The central bank is expected to announce a new emergency facility to support municipal debt, as allowed by the $2 trillion stimulus approved last week. House Speaker Nancy Pelosi said on Thursday that she wants Fed chairman Jerome Powell to “think big” about how to help.

Karissa McDonough, chief fixed-income specialist at People’s United Advisors, said now the market is waiting for more “clarity” from the central bank.

“We need a little bit in terms of details or actual purchase activity,” she said.

Currently, the Fed and the U.S. Treasury Department are operating under Section 13.3 of the Federal Reserve Act. It allows the Fed, with Treasury permission, to open a broad-based facility to support troubled areas of the financial markets in an emergency.

There are questions about what bonds the Fed would buy, given it could open the central bank up to criticism that it’s picking winners and losers among states and cities. There’s also uncertainty over how it would implement a municipal purchasing program — including whether the central bank would turn to an asset management firm like BlackRock Inc, which it’s doing with three of its bond-buying programs.

Even allowing the central bank to help rescue the market from a crisis is a divisive topic in the industry. Citigroup Inc. strategists led by Vikram Rai found in a survey of over 1,146 clients this week that a majority of them would prefer that primary dealers run the Fed’s muni buying program instead of an investment-management firm.

Still, the strategists added later that the results of the survey “ripped through the industry and created much controversy."

They noted some respondents had particularly strong views: "We have filtered out the racy comments," the bank strategists said, adding they "tried to synthesize the popular response for most questions."

Bloomberg Markets

By Amanda Albright

April 2, 2020, 11:46 AM PDT

— With assistance by Danielle Moran, and Craig Torres

Muni Market Rout Returns With Record Exodus Fueling Cash Strains.

- **Market sees massive volatility as pandemic creates uncertainty**
- **'Trend seems to be turning' as optimism fades, investor says**

Municipal-bond prices tumbled sharply, retreating from the rally triggered last week by the federal government's more than $2 trillion stimulus plan, as the growing economic shutdown to stem the coronavirus deals a deep financial hit to states, cities and other agencies that borrow in the $3.9 trillion market.

The drop underscores the unprecedented volatility that has whipsawed the state and local government debt market for the past three weeks, when a record exodus from municipal-bond mutual funds triggered rounds of forced selling by managers who needed to raise cash. That sell-off through mid-March was the steepest in at least four decades, only to abruptly shift course last week when prices rallied as the stimulus program extended the Federal Reserve the power to step in if another liquidity crisis breaks out.

On Wednesday, some yields surged as much as they did during the deepest one-day sell-offs that shook the market in March. Those on top-rated 30-year bonds surged 50 basis points to 2.53%, while 10-year yields rose 31 basis points to 1.74%. Those on securities due in six months climbed 11 basis points to 1.16%.

The jump comes after individuals pulled record amounts from municipal-debt funds in the two weeks through March 25 after the market was battered by losses. Such outflows tend to persist for weeks during down markets and the price drop this week may be driven by fund managers who need to raise cash to meet redemptions.

Dave Isaak, head trader at Isaak Bond Investments, said the market is veering right back to where it was two weeks ago. The number of bonds being put out for bids remains elevated, with the amount that investors were looking to sell on Bloomberg's platform alone rising to $1.9 billion on Tuesday. He said the "difficult news" surrounding the pandemic is pushing investors back toward only the safest securities.

"It's a liquidity squeeze of some sort again," he said.

High-yield bonds were especially hard hit during the sell-off, losing 11% through the end of March despite last week's rebound, and some slid Wednesday. That niche includes debt backed by airlines, nursing homes, convention centers and projects like the American Dream shopping mall in New Jersey that are being affected by the swift shutdown to much of the nation's economy.

As the human toll rises and federal and state officials warn of longer shutdowns, investors have a renewed focus on the pandemic's impact on almost all municipal bonds, said Jason Ware, head of institutional trading at brokerage 280 CapMarkets.

"You have to start looking at the trickle down effect for what all this means for redevelopment projects, conventions centers, hospitals, property taxes, foreclosures — your mind can go in so many different directions," Ware said. "We need the time-frame of this coronavirus and the effect of the shutdown to be shorter, otherwise you're going to continue to see more weakness."

Puerto Rico's sales-tax backed bonds, which are among the most actively traded by high-yield municipal funds, dropped to about 89 cents on the dollar Wednesday from 96 cents Tuesday. Ohio debt backed by the state's tobacco-settlement payments, whose prices swung wildly in last month's rout and recovery, slid to 84 cents from 92 cents, according to data compiled by Bloomberg.

Daniel Solender, head of municipals at Lord Abbett & Co., said some money had started to wade back into the market last week as it rebounded. But he said the sentiment seems to have grown more negative this week, making it difficult for new deals to price.

"The points of view are so volatile — we have to keep reassessing the market because the sentiment keeps changing," he said. "The trend seems to be turning. There has definitely been some outflows this week and because of that its hard to get investors to commit to the new deals."

Bloomberg Markets

By Danielle Moran, Amanda Albright, and Martin Z Braun

April 1, 2020, 10:28 AM PDT Updated on April 1, 2020, 12:17 PM PDT

Fitch Ratings Updates Public Sector, Revenue-Supported Entities Rating Criteria

Link to Fitch Ratings' Report(s): Public Sector, Revenue-Supported Entities Rating Criteria

Fitch Ratings-New York-27 March 2020: Fitch Ratings has made minor updates to its "Public Sector, Revenue-Supported Entities Rating Criteria" (the Revenue Master) as part of the routine criteria review process.

Primary revisions to the criteria are: introducing the use of Stand-alone Credit Profiles (SCPs) to assess the stand-alone credit quality of U.S. enterprises that are related to a municipal government; clarifying when issue ratings may be capped by the related government's Issuer Default Rating (IDR); specifying the use of cash operating expenses in calculating liquidity cushion; and defining healthcare-related entities for which sector specific attribute assessments may be used in assessing Revenue Defensibility.

There is no impact on existing ratings from this update; however, Fitch did place three utility ratings on Rating Watch Negative and one Under Criteria Observation following the January revision of the "U.S. Public Finance Tax-Supported Rating Criteria" outlining the aforementioned related government rating cap. See ‘Fitch Places 17 USPF Ratings on RWN/UCO Following Release of Revised Tax-Supported Rating Criteria’ dated Jan. 17, 2020 for additional information.

This report replaces the criteria report of the same name dated Nov. 7, 2019.

Contact:

Tipper Austin
Director
+1-212-908-9199
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Vladimir Redkin
Senior Director
+7 495 956 2405

Raj Sanghvi
Analyst
+1-212-908-0746

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Impact of COVID-19 on Municipal Finance: Restructurings Inevitable (Part 1): Sheppard Mullin

“Only when the tide goes out do you discover who’s been swimming naked” – Warren Buffet

The tide has gone out on the municipal finance market.

While much of the discussion about the financial fall-out of the COVID-19 virus has focused on the massive wealth destruction in stock markets and pressure on corporates around the world, the impact on the largest financial market in the world- the $3 trillion US municipal finance market- cannot be ignored. Simply put, the market is imploding.

In a market primarily driven by mammoth mutual funds and institutional investors, the “flight to cash” is clearly on. Selling pressure this week has pushed muni prices into free-fall, particularly on the short end of the curve. The primary market (where states, cities and other municipal issuers borrow and refinance) is essentially closed.

This is not a short-term correction. The longer-term implications of COVID-19 on the market and municipalities is daunting. Consider:

- many states and cities are dependent on sales and use taxes to fund their budgets. Florida and Nevada for example, depend on these taxes for 60% of their revenues. Curtailment of travel and leisure activities and consumer activity in general will quickly reduce these revenues.

- budgets in states like North Dakota, New Mexico and Oklahoma will be decimated by plunging oil prices
- financings dependent on project revenues will be at risk in numerous sectors such as sports stadiums, airports, toll roads, senior living facilities and student housing, to name a few.

Municipal reserves, where available, will help, but funding pressures will force many states and cities to turn to the Federal Government to maintain essential services. Recently announced Federal stimulus programs, including the expansion of the Federal Reserve's Money Market Mutual Fund Liquidity Facility to include purchases of certain types of municipal securities, may help in the short-term.

But the challenges will be daunting and will reveal themselves only gradually. States and cities with strong reserves, a diversified tax base, well-funded pension and employee benefit plans and low debt will undoubtedly weather the storm. Other municipalities without those virtues will be pressured to adopt debt restructuring strategies, including debt adjustments under Chapter 9 of the Bankruptcy Code, on a scale that could eclipse the wave that followed the "Great Recession" of 2008-09.

Monday, March 23, 2020

U.S. Income Tax Delay to Strain States.

Many state budgets run from July 1 to June 30, so new July 15 filing date means officials can't count on that money for current fiscal year

The Trump administration's decision to move the deadline for filing income taxes to July 15 because of the new coronavirus crisis is creating a cash crunch for state governments that were counting on an infusion of state income-tax revenue next month to pay bills.

Many state budgets run from July 1 through June 30, so the new filing date—instead of April 15—means state officials can't count on that tax money for the current fiscal year. States could have to borrow in volatile financial markets or cut into their budgets between now and the end of June. The agreement reached early Wednesday between lawmakers and the Trump administration could also help if it includes general aid for state governments. Unlike the federal government, states must balance their budgets.

So far this week, states including Delaware, Colorado and Alabama have announced they would extend their filing deadline in line with the federal shift.

"You can have unintended consequences with the best of intentions," said Verenda Smith, deputy director of the Federation of Tax Administrators. "The choices that it left the state officials are all so gruesome," she said.

The Treasury Department's decision caught states by surprise. Although the move was intended to help struggling households and businesses, it left state officials in a bind, she said.

In most cases, taxpayers need to know how much they will pay in federal income tax before filing their state income taxes—and many states tie their deadlines to the federal government calendar. So postponing the federal filing deadline effectively postpones the filing deadline for state income taxes as well.

That means states can no longer count on that tax revenue coming in before the fiscal year ends on June 30. Last year, states collected $65 billion in income tax revenue in the month of April, almost 18% of the annual total.

Income-tax dollars make up about a third of total state and local tax collections in California, New York and Massachusetts and even more in Oregon and Maryland, according to a Tax Foundation analysis. Overall, about 23.5% of total state and local tax dollars came from income taxes in 2016, the most recent year for which data was available. Roughly the same amount came from sales taxes, which analysts also expect will be hit hard amid the slowdown in consumption. A handful of states—including Florida, Texas and Nevada—don't have a state income tax.

Over the past few days, states have been scrambling to figure out how to relieve that budget pressure. One option is to cut programs or furlough state workers, something officials are loath to do, especially now that so many people are out of work due to the coronavirus-related layoffs. Another option would be to issue short-term debt.

"April 15 is just around the corner, that's when they would have counted on a big infusion of cash from income taxes, that's going to be pushed off for three months so that puts them in a big bind," said Don Boyd, co-director of the State and Local Government Finance Project at Rockefeller College.

The income-tax dollars most states and some big cities collect on a continuing basis from workers' paychecks are likely to begin declining even sooner, Mr. Boyd said, as companies lay off employees and workers' income falls. He expects the sales taxes that states and many cities rely on will also fall beginning in April when vendors generally send in taxes collected on transactions in March.

"They are going to be strapped for cash," he said.

Borrowing against future revenues could also be costly. Prices have jumped in the municipal-bond market as investors have fled to cash and Treasurys, causing a spike in short-term interest rates last week. Rates fell somewhat after the announcement of a Federal Reserve liquidity program Monday but remained well above normal levels.

Compounding the problem is the fact that many state legislatures, whose approval is often required to make major spending decisions, have been sent home as a precautionary measure. So far, statehouses in 22 states have shut down due to coronavirus concerns.

The new filing deadline means Rhode Island could run out of cash in weeks, said Seth Magaziner, the state's treasurer. State officials are exploring short-term borrowing and moving pots of money from one state account to another to make up the shortfall, Mr. Magaziner said.

Since Rhode Island lawmakers aren't meeting because of the virus, a special emergency board will convene this week to authorize the moves.

"Our immediate concern is on solving our cash flow issues in the coming weeks and months and then we will turn our attention to those longer-term issues," Mr. Magaziner said.

Last year, about 16.4% of the state's personal income tax revenue came during the month of April.

Pennsylvania is also anticipating that the tax-filing delay will push "a significant amount" of revenue out of this fiscal year into the next, said Matthew Knittel, director of the state's Independent Fiscal

Office. The office anticipates an immediate, large reduction in motor vehicle sales tax following the closure of car dealerships.

The Wall Street Journal

By David Harrison and Heather Gillers

March 25, 2020 9:42 am ET

S&P: U.S. State Unemployment Insurance Claims Are Not An Immediate Challenge To State Liquidity

NEW YORK (S&P Global Ratings) March 23, 2020–While the economic fallout from potentially massive unemployment levels will be a credit challenge for U.S. states, S&P Global Ratings does not believe that near-term state liquidity pressure will stem directly from payments on unemployment insurance claims that have recently spiked because of the coronavirus pandemic.

This is because the program structure allows states to receive federal loans, if necessary, to cover state unemployment insurance trust fund deficiencies, if any, under current law. These federal loans must eventually be paid back to the federal government, however, through higher taxes on businesses or through other means.

During the Great Recession, some of these federal loans became quite substantial (see "Unemployment Insurance Fund Bonds Help States Pay Off Federal Unemployment Loans," published Sept. 6, 2012, on RatingsDirect) and in some cases prompted states to issue bonds carrying lower interest rates to pay off higher-interest federal unemployment insurance loans. In the first quarter of 2012, loans from the federal unemployment account reached $40.7 billion. In 2011, California's unemployment loan from the federal government peaked at $11.0 billion alone. As of Dec. 31, 2019, federal unemployment account loans were only $63.3 million, attributable entirely to the Virgin Islands, and aggregate state unemployment trust fund balances were $75.7 billion. While the federal government has indicated that certain states have below-optimal levels of state trust fund balances (such as California at $3.3 billion as of Jan. 1, 2020), we believe the ability to tap into federal loans relieves short-term unemployment trust fund liquidity pressures for any particular state.

If states meet certain technical requirements and maintain a certain threshold of unemployment insurance tax rates on businesses over time, they can initially receive these federal unemployment trust fund loans interest-free. Qualifying states receive interest-free federal unemployment loans if a state takes a federal advance after Jan. 1, and repays it by Sept. 30, of the same year. After that, interest charges are imposed and if the state continues to fail to repay the loan by Nov. 10, of the year in which a second Jan. 1, has passed, then all taxable employers in a state will be subject to a reduced credit of 0.3% on the Federal Unemployment Tax Act tax, for which the credit reduction grows in subsequent years depending on state tax rates and changes in state law. For 2020, 31 states meet the eligibility criteria for interest-free borrowing.

The Louisiana Workforce Commission announced on March 19 that employers within the state will get a temporary deferral from paying their first-quarter 2020 unemployment taxes to June 30. If similar deferrals spread to other states, it could cause the amount of federal unemployment loans to rise higher than what they might be otherwise, but again would be unlikely to cause near-term state liquidity issues. These funds would still need to be repaid to the federal government from later business taxes, but potentially at a higher tax rate.

S&P Global Ratings will continue to monitor unemployment insurance trust funds and the extent to which higher taxes that are imposed on businesses to replenish these funds could reduce economic competitiveness, or cause a state to issue tax-backed debt to repay federal loans. However, we believe the short-term credit effects are limited.

This report does not constitute a rating action.

S&P: Mass Transit Agencies' Priority Lien Revenue Bond Outlooks Revised To Negative On Anticipated COVID-19 Pressures

CENTENNIAL (S&P Global Ratings) March 27, 2020–S&P Global Ratings revised its outlook to negative from stable on several long-term and underlying ratings on bonds issued by mass transit agencies and secured by priority lien tax revenue pledges. The negative outlooks provide notification to market participants that the affected credits face at least a one-in-three likelihood of a negative rating action over the intermediate term (generally up to two years).

This action applies to the ratings of approximately 20 issuers, and 215 unique ratings.

We simultaneously published an outlook revision for all ratings in scope of our Mass Transit criteria (see our article published March 26, 2020). We believe that there is at least a one-in-three chance that the general creditworthiness of the transit obligors could be downgraded in the intermediate term, which could pressure the associated priority lien ratings on bonds issued by mass transit agencies.

As the COVID-19 virus spreads and social distancing efforts intended to slow the infection rate and flatten the curve of the virus slows local economies to a virtual halt, S&P Global Ratings is of the view that the nation and world have entered a recession, with firmer projections under our base case forecasts for a slowdown in global GDP growth, and 1.3% decline in U.S. GDP in 2020 (please see our articles "It's Game Over For The Record U.S. Run; The Timing Of A Restart Remains Uncertain", published March 27, 2020 on RatingsDirect, and "Global Macroeconomic Update, March 24: A Massive Hit To World Economic Growth", published March 24, 2020 on RatingsDirect.) The outlook revisions reflect our view that the emerging recession and social distancing-driven declines in activity levels will likely place material pressure on the credit profiles of priority lien tax revenue bonds issued by mass transit operators.

Per our priority-lien criteria, we assign issue ratings based on both the strength and stability of the pledged revenue, as well as the obligor's general credit quality. For the credits included in this outlook revision, we assess the obligor's general credit quality by applying our criteria, Mass Transit Enterprise Ratings: Methodology and Assumptions.

The mass transit operators that we rate under "priority-lien" criteria derive a significant share, and often a substantial majority of total revenue from taxes, typically locally levied sales with a minor portion from other dedicated taxes. We believe potential rating actions or outlook revisions may occur and will likely be driven by the magnitude of several factors, each of which may pressure pledged revenue streams and obligors' general creditworthiness. These may include:

- Significant declines in pledged tax revenue caused by the abrupt and sharp decline in economic

activity driven by COVID-19 and related social distancing efforts;
- Extreme declines in mass transit ridership levels, with an uncertain timeline for a resumption of normal activity;
- Expenditure pressure, as many transit operators incur unexpected additional costs for intensive cleaning of buses and rail cars;
- Budgetary strain as many operators have reduced or eliminated fares, while maintaining normal or near-normal service levels in the first few weeks of declining ridership.

The prospect for state and federal aid, in addition to these issuers' generally strong credit profiles may limit downside pressure for some or all of these credits. In addition, we view favorably the $2 trillion federal stimulus package, which identifies a total of $25 billion for transit operators expected to be administered through existing Federal Transit Administration using fiscal 2020 formula funding mechanisms. While there is potential that the stimulus bill could positively affect this portfolio, we will be evaluating the implications for individual transit operators as part of our ongoing reviews.

S&P Ratings Outlooks On U.S. Transportation Infrastructure Issuers Revised To Negative Due To COVID-19 Pandemic.

BOSTON (S&P Global Ratings) March 26, 2020–S&P Global Ratings today revised to negative the outlooks on nearly all long-term debt ratings in the U.S. transportation infrastructure sector due to the severe and ongoing impacts associated with the COVID-19 pandemic. We believe the dramatic contraction of the global and U.S. economies and virtual collapse of travel and mobility across the transportation subsectors is a demand shock without precedent, with no definitive indication at this time regarding its duration and severity as well as the follow-on effects of an economic recession. The outlook revisions to negative of each issuer and issuer credit rating follows on our updated overall view of the sector (see "U.S. Transportation Infrastructure Sector Outlook Update: Now Negative For All Sectors" published March 16, 2020, on RatingsDirect).

We are affirming the ratings and outlooks for transportation infrastructure issuers with existing negative outlooks and not modifying the ratings or outlooks of debt secured by federal transportation grants.

The expected passage into U.S. law of an approximately $2 trillion federal stimulus package that includes direct financial aid to airport operators ($10 billion) and transit authorities ($25 billion) is viewed favorably and will alleviate immediate liquidity pressures, as well as assist with near-term operational funding requirements including debt service. Aid to the airline industry, in the form of loans and loan guarantees, should also support payments from airline tenants to airport operators. However, long-term credit implications across all sectors have yet to unfold, and we expect greater visibility on the broader impacts on issuers' financial and business profiles in the coming months.

Continue reading.

Empty College Dorms Pose Payback Dilemma for Bond Issuers.

- **Refunding housing fees cuts revenue backing bond debt**
- **S&P Global Ratings cut its private student housing outlook**

Students and professors at universities aren't the only ones wondering when schools will re-open. Bondholders and stockholders also have a vested interest in getting them back on campus.

As colleges across the country send students home and transition to online learning amid the coronavirus pandemic, managers of student housing that rely on dorm-room revenue are rushing to figure out whether or not students can terminate their leases and how to pay back bondholders financing those projects.

"When the schools will reopen again with normal occupancy schedules remains a question for bondholders," Eric Kazatsky, senior municipals strategist at Bloomberg Intelligence, said in a recent report.

S&P Global Ratings cut its outlook for the private student housing sector to negative on Wednesday, citing expected challenges from the sudden and potentially prolonged decline in student housing occupancy and associated loss of rental revenue.

Student housing projects that are lower-rated or have "cash cushions" of less than 90 days are most at risk, Kazatsky said. Of 252 student-housing projects, 144 have cash-on-hand levels of less than a year and 32 have less than 90 days of cash available, he added. About 67% of those student-housing projects are backed by an entity not related to the university while the rest are supported by the colleges.

Refunds

Some of the richest schools have already said they would refund room and board, including Harvard, Amherst and Princeton. Brown University said students will receive a credit if they return when school resumes or they will get a prorated refund if they graduate.

But for some colleges like West Chester University outside Philadelphia, Pennsylvania, issuing refunds threatens the cash flow backing debt.

"Refunding or crediting rents would have an adverse impact on (university student housing) cash flow, and savings from reduced operating expenses would not be sufficient to make up for the revenue reduction," the Chester County Industrial Development Agency said in notice to bondholders March 16.

Companies that build and manage student housing are scrambling to figure out what do now that students have fled home. American Campus Communities Inc., the largest owner, manager and developer of student housing in the U.S., said it will temporarily waive all late fees and financial-related eviction proceedings and said it will work with residents and families who endure financial hardship on a case-by-case basis.

The company's stock price rebounded Monday after it said it wouldn't offer lease terminations and refunds at its private off-campus apartments as students leave colleges. It rose 5.4% to $29.84 on Thursday.

Provident Resources Group, with more than 21,000 beds of student housing across country, has been "inundated with inquiries about the impact of COVID-19," Steve Hicks, chairman and chief executive officer, said in an interview.

Hicks said Provident is not in the position to unilaterally decide that it can issue refunds, adding that it's the universities that are making the decisions to close the schools, sometimes due to government guidelines.

"They're making the decision and we would expect the university, which has a lot more resources than one student housing property, to make the refund to the students through the student's account at that one particular campus," Hicks said.

Hicks said any decision on refunds needs to be made in concert with its bondholders, investors and the universities.

Around $14 billion of the stimulus package passed by the Senate would go to colleges and universities as they respond to the pandemic.

It is too early to tell what relief Provident's higher education projects might be able to obtain as a result of this legislation, Hicks said. As of Thursday afternoon, Provident's chief legal officer and outside counsel were reviewing the bill to determine which projects might be eligible for financial assistance.

"We are focusing on which of the projects, if any, might quality for a loan or an SBA loan to assist in some of the challenges we are facing from COVID-19," Hicks said.

Still, there will probably be some leniency on bond payments, said Steven Agran, managing director at Carl Marks Advisors, where he leads the restructuring firm's higher education practice.

"This is really extraordinary so I think extraordinary responses will be the norm more than you'd usually expect," Agran said.

Bloomberg Markets

By Mallika Mitra and Janet Lorin

March 27, 2020, 6:30 AM PDT

— With assistance by Amanda Albright

Fitch Ratings Updates U.S. Public Finance College and University Rating Criteria.

Link to Fitch Ratings' Report(s): U.S. Public Finance College and University Rating Criteria

Fitch Ratings-Chicago-26 March 2020: Fitch Ratings has published the following updated report: "U.S. Public Finance College and University Rating Criteria." This report updates the prior report published on June 3, 2020. The key elements of Fitch's college and university rating criteria remain consistent with those of its prior criteria report (which has been retired), and include an update to two appendices related to sector scenario analysis. This update will not impact ratings.

Contact:

Emily Wadhwani
Director
+1-312-368-3347
Fitch Ratings, Inc.
One North Wacker Street

Chicago, IL 60606

Arlene Bohner
Managing Director
+1-212-908-0554

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Hospitals Putting Bond Issues on Hold Amid COVID-19 Outbreak.

A number of not-for-profit health systems have postponed sizable new bond issuances given the significant uncertainty COVID-19 has thrown into the municipal bond market.

It’s not just healthcare—the trend is happening across the municipal market. Volatility has prompted interest rates to skyrocket and has made pricing bond offerings extremely difficult. Billions in new issuances have been put on hold since last week.

“It happened pretty drastically,” said Rick Kes, healthcare senior industry analyst with RSM. “This is unlike anything we’ve seen before.”

Evanston, Ill-based NorthShore University Health System, for example, is delaying a roughly $400 million debt issuance. TriHealth in Cincinnati, Ohio is delaying its $200 million issuance. Stanford Health Care has postponed issuances worth more than $940 million.

It’s a sharp departure from where the municipal bond market had been weeks ago. In November, health systems had been issuing bonds at a feverish pace to lock in historically low interest rates.

The municipal bond market is typically viewed as being one of the more secure options for investors, until now.

“In most previous downturns, municipal bonds are held off as an offset for market declines,” said Sudip Mukherjee, a senior municipal credit strategist in UBS’ Chief Investment Office. “In this one, pretty much all bets are off.”

Mutual funds selling is lowering prices and driving up yields market-wide, which is making it more expensive to sell securities right now, Lisa Washburn, managing director and chief credit officer with Municipal Market Analytics, wrote in an email.

“It’s just not a jumping in point right now for those that can wait until the market settles down a bit; there is too much uncertainty at this point,” Washburn said.

Stanford’s postponed issuances include about $420 million tax-exempt debt and about $520 million in taxable debt, said Howard Sitzer, senior municipals analyst with CreditSights. Stanford did not return a request for comment. Sitzer said the health system indicated it tentatively plans to access the market as early as next week on a day-to-day basis.

NorthShore said its delay is due to the national emergency related to COVID-19 and the related “turmoil” in the financial markets.

TriHealth planned to use the proceeds of its bond offering to refinance debt and build a new heart hospital on its Bethesda North campus, spokesman Rob Whitehouse wrote in an email. The health system has not yet determined when it will issue the debt. Administrators weren't available for an interview because they were involved in COVID-19 planning, Whitehouse said.

Sitzer said he's not concerned about hospital finances because most of them have "exceptionally" liquid balance sheets due to the demands of bond analysts and rating agencies, which require they have lots of days cash on hand.

That said, until the number of new COVID-19 diagnoses peaks in the U.S., Sitzer said he doesn't expect to see much new issue activity in the municipal bonds market, including from healthcare providers.

"The market is such that it'll be extremely costly and difficult to price because you've got to have some sense on a daily basis of what the demand is," he said. "I just think the vast majority of municipal bond issuers are going to be on hold for a while now."

Despite the uncertainty facing healthcare more broadly, Mukherjee said he expects children's hospitals and large health systems with a national footprint and strong liquidity will remain financially stable through the downturn.

Not all health systems are holding off, however. Kevin Holloran, a senior director with Fitch Ratings, said Froedtert Health in Wisconsin is moving ahead with issuances. The health system did not return a request for comment.

Holloran said this is quite the switch for the municipal market, which had been a seller's market for the past decade.

"All of a sudden, in a period of weeks, pendulum may swing back to make it more of a buyer's market," he said. "I want more protections, more covenants, because there are more unknowns."

MODERN HEALTHCARE

by TARA BANNOW

March 19, 2020 04:43 PM

S&P Not-For-Profit Acute Care Sector Outlook Revised To Negative Reflecting Possible Prolonged COVID-19 Impact.

Key Takeaways

- We have revised our not-for-profit acute health care sector outlook to negative due to the quickly evolving COVID-19 pandemic and the subsequent investment market deterioration which could pressure credit quality.
- We believe certain credits, especially those with healthy unrestricted reserves and liquidity, may be better able to manage through this crisis.
- Duration, location, and severity will be important considerations in determining the broader impact of this pandemic on the sector.

S&P Global Ratings is revising its sector outlook on the not-for-profit acute health care sector to negative from stable due to the rapidly evolving COVID-19 pandemic that has created additional and significant uncertainty in the industry and may lead to a higher than typical rate of negative outlook revisions or rating changes in 2020 if the crisis is prolonged. For all health care organizations, we believe the pandemic will result in sizeable increases in operating costs, particularly for labor and supplies, reduced volume and revenues related to elective and non-essential health care needs, reliance on working capital lines of credit, and material declines in unrestricted reserves and non-operating revenue as the investment markets weaken. These added constraints are coming at a time when organizations were already under some revenue and expense pressure related to industry dynamics and balance sheet strength had been a stabilizing factor. (See "U.S. Not-for-Profit Health Care 2020 Sector Outlook: A Precarious Balance As Evolution Continues," published Jan. 9, 2020, on RatingsDirect.)

The duration of this pandemic is certainly one of the key unknowns and if contained to the second quarter of the year, we believe many of our rated organizations will be able to manage through it, although we believe there are certain hospitals and health systems that may not be positioned to hold their ratings and outlooks primarily due to weak pre-COVID-19 credit characteristics. About 30% of our not-for-profit acute health care credits are in the 'BBB' category and below, and 45% in the 'A' category. These credits could feel a more pronounced impact to credit ratings depending on the trajectory of the outbreak, their unrestricted reserves and liquidity, their reliance on non-operating revenue to attain required debt service coverage, and high contingent liabilities including strict covenants that may be breeched. Hospitals located in regions where the virus' prevalence is high, such as urban and suburban providers in densely populated regions, will also likely experience disproportionate cost and revenue pressure. Conversely, multi-state health care systems may be able to use their diversity to help offset the risks in one market with another and some regional systems could use their facilities and locations to manage some of the capacity and resource challenges.

We expect the COVID-19 outbreak will have an overall negative impact on hospital profitability for many not-for-profit systems and standalones, and the extent of that negative impact will be a function of duration, severity, and location of outbreaks. In addition to higher expenses related to labor and supplies, we believe the deferral of elective outpatient services and procedures by hospitals and patients will result in a sizeable negative impact to hospitals and the duration of deferral of those services, as well as the time to ramp operations back up to normal, remains unknown. While some of this is likely to be offset by inpatient revenue related to COVID-19 patients, it will likely not compensate for that full amount. Higher bad debt expense and uncompensated care could also be a factor as individuals face unemployment or underemployment given the secondary impact of certain businesses needing to shut down. For management teams that were focused on operating improvements and new strategic initiatives, those strategies are likely to take a back seat at this time.

Healthy balance sheets were one of the factors supporting our stable outlook in January, but that strength and flexibility will be challenged due to both potential weaker cash flow as a result of operating losses and limited non-operating income, as well as lower reserves caused by investment market declines. Many of the not-for-profit systems and hospitals have built up unrestricted reserves over the last several years. However, we believe that investment market volatility and a recession could put a squeeze on that flexibility depending on the specific credit. In addition, the weakening economy and a recession will have secondary impacts, such as reduction in philanthropy.

While some credits are more insulated than others, analytical considerations that we will monitor related to the COVID-19 pandemic and that could determine credit rating impact include:

- Operating flexibility and ability to use other facilities and hospitals to support the significant

demand and capacity resources;
- Low levels of unrestricted reserves and liquidity along with asset allocation;
- Liabilities and cash demands including pension and capital projects; and
- Overall access to capital, liquidity and cash management as investment markets remain challenged.

In addition to the recent investment volatility, short-term borrowings and the long-term bond market have been challenged over the last week and to the extent that this continues, that could be added pressure to access capital and manage liquidity. Any credit rating changes or outlook revisions would be credit-specific.

We recognize that there may be more clarity over the next few months for how long this pandemic will remain in an acute stage, what types of therapies may be available, and how the U.S. health care system will respond and adjust over time. State or federal assistance could support hospitals with funding which could help to offset some of the costs and losses and we expect this will be an ongoing area of discussion. As this remains a very fluid situation, we will continue to review and update our view on the sector as more information is made available.

This report does not constitute a rating action.

Schools, Transit, Hospital Funding Included in Senate Coronavirus Bill.

Senate leaders agreed on a package that includes $340 billion for relief efforts boosting schools, hospitals and state and local governments, as well as a $150 billion fund specifically to help states and localities fight the pandemic.

The Senate's historic $2 trillion relief package to address fallout from the coronavirus outbreak would provide billions to assist local and state governments with both their escalating economic challenges and efforts to respond to the disease.

A summary detailing new expenditures as authorized by the Appropriations Committee shows the measure includes $340 billion for relief efforts targeting schools, hospitals and state and local governments. The package includes expansion of all kinds of aid administered at the state and local level, from heating assistance to food stamps, as well as funding to bolster deserted transit systems and airports.

The measure also include $150 billion to help compensate states and localities for the money they are spending to respond to and attempt to contain the pandemic.

After days of sometimes barbed exchanges between Republicans and Democrats on priorities for the package—the third one Congress has worked on in response to the the coronavirus—the Senate approved the Coronavirus Aid, Relief, and Economic Security (CARES) Act in a unanimous 96-0 vote. The sprawling legislation agreed to by senators and the White House would send $1,200 direct payments to many Americans, as well as provide funding for loans for both small and large businesses and aid to people who've been forced out of work by coronavirus shutdowns.

However, disagreements over one provision in the bill emerged Wednesday as a small group of Republican lawmakers said they were concerned that a benefit included in the package giving unemployed people a $600 weekly supplement for four months could incentivize them to not return to the workforce. The $600 benefit paid by the federal government would be in addition to the variable weekly benefits paid by states.

Eventually, the lawmakers offered an amendment to change the benefit, which failed. After the Senate’s approval, the bill now heads to the House.

Included in the appropriations portion of the bill is a $30 billion Education Stabilization Fund for states, school districts and colleges and universities. The fund would help schools develop and implement plans to provide online learning for students, which is something many school systems across the country are trying to implement as schools close to prevent the spread of the virus.

About $13.5 billion of the money for schools would be awarded through formula grants to local school districts. The money could be used for basics like cleaning supplies, as well as educational technology like hardware, software and connectivity devices to aid students. Another $3 billion would be provided to states and could be used at governors’ discretion to fund local education agencies that have been most significantly impacted by the outbreak.

The National Education Association and other groups wrote to lawmakers this week asking them to bolster funding for hotspots, connection devices and mobile wireless service that they said would aid students who lack access to the internet and are unable to connect to virtual classrooms.

“We urge Congress to include in the final bill the robust remote and distance learning provisions found in the House’s version of this bill and ensure that all students can continue their education online for the duration of this national emergency,” the groups wrote.

The measure also includes $100 billion in grant funding for hospitals and other public health providers that could be used to cover lost revenues and unreimbursed healthcare related expenses related to the coronavirus outbreak.

The Centers for Disease Control and Prevention would also provide $4.3 billion in support for federal, state, and local public health agencies that could be used to prepare for and respond to the pandemic. Money could be used to purchase personal protective equipment, virus surveillance, laboratory testing, and to pay for personnel to conduct contact tracing to identify how the virus is being spread.

Transit services, which have seen ridership plummet as businesses have shut down and Americans have been ordered to stay home, would also see a boost. The bill includes $25 billion that would be distributed via formula grants.

“$25 billion will help alleviate the worst of the crisis in the short term but we also don’t know how long the crisis is going to go on,” said Steve Davis, a spokesman for Transportation for America.

A report out this week from TransitCenter estimates transit agencies across the country could see an annual shortfall of $26 billion to $38 billion.

The $340 billion detailed in the appropriations document is in addition to $150 billion allotted for a Coronavirus Relief Fund specifically designated to provide state, local, and tribal government with additional resources to address the pandemic.

Two governors on Wednesday said the direct aid to states as outlined in the Senate’s aid package was not enough and indicated they would continue to lobby lawmakers in the House to increase the amount.

New York Governor Andrew Cuomo was particularly critical of the Senate’s aid package, saying the

$3.8 billion it provided directly to his hard-hit state "is a drop in the bucket as to need." A rival proposal drafted by House Democrats would have provided $17 billion directly to New York, Cuomo said.

"We need the House to make adjustments," Cuomo said.

States are largely shouldering much of the initial cost of the response to the pandemic outbreak, and Cuomo said New York's response could top $15 billion.

Maryland Governor Larry Hogan, who serves as chairman of the National Governors Association, urged senators to pass the bill. But he also emphasized that governors had made a pitch for their states to receive much more from the aid package.

"Last week, the governors requested that one half of the federal stimulus package go directly to the states," Hogan said. "The good news is the Senate has agreed to some aid to the states. And while it is not enough, I know they are negotiating back and forth with the House and it is encouraging that both parties have come to an agreement."

Route Fifty

By Andrea Noble,
Staff Correspondent

MARCH 25, 2020

States Need Coronavirus Relief for Pensions and Health Care.

(Bloomberg Opinion) — States and localities have been leading the nation's response to the coronavirus — and unless Congress further intervenes, they're going to pay for it.

While the Senate's $2 trillion stimulus bill includes relief for individuals, families and businesses limping through the current slowdown, it's barely going to dent the impending budget increase for state and local governments. Medicaid and retiree pension costs — already the two most problematic spending areas for governments — will balloon as result of the Covid-19 crisis. Congress can help with both.

Start with Medicaid spending, which has rapidly grown over the past decade thanks to expansion and the rising cost of health care. It now accounts for 17% of state spending, up from 14% in 2008. In New York State, the epicenter of the coronavirus outbreak, Medicaid costs are already a whopping 28% of the budget.

Anticipating the skyrocketing costs to come, the nation's governors have asked Congress to temporarily increase federal matching funds by a minimum of 12 percentage points. The previous relief bill, the Families First Coronavirus Response Act signed last week, does allow for a temporary 6.2 percentage point increase in the regular federal matching rate for the emergency period. But it does not apply to qualified adults under the Affordable Care Act, even though it requires that states provide free coronavirus-related testing and treatment to all enrollees.

The current Senate bill includes $300 billion in combined aid for hospitals and state and local governments. But it's likely this will go to supplies and personnel, not mounting Medicaid bills. If

Congress were serious about helping states, it would give governors the larger federal match they asked for. At a minimum, it would extend the current 6.2-point increase to cover ACA expansion adults.

Pensions are another matter. The stock market has lost about one-third of its value since mid-February and public pensions, which are heavily invested in stocks, are likely to have their worst year since the 2008 financial crisis. Pension assets still haven't recovered from those losses, and making up for these new losses over the next few years will be all but impossible.

Congress doesn't — and shouldn't — have control over state and local pensions. But it can offer a tool for public pensions to help with what Moody's Investors Service estimates will be a $1 trillion loss in investments. Pension obligation bonds, when governments issue debt and put the proceeds into pension systems, are generally frowned upon as a gamble by public finance experts. Such bonds are taxable, so governments pay a higher interest rate for them, and correctly timing investments made with the bond proceeds requires some luck. But this is a moment when they may be worth it.

Stocks are cheap now, and so are borrowing costs. The federal government can sweeten the deal even more by making these bonds tax-exempt for qualifying governments, which would lower borrowing costs even more. In fact, before the 1986 tax reform, these bonds were tax exempt.

Such a move might not be advisable for every pension plan; after all, pension bonds turn "soft" pension debt into hard bond debt with penalties for nonpayment. But for many, a boost in assets now would likely produce a welcome return on investment over the next few years and ultimately help stabilize government pension bills.

Unlike any economic crisis in the modern era, the driver of this slowdown isn't a familiar industry like tech or finance. It's a virus about which very little is known and which requires people staying away from one another. The usual government policy response — an economic stimulus to get people out and working again — isn't a viable option. It's a daunting prospect for local leaders.

And yet those leaders have been on the front lines of the Covid-19 crisis anyway, making difficult but necessary policy decisions that are blowing holes in their budgets. It took nearly a decade for most state and local governments to recover financially from the last economic crisis. Congress can and should do a lot more for them this time around.

Bloomberg Opinion

by Liz Farmer

March 26, 2020

Liz Farmer, a research fellow for the Rockefeller Institute of Government and a former fiscal policy reporter for Governing magazine, is a freelance writer who lives in Maryland.

U.S. Public Pension Funds Face Nearly $1 Trillion in Losses - Moody's

CHICAGO, March 24 (Reuters) – The market crash and the economic fallout from the coronavirus has led to nearly $1 trillion in investment losses for U.S. public pension funds, Moody's Investors

Service said on Tuesday. The credit rating agency said the funds are generally facing an average investment loss of about 21% in the fiscal year that ends June 30, based on a March 20 snapshot of market indices.

“Without a dramatic bounceback of investment markets, 2020 pension investment losses will mark a significant turning point where the downside exposure of some state and local governments’ credit quality to pension risk comes to fruition because of already heightened liabilities and lower capacity to defer costs,” said Tom Aaron, a Moody’s vice president, in a statement.

(Reporting By Karen Pierog Editing by Sonya Hepinstall)

S&P Pension Brief: Liquidity Is A Rising Concern For U.S. Public Pensions In Down Markets

Table of Contents

Given the current market downturn, U.S. public pension plans may experience liquidity stress to cover benefit payments. Through periods of continued volatility, assets in plans with weak liquidity are likely to be sold at a loss and may contribute to decreasing funded ratios. In our opinion, poorly funded plans and high discount rates may be indicators of excessive liquidity risk.

In the U.S., plans have an average of 1% of their target portfolios held in cash and short-term investments to pay ongoing expenses, such as benefit payments and administrative costs. A liquidity-to-assets ratio can be useful in determining the liquidity risk, if any, of a pension plan.

Continue reading.

Commentary: The Time is Ripe for Public Pension Obligation Bonds

It’s finally now time for public pension funds and their sponsoring employers to make lemonade from lemons. The market value of public pension stock portfolios has shrunk dramatically in the shadows of the COVID-19 crisis, coupled with the recessionary impact of the Saudi-Russian oil price war. Stock indexes are down 35% or more from their peaks just earlier this year, in a dramatic sell-off.

As trustees and chief investment officers scramble to quell fears of stakeholders, and public finance officers watch their sales and income tax revenues plummet, liquidity and even solvency fears are resurfacing in some places. The potential inability of state and local governments to sustain their pension promises is once again making the news.

Before we start ringing the alarm about pension funding and pension deficits, it’s now the time to revisit a worthwhile public finance strategy and instrument that may be able to come to the rescue of public employers. It works for both their underfunded pension funds as well as their often unfunded retiree medical benefits, known as other post-employment benefits, or OPEB. The pension obligation bond, and its more appropriate “benefits bond” cousin for OPEB plans, could never be more timely — and more vital to the future health of states and municipalities.

Continue reading.

Pensions & Investments

by Girard Miller

March 25, 2020

NABL Pushing for Municipal Bond Relief Measures in Response to COVID-19: McNeese

The National Association of Bond Lawyers ("NABL") recently sent a letter to Congress, outlining some measures it recommends Congress adopt to combat the economic downturn related to the Coronavirus COVID-19 Pandemic. The suggestions are a mix of previously-made requests and new suggestions to inject additional liquidity into the market.

NABL's recommendations, addressed to the top Republican and Democrat members in both the House and Senate, consist of the following:

- Reinstate ARRA-Era Bond Programs, such as Build America Bonds, at non-sequestration subsidy levels
- Relax the working capital rules in Sections 1.148-1(c) and 1.148-6(d) of the Regulations for coronavirus-related deficit financings
- Authorize the direct purchase of state and local bonds by the federal government (e.g., through passage of the Bond Market Emergency Relief Act)
- Eliminate or limit the prohibition of federal guarantees of tax-exempt bonds under Internal Revenue Code section 149(b)
- Reinstate tax-exempt advance refundings
- Remove, or substantially increase, the $10M cap on qualified tax-exempt obligations under Code section 265
- Temporarily permit institutional investors to count municipal securities towards their liquidity coverage ratio
- Temporarily suspend the private activity bond rules under Code section 141 to encourage additional partnerships with private enterprise
- Authorize additional types of private activity bonds previously eliminated by prior tax reform measures, to help small businesses
- Eliminate volume cap limits on single- and multi-family housing bonds for the next three years.

As Congress is still debating additional stimulus measures in response to the growing crisis, it is possible that some of these suggestions may appear in a final bill. The attorneys of the McNees Public Finance Group will continue to monitor this fast-moving situation as it develops.

by Timothy Horstmann

March 24, 2020

McNees Wallace & Nurick LLC

Impact of COVID-19 on Local and State Governments.

Capital markets around the world have felt the wrath of the COVID-19 threat, and investors are asking whether a global recession is imminent.

Consider the following facts:

- The S&P fell close to 1,000 points from Feb 24 to March 23 (3,225 to 2,237), recording a 31% loss;
- The small and non-essential businesses will be hardest hit along with their employees;
- The hardest hit areas in the U.S are also seeing rising unemployment numbers; and
- The federal government's financial stimulus package is still being debated, and its impacts – both positive and negative – are yet to be fully determined on how they might affect the economy.
- For municipal debt investors, the most important question to ask right now is whether there will be municipalities facing the financial strains leading up to a potential for bankruptcies.

In this article, we will take a closer look at how the current COVID-19 situation is affecting the municipal debt markets, and municipal finances in general.

Continue reading.

municipalbonds.com

by Jayden Sangha

Mar 25, 2020

COVID-19 and Understanding Your Force Majeure Clauses.

The China Council for the Promotion of International Trade has currently issued at least 4,811 force majeure certificates due to the COVID-19 pandemic. These certificates qualify the coronavirus outbreak as a force majeure event and certify that a party's partial performance or failure to perform under an agreement be excused if there is a force majeure clause in the agreement. According to a Xinhua state media report, the total contract value for the agreements associated with the certificates is an alarming 373.7 billion Chinese yuan (equivalent to US$53.79 billion). Unfortunately, for many U.S. businesses impacted by the economic hardships caused by COVID-19, these force majeure certificates will be of little use if their contracts are governed by U.S. law. Companies should understand the impact and application of their existing force majeure clauses to COVID-19.

A typical force majeure clause releases obligations and liability if an extraordinary event occurs. These events are usually limited to events like war, fire, natural disasters, civil disorder, strikes or labor disputes, acts of God or other circumstances beyond a party's reasonable control. When these unanticipated circumstances arise, the force majeure clause may be invoked to relieve the parties from their contractual obligations or to terminate the contract with no further liability from either party.

Far too often, force majeure clauses are an afterthought during the contract negotiation process. Although seemingly unimportant when the parties are trying to close a deal, these clauses have substantive impacts to the business when unanticipated events occur. As the spread of COVID-19 disrupts global supply chains and results in the imposition of emergency rules and regulations, it becomes imperative for companies to prepare themselves for impending commercial disputes.

As a historical example, the SARS virus outbreak in 2003 resulted in many companies asserting force majeure clauses. Northwest Airlines famously relied on the force majeure clause in its labor contracts to lay off employees without notice, asserting that the SARS virus caused its air traffic to Asia to significantly decline. Not surprisingly, the Aircraft Mechanics Fraternal Association, an independent aviation union, claimed the layoffs were an immoral exploitation of the provision and challenged Northwest Airlines' legal justification by filing a class-action grievance. The arbitration board held that while a number of the layoffs were justified by force majeure events, a certain subset of mechanics were unjustifiably laid off, and Northwest Airlines was ordered to rehire those mechanics. The takeaway from this is that a force majeure clause may not apply uniformly to different circumstances.

While the SARS virus resulted in many companies revising the force majeure clauses in their contracts to include "global epidemics" as triggering events, the Northwest Airlines example shows that COVID-19 should be carefully analyzed in its specific impact to different industries. In addition, other contract provisions will alter the legal analysis about whether a specific force majeure clause can be invoked. For example, certain jurisdictions may interpret "acts of God" or "epidemic" differently, so the governing law provision will have an effect on whether the force majeure clause may be invoked. Moreover, force majeure clauses are drafted with specific terms that impact their interpretation. For example, a force majeure clause that does not specifically cite "disease" or "epidemics" may nonetheless have an all-inclusive catch-all phrase (such as "any similar event beyond the reasonable control of a party") that would lead to the COVID-19 pandemic qualifying as a force majeure event.

Just as companies must take a proactive approach to their employees' health and safety with respect to COVID-19, companies should also take a proactive approach to the other business effects of COVID-19. If a company's obligations have been affected by COVID-19 in any capacity, the company should consider certain practices in anticipation of any disputes and to prepare for the possible invocation of a force majeure clause, including, but not limited to the following:

- keeping detailed records of COVID-19's impact on its business functions and on any inability to perform the company's contractual duties;
- documenting COVID-19's impact on the company's supply chains, such as its vendor's inability to secure raw materials, parts, components, or disruption to the capabilities of the vendor's suppliers or independent distributors;
  continuously evaluating the current events of COVID-19 and how the incident is affecting governments and the company's industry. The situation is changing day-by-day, and keeping abreast of the current events will allow the company to quickly reassess its obligations and liabilities;
- reviewing both existing customer agreements and vendor agreements, to analyze the legal obligations and liabilities of all parties under the agreements. Force majeure clauses are each drafted differently and should be interpreted by legal counsel. Companies should also keep in mind notice provisions within its agreements, so that it does not inadvertently run afoul of its obligations to notify the other party; and
- reviewing insurance coverages and whether the company's current insurance covers business interruption related to COVID-19.

Taft Stettinius & Hollister LLP – Jeff Kuo

March 23 2020

[Does the Coronavirus Shutdown Trigger a Regulatory Taking? - Nossaman]

With the recent government mandates surrounding COVID-19, many businesses are completely shut down and are legally unable to open their doors to the public. Are those businesses — movie theaters, gyms, retail stores, etc. — entitled to compensation for a regulatory taking? Similarly, landlords are experiencing massive losses as those tenants are unable to make rental payments; are those losses compensable? Should governments worry about liability when issuing orders requiring the closure of businesses?

While compensation arguably should be paid from a decency and "good of the community" standpoint, legally, property owners and businesses are likely not entitled to compensation for a taking due to the shutdown. If you're interested in a fantastic write-up on the legal implications and liability issues under the Takings Clause, I suggest you read Ilya Somin's article, Does the Takings Clause Require Compensation for Coronavirus Shutdowns? You can also review Robert Thomas' summary on inversecondemnation.com related to emergency takings and compensation for commandeered property.

In summary, under existing legal precedent, the government's broad exercise of its "police power" — its ability to protect public health and safety — does not qualify as a taking. From a policy standpoint, Ilya Somin points out that

"no judge will want to be seen as impeding an effort to save large numbers of lives in the midst of a grave menace to public health;" and

"the urgency of the crisis combined with the enormous scale of the compensation that would be required make it more likely that an adverse judicial ruling really would impede the government's policy—potentially even shutting down the shutdown, so to speak."

On the flipside, from a moral policy perspective, the Fifth Amendment Takings Clause has been meant to ensure that the government does not force some people alone to bear the burdens that should be borne by the public as a whole. And yet that is closely what is happening here, as certain businesses and property owners are bearing a disproportionate share of the burden of protecting the population as a whole.

Perhaps some of these businesses will receive relieve through the government's stimulus bill, but many may not. Time will tell whether the government continues to look for other economic measures of compensation to assist these businesses and landlords being forced to shut down.

Nossaman LLP – Bradford B. Kuhn

March 27 2020

Can State and Local Government Seize Your Private Property During a Global Pandemic?

Hotels, parking lots, convention centers and sports fields throughout the world are being used as field hospitals and to otherwise house people suffering from the effects of COVID-19. For example, one hotel in Hong Kong has designated entire floors of the hotel for quarantined guests, and at least 11 hotels in South Korea will house quarantined guests. Given the rapid increase in COVID-19 cases in the United States, many state and local governments are weighing similar measures. In San Francisco, city officials have identified more than 8,000 hotel rooms that could possibly be used for individuals who need a place to self-isolate. These state and local governments are considering the use of private property such as hotels, lodges, apartments and other related facilities as makeshift hospitals, quarantine facilities or housing for first responders to cope with the strain on critical infrastructure. This client alert examines the legal issues around such use.

Do State and Local Governments Have the Authority to Use Your Property During a Global Pandemic?

Generally speaking, state and local governments have the authority to regulate matters of local concern to protect the health, safety and welfare of their populations. These powers, known as police powers, are reserved to the states by the 10th Amendment to the United States Constitution. Likewise, state and local governments have the power of eminent domain to take personal property for public use so long as property owners are justly and fairly compensated in accordance with the Takings Clause of the Fifth and 14th Amendments.

Thus, state and local governments' authority to commandeer private property during a global pandemic can be broken down into two interrelated categories: (1) the authority of state and local governments to use their police powers to regulate to prevent the spread of disease, and (2) the authority of state and local governments to use their power of eminent domain to take private property for protection of the public.

In some instances, the authority of states, counties and municipalities to impose regulations to take control of property as part of efforts to contain the spread of epidemic disease is express. For example, in Colorado, the Colorado Department of Public Health and Environment may "exercise . . . physical control over property and the persons of the people within [Colorado] as the department may find necessary for the protection of the public health." C.R.S. § 25-1.5-102(1)(c).

Similarly, in California, the State Department of Health Services may "take measures as are necessary to ascertain the nature of the disease and prevent its spread." Cal. Health & Safety Code § 120140. Even more expressly, under the California Emergency Services Act, the governor is authorized to commandeer or use any private property or personnel deemed necessary in the exercise of emergency powers during a state of war or state of emergency. The state must pay the reasonable value of the private property or personnel commandeered. Cal. Gov. Code §8572.

Therefore, through the exercise of the police powers and the power of eminent domain, state and local governments do have the authority to use hotels, lodges, apartments, parking lots, convention centers, sports fields and other related facilities as makeshift hospitals, quarantine facilities or housing for first responders during the outbreak of COVID-19.

What Rights Do You Have When Your State or Local Government Takes Your Property?

Even though state and local governments have the authority to use private property as makeshift hospitals, quarantine facilities or housing for first responders, your property rights are protected by the United States Constitution, state constitutions and, in some cases, local governments' municipal codes. The United States Constitution and many state constitutions require state or local governments that take property to pay the property owner just compensation, typically the fair market value of the use of the property. Compensation may be available whether the government takes property permanently or temporarily.

Private property is protected under the Takings Clause of the Fifth Amendment, which applies to the states by the 14th Amendment. The Takings Clause states, "… nor shall private property be taken without just compensation." As a general rule, government need not pay the owner when restricting the public from access to or use of dangerous property, since the property is considered a public nuisance. For example, if a public health agency declared a contaminated meth house a public nuisance, the agency would not have to pay the owner. Similarly, state and local government business shutdowns likely do not trigger the right to compensation under the Takings Clause.

Conversely, government must pay the owner fair market value of the use of the property if the property is seized for public use. Here, in a pandemic scenario, a hotel might be used as a quarantine facility. If the hotel owner can demonstrate lost revenue due to the government's use, the owner may be able to recover the income lost from having no hotel guests during the quarantine.

Consequently, if a state or local government uses your hotel, lodge, apartment, parking lot, convention center, sports field or other related facility as a makeshift hospital, quarantine facility or housing for first responders, the Takings Clause likely serves as a backstop for fair and just compensation for the government's use of your property.

What Should You Consider in This Situation?

Because of the Takings Clause, affected property owners may have leverage in negotiations with state and local governments seeking to use their private property. Given this potential leverage, affected property owners may want to focus on two main areas of consideration: (1) compensation and (2) protection against increased liability.

First, property owners may consider engaging state and local governments in discussions regarding just compensation for the use of the property. Assuming that state or local governments' use of the property will end when the outbreak of COVID-19 ends, compensation should reflect the impact of the state or local governments' use of the property, rather than the value of the entire property. Therefore, any conversations with state or local governments should address the reasonable value of the cost incurred by the landowner in connection with the state or local governments' use of the property. Reimbursement for any out-of-pocket costs associated with the state or local governments' use of the property as a makeshift hospital, quarantine facility or housing for first responders also could be discussed as another form of just compensation.

Second, property owners may consider engaging state and local governments regarding protection against increased liability due to state or local governments' use of the property. This is important because the property owner may remain liable for things that occur on its property during government use, such as a slip-and-fall, because state and local governments have governmental immunity. Thus, if a member of the public were injured on the property in connection with the governmental purpose, the injury could leave the property owner as the sole defendant in a lawsuit. Additionally, in Colorado, government entities may not legally agree to an open-ended indemnity of private property due to TABOR. Therefore, whether in Colorado or another state, it may be advisable to negotiate with the state or local governments to pay for the cost of additional insurance coverage for the affected properties to ensure that the property owner is not left with the obligation to pay liabilities incurred as a result of the government's use of the property.

In sum, the most important considerations for property owners whose hotels, lodges, apartments or other related facilities are used by state or local governments for makeshift hospitals, quarantine facilities or housing for first responders are: (1) discussing compensation for the reasonable value of the use or reimbursement of out-of-pocket costs, and (2) requiring the state or local governments to cover the cost of additional liability insurance to protect the property owner from increased liability due to the governments' use of the property.

Brownstein Hyatt Farber Schreck LLP – Katherine J. Madden, Sarah M. Mercer and Carolynne C. White

March 26 2020

Key COVID-19 Response Strategies for Development Finance Agencies.

— Bonds, Tax Increment Finance, Revolving Loan Funds —

Development finance has always been at the forefront of recovering from natural disasters and economic challenges. The emergence of the COVID-19 crisis requires a unique and targeted response by the federal government, state and local development finance agencies (DFAs), private banks, and philanthropy.

As the situation surrounding COVID-19 evolves, small businesses and communities across the country are very quickly facing liquidity challenges, job losses, and project stagnation. Credit is tightening and small businesses are struggling to make payroll while communities have been forced to scale back or halt development. Moreover, communities are facing difficulties financing critical infrastructure such as health facilities, broadband networks, and testing centers to address local COVID-19 demands.

DFAs are uniquely positioned to solve these challenges through pragmatic solutions and adjustments to existing initiatives. CDFA understands that DFAs are under considerable stress and pressure to address these immediate challenges while being mindful of the long-term financial health of their organizations and communities. The following set of strategies and recommendations is designed to help DFAs evaluate their portfolios and determine whether modifications are needed for their bonds, tax increment finance, and revolving loan fund programs.

Bond Portfolios

DFAs operate extensive bond portfolios of both recourse and nonrecourse bond issuances. During this crisis, DFAs will face significant pressure to maintain their bond ratings and ensure timely debt service payments for all outstanding bond issuances. DFAs should consider the following:

Outstanding Recourse Bonds – For bonds that are the obligation of the issuer, DFAs should take immediate stock of current debt service payment expectations and prepare the necessary actions to ensure that existing payments are made in a timely fashion. As these are generally general obligation bonds, communities must be prepared to assemble the necessary capital needed to make all existing payments on time to prevent delays and/or defaults. DFAs may want to consult with their financial advisors on options available for refinancing outstanding debt given the low-interest rate environment being afforded by the capital markets and federal relief efforts. Issuers should note that the stimulus package provides that the Federal Reserve may now purchase municipal bonds. The opportunity to refinance debt and issue new bonds remains strong.

Outstanding Non-Recourse Conduit Bonds – While these debt obligations are not generally the responsibility of the DFA directly, CDFA encourages agencies to be in direct contact with their current conduit bond borrowers. Assess the immediate ability for borrowers to make debt service payments and begin the process of workouts and adjustments if necessary. DFAs do not have direct responsibility for these payments but should be leery of reputational risk associated with potential defaults on issuances. Reputational risk can carry long-lasting consequences for issuers once returning to the capital markets on future issuances.

New Deals in Pipeline – CDFA encourages DFAs to continue to work on new issuances of both recourse and nonrecourse bond deals. The capital markets and federal relief efforts are providing significantly low rates and continuing to encourage investments. As noted earlier, the Federal Reserve may now purchase municipal bonds. This stimulus action does not apply to private activity bonds, but the environment for privately-placed PABs should be favorable. Do not halt new deals. Simply work within the parameters of new capital markets realities and prepare issuances with an eye towards recovery.

Ratings – If you are a rated entity, stay in close contact with your rating agency counterparts. Have constructive conversations about your current rating and the impact of COVID-19 on your bond portfolio. Work with the ratings agencies to ensure that they understand your relative financial position and the important steps you are taking to mitigate late payments and/or defaults. Manage reputational risk by determining any conduit deals that need to be addressed in the immediate future. While these bonds are not necessarily your ultimate responsibility, you want to be proactive about working to maintain a strong rating with the services. This includes working with your troubled borrowers and helping to address workouts and late payment situations.

Tax Increment Finance Portfolios

Thousands of existing tax increment finance districts are operating throughout the country. The COVID-19 crisis will put stress on existing debt obligations of these districts and may delay the development of new districts. DFAs should consider the following:

Existing TIF Obligations – This crisis underscores the need for proper TIF evaluation and regular monitoring to mitigate risk. DFAs and communities should explore and understand the changing landscape of property tax impacts on existing projects. In doing so, DFAs should understand timelines for expected property tax payments and revenues and the subsequent debt service obligations on outstanding projects. This includes revisiting the security or collateral in place for each TIF deal. In addition, DFAs should look at LOC agreements, special assessment commitments, and the allowance for tax assessment appeals as these may lead to revenue loss if challenged.

In the immediate, DFAs should continue to make regular and on-time payments on all existing notes, loans, and bonds. However, DFAs need to begin to develop projections on real estate impacts due to the COVID-19 crisis. A prolonged slowdown in economic activity will inevitably result in smaller than expected tax revenue. TIF obligations backed by real estate taxes have a slightly longer horizon of 12-18 months but should be preparing as if any decline in economic activity will result in less tax revenue. TIF obligations backed by sales tax, use or other sources of revenue should begin immediate workout strategies to mitigate against far lower than expected revenue collection. It is important that DFAs and communities act now to ensure that all obligations be met in both the immediate future and in the next 2-3 years of projects in service. For strong and stable TIFs, it may be wise to look into refinancing options based on the availability of low interest rates.

DFAs should check their state statute for use of funds allowances. In the event of lower than projected revenues, some state TIF laws allow for the use of excess revenues to be put into reserve funds now to prepare for an eventual decrease in tax revenues later.

Businesses within TIF Districts – An immediate concern is supporting the tenants and businesses within existing TIF districts. These businesses rely on their regular income to pay their subsequent taxes. These taxes are used to fund the TIF debt service. Some businesses will survive the crisis while others will not. Helping to ensure that businesses stay viable during the COVID-19 crisis will help to mitigate tax revenue loss. If a business does close, DFAs should immediately begin working on finding a replacement business for that space. While this may seem counterintuitive during the crisis, TIF districts cannot go without taxpaying businesses for a prolonged period. Work quickly to shore up lost business opportunities and work to remedy nonperforming businesses as quickly as possible. This is of paramount concern in districts with fewer taxpaying businesses or property owners. If a major anchor of a TIF district closes, DFAs should aggressively work to replace that tenant immediately to safeguard the tax revenue stream.

New Districts and Pipeline Projects – It is likely that new districts and pipelined projects will be delayed, reduced or canceled as a result of this crisis. Many communities will naturally become more risk averse during and after this crisis. However, DFAs should continue to run projects through the feasibility process and continue to work with developers and end-users on a strategy to help projects continue through this process. Projections and feasibility studies may require an updated review based on potential hits to revenue expectations. DFAs should also look at non-traditional sources of financing. With the plethora of federal and state recovery resources in the pipeline, now is a good time to begin to identify new sources of capital for a project. TIF will be a very important tool for recovery and DFAs that look forward with a lens towards recovery will be in a good position to approve and execute new projects once the economic slowdown ends.

Revolving Loan Fund Portfolios

DFAs operate thousands of loan funds throughout the country. CDFA expects these funds to be impacted significantly due to the COVID-19 pandemic, both in the immediate term to address current economic challenges as well as in the long term as business recovery continues. DFAs should consider the following:

Existing Borrowers – Check in with your current borrowers immediately to fully understand their liquidity and debt service constraints. Many small businesses are facing cash flow and liquidity challenges. They may need immediate adjustments to their loan terms, rates, and repayment schedules.

Adjusting Rates and Terms – To the extent possible, consider adjusting current rates, terms, and repayment schedules. Now is not the time for ultra-conservative approaches to loan fund management. Borrowers are facing liquidity challenges and do not have the cash flow to pay debt service. This is through no fault of their own. Consider easing your loan fund repayment schedule to allow borrowers to defer payments for up to one year. While this may result in less cash flow to the fund, it will allow borrowers to focus on immediate challenges with less debt repayment stress.

New Borrowers & Short-Term Disaster Loans – Halt all non-essential new borrowing that is not related to responding to the COVID-19 crisis. New borrowing should be focused on small businesses impacted by the COVID-19 crisis. Require that new borrowers demonstrate the impact that the crisis has had on their business and their need for immediate capital. Provide short term loans of three to six months with zero percent interest to allow these borrowers to continue to make payroll and inventory payments. Defer repayment of these loans for up to one year. Finally, consider requiring new borrowers to refinance their distressed loan after one year if they do not pay it off in advance. DFAs may then be able to charge reasonable, but low-cost interest, on the refinanced loans.

Recapitalizing Funds – Federal and state governments, philanthropy, and the banking industry have been responding aggressively to the crisis but still need to hear from loan fund managers on the demand for low-cost capital. Reach out to your partners at federal and state agencies for a request to recapitalize funds immediately. Consider reaching out to foundations and financial institutions for fund capitalization as well. Be aggressive and request flexible funds to immediately put into new loans to address distressed businesses. If recapitalization is not possible, consider asks for loan loss reserves or loan guarantees to help address current borrowing needs.

Other Considerations

DFAs will face a number of challenges in the coming weeks and months. These challenges are understandable and navigable. DFAs were a big contributor to the nation's recovery during the recession of 2008-2009. During the coming months, DFAs should remain vigilant and focused on addressing immediate challenges while keeping a watchful eye on the future. Operational budgets and capacity may get stretched and tested but DFAs should continue to use sound financial management approaches. Now is the time for the development finance community to rise to the occasion and support our nation's bright future and full recovery.

Toby Rittner, DFCP
President & CEO
Council of Development Finance Agencies
trittner@cdfa.net
Twitter @tjrittner

Muni Market Gets Support from Fed as Part of Wide Effort to Curb Virus Fallout, Self-Regulator Warns to Review Compliance.

New York (Thomson Reuters Regulatory Intelligence) – The Federal Reserve on Friday provided support for the $4 trillion municipal bond market as it extended its support of a credit market hit by a flight to safe havens due to the coronavirus health crisis. The move came after muni bond dealers sought help and the industry self-regulator warned firms to bolster controls.

The Fed has stepped in by offering support for firms hit by virus turmoil with direct purchases of short-term securities that make up money market funds and ultra-low interest rates to stem the most severe financial turmoil to hit the U.S. economy since the financial crisis in 2008.

As part of its effort, the Fed and other U.S. banking agencies on Sunday said they were encouraging banks to restructure loans to borrowers hit by the COVID-19 virus that has shut down a widening swath of the U.S. economy as businesses close and consumers stay home to slow its spread.

"The agencies encourage financial institutions to work with borrowers, will not criticize institutions for doing so in a safe and sound manner, and will not direct supervised institutions to automatically categorize loan modifications as troubled debt restructurings," a Fed statement said here.

The municipal market has separate funding mechanisms that were not included in the Fed's money-market and commercial paper programs. An even larger pool of investment money than money-market funds, the muni market fell under intense pressure in March when it was hit by the biggest wave of fund redemptions on record despite the Fed's actions to shore up short-term credit.

The muni market had seen record inflows in February in the early stages of the market turmoil caused by the spreading health crisis, as investors moved funds from riskier assets to munis, considered safe haven in which defaults have been rare.

The subsequent turnaround in sentiment came in part from a warning in early March in a California municipal bond offering from the state's general fund. California was among the first states to report incidents of the virus. California said in early March that there could be "no assurances that the spread of a novel strain of coronavirus called COVID-19 will not materially impact the state and national economies and, accordingly, materially adversely impact the general fund."

The market in the second week of March was overwhelmed by selling amid fear that California might soon be joined by other state and local governments facing resource constraints from the pandemic and would face financial stress.

The industry self-regulator, the Municipal Securities Rulemaking Board, issued an alert to firms in early March saying that they should review compliance and oversight "in light of the coronavirus" in early March said it was "closely monitoring the impact of the coronavirus disease (COVID-19) on municipal market participants."

With losses mounting and liquidity falling through the end of last week, the Bond Dealers of America on Thursday called on Fed Chairman Jerome Powell to extend its direct purchases of securities to the most-stressed parts of the market and consider easing rules. The trade group sought Fed support to ease liquidity shortages in Variable Rate Demand Notes that play a key role in short-term funding operations for municipals.

"Liquidity has waned significantly as measured by bid-ask spreads and price volatility has been perhaps the most severe ever in the history of the market," Mike Nicholas, the group's chief executive officer said in a letter sent to the Fed last Thursday here. The group had added that the market would be crippled without Fed support since firms would "effectively prevented them from taking on more municipal inventory."

The Fed action looked likely to help the central bank stabilize the short-term rates that provide liquidity, said Matt Fabian, the head of market and credit research at Municipal Market Analytics.

While the Fed action did not directly impact the trillions of dollars long-term municipal bonds held by individuals in hundreds of thousands of issues from state and local government, it would support the top rated short-term securities such as the variable rate notes that are derived from the long-term debt and used in muni-funding operations.

"It will greatly reduce the pressure on the muni money markets to cover investor redemptions while not tanking the value of the underlying municipal bonds they hold, specifically short maturity bonds and notes," he said in an email.

He added that most of the market's liquidity pressure "is exactly in this part of the curve, because investors are converting many of their financial assets to cash without regard to what those assets are," he added.

Self-regulator MSRB said in its coronavirus alert in early March that "the coronavirus may present operational challenges and business disruption for regulated entities." But it added that the firms can do required supervisory reviews remotely.

Its supervisory process "does not mandate that supervision be done in-person, recognizing that technology plays a prominent role in how dealers conduct their supervisory reviews and a reasonably designed supervisory system could incorporate remote supervision."

FINRA’s general guidance for firms notes that municipal dealers must observe a fiduciary standard of care under the Securities Exchange Act of 1934. The standard requires firms to deal fairly, make suitable recommendations, clearly disclose pricing that is reasonable and in line with market prices and have supervision that’s “reasonably designed to achieve compliance with applicable rules and regulations.”

by Richard Satran

MARCH 24, 2020

[In Sweeping Move, Fed Will Lend to Businesses and Local Governments and Extend Bond-Buying Programs.]

The Federal Reserve announced a batch of programs Monday to jump-start strained lending markets across the economy, making more credit available to a wide range of businesses and consumers battered by the coronavirus outbreak, including students, car buyers, large corporations, small businesses and cities.

The Fed said it will pump more cash into a financial system that clogged up amid a bruising recession that has shriveled consumer spending as restaurants, movie theaters, stores, sports arenas and other public places shut down to contain the spread of the outbreak.

“The coronavirus pandemic is causing tremendous hardship across the United States and around the world,” the Fed said in a statement. “Our nation’s first priority is to care for those afflicted and to limit the further spread of the virus. While great uncertainty remains, it has become clear that our economy will face severe disruptions. Aggressive efforts must be taken across the public and private sectors to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate.”

Last week, the central bank lowered its benchmark interest rates near zero and said it will buy $500 billion in Treasury bonds and $200 billion in mortgage-backed securities. The Fed said Monday it will include commercial mortgage-backed securities in the purchases, making more money available for loans for retail, office and other commercial real estate projects and pushing down their interest rates.

It said it will buy an unlimited amount of Treasury bonds and mortgage-backed securities in an effort to hold down interest rates and ensure those markets function smoothly.

The Fed said it will set up three lending facilities that will provide up to $300 billion by purchasing corporate bonds, buying a wider range of municipal bonds and purchasing asset-backed securities. The central bank said it will renew a financial-crisis-era program that will make funding available for student, auto and credit card loans.

After the Fed announced the Treasury and mortgage bond purchases last week, it quickly ran through roughly half those amounts by the end of the week. Monday, the New York Federal Reserve said it would purchase $75 billion of Treasurys and $50 billion of mortgage-backed securities each day this week.

That is a much larger amount than the Fed deployed in the financial crisis and its aftermath. In 2012, the Fed launched its third round of asset purchases, known as quantitative easing, which consisted of $45 billion of Treasury purchases a month.

by Paul Davidson

March 23, 2020

USA TODAY

[All the Moves the Fed is Making to Bolster the Economy, from Main Street to Muni Bonds.]

The Federal Reserve is taking its status as the "lender of last resort" in the U.S. very seriously.

The central bank announced yet another series of measures on Monday morning designed to keep credit markets liquid and to support businesses that continue to feel the ever-worsening economic impact of the coronavirus outbreak.

In addition to scaling up its purchases of Treasuries and mortgage-backed securities to a virtually unlimited amount, the Fed is now also intervening in the corporate bond market via a number of credit facilities that will provide up to $300 billion in new financing to businesses.

Two of those facilities, the Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility, are designed to support a corporate credit market that has shown signs of stress in recent weeks. The Primary Market Facility will provide four-year bridge loans to investment-grade companies, while the Secondary Market Facility will purchase outstanding bonds issued by investment-grade U.S. firms and U.S.-listed exchange-traded funds.

The Fed is also relaunching its financial crisis–era Term Asset-Backed Securities Loan Facility, which will lend to investors who purchase asset-backed securities (ABS) backed by student loans, auto loans, credit cards, and other consumer debt. And the central bank is boosting two previously announced facilities, targeting money-market mutual funds and commercial paper, to also include municipal bonds that finance operations for localities across the country.

Additionally, the Fed said it will soon roll out an initiative meant to aid small- and medium-size businesses that are out of the reach of its ambitious corporate bond-buying regime, via a Main Street Business Lending Program. That will come after it ensures Wall Street's big banks have the liquidity they need to continue lending to businesses and households—via expanding its discount window to depository institutions, eliminating reserve requirements for banks, and reestablishing its crisis-era Primary Dealer Credit Facility.

In total, the moves amount to a near-unprecedented intervention by the central bank as it seeks to stabilize financial markets and ensure adequate credit across the U.S. economy in a time of crisis. They also answer—for now—concerns from some observers who have questioned just how much power the Fed has to mitigate the impact of the ongoing economic downturn.

"Every time people say [the Fed is] out of ammunition, they continue to come up with more," Kathy Jones, chief fixed-income strategist at the Schwab Center for Financial Research, tells Fortune. By intervening in the ABS and municipal bond markets, the central bank's latest measures are "meant to [address] some of the things that their previous programs hadn't addressed."

Municipal bonds, for instance, have been battered amid a lack of market liquidity and concerns about “the creditworthiness of airports, hospitals, and states/city governments at the epicenter of the COVID-19 crisis,” according to a research note released Monday by Morgan Stanley Wealth Management. According to the note, municipal bond prices have fallen to such an extent that yields are at their highest levels compared with U.S. Treasuries “in more than a decade.”

Jones notes that the Fed is taking a particularly aggressive approach in lieu of a promised fiscal stimulus package that continues to be held up in Congress. Until such a bill comes to fruition, the Fed is “the only game in town” as far as government support for the economy is concerned, she adds.

To play that role, the central bank has relied on some creative maneuvers. As in the last financial crisis, the Fed has established a special purpose vehicle (SPV) to operate its current forays into the private credit markets. The SPV—which is partly backed by the $30 billion equity contribution from the Treasury Department’s Exchange Stabilization Fund—functions as a “way around the [legal] limitations” prohibiting the Federal Reserve from using its own balance sheet to purchase private assets.

But while the Fed has been proactive in looking to calm financial markets, it remains to be seen whether the central bank’s moves—namely, its pending Main Street Business Lending Program—can alleviate the pain being felt by small businesses and local economies that are straining under the coronavirus lockdown’s devastating impact on commerce.

“I think this particular type of crisis is having the biggest impact on small businesses and state and local governments,” Jones says, noting that such entities also employ a huge chunk of the U.S. labor force. “It is important to address the needs that they have.”

FORTUNE

by REY MASHAYEKHI

March 23, 2020 12:30 PM EST

[Federal Reserve Considering Additional Support for State, Local Government Finance.]

Central bank hires former Treasury official to assist with potential municipal-lending program

Federal Reserve officials are reviewing new ways to support financing for state and local governments, many of which are on the front lines of the coronavirus pandemic and will face huge borrowing needs as revenues plunge, according to people familiar with the matter.

The economic-rescue legislation Congress approved this week asks the Fed to charge headlong into areas it has long considered taboo—supporting lending to businesses, cities and states. The Fed traditionally avoided intervening directly in credit and fiscal policy, preferring to leave such matters to Congress and the White House.

That is changing now because of the fast-moving economic crisis—and because Congress has essentially directed the Fed to get more involved by providing $454 billion to the Treasury to cover any losses in new Fed lending programs.

The Fed has dramatically expanded its balance sheet over the past two weeks, by nearly $942 billion to $5.25 trillion as of Wednesday. The central bank has lent freely to help firms avoid a wave of defaults that could turn a recession into something much worse.

Over two weeks, the Fed has unveiled six lending facilities, five of them enjoying a total of $50 billion in support from the Treasury. Those programs have freed up cash for major Wall Street institutions and will backstop money-market funds and markets for commercial debt.

Democratic lawmakers have made support for city and state borrowing a priority in recent legislative talks, and the latest bill directs the Treasury secretary to seek a Fed lending program for municipal finance.

State and local governments are confronting skyrocketing borrowing costs even as they are straining to pay expenses associated with the spread of the virus. House Speaker Nancy Pelosi told Fed Chairman Jerome Powell last week "to think big and help our states," she said in an interview on PBS this week. "They are taking a big bite of this wormy apple and they need much more in terms of resources."

Under its governing law, the Fed can't directly buy corporate debt, and it is limited to purchasing municipal debt of six months or less. But it can work around these restrictions by creating lending facilities that lend or purchase debt, subject to approval of the Treasury secretary.

The Fed has already dipped a toe into muni-debt markets by expanding a money-market lending backstop to include certain types of municipal debt—and by purchasing some highly rated municipal debt in a facility backing the market for very short-term commercial debt.

As of Wednesday, short-term interest costs on variable-rate municipal bonds have more than tripled compared with two weeks ago and are now higher than the rates governments typically pay on 30-year bonds, according to an index maintained by the Securities Industry and Financial Markets Association.

Monday's announcement by the Fed to include more municipal debt in existing lending facilities appears to have made only a small dent, bringing the index, which tracks bonds that adjust their rates weekly according to what investors are willing to pay, to 4.7% down from 5.2% the prior Wednesday.

Interest rates on other short-term muni debt that spiked last week have fallen after the Fed said Monday it would purchase some municipal variable rate debt. Rates on water, power and sewer bonds issued by New York City and Los Angeles fell back to their typical rates of between 1% and 2% Thursday after hitting nearly 8% on Friday.

Kent Hiteshew, who established an office of state and local finance at the Treasury Department in the Obama administration, has been hired by the Fed for a six-month appointment to advise on muni markets, according to people familiar with the matter.

Among the questions Fed officials are considering: Whether to expand existing facilities to accommodate other municipal debt or to launch a new facility devoted to state and local finance. Fed officials will have to decide which municipal debt might be eligible for support and on what terms.

There are limits to how far the Fed can lend using its emergency authorities. Its loans must be well secured, which the Fed typically satisfies by restricting borrowing to highly-rated issuers.

"The states and localities that need the most help are the most risky by definition," said Ernie Tedeschi, an economist at Evercore ISI, an investment research firm, who previously worked in the Treasury Department during the Obama administration.

The Fed and Treasury brainstormed ways to support hard-hit state and local treasuries after the 2008 financial crisis, but opted against doing so.

Governments have been canceling almost all planned long-term muni deals, borrowing they typically rely on for infrastructure needs and budget management, after investors fled muni mutual funds last week and prices plummeted. There was $761.7 million in total muni issuance last week, according to Refinitiv, compared to around $8 billion during a typical week earlier in the year.

Government borrowers include states facing high Medicaid costs, delayed income tax collections and huge drop-offs in sales taxes as commerce has slowed to a standstill—and municipalities that run hospital systems, nursing homes, jails and public-health departments.

"As our borrowing costs go up, that's fewer dollars they have to allocate to the crisis," said Matthew Chase, executive director of the National Association of Counties.

Fed officials have long had broader philosophical objections to intervening in financial affairs of subnational entities. The central bank is the fiscal agent of the federal government, and they have viewed state and local finance as the domain of Congress and the Treasury Department.

"The Fed's response has typically been, 'Look, if the federal government wants to support state and local finance, they can do that directly," said Lewis Alexander, who served as an economic adviser at the Treasury Department from 2009-11 and is now chief U.S. economist at Nomura Securities.

"There is a real reluctance to blur the line between the federal government and the state and locals. You start going down that road, it's hard to know where to stop."

The Wall Street Journal

By Nick Timiraos and Heather Gillers

March 27, 2020 2:59 pm ET

Senate Stimulus Takes Steps to Add Liquidity to Municipal Market.

After extensive effort from the BDA and its membership, the Public Finance Network, and issuers and market participants nationwide, the Senate has included provisions aimed to stabilize the municipal market in a sweeping $2 trillion dollar stimulus package that will likely pass later today.

While at this time it is uncertain if the House will return to vote in person, of if they will use a procedure known as "unanimous consent," meaning no objections from Members allowing the measure to pass without the full House present.

In the draft, which can be viewed here (bond provisions start on p.513)

Sec. 4003 The Senate gives authority to the Federal reserve to:

Provide up to $454,000,000 available to make loans, loan guarantees, and other investments in support of programs or facilities established by the Board of Governors of the Federal Reserve System shall be available to make loans and loan guarantees to, and other investments in, programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, States, or municipalities by:

(A) purchasing obligations or other interests directly from issuers of such obligations or other interests; or

(B) purchasing obligations or other interests in secondary markets or otherwise.

(C) making loans, including loans or other advances secured by collateral.

Additional Conditions

A loan, loan guarantee, or other investment by the Secretary shall be made under this section in such form and on such terms and conditions and contain such covenants, representations warranties, and requirements (including requirements for audits) as the Secretary determines appropriate. Any loans made by the Secretary under this section shall be at a rate determined by the Secretary based on the risk and the current average yield on outstanding marketable obligations of the United States of comparable maturity.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

March 25, 2020

BDA Applauds Senate's Efforts to Support Municipal Market.

Last night, (March 26, 2020) the Senate passed the CARES Act, (H.R. 748), a broad, $2 trillion dollar stimulus package in response to the ongoing COVID-19 pandemic.

The BDA applauds the Senate's quick and effective action to stem the economic uncertainty associated with the virus crisis.

We note particularly Section 4003 of the Act providing the Treasury and Fed with broader standby authority to support the bond markets during times of particular distress and dysfunction, to the immediate benefit of issuers, investors, tax payers.

H.R. 748 would allocate up to $500 billion of cash from the Treasury Department to:

- Provide liquidity to eligible businesses, States, and municipalities related to losses incurred as a result of coronavirus;
- Treasury would "make loans, loan guarantees, and other investments in support of eligible businesses, States, and municipalities." and
- Some of those funds are earmarked for specified industries like airlines, leaving $454 billion to support Federal Reserve programs for targeted beneficiaries.

Those funds would be used to support "loans and loan guarantees to, and other investments in" Fed programs "for the purpose of providing liquidity to the financial

system that supports lending to eligible businesses, States, or municipalities by:

- Purchasing obligations or other interests directly from issuers of such obligations or other interests
- Purchasing obligations or other interests in secondary markets or otherwise; and
- Making loans, including loans or other advances secured by collateral."

It is important to note that this bill authorizes but does not require the Fed to intervene in the markets.

Also please note that Treasury resources pledged to Fed credit programs can be leveraged as much as 10 to 1, meaning that a $454 billion Treasury commitment could result in up to $4.5 trillion of Fed liquidity. The bill would also provide up to $125 billion in direct support to localities that can help bridge the gap with lagging revenues, especially in light of delayed tax filing deadlines.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

March 26, 2020

[Move by Fed May Help Shore Up Short-Term Borrowing for States and Localities.]

The municipal bond market is experiencing a massive crunch as investors react to the coronavirus pandemic.

The Federal Reserve took action this week that could help bolster state and local governments' access to short-term borrowing as the coronavirus crisis pressures their finances.

For some states and localities, short-term debt is an important source of cash for covering expenses at times when tax revenues are not rolling in. But the virus outbreak has been driving turmoil in the municipal bond market, threatening the flow of this type of lending.

Demand for municipal debt has collapsed as the disease outbreak disrupts nearly every corner of the U.S. economy. The pandemic-driven downturn is also stoking worries that state and local tax revenues could take a sizable hit, while at the same time governments spend big to combat the disease.

"Basically there are no buyers for municipal bonds at both the long end and the short end of the curve," said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago's Harris Public Policy school.

Fleeing investors caused the roughly $3.8 trillion municipal bond market to hemorrhage a record $12.2 billion from municipal-bond mutual funds during a week's time ending Wednesday.

Some state and local government advocates are making a case that the federal government should intervene deeper into the municipal bond arena to help states and localities weather the pandemic. There's at least one proposal in the U.S. Senate to head that direction.

Emily S. Brock, director of the federal liaison center for the Government Finance Officers

Association, applauded the latest move by the Fed. But she added: “We do need to open up the spigot a little bit wider in order to get that shot of adrenaline in our space.”

States, cities and other local government entities around the U.S. commonly issue long-term debt to finance things like school construction and highway and mass transit projects. Bonds like these are usually paid off over many years.

But some also borrow on a short-term basis to maintain adequate financial liquidity. Tax payments can come in bursts at different times of year, while on the other side of the ledger governments must have consistent funding on hand to cover wages and other operating costs.

“There’s a mismatch,” said Bart Hildreth, a budgeting and finance professor at Georgia State University’s Andrew Young School of Policy Studies. “You have cash flow deficits during the year.”

To deal with this dynamic, states and localities might borrow short-term with the anticipation of collecting tax revenues in the months that follow and then using that money to repay the debt.

Unlike a 20-year bond that might be issued to build a bridge, this sort of short-term “cash flow borrowing” tends to involve debt that matures within the course of a fiscal year.

“It’s a pretty regular feature of the borrowing plans of the moderate- to large-sized governments,” Hildreth said. “Same thing with states.”

But a concern now is that the upheaval in the municipal bond market is causing the investor cash that would normally be available for short-term state and local borrowing to dry up.

“Nobody’s purchasing,” said Brock. “All of the supply is being held on the dealers’ books. And so we have a bit of a challenge.”

This is where a move the Fed announced on Friday could help. Earlier in the week, the central bank announced that it was establishing a new Money Market Mutual Fund Liquidity Facility.

The general idea with this entity is to channel money towards money market mutual funds, supporting the flow of credit, and also keeping the funds functioning smoothly while the economy is in flux and as they meet investor demand for withdrawals. The funds are a common investment for households and businesses.

Under the program, the Federal Reserve plans to offer loans to banks and other financial institutions that purchase certain assets from the funds as collateral. What the Fed did on Friday is expand the list of eligible collateral to include highly-rated, short-term municipal debt, with a maturity of one year or less.

Tim Blake, managing director of public finance at Moody’s Investors Service, said a main benefit for state and local governments from the Fed facility is that it could provide investible money that the money market funds could use to purchase short-term state and local debt.

That could be especially important at a time when states and localities are facing huge uncertainties over how the coronavirus will affect their costs and revenues.

“There are probably going to be many government issuers and not-for-profit issuers that are seeing significant revenue declines in the coming months, and the need for some borrowing,” he said.

“This would allow the funds to purchase cash flow notes issued by governments,” Blake added.

Belsky, at the University of Chicago, said that, “basically the federal government is becoming the investor of last resort.”

Hildreth noted the Federal Reserve did not extend similar programs put in place in response to the Great Recession to cover short-term municipal debt. “Many of us thought they should have done it back then,” he said. “It shows that they have assessed the situation more severely this time that state and local governments are facing.”

But how effective the program will be in aiding state and local governments will depend partly on how banks respond.

“It’s really whether they need to use that asset or not,” said Natalie Cohen, president and founder of National Municipal Research. “How meaningful it’s going to be is questionable.”

Brock suggested there are ways the federal government could go further to help state and local governments through the municipal bond market. For instance, if the federal government were to somehow hold municipal debt of all types and maturity durations, or if it purchased what are known as Variable Rate Demand Notes.

This week, U.S. Sen. Bob Menendez, a New Jersey Democrat who serves on the Senate Banking Committee, introduced a bill that would allow the Federal Reserve’s board to authorize federal reserve banks to directly buy and sell muni bonds of any maturity under “unusual and exigent circumstances.”

The senator said that his legislation would provide state and local governments with federal support in financing the costs tied to the coronavirus outbreak, and other future emergencies.

But Tom Kozlik, head of municipal strategy and credit with Hilltop securities, said in a brief issued on Friday that there is not enough information available yet to know if the bill would solve the liquidity crunch facing the long- and short-term municipal bond market.

“The devil could be in the details here,” he wrote.

Looking ahead, Belsky pointed out that many of the nation’s public works projects are financed using municipal bonds. If the nation slips into a full-blown recession due to the coronavirus, he said, infrastructure investment could be key to kickstarting a recovery.

Route Fifty

By Bill Lucia

MARCH 21, 2020

The Fed Enters the Municipal Bond Market to Lend Cities a Hand, but Will It Be Enough?

On Monday, the Federal Reserve went all-in to support America’s shuttered economy. Among its most remarkable moves was its backstop of the $3.8 trillion municipal bond (“muni”) market, a critical source of financing for states, counties, and municipalities. The Fed hopes this will keep credit flowing to states and localities as their revenues—and the market for their debt—reel in the wake of the global coronavirus pandemic. As investor dollars rush out of the muni market, it is revealing troubling debts as well as questions about the role of fiscal federalism in a time of crisis.

State and local debt is facing its largest monthly drop in value since 1987, sending yields soaring nearly a full percentage point to 2.6% this week. Investors withdrew more than $12 billion from municipal bond funds last week, the highest weekly outflow on record, with some funds posting their largest one-day drop in a decade. Many funds now trade below the value of their assets, including those for New York State, suggesting that investors fear surging defaults.

Munis are normally considered among the safest of assets. Just a few weeks ago, investors were scooping up this debt in a flight to risk from markets roiled by the coronavirus. This is continuing the trend since the Great Recession of strong investor demand for state and local debt, culminating in more than $100 billion in inflow last year. Muni's tax-exempt status has made them especially popular following the 2017 tax law.

Continue reading.

E21

by Michael Hendrix

MARCH 25, 2020

Cares Act Summary.

Read the Summary.

CARES Act: Municipalities - Miller Canfield

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted, authorizing up to $2 trillion in economic relief for distressed sectors of the American economy. Title IV, subtitle A of the CARES Act constitutes the Coronavirus Economic Stabilization Act of 2020 (the "Stabilization Act") and authorizes up to $500 billion for loans, loan guarantees, or other investments to support eligible businesses, States or municipalities "related to losses incurred as a result of coronavirus." Under the Stabilization Act, a "municipality" includes a political subdivision of a State, and an instrumentality of a municipality, a State or a political subdivision of a State.

Specifically, the Stabilization Act allows the Secretary of the United States Treasury to make up to $454 billion in loans and loan guarantees to, and other investments in programs or facilities established by the Federal Reserve "for the purpose of providing liquidity to the financial system that supports lending to eligible business, States, or municipalities" by:

1. Purchasing obligations or other interests directly from issuers of those obligations or interests;
2. Purchasing obligations or other interests in secondary markets or otherwise; or
3. Making loans, including loans or other advances secured by collateral.

The Treasury Secretary has broad discretion to establish the terms, conditions and forms of these investments in Federal Reserve liquidity programs. However, while the Stabilization Act prohibits the forgiveness of any principal amount of a loan to a State or municipality, it ties the interest rate on such loans to "the risk [related to such debt] and the current average yield on outstanding marketable obligations of the United States of comparable maturity." This provision could serve to calm the recent volatility in the relationship between U.S. Treasury yields and that of State and municipal debt.

Additionally, the CARES Act establishes the Coronavirus Relief Fund (the "Fund"), which provides for the direct payment of up to $150 billion from the United States Treasury to States, Tribal governments and units of local government exceeding 500,000 in population "out of money not otherwise appropriated." A local unit of government receiving a direct payment from the Fund may only use the money to cover costs that:

1. Are necessary expenditures incurred due to the public health emergency with respect to the coronavirus;
2. Were not accounted for in the budget most recently approved as of the date of enactment of this section for the State or government; and
3. Were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

Finally—in order to receive a direct payment from the Fund—the unit of local government must provide the Treasury Secretary with a certification signed by the Chief Executive of the local unit stipulating that the "local government's proposed uses of the funds are consistent" with the Fund's requirements for a municipality's use of money received via direct payment thereunder.

This is part of a series of our [COVID-19 alerts] providing clients with practical advice on measures they can take to navigate through these challenging times. Please contact the authors or your Miller Canfield attorney with further questions.

Miller Canfield PLC – Jeffrey S. Aronoff and Sean C. Rucker

March 27 2020

Senate Passes $2T Package With NOL Changes, Rebate Checks.

The Senate passed an economic aid package that will provide taxpayers with a rebate, temporarily modify provisions of the Tax Cuts and Jobs Act and expand unemployment insurance.

Lawmakers unanimously approved the Coronavirus Aid, Relief, and Economic Security Act (H.R. 748) to send it to the House. The bill is meant as a compromise between Republicans and Democrats and is the product of almost one week of negotiations between the two sides.

Lawmakers announced a deal in the morning of March 25, but negotiations continued throughout the day to nail down language that appeased both sides.

While the tax provisions agreed to by both sides remained largely unchanged, Republican lawmakers were unhappy with language expanding unemployment insurance, arguing that it disincentivized individuals from going to work because they could make more while unemployed.

Sens. Lindsay Graham, R-S.C., Tim Scott, R-S.C., Rick Scott, R-Fla., and Ben Sasse, R-Neb., offered an amendment to change the unemployment provisions to prevent an individual from receiving unemployment compensation that is more than the amount of wages the individual was earning prior to becoming unemployed. The amendment, which required 60 votes for adoption, was defeated 48 to 48.

The bill now heads to the House, where it may run into some problems after some progressive Democrats offered criticism of the bill. But House Speaker Nancy Pelosi, D-Calif., said she intends to approve the bill in the fastest way possible without having to call back all members of the House. The House would be able to approve the bill by unanimous consent if there are no objections on either side or by voice vote, which could see some members travel back but not all.

Senators agreed to roll back a Tax Cuts and Jobs Act provision preventing net operating losses from being carried back to reduce income in a prior year. The provision has been relaxed to allow for losses in tax years 2018 through 2020 to be carried back up to five years.

The bill also provides for individuals making less than $75,000 or married couples earning less than $150,000 to receive a $1,200 direct payment from the IRS, while those with children would get an extra $500 per child.

President Signs $2 Trillion Coronavirus Relief Bill: NABL

On March 27, 2020, the President signed H.R. 748, a $2.2 trillion stimulus package. Below are a few elements of the bill:

– Allow the Fed to directly purchase munis to stabilize the market

– Provide $150 billion for a Coronavirus Relief Fund

– Provide $130 billion for health care systems

– Provide $25 billion for transit systems

– Provide $10 billion for airports

– Provide $5 billion for Community Development Block Grants

– The $150 billion Coronavirus Relief Fund administered by the Treasury will disperse $8 billion to tribal governments, $3 billion to territories and the District of Columbia, and the remaining $139 billion to states and cities with populations over 500,000.

– Any municipality with a population under 500,000 will have to make its request for money from the new Coronavirus Relief Fund to their state.

Even Municipal Bonds Aren't Safe From Downgrades.

It seems like no asset is safe in this coronavirus-stricken market—even municipal bonds, which were once seen as some of the safest debt issues in the fixed income space. S&P Global Inc and Moody's Corp, two of the largest credit rating agencies, issued downgrades that included municipal bonds.

"Municipal bonds tied to specific projects or taxes are also being downgraded. S&P recently cut the ratings on revenue bonds backed by a student housing project in Corpus Christi, Texas, by six notches, taking the debt from the lowest notch of investment-grade deep into junk territory," a Wall Street Journal report noted. "Falling tax collections are also hitting bonds backed by governments' broad taxing powers."

And it's not just downgrading that prospective municipal bond investors need to watch. It's having a boomerang effect on insurers that guarantee these bonds.

Continue reading.

ETF Trends

by BEN HERNANDEZ on MARCH 25, 2020

Muni Bonds Bounce Back, Poised for Best Week Since 1982.

Municipal bonds extended their rally in early trading, putting the securities on track for the biggest weekly gain since 1982.

Yields fell four basis points on the shortest-dated municipals on Friday to 1.18%, a drop of 1.7 percentage point since the week began. The securities have seen yields decline dramatically this week as Congress inched closer to a vote on its plan to curb the economic toll of the coronavirus, which would let the Federal Reserve buy municipal bonds.

The performance is a sudden reversal from the historic sell-off that hit the market earlier this month. State and local debt gained about 7.3% this week as of Thursday, a massive recovery from the 6.6% loss the prior week, according to Bloomberg Barclays indexes. If that performance holds today, it would mark the best week of performance since September 1982, the data show.

John Loffredo, co-head of MacKay Municipal Managers, said crossover buyers like insurance companies are starting to wade back into the market, he said.

They're seeing the cheaper valuations of municipals and "picking their head up," he said.

Bloomberg Markets

By Amanda Albright

March 27, 2020, 6:19 AM PDT

Muni Bonds Surge, Reviving From Worst Crash in Over Four Decades.

- **Yields tumble by more than 60 basis points across the curve**
- **Junk bonds hit hard in sell-off revive as buyers swoop in**

Municipal-bond prices surged, staging the biggest one-day rally in nearly three decades, as Congress and the White House struck a deal on a more than $2 trillion stimulus package to soften the impact of the economic slowdown triggered by the coronavirus.

The gains sent yields sliding sharply across maturities, but the drop was steepest for the shortest-dated securities that were hardest hit by the steep sell-off this month as fund managers dumped the easiest-to-unload bonds when investors fled en masse. Three-month benchmark yields dropped 75 basis points to 1.8% while those on 10-year bonds fell 61 basis points to 2.06%. Those on the longest-dated securities fell 61 basis points to 2.56%.

The rally gained force after the White House and the Senate reached an agreement on a massive package of spending and tax breaks in a bid to prevent the swift shutdown of much of America’s economy from leading to a deep, prolonged recession. It includes about $500 billion that can be used to back loans and assistance to companies, as well as state and local governments.

The price jump was the biggest since 1993 and sent yields tumbling by the most since Bloomberg’s benchmark indexes begin in 2011. The drop was roughly three times as big as the decline Tuesday and included high-yield bonds that tumbled steeply during the sell-off.

“The stimulus will be very helpful to the overall market,” said James Iselin, a portfolio manager at Neuberger Berman Group. “The stimulus will inspire confidence that a bridge is being built to help get us to the other side as we continue to deal with challenges resulting from this unprecedented moment.”

The two-day rally broke what had been an escalating slide in the $3.9 trillion municipal market as investors pulled cash out of mutual funds at a record-setting pace on concerns about how the economic fallout of the pandemic would affect cities, airports, hospitals and others that have issued tax-exempt bonds. The retreat saddled many borrowers with skyrocketing interest bills on floating-rate debt and effectively shut down the market for new debt issues as Wall Street banks put offerings on hold.

The Federal Reserve softened the liquidity strains by extending its lending programs to include some of the shortest-dated municipal securities, while the stimulus promises to ease the financial strains on local governments and other borrowers.

The municipal market has been whipsawed by unprecedented volatility this month, so it’s not clear yet whether the rally is the start of a turnaround or a false start that could reverse if the pandemic worsens. But there are some signs that investors are swooping in to scoop up securities most affected by the sell-off.

On Wednesday, some of the most actively traded securities were floating-rate bonds issued by New York’s water system, whose yields surged to 6.75% during the rout.

Bonds backed by Ohio’s tobacco-company legal settlement payments, a type of security that is a mainstay of high-yield funds, surged, with those due in 2055 climbing to as much as 93 cents on the dollar from about 75 cents Tuesday.

Puerto Rico’s sales-tax backed debt — which is a bellwether of the high-yield market that was dealt the steepest losses this month — were also among the most heavily traded, with the price of those due in 2058 rising to as much as 94 cents on the dollar from about 80 cents Monday.

”People are finally taking a breather and saying, ‘were we too hard on credit?’” said Jason Appleson, a portfolio manager for PT Asset Management LLC. He said investors are using the time ahead of Congress’ stimulus vote to take stock of their holdings and whether bonds were penalized too much, though he said he’s skeptical about whether the rally could be maintained if mutual funds continue to see cash pulled out.

“It’s a different mentality today,” he said.

Bloomberg Markets

By Danielle Moran

March 25, 2020, 6:24 AM PDT Updated on March 25, 2020, 4:51 PM PDT

— With assistance by Amanda Albright

Coronavirus Sorts Bond Market Into Winners and Losers.

(Bloomberg Opinion) — For the past month, bond traders confronted nothing short of chaos at every turn. U.S. Treasuries, mortgage-backed securities, investment-grade and high-yield corporate bonds, leveraged loans and collateralized loan obligations, it didn’t matter. Everything was for sale, and no one was willing — or, in many cases, able — to buy.

That relentless tide is starting to turn as March draws to a close. Thanks to a series of bold steps by the Federal Reserve, namely its promise to buy as many Treasuries and agency mortgage-backed securities as necessary, its unprecedented venture into the investment-grade credit market and its deeper expansion into municipal bonds, traditionally safe debt is showing signs of returning to more normal yields and spreads. Blue-chip companies feel comfortable borrowing again.

Don’t necessarily take the latest dire fund flow numbers at face value. Yes, investment-grade bond funds experienced a record $38 billion outflow in the week through March 25, as did munis with $13.7 billion of withdrawals. But individual investors are drawn to winning asset classes. And these securities have staged comebacks that are unprecedented in recent memory.

The same optimism hasn’t reached the riskier parts of the debt markets. The amount of bonds and loans trading at distressed levels in the U.S. quadrupled in less than a week to almost $1 trillion, nearing the 2008 peak, Bloomberg News’s Katherine Doherty reported. Credit-rating companies are downgrading companies at the fastest pace in more than a decade, ushering in several large fallen angels like Ford Motor Co. and Occidental Petroleum Corp. Mortgage real estate investment trusts have been pummeled by margin calls from banks anxious that tenants won’t cover rent. As it stands, the Fed’s programs won’t backstop these parts of the market — probably for good reason.

Simply put, the bond market has bifurcated into winners and losers after this month’s mayhem. Here’s what the divide looks like:

Winner: U.S. Treasuries

It took a record amount of buying from the Fed, and a pledge to purchase much more, but the world’s biggest bond market showed clear signs of tranquility this week. On March 19, the spread between liquid on-the-run 10-year debt and older off-the-run securities was four basis points, or eight times as high as a month earlier. On Monday, after the Fed’s scrapped its limits on quantitative easing, the spread dropped to 1.6 basis points. By Thursday, it fell to 0.4 basis points.

The MOVE index of implied volatility for the U.S. government bond market also indicates more orderly Treasuries trading. It hit the lowest level since Feb. 26 on Wednesday, after the sharpest two-day percentage decline since data begin in 1988. Benchmark yields across the curve are settling into sensible ranges — a major win for the Fed.

Winner: Investment-grade corporate bonds

Yes, the yield spread on the Bloomberg Barclays index of high-grade corporate bonds reached 373 basis points on Monday, the widest since 2009. But it's looking increasingly like that'll be the worst of it. That gap narrowed 20 basis points on Tuesday and then 29 basis points on Wednesday. A tightening of that magnitude has never happened since daily data began in 2000.

In what's arguably an even more encouraging sign of market health, more investment-grade companies are choosing to issue new debt. McDonald's Corp., Nike Inc., 3M Co. and Deere & Co. were among those that priced deals amid Wednesday's rally, while Nvidia Corp., Home Depot Inc. and Target Corp. were marketing bond offerings on Thursday. Because Treasury yields are near record lows, these companies are still borrowing at rates similar to those a year ago.

Loser: High-yield corporate bonds

At first glance, junk bonds appear to be on a similar trajectory as their high-grade counterparts. Spreads on the Bloomberg Barclays high-yield index peaked at 1,100 basis points on Monday before tightening by 75 basis points over the next two days. On a relative basis, that's still not nearly the same rebound.

Unlike the investment-grade market, high-yield issuance is nonexistent while so much uncertainty remains about the coronavirus outbreak and length and impact of the U.S. economic halt. No deals are scheduled. At best, there's speculation about potential offerings in the coming months.

To make matters worse, the longstanding fear of a wave of fallen angels overwhelming the junk-bond market is finally starting to materialize. In the biggest example, Ford's $35.8 billion of debt will be removed from the Bloomberg Barclays investment-grade index at the end of the month and move into high yield. Meanwhile, those companies already rated junk are looking more at risk of folding: S&P Global Ratings said this month that the default rate on U.S. nonfinancial corporate debt may rise above 10%.

Loser: Leveraged loans, riskier CLOs

It's mostly the same story, if not worse, in leveraged loans. The distressed trading level is defined as corporate bonds that yield at least 10 percentage points above Treasuries and loans that trade for less than 80 cents on the dollar. The S&P/LSTA Leveraged Loan Price Index was hovering just above 76 cents at the beginning of the week. It increased on Wednesday for the first time since March 10 but remains firmly below that distressed threshold.

No loans launched or priced this week. There aren't even any bank meetings scheduled. This market is almost entirely frozen, though some buyers have been looking to buy scarce double-B credits and the largest, most liquid obligations.

Leveraged loans' credit ratings are an important flashpoint for certain parts of collateralized loan obligations. Generally, CLOs have a 7.5% limit for triple-C rated loans. The way they're structured, though, it would take an enormous amount of downgrades to even begin to concern top-rated tranches. Indeed, on Wednesday, Citigroup Inc. published a report titled "CLO AAA Screams Cheap." In the same breath, though, the strategists noted "the spread pickup of CLO BB to BBB breached post-crisis highs last week, suggesting serious credit risk concerns." In other words, the lower-rated tranches are definitely dicey, but the safest portions are being unduly punished along with them.

Winner: Agency mortgage-backed securities

This one is a bit of a no-brainer. The Fed's open-ended QE includes mortgage securities guaranteed by Ginnie Mae, Fannie Mae and Freddie Mac. These have bounced back in a big way, recouping all their losses from the last two weeks.

The central bank bought $39 billion on Wednesday, $36 billion on Tuesday and $30 billion on Monday. For some context, before this month, the highest total for an entire week was $33 billion in March 2009.

Loser: Private commercial MBS, mortgage REITs

As my Bloomberg Opinion colleague Matt Levine put it yesterday, "nobody wants a margin call right now."

Of course, that's exactly what's happening to mortgage real-estate investment trusts. As I wrote earlier this week, the REITs have plunged in price because banks are worried that closed tenants will miss rent, which will cause landlords to miss mortgage payments, which will wipe out the cash flow to commercial mortgage-backed securities. A Bloomberg Barclays index of "U.S. CMBS 2.0," which is the market of conduit and fusion CMBS deals issued since January 2010, is down almost 11% this month, easily the biggest loss ever.

The Fed isn't heavy-handed in this nonagency part of the mortgage market, though some investors are pleading for the central bank to do more. Until then, each day the U.S. economy remains halted creates further pain for these securities.

Winner: Municipal bonds

To end on a positive note: Look at munis go!

In what I'd describe as nothing short of breathtaking, the yield on 10-year, triple-A munis tumbled by 138 basis points in three days, with Wednesday representing the biggest one-day advance since 1993. If any investor was looking for evidence of a "V-shaped" recovery, look no further than the iShares National Muni Bond ETF (ticker: MUB). In a matter of days, it went from its lowest price since 2013 to rocketing back to roughly the same level it started at in 2020.

This doesn't usually happen to the $3.9 trillion municipal market. Traditionally, steep losses and huge outflows begin a vicious cycle of more withdrawals and further forced selling. All those pieces were in place as of last week. The Fed did signal a bit of support to the market since then, and the $2 trillion fiscal relief bill in Washington does pledge monetary support to local governments, but that doesn't feel like the entire story. More likely, opportunistic investors saw muni ETFs trade at wider discounts to their net asset values than any other fund, and individual bond pickers noticed 10-year tax-exempt yields three times as high as taxable Treasuries, and determined it was too cheap to pass up.

In that sense, munis were a microcosm of the $100 trillion global bond market: Things got weird in a hurry. Central banks swiftly provided liquidity and gave investors a chance to breathe again. Now it's time to sort through the wreckage.

Bloomberg Opinion

by Brian Chappatta

March 27, 2020

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

Muni Funds Under Pressure From TOB Deleveraging.

Summary

- This week has brought echoes of the financial crisis in the municipal bond market with a number of fund deleveragings.
- Patchy liquidity and a worsening macro picture makes us cautious in the near term. However, there are also positive signals for the medium term.
- For investors wishing to adopt a more cautious stance without leaving the market, we like open-end funds, term CEFs, and taxable muni CEFs.

Here we go again. In a stark repeat of the financial crisis era events, a number of municipal funds have begun to deleverage. At focus is the unwinding of tender option bonds – a financial structure that allows municipal funds to raise leverage and increase fund payouts. According to Bloomberg, about 75 TOBs with $1.2bn of bonds liquidated last week.

Continue reading.

Seeking Alpha

Mar. 24, 2020

Variable-Rate Muni Yields Fall in Wake of Latest Fed Action.

CHICAGO, March 23 (Reuters) – Yields on variable-rate municipal debt tumbled on Monday after the Federal Reserve took another step to help ease a liquidity crunch as part of an unprecedented credit support package to backstop an economy reeling from coronavirus shutdowns.

The U.S. municipal bond market was steady through midday, according to a preliminary read of Municipal Market Data's benchmark triple-A yield scale, while the daily variable rate demand note (VRDN) yield reset fell to around 5.56% from a whopping 7.23% on Friday.

"That's probably a direct effect of the Fed's announcement," said Greg Saulnier, an MMD managing analyst, not it was "probably a stretch" to attribute tentatively unchanged yields across the curve to the central bank's move.

Yields in the $3.8 trillion market where states, cities, schools and other issuers sell debt, have surged amid a selling frenzy by funds and others scrambling for cash as coronavirus fears wreak havoc on global markets.

The Fed on Monday expanded eligible collateral for loans in money market and commercial paper facility programs to include municipal VRDNs and "high-quality" tax-exempt commercial paper. On Friday, the Fed allowed highly rated short-term muni debt to be used in the money market program.

The iShares National Muni Bond ETF, which tracks the overall municipal bond sector, was last up 1.6%, extending Friday's bounce a day after it hit the lowest level since April 2011.

In a statement, the central bank cited "tremendous hardship" due to the spreading coronavirus and the need for aggressive efforts in the public and private sectors "to limit the losses to jobs and incomes and to promote a swift recovery once the disruptions abate."

Muni analysts at Barclays noted in a report on Monday: "This is likely to help to start unfreezing tax-exempt money markets; however, outright purchases of munis might still be needed."

Michael Decker, vice president for federal policy at Bond Dealers of America, said the muni market "is generally not performing as it's supposed to, but it's being felt most acutely at the short end of the yield curve."

While the spot yield on one-year, short-term munis has soared this month, VRDNs have fared even worse. Daily VRDN yields reset on Friday at 7.23%, up from 1.59% on March 13, according to MMD.

Decker described VRDNs, which fell out of favor in the wake of the previous market meltdown, as "sort of the commercial paper of the municipal world," although the debt is designed with longer maturities.

Issuance of VRDNs, which peaked over the last two decades at $121 billion in 2008, fell to just $8.7 billion in 2015 and totaled $25 billion in 2019, according to Refinitiv data. Muni issuers, meanwhile, sold $44.7 billion of short-term debt last year. Tax-exempt commercial paper issuance is relatively small, analysts said.

(Reporting By Karen Pierog; Editing by Alden Bentley)

Coronavirus Chaos Torpedoes Municipal Bond Market.

After initially staying strong as markets declined, munis tumble 11% in 11 days.

The COVID-19 pandemic has shown no mercy for the municipal bond market, which has plummeted in the past two weeks despite being considered a relatively safe investment when the markets are down. And this could be particularly damaging to institutional investors, who own the majority of outstanding municipal bonds.

According to Bernardi Securities, a broker/dealer specializing exclusively in municipal bonds, 40% of outstanding municipal bonds are owned by institutional investors. Pension funds, insurance firms, community banks, and trust departments own approximately 35% of outstanding municipal bonds, while 25% of them are owned by hedge funds, bond funds, arbitrage firms, and other general institutional investors.

Municipal bonds initially responded well when the markets began to fall in February. As the Dow 30 and the S&P 500 tumbled 18.6% and 17.5% respectively between Feb 5 a.nd March 9, the Bloomberg Barclays Municipal Bond Index, which tracks the US dollar-denominated long-term tax exempt bond market, rose over 2%. But during the next 11 days the index fell nearly 11% to its lowest point since the end of November 2018, and it was down 7.5% year to date as of March 20.

A sharp drop of this degree is "extremely rare" said Cooper Howard, director, fixed income and income planning at Charles Schwab.

"Munis are feeling the impact of COVID-19 on two fronts," Howard wrote in a recent market commentary. "First, this is a unique trading environment in which liquidity is strained. Second, there are longer-term concerns about the impact that a sudden and severe slowdown in economic activity could have on municipalities' finances."

Howard said that contributing to the limited liquidity was the fact that municipal mutual funds experienced their first week of fund outflows after more than 50 consecutive weeks of inflows. In some cases, this means that fund managers may have to sell them to meet clients' redemption requests, driving down prices. Additionally, he said long-term concerns about how the coronavirus will affect interest rates have led to a limited number of buy offers or have resulted in bids that are much further away from the market than expected.

"While we don't expect widespread municipal bond issuer defaults due to COVID-19, we do expect the decline in consumer activity to have an impact on some municipalities' finances," Howard said. "This impact will be felt especially hard by issuers in certain sectors with already lower liquidity."

In particular, the sectors of the municipal bond market most affected include state and local governments, hospitals, airports, and universities.

Goldman Sachs has revised its unemployment forecast sharply higher due to the impact of COVID-19 and estimates a 5.5 percentage point increase in the unemployment rate to a 9% peak in impending quarters. This translates to lower personal income tax revenue for states, which is among their biggest sources of revenue. And as non-essential businesses are being shut down in many states, local sales taxes will also take a big hit.

Howard says these factors will pose a risk for states with already lower liquidity levels, and local governments that are reliant on sales taxes will suffer more the longer it takes for the crisis to subside.

"Depending on how the equity markets perform for the rest of the year, some local governments may be faced with higher pension costs," Howard said. "This too could pressure their finances."

Meanwhile, increased hospitalizations and the strain the virus is having on hospital resources could pressure high-occupancy hospitals and potentially crowd out other services. And drug and medical device supply chains could also be negatively affected, Howard said. "The health care sector already tends to be lower-rated, on average, compared with the rest of the muni market," he said, "so we would suggest further caution here."

And because COVID-19 has devastated the air travel industry, airlines have been forced to significantly reduce capacity, which has led Moody's to recently downgrade its outlook on the sector to "stable" from "positive."

"However, most US airports tend to benefit from fixed revenues, and should be able to manage through declines in demand," said Howard, noting that other outbreaks, such as the SARS coronavirus outbreak in 2002, haven't resulted in ratings downgrades. But, he added, "if concerns about the coronavirus linger and severely curb travel demand, this could result in downgrades."

As for colleges and universities, they are likely to be less affected by the virus as many of them have already moved to an online format for the remainder of the 2019-2020 school year.

"This is unlikely to affect near-term revenues, but enrollment could be hurt if concerns about the virus linger," Howard said. "Schools that are reliant on foreign students will be affected to a greater degree than those with a more diverse student mix."

Chief Investment Officer

March 23, 2020

[In Wreckage of Muni Market Crash, Brave Investors Eye Bonds at 90% Yields.]

- **Forced selling wreaked havoc with traditional gauges of value**
- **Even bonds backed by Treasuries slid in worst rout in decades**

By some measures, the municipal-bond market is full of screaming buys for anyone brave enough to wade in.

Take a note issued by New York's Metropolitan Transportation Authority that's due in about two months. It traded among securities dealers at yields as high as 11.2% on Friday and hit 90% the day before that — an unheard of payout for securities that not long ago yielded 0.6%.

Bonds repaid with Ohio's share of the 1998 tobacco-company settlement that changed hands for as much as 116 cents on the dollar last month are now going for around 74 cents. Even so-called pre-refunded debt — which is virtually risk free because it's paid off with federal government bonds that are held in an escrow account — are yielding about 2.8%, more than triple 10-year Treasuries.

"At these levels there's value in the market," said Lyle Fitterer, co-head of municipal investments at Baird Advisors, who was referring to broader market conditions. "You can find some very good muni credits trading at levels you haven't seen in a decade."

The record-setting sell-off that raced through the market until this week has left broad wreckage in its wake, in part because of unprecedented uncertainty about how badly local governments, hospitals and public transit systems will be hurt by an economy that has virtually ground to a halt in a matter of weeks. States and cities have pleaded with the federal government for hundreds of billions of dollars in aid, showing how severe they expect the hit to be as tumbling stock prices, shuttered stores and mass layoffs cut deeply into their tax collections.

But as mutual-fund managers unloaded whatever they could to raise cash, some bonds that may have very little risk to the coronavirus shutdown tumbled as well. Even top-rated, two-year municipal debt is yielding 934% what similarly-dated Treasuries do, up from as little as 56% just in January.

Kyle Gerberding, director of trading for Asset Preservation Advisors, is focusing on the pre-refunded bonds since the Treasuries that backstop them essentially guarantee they won't default. "That's the biggest no-brainer trade," he said.

Wilmington Trust this week said it was moving taxable and tax-exempt accounts to an overweight position in investment-grade municipal securities after the spate of "indiscriminate selling."

Dan Scholl, head of municipal fixed income at the firm, said the company is looking at the pre-refunded bonds as well as variable-rate securities, which saw one gauge of yields soar to the highest since 2008 as investors sold them aggressively to get cash. Because those securities are backstopped by banks, they can always be resold at 100 cents on the dollar.

Scholl said he is also focusing on large states and cities whose bonds have cheapened amid the sell-off. They're trading at "very attractive levels," he said.

No state government has defaulted since the Great Depression, and local government bankruptcies remained extremely rare during the last recession. Yet some states have seen their yields jump sharply this month. Illinois's 10-year general-obligation bond yields have more than tripled to nearly 6%, three full percentage points more than the benchmark, according to Bloomberg's BVAL indexes.

Of course, the key question facing such buyers is whether the rout is over or there's more pain ahead, and the market is highly dependent on individual investors who have a tendency to keep pulling out when losses pile up. Furthermore, some governments, including Illinois, were already contending with deep pension shortfalls before stock prices tumbled this year.

On Tuesday, though, the municipal market gained for the first time in over two weeks after the Federal Reserve included some of the securities in its emergency lending program and Congress made progress toward enacting economic stimulus legislation. Yields on some of the shortest-dated securities slid 18 basis points, showing that some of the liquidity strains that drove the sell-off have eased.

Samuel A. Ramirez & Co. said on Monday that it's tough to accurately value municipals or any asset class currently given the volatility.

"What is now considered 'cheap' may not be when the dust settles," the company wrote in a report to clients.

Bloomberg Markets

By Amanda Albright

March 24, 2020, 8:29 AM PDT Updated on March 24, 2020, 10:03 AM PDT

— With assistance by Martin Z Braun

State Treasurers: Fed Must Step Up as Municipal Bond Market Craters.

OAKLAND — As the Covid-19 crisis batters state economies, more than a dozen state treasurers are urging Congress to authorize the Federal Reserve to buy municipal bonds — a key tool to finance necessary infrastructure and public projects.

"We are hoping the federal government is going to step in a little bit more,'' said California State Treasurer Fiona Ma, one of 14 state treasurers who signed a letter to congressional leaders, Treasury Secretary Steven Mnuchin and Jerome Powell, the head of the Federal Reserve.

Ma says that while federal officials are assessing how to help the private sector, "they shouldn't forget about the state and local municipal bond market."

“That would really help stabilize the market and help local governments during these difficult times,’’ Ma said in an interview with POLITICO on Sunday.

Municipal bonds issued by states and local governments have traditionally been a major tool to finance public projects such as bridges, highways, schools and airports. Nationally, the municipal bond market is valued at approximately $4 trillion — with California representing about 15 percent of that market, experts say.

Big investors such as mutual funds have traditionally been large buyers of municipal bonds, which have been widely considered safe investments in volatile times. But the Covid-19 crisis has had a devastating effect on the municipal bond market as mutual funds sold off bonds, cratering the demand. California experts say in the past week, the activity in municipal bond deals for state and local municipal bonds has collapsed as much as 90 percent.

Ma said she’s been in contact with Rep. Maxine Waters, who heads the House Financial Services Committee, as well as Sens. Dianne Feinstein and Kamala Harris to plead for federal help for the states.

In their letter, the treasurers argued that for “state governments to do their part in mitigating the associated economic and social costs” in the current crisis, “they need to have confidence that they will continue to have access to financing.”

The letter asks Congress specifically to revise Section 14(2)(b) of the Federal Reserve Act “to authorize the Federal Reserve to purchase securities in the municipal debt market of a sufficiently broad set of maturities” to help states sell their bonds. Currently, the statute only permits purchases of state and local debt “with a maturity from date of purchase of not exceeding six months.”

“The Federal Reserve is best-suited to achieve that end,’’ they argued.

POLITICO

By CARLA MARINUCCI 03/22/2020 02:24 PM EDT

Some States Much Better Prepared Than Others for Recession.

As the widely expected recession sparked by the COVID-19 pandemic takes hold, the impact in some states will be unnecessarily harsh — especially if the recession is relatively deep — due to the state’s failure to adopt policies that support families and communities during a downturn, our review of state policies in four key areas finds. More specifically, people in states with inadequate budget reserves, weak unemployment insurance systems, relatively inaccessible Medicaid programs, and/or expensive higher education systems are particularly likely to struggle during the recession if they lose their jobs or enter the recession looking for work with few family resources to support them. Mississippi is the most poorly prepared. It’s the only state that ranks in the bottom ten across all four categories, while Florida, Louisiana, New Hampshire, and South Dakota rank among the worst in three categories. That said, every state likely will face significant budget gaps in the coming months, even those best prepared for the downturn, and will need aggressive help from the federal government.

The pressures on state finances from the COVID-19 pandemic and resulting likely recession are mounting and will quickly become severe. Sales taxes, which make up a third of state revenues, are rapidly collapsing as restaurants and stores across the country close their doors and lay off their workers. Data are not yet available on the full scope of this collapse, but there is little doubt it is drastic, perhaps unprecedented. Income taxes, which make up another third of state revenues, also will decline sharply as mass layoffs rapidly push down people's income and therefore their income taxes. Plus, the steep drop in the stock market means that wealthy people will soon begin reporting massive capital losses on their quarterly tax returns, further reducing state revenue.

[Continue reading.]

CBPP

BY MICHAEL LEACHMAN & JENNIFER SULLIVAN

MARCH 20, 2020

[Force Majeure Events – Will Your Project Contract Require a Response to the Coronavirus Pandemic?]

As the number of those impacted by the coronavirus ("COVID-19") pandemic continues to grow, affected parties across all industries look for guidance on how to deal with this novel situation. Governments and private parties are analyzing project contracts as they take precautionary actions to prevent the spread of COVID-19. In this midst of all of this confusion, two questions arise: What does the COVID-19 pandemic and the steps being taken in response mean for your project contracts? And, will an excusable delay/force majeure clause provide any protection for the impacts of COVID-19?

Force majeure or other excusable delay clauses ("force majeure clauses") grant parties contractual relief from some or all performance when specified events beyond the control of the parties occur and impair the ability of one or both of the parties to perform (a "Force Majeure Event"). The question of whether a force majeure clause in a project contract will address schedule or cost impacts attributable to the effects of the COVID-19 pandemic involves a three step analysis.

First, determine whether the force majeure clause provides relief to either the owner or the contractor (or both) in the event of a situation like the COVID-19 pandemic. The force majeure clause will typically define in detail what constitutes a Force Majeure Event. Force Majeure Events are often defined to include events like natural disasters, terrorist attacks, labor action, government-declared emergencies, epidemics and pandemics.

Second, determine any limitations that apply to the protections under the force majeure clause. Many such clauses only allow relief if the Force Majeure Event materially impacts the work to be performed and the work schedule under the contract. The clause may similarly dictate that the event affected the project site or geographical area in which the project is located. Most project contracts require the contractor to take commercially reasonable measures to mitigate the impact of a force majeure event. This duty to mitigate is critical to consider as some work, for example design work, can still proceed remotely and is less likely to be materially impacted by a pandemic such as COVID-19. Construction, utility and other field work as well as work related to operation and maintenance of projects in the operating phase, on the other hand, may be more likely to be impacted by precautionary measures put in place to combat the spread of COVID-19.

Lastly, determine what relief can be sought. This step in the analysis allows the parties to the contract to plan and manage the likely project impacts. Project contracts may vary in the nature of relief provided and relief may even vary depending on the type of Force Majeure Event in question. Force majeure clauses in design-bid-build contracts normally allow time extension only, without the right to additional compensation. Clauses in alternative delivery contracts may be similarly limited, or may allow additional compensation for costs incurred as a direct result of the event, or may provide for the parties to share certain costs. Additionally, some contracts may exclude cost relief for matters where the contractor's insurance provides coverage.

With the uncertainty surrounding the COVID-19 pandemic, more and more infrastructure projects are likely to be directly impacted. Now is the time to conduct a full analysis of your project contracts and plan for the potential impact of COVID-19.

Nossaman Infra Insight Blog

By David Aguilar, Elizabeth Cousins on 03.18.2020

State-Specific Coronavirus Employer Q&A.

Based on questions we have received over the last several days, here are some general principles that employers should keep in mind when navigating issues related to COVID-19:

1. Communicate with employees, but be mindful of privacy rights and considerations.
2. Have a centralized, internal communication and planning team. This team should be made up of individuals from operations, human resources, security, legal, and information technology.
3. Make a safe workplace a top priority.
4. Do not discriminate, and apply workplace policies in a fair and neutral manner.
5. Evaluate options for leave of absences, whether paid or unpaid.
6. Have a plan for layoffs or a temporary shut-down.
7. Stay up to date on the latest developments for the locations in which operations are conducted.

Below are general answers to specific questions that may arise in considering the above-mentioned principles. COVID-19 is a very complex topic and is constantly evolving, and therefore, it is important to stay abreast of new information, as well as federal, state, and local advisories in an employer's areas of operation. **Note that the answers below focus mainly on federal law and state laws of Indiana, Ohio, Illinois, Kentucky, and Minnesota.**

NOTE:

****This is not meant to be construed as legal advice or guidance on a particular circumstance as each issue that arises for a particular employer will require a fact-intensive evaluation of many factors, including without limitation the employer's policies, the severity of COVID-19 as indicated by public health officials, and local or nationwide emergency regulations and directives.**

If you have questions regarding your particular situation or circumstances, please feel free to contact any member of Taft's Employment & Labor Relations Group directly.

When should an employer require employees to stay at home?

Employers can legally request and require an employee to stay home for the COVID-19's 14-day incubation period if the employee presents a real threat to other employees. Such employees include those who are ill or are experiencing any of the COVID-19 symptoms, those who have been exposed through another individual, or those who have traveled to countries where there is a high exposure risk.

Employers may also decide to suspend operations for a period of time if directed to do so by a local, state, or federal governmental authority or if it becomes more prudent to prevent employees from coming into work (for example, if there are confirmed cases of COVID-19 in the area). In this case, employers could consider teleworking arrangements with employees.

To avoid any sort of discrimination issues (especially on the basis of national origin and/or perceived disability), employers should put the duty on the employee to come forward and self-report such symptoms or exposure risks. In addition, employers should be sure to treat all employees in a specific job category in the same and consistent manner.

What if an employee tests positive for COVID-19?

Employers should immediately send home all employees who have worked with that particular employee within the last 14 days, and should also notify any clients, customers, or other third parties with whom the employee had contact. Employers also should not identify by name the individual who tested positive (see below for privacy concerns).

Can an employer prevent employees from personal travel?

Not necessarily. While an employer cannot typically prohibit legal travel, the employer may choose to deny time off if the denial is based on the destination, business cost of a resulting quarantine, or other legitimate business-driven reasons. The reason cannot be the national origin of the employee. Employers can require employees to self-quarantine for the 14-day incubation period once they return home from travel.

Employers should educate their employees before they engage in such travel and that such travel may result in quarantine or self-monitoring for a prolonged period of time. In addition, employers should monitor those employees returning from such travel for signs of illness.

What if an employee shows symptoms of COVID-19?

An employer may ask an employee if he or she is experiencing symptoms of COVID-19, but make sure the inquiry is limited to relevant symptoms. If the employee feels ill or is experiencing symptoms, the employer may send him or her home and encourage him or her to see a doctor.

On March 18, 2020, the EEOC issued guidance clarifying that employers may ask an employee who calls in sick if he or she is experiencing COVID-19 symptoms – which the EEOC identifies as fever, chills, cough, shortness of breath, or sore throat. Relatedly, the EEOC advises that employers may delay the start date for an applicant or withdraw a job offer made to an applicant (if the employer would need the employee to start immediately) if the applicant has been diagnosed with COVID-19 or exhibited symptoms of it.

Can an employer take the temperatures of its employees?

According to the EEOC's March 18, 2020 guidance, yes. (Prior to the issuance of this new guidance, the answer had not been entirely clear.) While measuring an employee's temperature is a medical examination under the ADA, the EEOC's new guidance states: "Because the CDC and state/local health authorities have acknowledged community spread of COVID-19 and issued attendant precautions, employers may measure employees' body temperature."

The EEOC also clarified that an employer may also screen applicants for COVID-19 and take an applicant's temperature, so long as it is performed after a conditional job offer and the employer does so on a consistent basis.

Still, as a practical matter, an employee or applicant may be infected with the COVID-19 coronavirus without exhibiting recognized symptoms such as a fever, so temperature checks may not be the most effective method for protecting the workforce.

Can an employer ask employees to disclose whether they have a medical condition that could make them especially vulnerable to COVID-19 complications if they are not experiencing any symptoms?

No. Making disability-related inquiries of employees without symptoms is prohibited by the ADA.

Should leave taken as a result of COVID-19 be designated as FMLA?

Yes. For an employee to invoke their 12 weeks of unpaid FMLA leave, he or she must have a "serious health condition" and otherwise satisfy the FMLA eligibility criteria. Based on recent reports, COVID-19 would qualify as a serious health condition depending upon the specific situation. Accordingly, an otherwise eligible employee with COVID-19 or an employee who is taking care of a qualifying family member with COVID-19 would be permitted to take protected FMLA leave.

However, employees who refuse to come to work out of fear of contracting COVID-19 would not qualify for FMLA leave.

Also, it is important to keep in mind that many states have paid sick leave and family medical leave laws that may be implicated in the event an employee (or dependent family member) contracts COVID-19. Be sure to check the state and local laws of each jurisdiction in which the employer operates or has employees.

****Update:** The U.S. House of Representatives passed the Families First Coronavirus Response Act on March 14, 2020, and the bill has been sent to the Senate. It includes many provisions that apply to employers, such as emergency-based FMLA and paid sick leave. The bill is expected to undergo revisions prior to being passed by the Senate, and therefore, a more detailed update regarding the passed version of the bill will follow.

Is telework an option?

As a general rule, there is no requirement that an employer allow employees to telecommute. In determining whether to allow particular employees to telecommute, an employer should ensure that its flexible workplace policies are administered in a way that does not discriminate against an employee because of a protected characteristic (such as race, sex, national origin, age, disability, etc.). An employer should be prepared to offer a legitimate, nondiscriminatory explanation for why it may choose to allow some employees to work from home and not others.

In addition, employers should have a system in place to track hours worked by non-exempt employees to ensure that proper wages (including overtime if applicable) are paid.

Employers should also consider possible implications under the ADA (and related accommodation laws) when deciding whether, and in what circumstances, it will allow employees to work from home. Under the ADA, employers have an obligation to provide reasonable accommodations to employees with a disability unless doing so will present an undue hardship. Intermittent or temporary telecommuting arrangements may be a reasonable accommodation for such employees if they can successfully perform the essential functions of a job without coming to work. By allowing temporary telecommuting arrangements in response to COVID-19, an employer may impact its ability to decline temporary telecommuting arrangements as a reasonable accommodation to persons with disabilities in the future. Therefore, employers should carefully consider the precedent set by allowing employees to telework in response to COVID-19 when the essential functions of their position cannot be adequately performed at home. If the employer allows employees to telecommute where it would not otherwise do so because of the unique challenges posed by the COVID-19 outbreak, it should make clear in its communications that the telecommuting accommodation is being granted due to the extraordinary circumstances posed by the virus.

What if an employee has children affected by a school closure?

At this time, there is no federal law that requires employers to provide leave (whether paid or unpaid) for employees caring for healthy children who are unable to attend school. However, the Families First Coronavirus Response Act (in its current form) includes paid leave for employees caring for children as a result of a school closure. We will have more information on this once the bill is reviewed and passed by the Senate.

In addition, state laws may impose different requirements. For example, California requires most employers to provide unpaid leave to parents, guardians, grandparents, stepparents, foster parents or persons standing in loco parentis to a child for child care during unexpected school closures. Similarly, New York City mandates that employers provide employees with leave necessitated by the "employee's need to care for a child whose school or childcare provider has been closed by order of a public official due to a public health emergency." Chicago's paid sick leave ordinance provides that employees may take paid sick leave when their child needs care because their school is closed due to a public health emergency.

Even if there is no requirement in a particular state to pay employees while staying home to care for children during a school closure, employers should consider different options to support employees during this period. Some options include allowing affected employees to telework, attempting to coordinate reduced work schedules or coordinated childcare among affected employees or allowing affected employees to run a deficit in paid time off programs that can be repaid over time.

What if an employee refuses to come into work in order to avoid contracting COVID-19?

The employer should address this issue on a case-by-case basis and determine the basis of the particular employee's refusal before requiring the employee to come to work.

The Occupational Safety & Health Act permits employees to refuse to work if they believe on reasonable grounds that there is a dangerous condition at the work site or that the work constitutes a danger to their health and safety. If the office at which the employee works has confirmed cases of the virus, then it may be best to allow those employees to telework or to take leave time.

In addition, the National Labor Relations Act allows employees to engage in concerted action regarding the conditions of employment. Accordingly, an employee may be protected from discipline for refusing to come to work if the refusal is part of a concerted protest against unsafe working conditions.

Does contraction of COVID-19 generally implicate the ADA?

Generally no. In most cases, COVID-19 is a transitory condition and is, therefore, not a qualified “disability” under the ADA.

Keep in mind, however, that this answer could change in the event an employee develops lasting exacerbation of existing conditions or experiences symptoms that substantially limit a major life activity for a more extended period of time. In these circumstances, the employer should gather information regarding the medical impairment and engage in the interactive process with the employee to determine whether the employee can perform the essential functions of the job and, if so, what reasonable accommodations can be afforded to the employee to enable him or her to perform those essential functions.

How should employers prevent harassment or discrimination of those suspected of being infected?

Employers must take steps to prevent discrimination and harassment against individuals who are disabled or perceived as disabled because they are exhibiting symptoms suggestive of having contracted COVID-19. In order to accomplish this, employers should ensure the confidentiality of all employees’ medical information and leave details to prevent harassment. Employers should consider reminding employees of anti-harassment and discrimination company policies, and should make sure that leave policies and other applicable workplace policies are being applied in a uniform, equitable, and neutral manner. And as always, employers must be vigilant about promptly responding to and investigating any complaints of harassment or bullying in the workplace.

If an employee contracts COVID-19, what information should be shared with other employees?

If an employee contracts a confirmed case of COVID-19, the employer should inform its other employees of possible exposure to COVID-19 in the workplace. This should be done by simply stating that an unidentified employee with whom they may have had recent contact has been exposed to or has tested positive for COVID-19.

Employers should not, however, disclose to co-workers the identity of the infected employee. Communications with employees about medical conditions should be kept confidential and medically-related documents kept in a location separate from the employee’s personnel file.

Do employers need to pay exempt employees during periods of leave or a temporary shutdown?

No, unless the employee is still performing work. Employers must pay exempt employees their full salary for any week in which they perform any work, even if the employee is telecommuting. If an employer furloughs an exempt employee for an entire workweek, then no salary is owed for that full week and the employee’s exempt status will not be impacted.

Do employers need to pay non-exempt employees during periods of leave or a temporary shutdown?

No. Employers must pay non-exempt employees only for hours actually worked.

Note that an exception does exist for non-exempt employees who receive fixed salaries for a fluctuating workweek. Such employees must receive their full salary of any week in which they performed any work.

Should an employer shut down facilities to avoid liability?

It depends. As mentioned above, the Occupational Safety and Health Act states that employers have a legal obligation to provide a safe workplace and requires employers to protect employees against "recognized hazards" to safety or health that may cause serious injury or death. Here, OSHA will likely rely upon recommendations issued by the Centers for Disease Control, the World Health Organization, or similar resources to determine the extent of a "recognized hazard."

Employers need to be mindful of when it becomes reasonably likely that employees at a worksite will be exposed to COVID-19, whether by the nature of the profession (i.e., first responders, health care workers, transportation workers) or by the presence of employees in the workplace who have tested positive for the virus. Employers will need to develop a plan with procedures in place to protect their workforce—and, the time is now to start developing such a plan. Such a plan can include: conducting employee awareness training, developing procedures for issuing and the use of personal protective equipment, developing a means of reporting illness or exposure, and preserving documentation and records.

The prudent approach is to give employees the option to telecommute (if possible) or to take leave during this time. At the point in time when the employer determines that employees are at a higher risk of exposure by coming into work, then employers should re-evaluate and decide whether to cease operations at a particular facility (especially for those employees who cannot telecommute due to job duties).

Does the WARN Act apply to an employee furlough or temporary closing?

The Worker Adjustment Retraining Notification Act generally requires employers with 100 or more employees to provide at least 60 calendar days of notice to its employees prior to any plant closing or mass layoff. A plant closing is defined as 50 or more countable employment losses at a single site of employment in a 90-day period that results from ceasing operations in one or more operating units. A mass layoff is defined as 50 or more countable employment losses at a single site of employment in a 90-day period that also involves 33% of the active workforce at the site.

Notably, if employees are laid off for less than six months, then the employees do not suffer an employment loss and WARN Act notice requirements are not triggered. Keep in mind that it may be difficult to know how long the layoff will stay in place, so providing notice may be the most prudent approach.

In addition, the WARN Act provides an exemption when layoffs occur due to unforeseeable business circumstances. The employer, however, must still provide "as much notice as is practicable, and at that time shall give a brief statement of the basis for reducing the notification period." Accordingly, if the employer is in a position to evaluate the impact on its workforce, the employer must provide notice to employees who will be affected by a temporary shutdown. In addition, the employer must provide a statement to employees that explains why more extensive notice could not be provided—in this circumstance, it would be the unforeseeable nature of COVID-19 and its impacts on the workplace.

The WARN Act also has an exception for a "natural disaster." However, the Act does not specifically address whether a pandemic qualifies as a natural disaster, and therefore, it is not advisable to rely on this exception to avoid notice requirements.

What about state-specific WARN Acts?

Several states have "mini-WARN" laws, which may provide further notice requirements and apply to layoffs of a short duration. Indiana and Kentucky do not have a mini-WARN law and, therefore, Indiana and Kentucky employers must comply only with the federal WARN Act.

In addition to compliance with the federal WARN Act, an Ohio employer who lays off or separates fifty or more employees in a seven-day period because of a lack of work is required to furnish notice to the director of Ohio Department of Job and Family Services (ODJFS) the dates of layoff or separation and the approximate number of individuals being laid off or separated. Such notice must be made at least three days before the first layoff.

Similarly, Illinois employers who lay off, at a single site of employment, either 33% of their employees (excluding part-time employees) including at least 25 total employees (excluding part-time employees), or, who lay off at least 250 employees (excluding part-time employees), must give 60 days prior notice of the layoff. Notice is to be given to the employees and the Department of Commerce and Economic Opportunity and the chief elected official of each municipal and county government where the layoff occurs. Notably, Illinois law provides for an exception to the notice requirement if the Illinois Department of Labor determines that the need for a notice was not reasonably foreseeable at the time the notice would have been required, and specifies what notice should be provided to the Department of Labor in order for that finding to be made.

Minnesota's "mini-WARN" law requires any employer providing notice under the federal WARN act to also report to the Minnesota Commissioner of Employment and Economic Development the names, addresses, and occupations of the employees who will be or have been terminated. The mini-WARN law encourages Minnesota businesses "considering a decision to effect a plant closing, substantial layoff, or relocation of operations … to give notice of that decision as early as possible" to the Commissioner, employees of the affected establishment, any employee organization representing the employees, and the local government where the establishment is located.

Do employer-instituted shutdowns entitle workers to unemployment benefits?

Yes, employees are generally entitled to unemployment benefits if they are furloughed when a facility temporarily shuts down and all other unemployment requirements are met.

In Indiana, the requirements include (1) being able, available and actively searching for work, (2) losing a job through no fault of the employee, and (3) the employee earned enough wages to qualify for payments. Indiana allows an employee to file a claim as soon as he or she becomes unemployed. There is also a one week waiting period after an employee files a claim, during which the employee will not receive benefits.

In Ohio, unemployment benefits are available to individuals who are totally or partially unemployed due to no fault of their own. The employee must be able to work, available for work, and actively seeking suitable work. Like Indiana, Ohio allows an employee to file a claim as soon as he or she becomes unemployed. There is generally a one-week waiting period after an employee files a claim, during which the employee will not receive benefits. However, by Executive Order on March 16, 2020, Ohio Governor Mike DeWine announced that individuals who are totally or partially unemployed, or who are participating in the SharedWork Ohio Program will not be required to serve a waiting period before receiving unemployment insurance or SharedWork benefits. Ohio employers can refer to the ODJFS website for specific information about Coronavirus and Unemployment Insurance Benefits.

In Illinois, employees temporarily laid off because of COVID-19 can qualify for UI benefits as long as they are able and available for and actively seeking work. Under emergency rules recently adopted, the individual need not register with the employment service. Further, if the individual is confined to their home due to (1) a medical professional's diagnosis of COVID-19, (2) necessary care for a family member diagnosed as having COVID-19, or (3) due to government recommended/imposed quarantine, is eligible for UI benefits if all other requirements are met. Illinois employers can refer to the [Illinois Department of Employment Security website]() for further information about COVID-19 and UI benefits.

On March 16, Minnesota Governor Tim Walz signed an executive order making workers affected by COVID-19 eligible for unemployment benefits. Under the executive order, applicants are eligible for unemployment benefits if (1) a healthcare professional or health authority recommended or ordered that they avoid contact with others, (2) they have been ordered not to come to their workplace due to the outbreak, and (3) their children's school district, daycare, or other childcare provider is unavailable, and no reasonable accommodation from their employer or other childcare arrangement was available.

In Kentucky, unemployment benefits are available to individuals who are unemployed through no fault of their own, are able and available to work and are making a reasonable effort to obtain new work, and register for work when they file their claim. Kentucky allows an employee to file a claim as soon as he or she becomes unemployed. There is generally a one-week waiting period after an employee files a claim, during which the employee will not receive benefits. However, on March 16, 2020, Kentucky Governor Andy Beshear, by Executive Order, said Kentucky will waive the waiting period for unemployment compensation for those who are losing their jobs because of COVID-19 and will waive any work search requirements while the state of emergency is in effect.

Keep in mind that unemployment benefits will vary by state, and there may also be waiting time periods in place before benefits are provided.

What if the employee's hours are just reduced, then is the employee eligible for unemployment?

It depends. In Indiana, employees may also qualify for partial benefits if the employer reduces the work hours to less than the employee's regular full-time work week. Any severance pay or other employer-provided compensation will be deducted from the employee's unemployment benefit.

In Ohio and Illinois, employees may also qualify for partial benefits if the employer reduces the work hours to less than the employee's regular full-time work week. In both states, an individual is "partially unemployed" in any week if, due to involuntary loss of work, the total remuneration payable to the individual for such week is less than the individual's weekly benefit amount.

In Minnesota, employees are eligible for unemployment benefits if their hours are "substantially reduced," meaning reduced to below 32 hours per week.

In Kentucky, employees also may be eligible for partial benefits if they are still employed by their regular employer but are working less than their normal full-time hours due to lack of available work.

Some states also have "work share" programs. These programs are meant to soften the blow of full layoffs by allowing employers to reduce hours for full-time employees, who then may collect prorated unemployment benefits for the lost hours. To take advantage of a work share program, the employer must submit a plan to state officials for approval, and the requirements for a particular plan vary drastically by state. Some employers that implement work share programs continue to fund employee benefits while the program is in place. SharedWork Ohio is Ohio's voluntary layoff aversion program. Illinois and Minnesota similarly have work share programs in place. Indiana and Kentucky have not implemented an official work share program.

If an employee is ill and unable to work, will he or she be eligible for unemployment benefits?

Not likely. In Indiana, Ohio, Illinois, and Kentucky, claimants for unemployment benefits must be "able" to work. An ill employee likely would not meet that requirement. Similarly, in Minnesota, claimants must be "available for suitable employment."

If employees are no longer working, are they still entitled to group health plan coverage?

Not necessarily. Employers should check their group health plan document to determine how long employees who are not actively working may remain covered. Once this period expires, active employee coverage must be terminated (unless the carrier or self-funded plan sponsor otherwise agrees to temporarily waive those eligibility provisions) and a COBRA notice must be sent. Keep in mind that employees do not have to be terminated or permanently laid off to be eligible for COBRA.

If the applicable plan is self-funded and the employer would like to waive plan eligibility provisions, the employer must first make sure that any stop-loss coverage insurance carriers agree to cover claims relating to participants who would otherwise be ineligible for coverage.

If an employee contracts COVID-19, does workers' compensation apply?

It depends on the circumstances. Taft has prepared a client alert on this point available here. Generally speaking, any illness or injury arising out of or in the course of employment would trigger workers' compensation—this includes a contagious illness that is contracted at work or while traveling for work. The problem is that, in most circumstances, it is difficult to know for sure how and where a particular employee contracts an illness.

If the employee travels for work from a place with little or no risk of contraction to a place with a high risk and is diagnosed within the 14-day incubation period after such travel, then it is likely that the illness will be deemed covered by workers' compensation. However, if an employee incidentally contracts COVID-19 from an infected co-worker, there likely will not be workers' compensation liability.

In addition, the State of Washington recently directed its Department of Labor and Industries to ensure workers' compensation protections for health care workers and first responders. The directive instructs the Department to change its policies regarding coverage for these two groups and to "provide benefits to these workers during the time they're quarantined after being exposed to COVID-19 on the job." While Indiana, Ohio, Illinois, and Kentucky have not issued a similar directive to date, they and other states may follow suit in the upcoming days or weeks. In Minnesota, if an emergency responder contracts an infectious or communicable disease that they are exposed to in the course of employment outside of a hospital, the disease is presumed to be an occupational disease due to the nature of their employment.

Taft Stettinius & Hollister LLP – Sukrat Baber, Brian G. Dershaw, Justin D. Flamm, Heather A. Jackson, Connie M. Kremer, Samuel N. Louwagie, Melissa A. Macchia, Evan Priestle and Gregory J. Stenmoe

March 19 2020

[US Federal Banking Agencies Introduce Measures to Protect US Financial System Against COVID-19-Related Risks and Assist Consumers Affected by COVID-19.]

The three US federal banking agencies have taken steps to enable the financial system to continue functioning during the pandemic.

During the course of this week, the three US federal banking agencies — the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) — have taken a series of actions intended to enable the US financial system to continue functioning in the midst of COVID-19 and to encourage banks to meet the financial services needs of their customers who are affected by the pandemic.

These actions include the following measures:

- **Decreasing Interest Rates:** In recognition of the near-term disruption to economic activity and the risks to the economic outlook posed by COVID-19, the Federal Open Market Committee of the Federal Reserve lowered the target range for the federal funds rate to 0.0% – 0.25% on March 15, 2020.
- **Reduction in Reserve Requirements:** The reserve requirements for thousands of depository institutions will be eliminated when the Federal Reserve's reduction in the reserve requirement ratio to 0% becomes effective on March 26, 2020. This liquidity-promoting measure is intended to help support the flow of credit to households and businesses by enabling depository institutions to more readily engage in lending.
- **Availability of Intraday Credit:** To support the liquidity needs of households and businesses as well as the continued functioning of the payment systems, the Federal Reserve has encouraged the use by depository institutions of intraday credit extended by Reserve Banks on both a collateralized and uncollateralized basis.
- **Use of Federal Reserve Discount Window:** The discount window enables the Federal Reserve to provide depository institutions with ready access to funding to allow such institutions to manage their liquidity risks and protect their customers, particularly during times of market stress. To assist with meeting the demands for credit from households and businesses that are struggling during the current economic climate, the Federal Reserve has encouraged more active use of the discount window by depository institutions by lowering the primary credit rate to 0.25% as of March 16, 2020, and permitting borrowing from the discount window for up to 90 days, prepayable and renewable by the borrower on a daily basis. The Federal Reserve also announced that it would continue to accept the same broad range of collateral for discount window loans, including securities and loans that meet certain eligibility criteria. The FDIC and the OCC have also encouraged banks subject to their respective supervision to use the discount window.
- **Reliance on Capital and Liquidity Buffers:** The federal banking agencies have encouraged banks to provide assistance to households and businesses whose credit needs are being adversely impacted by COVID-19 by using their capital and liquidity buffers to lend and take other supportive actions in a manner that promotes the safety and soundness of the financial system. Any automatic limitations on capital distributions that may be triggered as a result of a bank falling below certain capital levels will be phased in gradually in order to promote continued lending by banks.
- **Establishment of Commercial Paper Funding Facility (CPFF):** The Federal Reserve is establishing the CPFF to alleviate the strain caused by the pandemic on the commercial paper market, which directly finances a variety of economic activities. The CPFF will be structured as a credit facility to a special purpose vehicle (SPV), and the SPV will support the flow of credit to households and businesses by serving as a liquidity backstop to facilitate the issuance of term commercial paper by eligible US issuers. As of March 17, 2020, the SPV will purchase unsecured

and asset-backed commercial paper rated A1/P1 directly from eligible companies. The Federal Reserve Bank of New York (FRBNY) has committed to lend to the SPV on a recourse basis, and the Treasury Department's Exchange Stabilization Fund (ESF) will provide US$10 billion of credit protection to the FRBNY. The SPV will cease purchasing commercial paper on March 17, 2021, unless the Federal Reserve extends the CPFF.
- **Establishment of Primary Dealer Credit Facility (PDCF):** Beginning March 20, 2020, the PDCF will offer overnight and term funding with maturities up to 90 days for at least six months, subject to further extension if necessary. The PDCF will support the Federal Reserve's goal of supporting households and businesses affected by the pandemic by allowing primary dealers to promote smooth market functioning and facilitate the availability of credit. Credit extended to primary dealers under the PDCF may be collateralized by a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. The interest rate charged will be the primary credit rate, or discount rate, at the FRBNY.
- **Establishment of Money Market Mutual Fund Liquidity Facility (MMLF):** In recognition of the crucial role that money market funds serve as a common investment tool for families, businesses, and a variety of companies, the Federal Reserve has established the MMLF program to enhance the liquidity and functioning of the money markets. Through the establishment of a MMLF, the Federal Reserve Bank of Boston will make loans available to eligible financial institutions secured by high-quality assets purchased by such financial institution from money market mutual funds. The Treasury Department, through the ESF, will provide US$10 billion of credit protection to the Federal Reserve in connection with the MMLF. On March 19, 2020, the federal banking agencies released an interim final rule and request for comment to ensure the effective use of the MMLF by financial institutions. Among other things, the interim final rule accounts for the fact that financial institutions will not be taking any credit or market risk in association with MMFL activities by modifying the federal banking agencies' capital rules to enable such institutions to receive credit for the low risk of their MMLF activities. The interim final rule is currently effective, and the period to receive comments will close within 45 days following publication in the Federal Register.
- **US Dollar Liquidity Arrangements With Other Central Banks:** The Federal Reserve is establishing temporary US dollar liquidity arrangements (swap lines) with the central banks of Australia, Brazil, Denmark, Korea, Mexico, Norway, New Zealand, Singapore, and Sweden. As with swap lines already established between the Federal Reserve and other central banks, these new facilities are intended to ease the strains in global US dollar funding markets in order to mitigate the impact of such strains on credit supply to households and businesses, both within the US and abroad. Such arrangements will be in place for at least six months, and the new facilities will support the provision of US dollar liquidity in amounts that will vary depending on the particular central bank.
- **Community Reinvestment Act (CRA) Consideration:** The federal banking agencies released a joint statement on March 19, 2020, regarding CRA consideration for activities engaged in by financial institutions in response to COVID-19. Among other things, the joint statement clarifies that financial institutions will receive CRA consideration for community development activities in response to the COVID-19 national emergency, including those that (i) help to revitalize or stabilize low- or moderate-income geographies as well as distressed or underserved non-metropolitan middle-income geographies, and (ii) support community services targeted to low- or moderate-income individuals. The statement will be effective through the six-month period after the national emergency declaration is lifted, unless extended by the federal banking agencies.

Latham & Watkins. Any content of this article should not be used as a substitute for competent legal advice from a licensed professional attorney in your jurisdiction.

Global Privacy and Security Compliance Law Blog

Latham & Watkins LLP – Alan W. Avery and Pia Naib

March 19 2020

COVID-19 Guidance for Institutions of Higher Education: Holland & Knight

Highlights

- The fast-changing developments of COVID-19 have left institutions of higher education scrambling to address a wide range of unexpected legal issues.
- This Holland & Knight alert addresses some of the questions more frequently asked by colleges and universities, which should exercise caution and continue to monitor official guidance from federal and state agencies.

The fluid and fast-changing impact of the new coronavirus (COVID-19) has left institutions of higher education (IHEs) scrambling to address unexpected legal issues. This guidance addresses some of their more frequently asked questions.

1. What Happens When IHEs or Their Vendors Cannot Perform Contracts Due to the Virus?

The coronavirus is certain to test jurisprudence pertaining to force majeure clauses, impossibility of performance, and, relatedly, so-called "acts of God." State law will govern these issues. Force majeure clauses are typical in commercial contracts. The ultimate resolution of their applicability will depend closely on the terms of the contract and the specific circumstances concerning performance. Such clauses usually identify "causes beyond the control" of the contracting party. Disputes about whether the clause applies in a given case will commonly focus on what is causing one party to fail to perform a contractual obligation. Those clauses that specifically reference epidemics or pandemics will have the greatest force.

Impossibility of performance or commercial impracticability can be defenses to contract performance. Under the impossibility of performance doctrine, a party is discharged from performing a contractual obligation when the obligation is impossible to perform due to unforeseeable circumstances. Mere inconvenience or increased cost does not ordinarily meet the standard. An "act of God" may be the reason for the impossibility of performance. "Acts of God" are also commonly listed in force majeure clauses. Each state addresses this issue slightly differently, but Acts of God have been described as acts or occurrences "so extraordinary and unprecedented that human foresight could not foresee or guard against" them and for which negligence or want of diligence, judgment or skill played no part. See *Fla. Power Corp. v. City of Tallahassee*, 154 Fla. 638, 646, 18 So. 2d 671 (1944); *Cain v. Atlantic Coast Line R. Co.*, 74 S.Ct. 89, 54 S.E. 244, 247 (1906).

2. May IHEs Inquire of Employees About COVID-19 Exposure? When May They Have a Duty to Inquire?

The General Duty Clause of the Occupational Safety and Health Act, 29 U.S.C. § 654(a)(1), and many corollary state statutes, require employers to furnish to each worker "employment and a place of employment, which are free from recognized hazards that are causing or are likely to cause death or serious physical harm." Accordingly, the Occupational and Safety Administration (OSHA) advises that employers implement policies that will result in the "prompt identification and isolation of potentially infectious individuals." OSHA requires employers to record COVID-19 illnesses among the workforce when the virus is contracted in the workplace. These records must be submitted to OSHA on Form 300A and maintained onsite.

An employer's failure to inquire of employees about exposure could give rise to legal claims. Workers' compensation claims are also possible for respiratory diseases to the extent an employee can establish causation from the workplace environment and that his or her occupation presents a particular hazard of the disease occurring so as to distinguish other occupations. Therefore, IHEs should consider excluding or sending home an employee who is symptomatic or returning from travel from high-risk locations specified by the Centers for Disease Control and Prevention (CDC).

During a pandemic, exceptions to the American with Disabilities Act's (ADA) restrictions on employer health inquiries allow employers to inquire about an employee's potential infection with the disease and travel from high risk locations. See the U.S. Equal Employment Opportunity Commission's (EEOC) Pandemic Preparedness in the Workplace and the Americans with Disabilities Act. The ADA's "direct threat" rule allows inquiries because an employee infected with COVID-19 will pose a direct health and safety threat to co-workers and others in the workplace. 29 C.F.R. § 1630.2(r). The bona fide occupational qualification defense may also be applicable on these facts. In contrast, an employee who is ill with something else such as the seasonal influenza does not have a disability under the ADA. State and municipal disability laws should also be consulted.

The CDC recommends that employers separate sick employees from other employees. Asking an employee who has been absent from work for a medical reason for the absence is not a violation of the ADA. Nor is requiring an employee to provide a doctor's note certifying fitness to return to work. The CDC also recommends that if an employee is confirmed to have COVID-19, employers should inform co-workers immediately so that they can seek appropriate medical screening or care. Employers should provide general information to employees if an employee is infected, but should not specifically disclose the identity of any infected employee, except, as discussed below, with persons who can prevent or lessen a serious and imminent threat to the health or safety of the public. See 45 C.F.R. § 164.510(a); cf. 45 C.F.R. § 164.508. The personal information disclosed should be the minimum necessary to accomplish the purpose.

Employers may ask employees if they believe they have come into contact with someone who has been exposed to the virus, but may not ask employees whether they have a medical condition that could make them especially vulnerable to the virus. Furthermore, due to the Genetic Information Nondiscrimination Act (GINA) and corollary state laws, employers are restricted from inquiring about family members or their recent potential exposure. 42 U.S.C. §199gg-91(d)(16)(A); 29 C.F.R. § 1635.3(c) (protected genetic information includes "[t]he manifestation of disease or disorder in family members of the individual (family medical history)"). An employee who is asked by the employer to self-quarantine for the COVID-19's incubation period (which is currently identified as 14 days) may be eligible for protected leave under the Family and Medical Leave Act (FMLA) and corresponding state laws. Any information gathered about an employee's health must be kept separate from his or her general employment file and treated as a confidential medical record.

3. May IHEs Inquire of Students About Coronavirus Exposure? When May They Have a Duty to Inquire?

Colleges and universities are commonly places of public accommodation with on-campus housing. The ADA provides that a public accommodation may exclude an individual if that individual poses a “direct threat” to the health or safety of others that cannot be mitigated by appropriate modifications in the public accommodation’s policies or procedures, or by the provision of auxiliary aids. 28 C.F.R. § 36.208(a). In addition, according to the U.S. Department of Justice (DOJ), “The Fair Housing Act affords no protections to individuals with or without disabilities who present a direct threat to the persons or property of others.” State and municipal public accommodation and housing discrimination laws should also be consulted.

The failure of an IHE to inquire of students about exposure could give rise to legal claims. State landlord and tenant laws commonly require landlords and tenants of residential properties to comply with the requirements of applicable health codes. Landlords are ordinarily responsible for the sanitary condition of common areas. Threats or dangers to public health may also constitute a public nuisance under applicable municipal laws. Were tenants in client facilities to become infected with COVID-19, the buildings or portions of buildings could be deemed unfit for human habitation until remediated.

The Federal Housing Administration’s Office of Multifamily Housing (MFH) recommends that property owners and agents follow CDC guidelines and the direction of local health officials, especially in the event of property quarantine. Accordingly, IHEs may have a duty to inquire about the potential exposure of students to COVID-19 and to separate them from others. The information solicited should be the minimum necessary to accomplish the purpose. Any records created by personnel on behalf of the IHE are likely to be “education records” within the meaning of the Family Educational Rights and Privacy Act (FERPA). 20 U.S.C. § 1232g(a)(4)(A); 34 C.F.R. § 99.3 (definition of “education records). Records created and maintained by a healthcare worker not acting for the school would not qualify as education records.

4. Must Institutions Report a Threat of Exposure and, if So, What Should They Report?

The CDC recommends, and the U.S. Department of Education endorses, sharing accurate information with staff, students and faculty about steps the IHE is taking to prevent and limit exposure risks. In addition to the obligation as an employer to report confirmed-cases to OSHA, IHEs should also notify local health officials about potential virus exposure, as permitted by local law.

In emergencies, when necessary to prevent or lessen a serious and imminent threat to the health or safety of the public, healthcare providers may share protected health information (PHI) without prior written consent with persons in a position to prevent or lessen the threatened harm. See Joint Guidance on the application of FERPA and the Health Insurance Portability and Accountability Act (HIPAA); 45 C.F.R. § 164.512(j). According to the U.S. Department of Health and Human Services (HHS), examples include state and local health departments, the U.S. Food and Drug Administration, and CDC.

Similarly, FERPA provides that personally identifiable information (PII) from a student’s education records, including student health records, may be disclosed by educational agencies and institutions to appropriate parties in connection with a health or safety emergency, without the consent of the parent or eligible student, if knowledge of the information is necessary to protect the health or safety of the student or other individuals. 20 U.S.C. § 1232g(b)(1)(I); 34 CFR §§ 99.31(a)(10) and 99.36. HHS has stated that an emergency includes the outbreak of an epidemic. 45 C.F.R. §§ 164.501 and 164.512(b)(1)(i).

A school that provides healthcare to students in the normal course of business, such as through its health clinic, may be a “health care provider” under specific HIPAA analysis. If a school that is a “health care provider” transmits any PHI electronically in connection with a transaction for which HHS has adopted a transaction standard, it typically would be a covered entity under HIPAA.

However, many schools that meet the definition of a HIPAA-covered entity do not have to comply with all of the requirements of HIPAA rules as related to students because, with limited exceptions, the school's student health records are considered "education records" or "treatment records" under FERPA. See 45 CFR § 160.103 (definition of PHI ¶¶ (2)(i), (ii)). The HIPAA Privacy Rule specifically excludes from its coverage those records that are protected by FERPA by excluding such records from the definition of PHI. As relates to the records of nonstudents (such as staff) treated at a school healthcare clinic, those records would be regulated by HIPAA.Likewise, the records of hospitals associated with IHEs would be regulated by HIPAA.

HIPAA permits covered entities to disclose PHI, without a patient's authorization, to persons at risk of contracting or spreading a disease, 45 C.F.R. § 164.512(b)(1)(iv), and PHI about the patient as necessary to treat the patient or to treat a different patient.1 Treatment includes the coordination or management of healthcare and related services by one or more healthcare providers and others; consultation between providers; and the referral of patients for treatment. See 45 CFR §§ 164.501, 164.502(a)(1)(ii), 164.506(c).

With students and staff in dozens of countries across the world, institutions may face a request from a foreign government agency or institution for health information in order to combat COVID-19. For staff medical records, HIPAA allows disclosures to foreign government agencies, but only if a domestic public health authority directs the disclosure. 45 C.F.R. § 164.512(b)(1)(i). Requests from partner foreign institutions (for either staff or student records) cannot be satisfied, absent written authorization. For student records, FERPA allows for disclosure to foreign public agencies if "it is necessary to protect the health or safety of the student or other individuals."

5. When Institutions Cancel Classes, Educational Programs or Close Their Campuses, What Are Their Obligations Under Title IV?

Many IHEs are extending spring break or closing their campuses. The CDC reports, "When classes are suspended, IHE may stay open for staff or faculty (unless ill) while students temporarily stop attending in-person classes. Keeping the IHE facilities open a) allows faculty to develop and deliver lessons and materials electronically, thus maintaining continuity of teaching and learning; and b) allows other staff members to continue to provide series and help with additional response efforts."

On March 5, 2020, the U.S. Department of Education issued "broad approval" for IHEs to use online technologies to continue students' educations without violating Title IV or the Higher Education Act (HEA). The Department is also allowing IHE accreditors to waive their distance education requirements for institutions implementing distance learning solely due to COVID-19. For distance education, institutions may communicate with students via email, use chat features, set up conference calls, and allow for submission of work electronically. DOE has also authorized IHEs to enter into temporary consortium agreements with other institutions, so that students can complete courses. In addition, an IHE may continue to pay federal work-study wages to students during a closure if it occurred after the beginning of the term, the institution is continuing to pay its other employees and the institution continues to meet its institutional wage share requirement.

If an institution ceases operation during a payment period or a student fails to return when an institution reopens, the requirement for return of Title IV funds kicks in. But if an institution reopens during the same payment period and students return to class at that time, the students are considered to have reentered the same period and retain Title IV eligibility. Importantly, IHEs may also petition DOE to approve a reduced academic year.

6. When Students Withdraw from Classes or Educational Programs, What Are the Consequences Under Title IV?

The U.S. Department of Education is permitting students to take an approved leave of absence for COVID-19-related concerns or limitations, even if a student notifies the institution in writing after an approved leave of absence has begun. In such an event, the institution may retain the Title IV funds to apply when the student continues enrollment and must ensure that the student is permitted to complete the coursework. IHEs are invested with professional discretion to adjust on a case-by-case basis the cost of attendance. IHEs may offer non-standard term schedules to students who have been recalled from travel abroad programs or canceled out of experiential learning opportunities after the semester began.

7. May Quarantines Be Enforced Against Employees and Students?

COVID-19 meets the definition for "severe acute respiratory syndromes" as set forth in Executive Order 13295, as amended by Executive Orders 13375 and 13674, and, thus, is a federally "quarantinable communicable disease."2 Apart from a public order, private employers may require employees to self-quarantine if they pose a "direct threat" or "a significant risk of substantial harm to the health or safety of the individual or others that cannot be eliminated or reduced by reasonable accommodation."3 The assessment by the CDC or public health authorities would provide the objective evidence needed for this determination. If the condition is met, the individual is not protected by the ADA in this context.

OSHA advises employers to "develop policies and procedures for immediately isolating people who have signs and/or symptoms of COVID-19, and train workers to implement them." OSHA recommends isolating people "suspected of having COVID-19 separately from those with confirmed cases of the virus to prevent further transmission."

Holland & Knight LLP – Nathan A. Adams IV, Paul G. Lannon, Miriam McKendall and Matthew W Sloane

March 18 2020

S&P: U.S. State Unemployment Insurance Claims Are Not An Immediate Challenge To State Liquidity

NEW YORK (S&P Global Ratings) March 23, 2020–While the economic fallout from potentially massive unemployment levels will be a credit challenge for U.S. states, S&P Global Ratings does not believe that near-term state liquidity pressure will stem directly from payments on unemployment insurance claims that have recently spiked because of the coronavirus pandemic.

This is because the program structure allows states to receive federal loans, if necessary, to cover state unemployment insurance trust fund deficiencies, if any, under current law. These federal loans must eventually be paid back to the federal government, however, through higher taxes on businesses or through other means.

During the Great Recession, some of these federal loans became quite substantial (see "Unemployment Insurance Fund Bonds Help States Pay Off Federal Unemployment Loans," published Sept. 6, 2012, on RatingsDirect) and in some cases prompted states to issue bonds carrying lower interest rates to pay off higher-interest federal unemployment insurance loans. In the first quarter of 2012, loans from the federal unemployment account reached $40.7 billion. In 2011, California's unemployment loan from the federal government peaked at $11.0 billion alone. As of

Dec. 31, 2019, federal unemployment account loans were only $63.3 million, attributable entirely to the Virgin Islands, and aggregate state unemployment trust fund balances were $75.7 billion. While the federal government has indicated that certain states have below-optimal levels of state trust fund balances (such as California at $3.3 billion as of Jan. 1, 2020), we believe the ability to tap into federal loans relieves short-term unemployment trust fund liquidity pressures for any particular state.

If states meet certain technical requirements and maintain a certain threshold of unemployment insurance tax rates on businesses over time, they can initially receive these federal unemployment trust fund loans interest-free. Qualifying states receive interest-free federal unemployment loans if a state takes a federal advance after Jan. 1, and repays it by Sept. 30, of the same year. After that, interest charges are imposed and if the state continues to fail to repay the loan by Nov. 10, of the year in which a second Jan. 1, has passed, then all taxable employers in a state will be subject to a reduced credit of 0.3% on the Federal Unemployment Tax Act tax, for which the credit reduction grows in subsequent years depending on state tax rates and changes in state law. For 2020, 31 states meet the eligibility criteria for interest-free borrowing.

The Louisiana Workforce Commission announced on March 19 that employers within the state will get a temporary deferral from paying their first-quarter 2020 unemployment taxes to June 30. If similar deferrals spread to other states, it could cause the amount of federal unemployment loans to rise higher than what they might be otherwise, but again would be unlikely to cause near-term state liquidity issues. These funds would still need to be repaid to the federal government from later business taxes, but potentially at a higher tax rate.

S&P Global Ratings will continue to monitor unemployment insurance trust funds and the extent to which higher taxes that are imposed on businesses to replenish these funds could reduce economic competitiveness, or cause a state to issue tax-backed debt to repay federal loans. However, we believe the short-term credit effects are limited.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world’s leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years’ experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

S&P: Updated Scores For U.S. Metropolitan Statistical Areas Based On Various Criteria For 2019

S&P Global Ratings has updated its scores for U.S. metropolitan statistical areas (MSAs) based on its local government GO criteria, priority-lien criteria, water/sewer criteria, and special assessment debt criteria (see “U.S. Local Governments General Obligation Ratings: Methodology And Assumptions” (published Sept. 12, 2013, on RatingsDirect), its “Priority-Lien Tax Revenue Debt” (published Oct. 22, 2018), “U.S. Public Finance Waterworks, Sanitary Sewer, And Drainage Utility Systems: Rating Methodology And Assumptions” (published Jan. 19, 2016), and “Special Assessment Debt Criteria” (published April 2, 2018).

Overall, 31 of the 384 MSA scores changed with 18 improving and 13 weakening. Additionally, one MSA was added: Poughkeepsie-Newburgh-Middletown, N.Y. This number of changes is lower than it has been during the past three years. The changes are due almost entirely to the employment growth aspect of the MSA score, which represents a comparison of each MSA's percentage change in employment over the past five years against the sum for all MSAs. The change in employment is measured through 2019, and does not take into account recent or projected economic changes in 2020 accompanying the COVID-19 pandemic.

Other factors influencing the changes include:

[Continue reading.](#)

[Cities Reel From Hammer Blows of Sports, Events Going Dark.](#)

- **Cutting big-ticket events ripples through local economies**
- **Spokane's arenas to lose $1.5 million from loss of tournaments**

March was looking like a great month for Spokane: The eastern Washington city was going to host games in the NCAA's March Madness basketball tournament as well as the Pacific Northwest Qualifier, which brings thousands of volleyball players and their families.

But both have been canceled because of the coronavirus pandemic, at a cost of more than $1.5 million in revenue for the Spokane Public Facilities District, which runs the venues for the events.

"This is a major hit to our economy," said Stephanie Curran, chief executive officer of the facilities district.

City and state official across the U.S. are confronting the sweeping economic toll wrought by the virus that has emptied stadiums, arenas, hotels, restaurants and other businesses that just a few weeks ago were bustling.

Concerts and tours have been canceled along with New York's Broadway theaters. Major League Baseball, the National Basketball Association and the National Hockey League last week suspended operations and the NCAA canceled all spring championship events.

Sports and Taxes

Major sporting events can provide large infusions of tax revenue for host cities. The city of Omaha, Nebraska, has seen its three biggest events of the year — the NCAA basketball tournament, College World Series baseball tournament and Berkshire Hathaway's annual meeting — canceled within the past week.

Those events have a combined economic impact of roughly $100 million for the city, an estimated $5 million to $10 million of which is city tax revenue, said Stephen Curtiss, the city's finance director.

"It's not the ideal scenario for us as a city," he said. Event-related tax revenues account for 1%-1.5% of the city's general fund, a loss he said would pale in comparison to the hotels, restaurants and other businesses that have closed or limited operations after federal officials urged people to avoid gatherings of 10 or more people.

Some $9 billion in tax-free municipal bonds to have been issued to finance sports stadiums and arenas that could remain empty for months due to the virus, nearly half in New York and Florida, according to Bloomberg Intelligence.

Florida's Miami-Dade County, for example, services the debt that financed the Miami Marlins' baseball stadium in part with hotel taxes, and the area is seeing a 9% decline in bookings, said Eric Kazatsky, senior municipals strategist at Bloomberg Intelligence. If that revenue stream dries up, the county would need to tap other revenue streams to service that stadium debt.

"When you hit an unexpected rough patch in the economy, you could find yourself in a situation where the municipality is on the hook," he said.

In New York City, budget officials estimate some $3.2 billion in tax revenue will be lost over the next six months as the virus hollows out entertainment, tourism, hotel and other key sectors of its economy. Hotels are projected to be at 20% occupancy through June while restaurant sales are forecast to be down by 80%. Some $1.4 billion in spending cuts are needed to preserve services vital to the city's most vulnerable, according to the city comptroller's office.

Social distancing measures will push thousands of small businesses in Maryland into bankruptcy without additional cash from the state or federal government to get them through the near-term shutdown of normal life caused by the virus, said Peter Franchot, Maryland's comptroller.

The economic turmoil will eventually become a threat to the state's tax revenues. Franchot said an accurate estimate isn't possible until the scope of the outbreak is better understood, but his staff has told him state tax revenues could be reduced by 15% to 20%. Such a dramatic decline could push state officials to make emergency spending cuts, which is what unfolded in the wake of the 2009 financial crisis, he said.

"I hope it doesn't happen, but it could based on a lengthy self-quarantine lockdown of the state's economy," Franchot said.

Big-ticket events have vast effects on the the regional economies of the cities that host them, said Anirban Basu, an economist and chief executive officer at Sage Policy Group Inc. in Baltimore.

"The supply chain around these events is extraordinarily extensive and it's difficult to know when these supply chains actually end because they're so extensive," he said.

Cities that are heavily dependent on hotel rooms, ticket taxes, casinos and other event-based sources stand to see the greatest pressure in the near term, which could lead to service reductions as officials adjust to maintain balanced budgets.

"All of that revenue is about to tumble, so to try to cobble together savings, you're going to see services curtailed," Basu said.

Spokane has also canceled its St. Patrick's Day parade, a middle school basketball tournament that regularly fills the Spokane Convention Center and the girls' volleyball tournament that spreads over two weekends and is the area's highest grossing event, Brian Coddington, communications director for the city of 200,000.

The city is trying to assess the impact on local revenue, adjusting hiring plans and trying to figure out options.

"The information is coming quickly and there are a lot of variables we don't know, like how long the impact might last," Coddington said.

To soften the blow, Mayor Nadine Woodward, who took office Jan. 1, and other Spokane Valley officials are promoting an #OrderUpSpokane program to encourage people to buy takeout or pickup from local restaurants.

"All the businesses are really responding and trying to do the best they can to adjust to this," Coddington said. "We're asking people to be really creative about how they are making adjustments in their daily lives."

No Choices

In normal times, there's little financial loss to a community from the cancellation of an event, said Andrew Zimbalist, an economics professor at Smith College in Northampton, Massachusetts. For people who live near a stadium or an arena, it's often a choice between paying for the night out at the event or spending the money at a local restaurant or different location.

"Now they just can't go to the local theater or the local concert because those places are shut down too," Zimbalist said. "There's less money the households are spending in the local economy. If you don't spend money at the ball park, there's no place to spend it."

Greensboro, North Carolina, hotel entrepreneur Dennis Quaintance said the abrupt nature of the cancellations added to the sting for his companies.

First the Atlantic Coast Conference basketball tournament was called off, and then the NCAA March Madness games.

"We went from about 100% occupancy to about 10% in one day," Quaintance, chief executive officer of the employee-owned Quaintance-Weaver Restaurants & Hotels, said in an interview.

"If none of that had been on the books, we would have had different business that didn't go away," he said.

Bloomberg Markets

By Ryan Beene, Todd Shields, and Susan Decker

March 18, 2020, 8:23 AM PDT Updated on March 18, 2020, 9:22 AM PDT

— With assistance by Danielle Moran

Fitch Rtgs: Oil Price Plunge to Pressure US Energy States & Locals

Fitch Ratings-Austin/San Francisco/New York-17 March 2020: The sharp decline in oil and natural gas prices will reduce economic output and revenues in US states, cities, counties, and single-purpose districts with significant energy sector exposure, says Fitch Ratings. Governments' vulnerabilities to these fiscal pressures will be compounded by the broader economic pressures caused by the coronavirus outbreak and related containment efforts, although the situation remains uncertain and is evolving rapidly.

The current price decline may represent a longer-term shift in the demand and supply landscape, causing these states and local governments to adjust to a longer period of negative or reduced growth in the building blocks of their revenue bases. This could lead to a change in Fitch's assessment of the underlying economic fundamentals of these credits and in some cases, a reassessment of these ratings.

States that have increased their financial resilience since the 2014-2016 natural resources downturn are expected to weather the current tumult with a limited rating impact, although those outcomes are predicated on the continuation of sound fiscal policies, which include provisions for an extended period of market weakness. Energy states whose revenue systems are less reliant on natural resources development, feature more diverse economies, or have accumulated significant reserves, such as Colorado and Texas, are also expected to maintain greater financial stability.

A sustained drop in oil prices could negatively affect the ratings of a handful of local government issuers with a high degree of economic and taxpayer concentration in the energy sector. However, most local governments in oil producing regions appear well prepared for a transitory period of stress and have withstood temporary prior price declines of up to one to two years with minimal ratings migration.

The effects to the energy sector will be a function of the duration of depressed oil prices and a government's level of economic diversity, structure of its revenue framework, spending flexibility and current level of reserves. The nature of a local government's participation in the industry and location in their state will also determine how vulnerable it may be to declining prices. Communities with 'downstream' energy facilities such as petrochemical manufacturing may benefit from lower energy prices.

Generally, Fitch believes US energy states and most local governments have sufficient fiscal tools to address near-term economic and financial stress linked to energy price drops. However, strained energy markets coupled with the coronavirus pandemic creates significant uncertainty as to the extent to which policy actions can address a longer-term shift in the demand/supply equation, requiring state and local officials to make greater and more fundamental budgetary adjustments than they have in past energy industry downturns.

Following the 2014-2016 natural resources downturn, when the price of West Texas Intermediate dropped to a low of $36.82 per barrel (bbl) from more than $100.00/bbl, sharp declines in financial resilience or weak budgetary responses resulted in rating downgrades for the states of Alaska, Louisiana, Oklahoma and West Virginia. These states have rebuilt their financial resilience since the downturn and are now rated 'AA-', 'AA-', 'AA' and 'AA', respectively, all with Stable Rating Outlooks, although Alaska's multiple downgrades from 'AAA' reflected its inability to advance financial policies that ensure stable financial performance.

Texas' rating of 'AAA' remained intact through this period of stress due to its greater economic and revenue diversity and sizable reserves. Montana also sustained its 'AA+' rating due to increased economic diversification and conservative fiscal policies. As oil and natural gas development has expanded in the US over the past several years, current oil and natural gas price turmoil may cause economic harm to a broadened group of US states.

As it did during the 2014-2016 period, Fitch is monitoring 15-20 local governments with energy concentration in Texas, California and Alaska that are at elevated risk for negative rating action. Issuers consist primarily of smaller communities in production areas but also include industry headquarter cities. Fitch ultimately took no negative rating actions on at-risk issuers during the last energy downturn as prices recovered, alleviating much of the economic concern. In the current environment, we expect the combination of reduced exploration activity and coronavirus economic pressures will be felt most acutely in the smaller, more concentrated oil-based economies, while larger cities may experience less severe effects, given the size and diversity of their regional economies.

Contacts:
Steve Murray
Senior Director, US Public Finance
+1 512 215-3729
Fitch Ratings, Inc.
111 Congress Ave., Suite 2010
Austin, TX 78701

Marcy Block
Senior Director, US Public Finance
+1 212 908-0239
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Andrew Ward
Director, US Public Finance
+1 415 732-5617
Fitch Ratings, Inc.
One Post Street, Suite 900
San Francisco, CA 94104

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

Fitch Rtgs: Coronavirus Fallout to Lower Public Power Demand, Affordability

Fitch Ratings-New York/Austin-20 March 2020: US public power systems are expected to face limited immediate credit pressures related to the spread of the coronavirus, but an economic slowdown will weigh on longer-term performance, says Fitch Ratings. Significantly lower electric demand poses the most significant near-term risk for public power systems. While Fitch expects most systems to support revenue requirements and operating margins by raising retail rates, declining levels of employment and household income could strain affordability metrics over time and undermine rate-setting strategies, weakening credit quality.

Systems serving territories that rely heavily on travel and tourism, along with those subject to large shutdowns, are most likely to face immediate pressures as these regional economies suffer and electric demand falls precipitously. The effect of a sudden drop in energy sales on these issuers and their responses are expected to vary and will likely depend on the length of time demand is suppressed. Systems that rely heavily on purchased power, or those where fuel is a major expense, may be able to offset the effect of lower sales through lower purchases; whereas systems with higher fixed costs will experience the highest declines in margins and require the most pronounced increases in rates to preserve financial performance. Where economic weakness throughout the servicer territory limits an issuer's ability or willingness to increase rates, negative rating action may be warranted.

The effect on electric demand and prospective rate increases at other public power systems is expected to be more muted. Commercial and industrial sales will likely decline along with economic output but residential sales could rise reflecting increased isolation and changes in working habits. Fitch considers the effect of stressed demand on an issuer in its rating methodology and as part of each review. At this time, we expect that the resulting stress from the coronavirus will be in line with our applied stress for most issuers.

Declines in major operating expenses and more resilient rate structures could also lower revenue requirements, further limiting upward pressure on rates in the near term. Prices related to natural gas supplies have already reached levels consistent with Fitch's stress case and interest rates continue to test historical lows. Recent trends toward a higher component of fixed charges in retail rates should also lessen the effect of lower energy sales on revenue collection. Robust cash balances maintained by most issuers should further buffer the impact of any near-term disruption in cash flow.

Over the longer term, performance and credit quality could be negatively affected by sustained lower demand and pressures on household income, residential electric affordability and future rate setting. Improved affordability has helped to preserve demand and support rate-setting initiatives in recent years, bolstering financial performance. Residential electric costs consumed an estimated 2.2% of median household income (MHI) in 2019, well below the level of 2.8% in 2010.

Over the same period, financial performance throughout the sector has improved. Medians for Fitch-calculated coverage of full obligations and net adjusted debt/adjusted funds available for debt service (FADS) improved to 1.44x and 6.00x from 1.27x and 7.30x, respectively. To the extent lower MHI and weaker affordability result in more restrained rate-setting and demand declines, FADS will fall. This could weaken credit metrics and trigger rating actions for issuers on the cusp of a lower rating category.

Contacts:

Dennis Pidherny
Senior Director, US Public Power
+1 212 908-0738
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

Fitch Rtgs: Federal Coronavirus Aid Key Short-Term Boost to US States

Fitch Ratings-New York-19 March 2020: The federal government is funneling billions of dollars to US states to offset the growing implications of the coronavirus but the scope of states' fiscal pressures and the ultimate effect on ratings is uncertain, says Fitch Ratings. Since early March, the federal government has provided nearly $1 billion in direct public health aid for US states and local governments, opened up access to the $40 billion federal Disaster Relief Fund (DRF) and enacted legislation providing billions more to states through a 6.2 percentage point (pp) increase in the Medicaid matching rate. For context, the US Census Bureau estimates states collected $257 billion in tax revenue in first-quarter 2019.

Lower-rated states, such as Illinois rated 'BBB', New Jersey rated 'A' and Connecticut rated 'A+', are more vulnerable to the adverse economic conditions posed by the coronavirus pandemic. This is due to lower levels of financial resilience than other states, which Fitch rates in the 'AA' or 'AAA' categories, indicating exceptionally strong or a very strong capacity for payment of financial commitments. A sustained period of disrupted economic activity would test all states' resilience and pressure ratings. Shutdowns in many parts of the country signal an unprecedented decline in economic activity for an unknown period and the full scope of necessary public health spending remains unclear. Fitch is reaching out to all rated states to assess their initial responses and any near-term credit pressure points.

The three federal aid measures will provide an important boost to state budgets, particularly for lower-rated states, although revenue losses and crisis spending may quickly escalate and remain high for some period. On March 6, Congress and President Trump enacted the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 (H.R. 6074) allocating $8.3 billion for domestic ($6.7 billion) and international ($1.6 billion) relief efforts. The bill included $950 million in aid to state and local health departments, including tribal entities, with half to be distributed within 30 days and the remainder available through Sept. 30, 2022. This aid flows through the Centers for Disease Control and appears likely to be distributed based on states' need.

On March 13, following requests from members of Congress and Washington's governor, the president declared a Stafford Act national emergency. The declaration authorizes use of the DRF to reimburse states and locals at a 75% rate for related spending. On Feb. 29, the Federal Emergency Management Agency reported the DRF balance at $42.643 billion.

On March 18, Congress and the president enacted a second bill, the Families First Coronavirus Response Act (H.R. 6201) that includes potentially the most significant fiscal aid for states, including the territories and the District of Columbia, a 6.2pp increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national emergency. FMAP is the rate at which the federal government reimburses states for Medicaid spending.

Medicaid is one of the largest line items in state budgets with the Medicaid and Children's Health Insurance Program (CHIP) Payment Access Commission reporting states spent $230 billion in federal fiscal year 2018, while the federal government contributed nearly $400 billion. The Center on Budget and Policy Priorities estimates the H.R. 6201 increase could provide $35.7 billion in federal aid over a full year, or roughly $9 billion each quarter.

In prior downturns, FMAP increases played important roles in supporting state budgets and credit quality. The 2009 federal stimulus bill increased FMAP by 6.2pp for all states, with provisions for additional increases based on states' unemployment rates leading to FMAP rate increases of at least 9pp and as high as 15.56pp. In total, the Kaiser Family Foundation (KFF) estimated the 2009 FMAP increase provided $103 billion to states. In 2003, Congress increased the FMAP rate 2.95pp providing $10 billion in aid to offset the 2001 recession according to KFF. The ultimate value of the H.R. 6201 FMAP rate increase will depend on states' Medicaid spending, which could be notably higher than in prior downturns given the public health nature of the pandemic.

Contacts:

Eric Kim
Senior Director, US Public Finance
+1 212 908-0241
Hearst Tower
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Michael Rinaldi
Senior Director, US Public Finance
+1 212 908-0833

Arlene Bohner
Senior Director, US Public Finance
+1 212 908-0554

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

---

Fitch Ratings: Reviewing Infrastructure Issuers for Coronavirus Vulnerability.

Fitch Ratings-New York-18 March 2020: The coronavirus pandemic represents a significant challenge to the global economy, and therefore, to the performance of transactions in the infrastructure and project finance space, according to Fitch Ratings. The wide range of transactions, from enterprise to project structures, single-assets to multi-asset, demand-based to contracted, and single jurisdiction to multi-jurisdiction provide for a wide variety of potential impacts. Given the fast-moving nature of events, this release outlines our approach to reviewing the infrastructure and project finance ratings monitored by Fitch in the context of this crisis. This may evolve over time as the situation changes. However, providing insight into Fitch's approach to this crisis at this stage will provide visibility into our process and thinking in a volatile environment. It is Fitch's view that demand-based transactions will be most affected at the outset with contracted transactions feeling the knock-on effects as the crisis evolves.

Fitch has categorized our ratings into higher and lower risk sub-sectors and is currently grouping credits within those sub-sectors based on their flexibility to absorb this stress at their current rating level. This review will take 10 days to two weeks but Fitch will prioritize sectors with a higher magnitude of potential rating impact for action during that period. Where rating actions are not warranted Fitch will provide commentary with credit-specific views. Lower risk sub-sectors will be reviewed according to our normal annual surveillance procedures.

The impacts of the coronavirus pandemic, while still evolving, create risks that are far beyond what has been experienced in the infrastructure and project finance sectors in many decades. While the Global Financial Crisis (GFC) provides a benchmark and demonstrated the stability of core infrastructure assets (enterprises and projects), the rapid shutdown of major global economies that is being experienced now creates the potential for the near-term economic impact to be materially worse, and creates uncertainty on the future collateral effects on contractual arrangements and the nature of the recovery.

The following are considerations tied to Fitch’s Key Rating Drivers for infrastructure and project finance ratings:

DEMAND-BASED ASSETS MOST VULNERABLE: Demand-based assets, particularly those in the transportation space, have been and are expected to continue being most significantly impacted, with airports exposed to declines that appear worse than those experienced after the 9/11 terrorist attacks, and ports seeing declines comparable to or exceeding drops seen through the GFC. The knock-on underlying economic impacts, potential reticence for travelers to return to the skies or to cruise vessels as quickly as in the past, changes in the supply chain for goods, and counterparty exposure related to airlines and shipping companies all put into question the pace of the recovery. Toll roads are affected with commuter volumes significantly declining. Though these assets are exposed to broader economic weakness and the nature of the recovery, they are also more likely to have volumes return faster as life returns to some normalcy. Managed lanes, which are more prevalent in the U.S., are especially vulnerable to acute traffic declines as they are congestion relievers. However, most benefit from debt deferability provisions under the U.S. government’s TIFIA loan program that mitigate short-term demand volatility.

CONTRACTED ASSETS HAVE COUNTERPARTY RISKS: Contracted assets, particularly those in the energy space, are primarily exposed to the credit quality of their counterparties. The relative historical stability of utility counterparties (power and water) provides some comfort, though modest rating downgrades in those sectors would relate to transactions that are currently directly capped by a major counterparty. The increased prevalence of commercial and industrial (non-utility like) counterparties in energy transactions creates some risk of added volatility in counterparty credit quality.

MERCHANT RISK ELEVATED: Fitch rates one purely merchant power asset and a number of contracted transactions with merchant tails. Volatility in commodity prices and uncertain demand in the energy and power markets are expected to put pressure on current power prices and longer-term price growth. These transactions are structured with higher financial margins in the merchant period as a mitigant to contract rollover risk, so revised rating case margins could now be tighter. These impacts will vary by market.

SPORTS EXPOSURE MIXED: The sports sector has a combination of contracted revenues and demand-based revenues. The league financings are secured by media contracts so are exposed to any material weakening in credit quality in the major media players. The team, stadium and arena financings have some of the benefit of media revenues but are more exposed to variable revenues tied to demand, such as tickets, sponsorships and advertising. The presence of annual and multi-year contracts in the case of stadium and arena financings, the historical practice of not providing refunds but instead providing credits against future contracts and ticket purchases to smooth cash-flow, and a fully-funded debt service reserve fund of at least six months provide protection.

CONSTRUCTION DELAYS LIKELY: Projects in construction may have logistical impacts from labor and materials shortages and unpredictable interface issues that cause delays and cost increases.

OPERATING UNDERPERFORMANCE LIKELY: While operations would typically not be a systemic concern for our infrastructure and project finance ratings, coronavirus may cause the performance of assets to be affected if operations are impacted by labor and material shortages, although this should only be a short-term concern. Delays in scheduled maintenance activities should also not be a material concern in most situations, provided the delays are not protracted.

FORCE MAJEURE DECLARATIONS LIKELY: The coronavirus pandemic and governmental actions taken to contain it will trigger force majeure provisions in certain contracts. Where force majeure contractual defenses are unavailable, legal doctrines such as impossibility, impracticability and frustration will also come into play. Disputes around excuses for nonperformance inevitably will be hotly contested and rife. Fitch will consider specific language in material agreements that may cause performance impacts or delays to be uncompensated from revenue, operating or construction counterparties as well as the elevated potential for disputes creating a higher level of credit risk.

BUSINESS INTERRUPTION CLAIMS UNCERTAIN: Many infrastructure enterprises and projects have business interruption insurance. However, policy language and exclusions vary. A case-by-case analysis is required to determine whether revenue loss resulting from the coronavirus pandemic will be covered. This heightens the importance of management's discretionary internal liquidity policies and structured liquidity in infrastructure transactions.

REFINANCE RISK ELEVATED: Transactions with bullet debt that have maturities in the next three to six months, particularly those with large bullets and weaker credit profiles, will be more exposed to sharp spikes in credit spreads. In the infrastructure space, these tend to be large enterprises with diversified operations but if they are already facing operational challenges this crisis could exacerbate the impact. Project financings with bullet debt are typically limited to those with long-tenured concessions or very long useful lives, so they retain some ability to roll over debt with short-term instruments pending a more favorable long-term financing environment.

Infrastructure assets also have key risk mitigants that warrant consideration:

GOVERNMENT INTERVENTION LIKELY – The powers and actions of government (national, state and local, coordinated multi-sovereign), particularly as they relate to transportation infrastructure enterprises and projects, have the potential to have both adverse and positive impacts. These include the administrative actions and regulations that have already restricted economic and social activity. However, transportation infrastructure is the backbone of every economy, so governments are heavily incentivized to provide financial and other support to stabilize the economy and vulnerable industries (such as the airlines) to facilitate an orderly recovery. Where government policies are known or highly likely Fitch will consider the impact in its analysis.

ENTERPRISES MORE PROTECTED: Most infrastructure enterprises have a diverse number of assets and, in some cases, are located in various jurisdictions, have assets with quasi-monopolistic characteristics and long useful lives, both restricted and unrestricted liquidity, balance sheet flexibility as growth capex plans can be modified, and management discretion on the distribution or application of surpluses that provide material resilience to navigate the events of the next three to six months.

PROJECTS HAVE STRUCTURAL PROTECTIONS: Most project structures, while being single asset in most cases, have strong capital structures that restrict how revenues are applied, including requiring equity distribution tests that protect lenders by tying up cash due to underperformance before dividends can be transferred to sponsors. Most projects also have fully cash-funded debt service reserve funds. Those with six month reserves are more vulnerable to a prolonged event and a slow recovery.

Fitch's rating committees will focus for each transaction on the potential magnitude and impact of the downturn and the ability to recover, while maintaining critical levels of liquidity for the current rating level. Fitch will continue to target a 'through-the-cycle' view with a focus on the extent that operating cash flow can service debt at the existing rating level, the ability to maintain existing levels of liquidity, the ability to recover to a financial profile consistent with the current rating level by 2022, and, to the extent liquidity is tapped, the time it takes to replenish critical reserves. Fitch recognizes that near-term metrics could breach indicative rating thresholds in 2020 and 2021. The focus will be less on any one metric and more on the ability to withstand this crisis and revert within two to three years to a more stable credit profile that is consistent with the current rating.

It bears repeating that while a number of the precepts listed above vis-a-vis infrastructure assets are conventional thinking, the scenario that might play out here could be much worse than anything previously contemplated – in particular, the rapid pace of decline. As a result, tenets of the past that infrastructure is stable and will only be mildly impacted – which was true even in the GFC – may be tested. Only time will tell, so the scenarios that Fitch considers, including its Rating Case, may well imply a higher percentage of rating actions than have been seen before.

Certain transactions where the risks are very apparent will warrant quick action by Fitch, with limited discussion with issuers. In other instances, there will be more flexibility for discussions with issuers and their expert advisors who are also critical to Fitch's analytical process. Fitch is mindful that, besides the credit impacts of this crisis, issuers have other pressing challenges to confront, including dealing with employee, customer and public life and safety. Our analysts will work with issuers whenever possible to ensure they have timely notification, so they are available to review and discuss our decisions and commentary. However, it is also important to note that Fitch has obligations to investors that warrant timely communication of our decisions, i.e. by the next day, so we ask for issuer's understanding and accommodation of our process.

Fitch will maintain an ongoing dialogue with issuers, as we monitor the evolution of this crisis and provide periodic credit commentary to investors.

Contact:

Cherian George
Global Head
Infrastructure and Project Finance
+1-212-908-0519 (office)
+1-917-593-0644 (mobile)
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Congress Passes Second Coronavirus Response; State and Local Priorities in the Mix for Next Stimulus Package.

On March 5, Congress quickly cleared the first legislative response to coronavirus in the form of $8.3B in emergency supplemental spending. The funding in the supplemental was more federally focused and geared towards ramping up resources at the agencies (i.e. Center for Disease Control and Prevention (CDC)) serving as the first lines of defense against the pandemic. During the past week, the House passed HR 6201 (Families First Coronavirus Response Act) to provide broader relief to those impacted by the virus.

Among the provisions included in the measure are: two weeks of emergency paid leave for sick and quarantined workers, tax credits for employers to provide up to three months of paid time off due to extended absences from work due to the virus, $1B in grant funding to help states manage and expand unemployment insurance programs during the crisis, funds to provide free coronavirus testing; and funding for enhanced food security initiatives like student meals, seniors' nutrition and food banks, Supplemental Nutrition Assistance Program (SNAP) and additional funding for Medicaid.

While the measure was initially adopted by the House early March 14, a subsequent bill containing "technical corrections" was adopted on March 16. Of note to GFOA members, a prohibition was included to prevent state and local governments from benefiting from the credits available to some private employers to offset the costs of the new mandates requiring expanded sick leave and family medical leave. GFOA, along with other organizations representing state and local governments, sent a letter to leaders to request the provision be removed.

The provision was retained and the Senate approved the bill on March 18. Congressional leaders and White House officials have already started negotiating another measure to further address the economic impact of the virus.

As the next stimulus response is debated, GFOA urges members to reach out to their congressional delegation through their LOCAL offices – as Capitol Hill phone lines are very busy to:

- Remind them that state and local employers must pay payroll taxes under 26 USC 3111, and must now meet new sick leave and family medical leave requirements, and
- Urge them to treat state and local employers (including those exempt from 26 USC 3111) on par with private employers by allowing them to qualify for the payroll credits for the new requirements for paid sick leave and paid family leave.

Further, as the next stimulus response is expected to focus on efforts to counter the current economic downturn, it could potentially include GFOA priorities like reinstating advance refunding and increasing the bank qualified limit. Click here for resources on GFOA's priorities for finance tools to help spur infrastructure investment. To review a recent Public Finance Network (PFN) letter on the stimulus efforts in Congress, click here.

For this next stimulus measure, GFOA urges members to reach out to their congressional delegation and ask them to include language to:

- *Restore advance refunding of tax-exempt bonds* (HR 2772) so states and local governments and other qualifying entities can free up billions of dollars they can reallocate and spend on other projects which in turn, strengthens local infrastructure networks, and
- *Increase access to capital for small borrowers* (HR 3967) by increasing the bank qualified borrowing limit from $10 million to $30 million, and having it apply at the borrower level so the small issuers (both governmental and nonprofit) who may be hardest hit during the downturn can access capital for immediate project needs.

GFOA will continue to monitor and report on the legislative developments as they occur. Click here for GFOA's Resource Center for Coronavirus response.

SIFMA Statement on the Municipal Bonds Emergency Relief Act.

Washington, D.C., March 20, 2020 – SIFMA today issued the following statement from President and CEO Kenneth E. Bentsen, Jr. on the Municipal Bonds Emergency Relief Act.

"SIFMA applauds the introduction of the Municipal Bonds Emergency Relief Act, which aims to support the municipal bond market during this volatile time. The municipal bond market is one of our nation's most remarkable financial institutions, providing a mechanism whereby more than 50,000 state and local government units can raise money for public purposes that benefit communities and ensure their sustainability. We appreciate the attention paid to this important sector of the markets and thank Senator Menendez for introducing this legislation to help states and localities use these financing tools to address the current crisis."

Fed Expands Money Market Liquidity Facility to Municipal Market.

WASHINGTON — The Federal Reserve Board on Friday said it was expanding its program of support to enhance the liquidity and functioning of state and municipal money markets.

Loans will now be available "to eligible financial institutions secured by certain high-quality assets purchased from single state and other tax-exempt municipal money market mutual funds," through the Money Market Mutual Fund Liquidity Facility the Fed set up on Wednesday, the U.S. central bank said in a statement.

By Reuters

March 20, 2020

(Reporting by Howard Schneider and Lindsay Dunsmuir; Editing by Franklin Paul)

As Ridership and Revenues Plunge, Transit Agencies Seek Financial Aid.

The coronavirus has far fewer people riding buses and trains. Tax revenues going towards transit are in line to take a hit as well.

Public transit agencies across the U.S. are looking to the federal government for billions of dollars of financial help as the coronavirus outbreak causes ridership and fare revenues to plummet.

Large transit agencies in New York City, San Francisco and Washington, D.C. all issued dire warnings about their finances in recent days, describing tens of millions of dollars in anticipated monthly losses that they say will pressure their budgets.

"As more people stay home following the advice of medical experts, the MTA is now facing financial calamity," said Patrick Foye, who leads New York's Metropolitan Transportation Authority, which operates the subway, trains and buses in the New York City region.

Foye made a plea to his state's congressional delegation in a letter sent earlier this week.

MTA ridership has been down about 60% on subways and 49% on buses, the letter says. The authority projects that its finances could take an over $4 billion hit by the end of 2020. That calculation doesn't include an expected drop in state and local taxes dedicated to the MTA.

Foye is asking for about $4 billion in federal aid to cover losses of $3.7 billion, assuming ridership trends this week continue for six months, along with coronavirus-related expenses.

Bus and subway ridership, like many other normal day-to-day activities across the country, has collapsed as government officials have ordered businesses closed and events cancelled and told people to stay home as much as possible to help slow the virus' spread.

Transit operators have continued to run service, in part, so that employees like medical professionals, child care providers, first responders, utility employees and those involved in the transportation of goods can continue to get to work.

But ridership from those workers alone can't keep fare revenues afloat near usual levels.

The nation's 14 largest mass transit systems rely on fares for about 30% of their operating revenue, while government subsidies provide another 23% and taxes make up about 40%, according to a brief that credit rating agency Moody's Investors Service published on Thursday.

Like fare revenues, state and local tax collections are also expected to fall as the coronavirus, and efforts to bring the disease under control, put a severe drag on the economy.

There's a huge degree of uncertainty over how bad the toll will be for public budgets, as nobody knows how long the health crisis will continue and how severe the economic damage will be.

But the American Public Transportation Association says it anticipates a 75% drop in public transit farebox revenue over the next six months for a total loss of $6 billion. Additionally, the group estimates that sales tax revenues dedicated to transit will fall by about $4.8 billion.

Citing these revenue losses and additional costs tied to the virus, like the extra cleaning of facilities and vehicles, APTA is calling on Congress to provide $12.8 billion for public transit.

About 220 elected officials, transit agencies, advocacy groups and others signed a letter sent to congressional leaders on Wednesday urging lawmakers to allocate a similar sum, at minimum.

"Some agencies may have more slack than others," said Scott Goldstein, policy director for Transportation For America, the group that drafted the letter. "But every agency is at risk."

Transportation For America is warning against a "spread-the-peanut-butter" approach to distributing funding, where smaller amounts are distributed to a large number of places. Instead, the group argues that aid should be targeted toward places that need it most.

"If your funding source is a local sales tax that evaporates, that may have an effect on how much you need," Goldstein said.

He added that even before the coronavirus took hold, many transit agencies around the U.S. had stretched budgets, maintenance and capital project backlogs and underfunded expansion plans. “A lot of them are struggling,” he said. “This is just adding fuel to that fire.”

Transportation for America and others are making a case that current “formula funding” programs, which the federal government use to distribute money that flows to transit agencies, are ill-suited for helping to solve the financial difficulties these agencies are now facing.

One issue is that those funds are typically directed towards capital expenses rather than operating costs.

Last week, the Federal Transit Administration did announce that it would give agencies in states where the governor has declared an emergency related to the coronavirus greater flexibility to use federal formula funds for operating costs, in addition to capital expenses.

The FTA also raised the cap on what share of those expenses could be covered with federal funds to 80% from 50%.

Goldstein said that these changes are a good initial step. But he also pointed out that using funds that were earmarked for capital projects to pay for emergency operating costs isn’t a real solution. In general, he said, transit agencies are already short on funding for capital costs—like buying new buses, or making station upgrades

Foye, with the MTA, said in his letter that, “flexing federal funds currently allocated for capital projects cannot be the solution.”

The U.S. Department of Transportation has found that an estimated 40% of buses and 23% of rail transit assets are in marginal or poor condition, with a backlog of deferred maintenance and needed equipment replacement that is in the ballpark of $98 billion.

“What we need is additional funding,” Goldstein said. “And we need it for operating.”

Congressional lawmakers and the White House are currently considering plans for massive federal stimulus measures, with the aim of bolstering the nation’s economy as the virus outbreak has effectively shut down or dramatically slowed many sectors.

There’s talk of a relief package that could be in the $1 trillion range.

Senate Majority Leader Mitch McConnell on Thursday unveiled his plan, which would include cash payments for many Americans, along with billions in “loans and loan guarantees” for industries like the airlines and cargo air carriers.

It’s in this context, that transit agencies are seeking aid for themselves.

Paul Wiedefeld, general manager and CEO of the Washington Metropolitan Area Transit Authority, said in a letter sent to congressional lawmakers from the nation’s capital region, that the agency is expecting losses of about $52 million a month.

At the same time, WMATA—which runs the subway system that serves the D.C. area—has over the past two months or so spent $17 million on costs like special equipment to protect workers from the virus, and additional cleaning of vehicles and equipment, he said.

“Traditional transit formulas are not designed to address our unique circumstances,” Wiedefeld wrote. “We need immediate operating funding.”

In New York, Foye noted that the MTA had already committed to finding $2.8 billion in savings in the years ahead. “No agency of our size can find additional billions in savings equivalent to the damages we have and will sustain as a result of this pandemic,” he added.

Leaders for San Francisco’s Bay Area Rapid Transit system, which moves over 400,000 people on a typical weekday, are describing a similar situation. BART’s Board President Lateefah Simon and General Manager Bob Powers have both been pushing state, local and federal officials to provide the agency with emergency funding.

Much of the Bay Area is now under a “shelter-in-place” order, intended to help slow the spread of the virus by drastically cutting down on the number of people going outside of their homes.

By Wednesday, BART ridership had fallen to about 48,000, down by around 365,000 or 88% compared to a February four-week average.

The agency says that a sustained ridership loss of 85%, combined with a slump in economic activity affecting other revenues, could erode its monthly income by about $55 million.

BART says that it has looked at methods to cut costs, but that most of its operating expenses are related to labor. Options for reducing these costs are limited, the agency says, as it continues to provide service and maintains a ramped-up cleaning program.

On Thursday, the agency did say it would temporarily curtail service hours. Beginning Monday, it plans to stop running weekday trains at 9 p.m., instead of midnight. Weekend hours will be dialed back as well. BART says it is also taking other cost-saving measures, like placing restrictions on overtime, hiring and employee travel.

“This is a financial crisis for BART,” Simon, the agency’s board president, said in a statement. “This level of catastrophic revenue loss is not sustainable and threatens future service.”

ROUTE FIFTY

BY Bill Lucia

MARCH 19, 2020

Muni Market Support for Federal Reserve Intervention Grows.

- **Groups call on central bank to buy more munis amid selloff**
- **Congressional approval needed to purchase long-term muni-bonds**

The Federal Reserve is wading into the $3.9 trillion municipal-bond market. But the central bank still has more levers it could pull in the asset class that’s been stung with the worst monthly rout on record.

Last week, the Fed expanded its emergency lending program to provide liquidity to money market funds so it would include purchases of short-term municipal bonds, and on Monday, it tacked on support for variable-rate demand notes. Despite the rare intervention, the chorus of calls for more help is getting louder. In the last week, lawmakers, state officials and lobbying groups have all advocated for the unusual move of the central bank buying municipals, at least temporarily.

The state and local debt market is in the midst of its worst rout in history due to a wave of selling by mutual funds and exchange-trade funds that's led to a liquidity crunch. For issuers, the soaring borrowing costs could make it more expensive for them to raise money in both the short- and long-term. Meanwhile, the coronavirus outbreak is wreaking havoc on government finances as revenue is falling at the same time costs are skyrocketing.

"States and issuers are being faced with other matters right now — it'd be nice not to deal with this one," said David Erdman, who handles debt sales for the state of Wisconsin.

The Federal Reserve is authorized to buy short-term municipals maturing in six months or less. But lobbying groups like the Bond Dealers of America, which represents banks and dealers, have said they would support the central bank going further than that and buy longer-dated securities temporarily. But that would likely require congressional or Treasury funding to backstop the Fed against credit risk.

Quantitative Easing
"Given the significant role that states are playing at the forefront of the response to the Covid-19 virus, we want to make sure the resources are available financially for states as this progresses," said Shawn Wooden, who oversees debt sales for the state of Connecticut. Wooden is among a group of Democratic treasurers who last week called on the Fed to intervene.

Allowing the Fed to buy municipals through quantitative easing is likely "quite difficult" because it would require Congress to change its charter, Morgan Stanley strategists said in a report last week. Lawmakers' effort to pass a stimulus bill — which a lawmaker said would expand the Fed's ability to buy municipals — sputtered over the weekend.

But the Morgan Stanley strategists said that the Fed still had the authorization to buy revenue anticipation notes, which are sold by governments waiting for tax collections to come in. They said it would give governments access to liquidity in a "worst-case scenario."

The Fed on Monday moved to address a municipal-bond market niche that's been hit hard with much higher borrowing costs for issuers. The bank will include variable-rate demand notes as eligible collateral as part of its lending program to money-market funds, which may help reduce yields on those securities, according to Barclays Plc. Yields on a closely-watched index of variable-rate debt hit 5.2% last week, the most since 2008.

Still, the entry of the Fed could be a slippery slope in a market with millions of bond CUSIPs and varying credit ratings, said Kyle Gerberding, director of trading for Asset Preservation Advisors.

"Which ones do they buy? Which ones do they not?" he said.

Citigroup's Vikram Rai said he believed that the Fed's involvement would help as banks face limits on how much more they can step in to alleviate the selling pressure. Dealer inventories of municipals excluding variable-rate debt rose to $14.5 billion as of March 11, up from just $11.4 billion in mid-January, according to the most recent Federal Reserve Bank of New York data.

"It seems like an extreme suggestion, but we're in uncharted waters," Rai said. "This is the only way to temper the volatility in the market."

Bloomberg Markets

By Amanda Albright

March 23, 2020, 10:49 AM PDT

— With assistance by Craig Torres

Fed Could Snap Up Municipal Debt Under New Senate Proposal.

- **Bill would amend the Federal Reserve Act for emergencies**
- **Measure would allow Fed to buy municipal bonds of any maturity**

A Senate bill introduced Friday would allow the Federal Reserve to purchase municipal debt, in an effort to ease the economic strain of the coronavirus pandemic on state and local governments.

The measure from Senator Bob Menendez, a New Jersey Democrat on the Senate Banking Committee, would amend the Federal Reserve Act to allow the Fed to buy municipal bonds under "unusual and exigent circumstances." The rule would be triggered by events like the rapid spread of a virus, other health emergencies or crises.

"States and localities are on the front lines in the fight against COVID-19 and need assistance from the federal government to be able to finance the increasing costs of the response to this health emergency," Menendez said in a statement. "The Municipal Bonds Emergency Relief Act would do that by allowing the Federal Reserve to provide support to state and local governments for this crisis and similar future emergencies."

The bill, which does not have any Republican cosponsors, would allow the Fed Board to authorize Federal Reserve banks to purchase municipal bonds on the open market. Five or more members of the board would have to vote to enact the procedure for it to work.

The Fed is already partially authorized to buy municipal bonds. Under Section 14 of the Federal Reserve Act, it can buy short-term municipal debt. This would expand that authority to debt of "any maturity."

Stemming Market Runs

The Fed on Friday amended the terms of a money market facility it launched earlier this week so that it could accept municipal debt of 12 months or less. The move is aimed at stemming runs in the market for municipal commercial paper. It isn't aimed at solving the liquidity problems in the market for longer-term muni debt.

Menendez was not satisfied with the Fed's move because while it would help municipalities with highly rated debt like New York City and others, it wouldn't help cities such as Newark with lower-rated debt, according to a person familiar with his thinking.

"Glad the Federal Reserve is moving in the right direction, but much more needs to be done," the senator said in a tweet. "Congress must pass my Municipal Bonds Emergency Relief Act to extend this help to all cities and states."

The global health crisis has hammered municipal bonds as states and localities strain resources to prepare a medical response, try to help local businesses and suffer revenue losses as they ask people to stay at home.

Municipal bonds are headed for an 8% drop in March, their worst month of performance since 1981, according to Bloomberg Barclays indexes.

Bloomberg Markets

By Daniel Flatley

March 20, 2020, 6:41 AM PDT Updated on March 20, 2020, 10:28 AM PDT

— With assistance by Craig Torres

[Fed Could Provide Massive Support for Business, States in Bill.]

Congress could hand the U.S. Treasury at least $425 billion to backstop potentially much larger support by the Federal Reserve for business and municipal borrowers as part of an economic aid package being hammered out by the Trump administration and Congressional leaders.

The latest draft of the Republican-written bill, which GOP lawmakers are trying to finalize and pass Monday, would authorize the Treasury to use $425 billion "to make loans, loan guarantees, and other investments in support of programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, states or municipalities."

Earlier Sunday, Treasury Secretary Steven Mnuchin said the bill would provide up to $4 trillion in liquidity through broad-based lending programs operated by the Fed.

Lever Up

Details were unclear, but some analysts took the view that the money identified to support Fed programs would seed much larger assistance from the U.S. central bank.

"This is money the Fed can lever up," said Michael Feroli, chief U.S. economist at JPMorgan Chase & CO. in New York. "It's a very positive step. I hope the $4 trillion is enough but there's no guarantee."

Senate Banking Committee Chairman Mike Crapo told Bloomberg News that the legislation would expand the Fed's authority to include state and local governments as entities it can lend to, and buy debt from, to assist them.

Crapo said he supports the measure and would expect other Republicans to do so as well, but also noted that a supplemental appropriations bill would provide direct support to states.

Democrats on Sunday were not yet on board.

Emergency Lending

Last week, the Treasury backstopped two new emergency lending facilities rolled out by the central bank with a combined $20 billion. That was seen as enough to support up to approximately $1.7 trillion of eligible short-term securities.

The Fed has come under pressure from lawmakers and some former central bankers to extend support beyond shorter-dated debt markets and purchase long-run corporate and municipal bonds.

Companies, states and cities have found it increasingly difficult to borrow money as investors flee for safety amid the expanding coronavirus pandemic and the economic havoc its creating.

Cash Drain

”The cash drain on households and businesses, and state and local governments, is going to punch a massive hole in the global glut of savings, and this is an aggressive effort to fill that gap,” said Lou Crandall, chief economist at Wrightson ICAP.

Federal Reserve spokeswoman Michelle Smith declined to comment on what the legislation signaled on future Fed moves.

It’s unclear whether the Fed would require separate congressional approval for buying long-dated corporate and municipal bonds. Eric Rosengren, president of the Boston Fed said March 6 the Fed would need lawmakers’ consent to make such direct purchases.

But that might be open to debate.

Joseph Gagnon, a former Fed official now at the Peterson Institute for International Economics in Washington, has said he believes the Fed can extend credit to any entity as long as the collateral received in exchange is deemed adequate.

Bloomberg Economics

By Christopher Condon, Rich Miller, and Colin Wilhelm

March 22, 2020, 1:56 PM PDT

— With assistance by Saleha Mohsin, Ryan Beene, and Daniel Flatley

---

Muni-Bond Liquidity Crisis Hits Governments With Rates Up to 11%.

- **Sell-off in variable-rate bonds as managers meet redemptions**
- **Shades of 2008 crisis, with billions of bonds resetting higher**

The sell-off sweeping through the municipal-bond market is hitting cities, public-transit systems, hospitals and local governments with spiraling interest bills on floating-rate debt, dealing a new financial hit just as they contend with the economic toll of the coronavirus pandemic.

The jump is a result of the rapid pullback from the market over the last two weeks, which has left mutual-fund managers dumping the most liquid securities to raise cash to cover investors’ withdrawals. The variable-rate bonds are among the easiest to offload because they can always be sold at full face value to Wall Street banks, which have been forced to reset the interest rates sharply higher to avoid being stuck with unwanted inventories.

“If you’re a portfolio manager and you need cash — or you think you will need cash and you want to get ahead of the curve, you’re going to sell whatever is the most liquid,” said Patrick Luby, who tracks the municipal market for CreditSights Inc.

The pressure has driven up the yields on tens of billions of dollars of bonds by the most since the market froze up during the 2008 credit crisis. Those on debt issued by New York’s Metropolitan

Transportation Authority, which is seeking a federal bailout after subway and train travel tumbled, jumped to 9% when they reset Thursday, up from around 1% last week, according to data compiled by Bloomberg. Dozens of other bond issues have seen similar increases, including those sold by Indianapolis, the Columbus, Ohio airport and New York's water system. Those issued by Maryland's industrial development authority for Occidental Petroleum Corp. hit 11%.

The hikes come as Wall Street's municipal-bond desks are dealt blow after blow, with state and local debt headed for the worst monthly rout since 1984, according to Bloomberg Barclays indexes. With investors pulling money, managers are racing to raise cash.

Variable-rate municipal bond are one of the easiest investments to unload because they can always be sold at 100 cents on the dollar as frequently as every day, allowing fund managers to avoid locking in losses if they instead sold longer-dated securities that have fallen steeply during last two weeks. Banks are required to buy the securities if there aren't enough buyers, giving them a strong incentive to raise the rates so they don't have to hold the debt themselves.

The rising rates echo what happened in 2008, when much of the variable-rate municipal market unraveled after the real estate bubble burst. The market for so-called auction-rate securities collapsed completely as investors dumped them en masse, while the yields on other bonds surged.

The sell-off is coming just as banks' inventories of the securities usually swell around this time of the year as Americans sell them in order to pay their tax bills.

Bloomberg Markets

By William Selway and Danielle Moran

March 19, 2020, 9:39 AM PDT

BDA Urges Fed to Take Action to Assist Municipal Market.

Today, March 18, 2020, following feedback received from membership, the BDA submitted a letter to the Federal Reserve Chairman Jerome Powell addressing particular needs of the municipal markets to offset the negative impacts of the Coronavirus and in response to the announcement of the establishment of a Primary Dealer Credit Facility (PDCF).

The letter, which can be viewed here, implores the Fed to:

- Expand the PDCF to include non-Primary Dealers of municipal securities; and
- Expand the CPFF to include municipal VRDNs.

The BDA plans to continue conversations with the Fed and Treasury, as well with Member of Congress in order to direct solutions to the volatility being seen in the municipal market.

The BDA will provide updates as they become available and plans to hold regular member calls to discuss solutions going forward.

Bond Dealers of America

March 18, 2020

House Committee Considers Muni Market Support.

The House Financial Services Committee released an outline of Chair priorities for next steps in stimulus response to the Coronavirus outbreak. Included in the outline were two municipal bond provisions aimed to help the market by supporting issuers. While all details are yet to be made public, the draft calls for:

- **Support State, Territory, and Local Government Financing:** This provision would authorize a program that requires the Federal Reserve to support state, territory, and local debt issuance in response to the Coronavirus outbreak given the critical role these governments are playing.
- **Waive Matching Requirements for Municipal Governments:** This provision would waive the requirement that state, territory or local governments first obtain matching funds prior to receiving certain federal grants.

The Senate is also taking steps towards a vote on the next round of stimulus. While the current Senate draft does not include any municipal bond related provisions, the BDA continues to work with our partners on Capitol Hill to ensure they are addressed going forward.

The BDA will continue to provide updates as they become available.

Update – 3/20/2020 – Fed Expands Money Fund Program to Include Municipal Funds

Bond Dealers of America

March 20, 2020

Municipalities Face Short-Term Cash Crunch, Pushing Up Borrowing Costs.

The municipal bond market may be exempt from taxes, but it hasn't been sheltered from a record-setting investor cash grab.

A muni-market selloff that started last week is snowballing, pushing up state and local authorities' cost of borrowing over a one-week period. Investors pulled $12.2 billion from municipal bond funds over the week ended March 18, the most of any week on record, according to Lipper. The second-largest outflow was $4.5 billion.

Interest rates have spiked to 5.2% on floating-rate municipal securities called Variable Rate Demand Notes, or VRDNs, up from 1.3% last week. That short-term rate—the cost of borrowing for one week—was higher than municipalities' longer-term rates. The 30-year benchmark municipal bond yield was 3% on Thursday afternoon.

Continue reading.

Barron's

By Alexandra Scaggs

Updated March 19, 2020 4:59 pm ET / Original March 19, 2020 4:14 pm ET

[The Fed Is Now Buying Munis, More or Less.]

The Federal Reserve is expanding its program to bolster money-market funds by extending its support to municipal debt, as well.

The Fed's original money-market lending program, introduced late Wednesday, was created to finance banks' purchases of short-term corporate securities known as commercial paper (specifically from money-market funds). After this latest expansion, the Fed will also finance similar bank purchases of municipal debt maturing in less than one year.

In a typical transaction, a bank will buy short-term municipal bonds from a money-market fund or funds, and then pledge those bonds to the Fed as collateral for a cash loan. As of today, the interest rate on that loan would be 0.5%. These Fed loans will end at the same time the municipal bonds reach maturity. So the program is, in effect, the Fed buying the bonds from banks, in exchange for regular interest payments from those banks.

Continue reading.

Barron's

By Alexandra Scaggs

March 20, 2020 12:13 pm ET

Move by Fed May Help Shore Up Short-Term Borrowing for States and Localities.

The municipal bond market is experiencing a massive crunch as investors react to the coronavirus pandemic.

The Federal Reserve took action this week that could help bolster state and local governments' access to short-term borrowing as the coronavirus crisis pressures their finances.

For some states and localities, short-term debt is an important source of cash for covering expenses at times when tax revenues are not rolling in. But the virus outbreak has been driving turmoil in the municipal bond market, threatening the flow of this type of lending.

Demand for municipal debt has collapsed as the disease outbreak disrupts nearly every corner of the U.S. economy. The pandemic-driven downturn is also stoking worries that state and local tax revenues could take a sizable hit, while at the same time governments spend big to combat the disease.

"Basically there are no buyers for municipal bonds at both the long end and the short end of the curve," said Michael Belsky, executive director of the Center for Municipal Finance at the University of Chicago's Harris Public Policy school.

Fleeing investors caused the roughly $3.8 trillion municipal bond market to hemorrhage a record $12.2 billion from municipal-bond mutual funds during a week's time ending Wednesday.

Some state and local government advocates are making a case that the federal government should intervene deeper into the municipal bond arena to help states and localities weather the pandemic. There's at least one proposal in the U.S. Senate to head that direction.

Emily S. Brock, director of the federal liaison center for the Government Finance Officers Association, applauded the latest move by the Fed. But she added: "We do need to open up the spigot a little bit wider in order to get that shot of adrenaline in our space."

States, cities and other local government entities around the U.S. commonly issue long-term debt to finance things like school construction and highway and mass transit projects. Bonds like these are usually paid off over many years.

But some also borrow on a short-term basis to maintain adequate financial liquidity. Tax payments can come in bursts at different times of year, while on the other side of the ledger governments must have consistent funding on hand to cover wages and other operating costs.

"There's a mismatch," said Bart Hildreth, a budgeting and finance professor at Georgia State University's Andrew Young School of Policy Studies. "You have cash flow deficits during the year."

To deal with this dynamic, states and localities might borrow short-term with the anticipation of collecting tax revenues in the months that follow and then using that money to repay the debt.

Unlike a 20-year bond that might be issued to build a bridge, this sort of short-term "cash flow borrowing" tends to involve debt that matures within the course of a fiscal year.

"It's a pretty regular feature of the borrowing plans of the moderate- to large-sized governments," Hildreth said. "Same thing with states."

But a concern now is that the upheaval in the municipal bond market is causing the investor cash that would normally be available for short-term state and local borrowing to dry up.

"Nobody's purchasing," said Brock. "All of the supply is being held on the dealers' books. And so we have a bit of a challenge."

This is where a move the Fed announced on Friday could help. Earlier in the week, the central bank announced that it was establishing a new Money Market Mutual Fund Liquidity Facility.

The general idea with this entity is to channel money towards money market mutual funds, supporting the flow of credit, and also keeping the funds functioning smoothly while the economy is in flux and as they meet investor demand for withdrawals. The funds are a common investment for households and businesses.

Under the program, the Federal Reserve plans to offer loans to banks and other financial institutions that purchase certain assets from the funds as collateral. What the Fed did on Friday is expand the list of eligible collateral to include highly-rated, short-term municipal debt, with a maturity of one year or less.

Tim Blake, managing director of public finance at Moody's Investors Service, said a main benefit for state and local governments from the Fed facility is that it could provide investible money that the money market funds could use to purchase short-term state and local debt.

That could be especially important at a time when states and localities are facing huge uncertainties over how the coronavirus will affect their costs and revenues.

“There are probably going to be many government issuers and not-for-profit issuers that are seeing significant revenue declines in the coming months, and the need for some borrowing,” he said.

“This would allow the funds to purchase cash flow notes issued by governments,” Blake added.

Belsky, at the University of Chicago, said that, “basically the federal government is becoming the investor of last resort.”

Hildreth noted the Federal Reserve did not extend similar programs put in place in response to the Great Recession to cover short-term municipal debt. “Many of us thought they should have done it back then,” he said. “It shows that they have assessed the situation more severely this time that state and local governments are facing.”

But how effective the program will be in aiding state and local governments will depend partly on how banks respond.

“It’s really whether they need to use that asset or not,” said Natalie Cohen, president and founder of National Municipal Research. “How meaningful it’s going to be is questionable.”

Brock suggested there are ways the federal government could go further to help state and local governments through the municipal bond market. For instance, if the federal government were to somehow hold municipal debt of all types and maturity durations, or if it purchased what are known as Variable Rate Demand Notes.

This week, U.S. Sen. Bob Menendez, a New Jersey Democrat who serves on the Senate Banking Committee, introduced a bill that would allow the Federal Reserve’s board to authorize federal reserve banks to directly buy and sell muni bonds of any maturity under “unusual and exigent circumstances.”

The senator said that his legislation would provide state and local governments with federal support in financing the costs tied to the coronavirus outbreak, and other future emergencies.

But Tom Kozlik, head of municipal strategy and credit with Hilltop securities, said in a brief issued on Friday that there is not enough information available yet to know if the bill would solve the liquidity crunch facing the long- and short-term municipal bond market.

“The devil could be in the details here,” he wrote.

Looking ahead, Belsky pointed out that many of the nation’s public works projects are financed using municipal bonds. If the nation slips into a full-blown recession due to the coronavirus, he said, infrastructure investment could be key to kickstarting a recovery.

Route Fifty

By Bill Lucia,

MARCH 21, 2020

Bill Lucia is a senior reporter for Route Fifty and is based in Olympia, Washington.

[NABL Sends Letter to Congress/Treasury on COVID-19 Economic Stimulus Package.]

In response to the COVID-19 pandemic and the economic stimulus package moving through Congress, NABL has submitted a letter to Congress, as well as to Steven Mnuchin, Secretary of the U.S. Treasury.

In the letter, NABL asks Congress and the Treasury to adopt certain bond-related proposals that will allow state and local governments to access much needed capital now, at a time when support to our communities is of paramount and immediate concern. Additionally, the tools we discuss will position state and local governments to mitigate damages affecting our nation.

You can find the letter here.

IMMEDIATE MEMBER REQUESTS:

(1) Please send the NABL letter to your Senator and Congressperson. It is important they hear from their constituents especially as decisions are happening so fast. Find your Senator here and your Congressperson here. You can either deliver the letter as an attachment (if their contact form allows), or hyperlink the letter, available on NABL's website here.

(2) Senator Menendez/Senator Perdue Municipal Bonds Emergency Relief Act. We are asking our members to encourage your Senators to support the inclusion of the Municipal Bond Emergency Relief Act in the final package currently under construction. This bill would encourage the Federal Reserve to invest in municipal securities immediately. It is important you convey: (a) the liquidity crisis in the tax-exempt market, and (b) how much it would help if the Fed was authorized to acquire municipal bonds.

For any questions, please contact Jessica Giroux, Director of Governmental Affairs at jgiroux@nabl.org, (518) 469-1565.

Yields on Transportation-Related Muni Bonds Are Climbing. It's Too Soon to Buy.

Debt issued by entities like New York's Metropolitan Transportation Authority has fallen in price, sending yields higher, as the coronavirus crisis chokes off ridership, and revenue, but analysts say it is too soon to buy.

The MTA and other transportation-related issuers appealed for federal help this week, and Moody's said Friday it expects government support for the agency, "given MTA's unmatched essentiality to the regional and national economy, especially during a post-coronavirus recovery." But the credit-rating company still said it may downgrade the MTA's transportation-revenue bonds.

Municipal debt in general has sold off sharply, pushing up borrowing costs for states and local authorities and prompting the Federal Reserve to expand efforts intended to keep markets running smoothly to include short-term munis. The transportation-related corner of the market has been under particular strain.

Continue reading.

Barron's

By Leslie P. Norton

Updated March 21, 2020 3:41 pm ET / Original March 20, 2020 7:01 pm ET

Hospitals, Cities Hit by Surging Interest Rates in 2008 Echo.

- **As cash yanked from market, yields on variable-rate bonds jump**
- **The rates on tens of billions of dollars of debt surge**

On Wednesday, as a hospital system in Memphis, Tennessee, was preparing for how to combat the spreading coronavirus, the havoc the pandemic was causing on Wall Street rippled down with its own financial hit.

Investors were rapidly hoarding cash as the economy grinds to a near halt, creating an exodus from the corner of the municipal-bond market where the health-care provider had raised cash.

With short-term yields surging, U.S. Bank more than doubled the interest rate on $124 million of variable-rate bonds issued by Methodist Le Bonheur Healthcare to 5% — threatening to add almost $4 million a year to its annual debt payments.

The liquidity crisis that's racing through financial markets is delivering similar blows to local governments, hospitals and non-profits nationwide. At least $34.6 billion of municipal bonds with yields that reset daily have seen their interest rates surge by 2 percentage points or more in the last two days, according to data compiled by Bloomberg. And an index of tax-exempt debt with variable interest rates reset to yield 5.2% on Wednesday, the most since 2008.

"There's a tremendous amount of fear and concern in the market right now, and I think that when you see that panic signal going off, it's not a surprise that clients are rushing to cash," said Kristian Lind, a senior portfolio manager for Neuberger Berman.

The interest-rate hikes come as Wall Street's municipal-bond desks are dealt blow after blow, with state and local debt headed for the worst monthly rout since 1987, according to Bloomberg Barclays indexes. With investors pulling money out of mutual funds, managers are being forced to dump securities to raise cash.

Variable-rate municipal bond are one of the easiest investments to unload because they can always be sold for 100 cents on the dollar as frequently as every day. Banks are required to buy the securities if there aren't enough buyers, giving them a strong incentive to raise the rates so they don't have to take unwanted debt into their inventories.

Kristin Kelly, a spokesperson for U.S. Bank, which serves as what's known as the remarketing agent on the Methodist Le Bonheur's debt, declined to comment. Sarah Farley, a spokeswoman for the health-care provider, did not have an immediate comment.

The rising rates echo what happened in 2008, when much of the variable-rate municipal market unraveled after the real estate bubble burst. The market for so-called auction-rate securities collapsed completely as investors dumped them en masse, while the yields on other bonds surged to 8%.

An index of variable-rate munis spiked higher as investors hit exits
Brian Mayhew, the chief financial officer of the Metropolitan Transportation Commission in San Francisco, watched that debacle foist spiraling bills on his agency and is now seeing it unfold again.

He said he's been told to expect a "shock" when the rate resets on his agency's bonds, whose interest payments are about $4 million a year. A 1 percentage point increase in its interest rate would increase costs by about $350,000 a month, he said.

The higher rates are "real money," said Mayhew.

The sell-off is coming just as banks' inventories of the securities usually swell around this time of the year as Americans sell them in order to pay their tax bills. Lind, the Neuberger Berman portfolio manager, said the financial market havoc has created a "perfect storm" that's giving banks a strong incentive to increase the interest rates to lure buyers back.

"Whoever can set their rates the cheapest is most likely going to be sitting on less inventory between now and tax time," he said.

Abrupt Shift

The Memphis health care system is among the dozens that have been affected. Bonds issued by the state of Oregon issued for veterans' projects were reset to yield 5% on Wednesday, up from 1.92% on Monday. Bonds issued for an art museum in Kansas City, Missouri, which had to shut its doors until April due to the coronavirus, also saw its bonds reset to 5%, up from 1.92% on Monday.

The tax-time uptick in yields is usually a short-lived phenomenon, and this time may be no different. But it's an abrupt shift for borrowers that had been paying near zero interest rates for years.

Mayhew joked that he would consider buying his tolling agency's debt because the shift higher in yields is likely to be short lived.

"I don't think we're going to hate the whole market if we get a couple of bad months," Mayhew said.

Bloomberg Markets

By Amanda Albright and Danielle Moran

March 18, 2020, 10:47 AM PDT Updated on March 18, 2020, 1:31 PM PDT

[Fitch Rtgs: Coronavirus Pressure Builds for NFP Hospitals, Health Systems]()

Fitch Ratings-Austin/New York-19 March 2020: Not-for-profit (NFP) hospitals and health systems, particularly those that are higher rated, should have sufficient financial cushion to absorb an increase in operating costs and the effects of a shift in volumes associated with the spread of the coronavirus without meaningfully affecting credit profiles over the short term, says Fitch Ratings. While we do not initially expect sector-wide rating changes, smaller single-site facilities with lower liquidity levels are at heightened credit risk. Beyond the near term, risks associated with the economic disruption caused by the outbreak are expected to increase pressures on operating margins for all providers.

For the majority of rated credits, Fitch expects that the coronavirus will cause delayed earnings as elective procedures are temporarily suspended, but these will resume after the crisis abates.

Lower rated, typically smaller, single site facilities, and those credits with comparatively lower liquidity levels, particularly in areas with a high concentration of people who are 65 and older, are more vulnerable to near-term pressures. Credits such as these will be far more constrained at their current rating level as they are unable to easily absorb declining reimbursement as more lucrative elective surgical cases are replaced by medical volumes. They will also be challenged to manage the rising expense pressure due to the influx of coronavirus volumes that will require additional staffing and supplies, potentially at a significant premium.

Hospital staffing levels may become a greater concern if a significant number of staff become subject to isolation or furlough. This could not only reduce hospital capacity but also increase costs in the form of premium staffing, such as agency employment and overtime. The sector’s ability to begin quickly testing for the virus in order to more rapidly identify and quarantine an infected patient or rule out infections among staff will be critical for containment and will help hospitals managing their care resources.

All hospitals have protocols in place for viral outbreaks, and prior epidemics, such as Influenza A H1N1, and natural disasters that have significantly challenged operations have typically not affected hospital credit. However, while the healthcare sector has responded extremely well to past crises, the scale of the coronavirus pandemic is unprecedented. Severe disruptions to operations and longer-term economic pressures could affect provider and consumer decisions for years to come. With this outbreak, hospitals will very likely end up at peak capacity levels or beyond for an undetermined amount of time, with high demands for specific services such as intensive care unit beds and ventilators. The mortality rate of the coronavirus at least initially appears to be much higher than that of ordinary influenza and the duration and severity of the epidemic in the US remains uncertain. The crisis in Italy has shown how health systems can quickly become overloaded and struggle to triage healthcare needs.

While the immediate effects of the outbreak will be challenging but manageable for higher rated hospital credits, medium- and longer-term risks will weigh on the sector, particularly if the outbreak continues throughout 2020 and macroeconomic conditions deteriorate for a prolonged period. Lower-rated hospitals with lower liquidity buffers that take a significant financial loss over the next few months will be limited in their ability to respond to any operational issues, particularly in light of significant declines in unrestricted liquidity levels with recent market activity.

Over the medium term hospitals may face sustained increases in supply costs, ongoing spending for future preventative measures, and delays in expansion projects, which would lead to deterioration in operating margins and pressure ratings. Longer-term rating concerns relate to the virus’ negative economic effects on local economies, which in turn could lead to reduced volumes and a weakened payor mix well after the initial effects of the coronavirus are managed. This is particularly a risk for smaller, less diverse economies, particularly locations dependent on travel, tourism and entertainment, oil production, and hospital districts that depend on tax revenues.

This is an exceptionally fluid situation at the moment, and Fitch will continue to monitor incoming information and update the market with opinions, analysis, and rating actions as appropriate.

Contacts:
Kevin Holloran
Senior Director, US Public Finance Healthcare
+1 512 813-5700
Fitch Ratings, Inc.

111 Congress Avenue
Suite 2010
Austin, TX 78701

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

---

Fed Backstops Corner of Municipal Debt Markets Amid Calls for Support.

The Federal Reserve said it would backstop money market funds that invested in municipal bonds, making sure they can meet redemptions.

WASHINGTON — The Federal Reserve tiptoed into the market for municipal debt on Friday, a small move that economists, lawmakers and state treasurers say should be expanded as the coronavirus places huge financial pressure on local governments.

The Fed will now let banks tap cheap loans by pledging short-term, highly rated municipal debt as collateral. That gives banks an incentive to buy local debt from money market mutual funds, creating demand for securities that had become hard to trade amid broader financial turmoil.

The move could keep the mutual funds, popular investments among ordinary workers and companies, from crashing as investors cash out. The funds will now be able to sell off their municipal bond holdings to satisfy those redemptions. It could also help soothe the market for local bonds — used to finance everything from sewer projects to public transportation — where interest rates have surged as investors flee amid coronavirus economic fears.

But it is a limited fix. The setup is probably too narrow to pave the way for state and local governments to issue bonds they might need to raise money going forward, economists said. Democratic lawmakers, a group of state treasurers, and interest groups have all urged the Fed to help municipalities more directly.

“They are trying to fix a market liquidity issue,” Skanda Amarnath, research director at Employ America, a Fed-focused advocacy group, said of the central bank’s move. “You aren’t actually addressing the issue of getting the funds to the entities.”

Friday’s announcement expanded an emergency lending program that the Fed had announced this week. The central bank said in a release late Wednesday that it would establish a so-called Money Market Mutual Fund Liquidity Facility, backed by $10 billion from the Treasury Department. That program was intended to prevent runs on the funds, which many investors use as a short-term place to stash cash for a small return.

The initial program looked much like a version the Fed used in 2008. The municipal debt addition will “enhance the liquidity and functioning of crucial state and municipal money markets,” the Fed said in its Friday statement.

The central bank has been coming out with new programs daily to keep markets functioning. From Wall Street to Main Street, Americans are hoarding cash as the coronavirus upends businesses and threatens to plunge the nation into a deep recession.

On Friday alone, it pumped up its efforts to keep dollar funding flowing overseas, increased its daily interventions in the market for short-term loans among banks and ramped up the pace of its mortgage-backed security purchasing schedule. All of those measures were squarely aimed at reducing pressures at the core of the financial system.

Among other things, the credit crunch means there are relatively few buyers for municipal bonds. As a result, yields on those securities have skyrocketed.

The timing couldn’t be worse for the municipal market to dry up. State and local governments have immense funding needs as they try to respond to the public health emergency posed by the virus, and tax revenues are expected to fall as workers lose their jobs.

Some lawmakers have been calling on the Fed to help. Representative Maxine Waters, the California Democrat who leads the House Financial Services Committee, has even proposed requiring the Fed “to support state, territory and local debt issuance in response to the coronavirus outbreak.” Senator Bob Menendez, a New Jersey Democrat, has proposed legislation that would let the Fed snap up local bonds of all maturities.

The central bank could legally buy very short-term municipal debt outright, based on the powers it is granted under the Federal Reserve Act. But it has avoided that path, partly because of the political implications. Doing so would amount to government finance, something central banks globally avoid.

“Munis are a whole different ballgame,” said Ernie Tedeschi, policy economist at Evercore ISI. “Now all of the sudden you run into problems about favoritism, regionalism and picking winners and losers.”

A group of state treasurers sent the Fed’s chair, Jerome H. Powell, a letter on Friday requesting that it use that authority anyway. The Democratic Treasurers Association wrote that “states are taking unprecedented actions to expand health care capacity” and that “at the same time, tax revenues are reducing and financial market turbulence could freeze the municipal bond market.”

“We are seeking the Federal Reserve’s support to ensure that financing constraints do not hinder the necessary response,” they said.

The New York Times

By Jeanna Smialek

March 20, 2020

Fed Backstop for U.S. Muni Market May Ease Some Rate Pressures.

CHICAGO — The battered U.S. municipal bond market could get a limited boost from the Federal

Reserve’s announcement it was expanding its money market support program to include short-term muni debt as collateral, analysts said on Friday.

Yields in the $3.8 trillion market where states, cities, schools and other issuers sell debt, have climbed dramatically amid a selling frenzy by investors scrambling for cash as coronavirus fears wreak havoc on markets.

Loans will now be available “to eligible financial institutions secured by certain high-quality assets purchased from single state and other tax-exempt municipal money market mutual funds,” through the Money Market Mutual Fund Liquidity Facility the Fed set up on Wednesday, the U.S. central bank said in a statement.

The move is limited to highly rated muni debt with maturities that do not exceed 12 months.

Even so, the iShares National Muni Bond ETF , which tracks overall municipal bond sector, jumped almost 4% after the news and was last up about 0.9%.

Greg Saulnier, a Municipal Market Data (MMD) analyst, said while help was desperately needed, there was no immediate change in the tone of the overall market, where yields on MMD’s top-rated, tax-exempt benchmark scale were poised on Friday to add to Thursday’s 50 basis-point hike.

“I don’t know how much impact that’s going to have on stabilizing the rest of the market,” he said, noting the Fed was only targeting short-term debt.

But Matt Fabian, the head of market and credit research at Municipal Market Analytics, welcomed the move as a way to help stabilize municipal bond liquidity.

“It will greatly reduce the pressure on the muni money markets to cover investor redemptions while not tanking the value of the underlying municipal bonds they hold, specifically short maturity bonds and notes,” he said in an email.

He added that most of the market’s liquidity pressure “is exactly in this part of the curve, because investors are converting many of their financial assets to cash without regard to what those assets are,” he added.

Investors pulled $4.28 billion from tax-exempt money market funds in the week ended March 18, according to Lipper. An astounding $12.2 billion fled muni bond funds.

Dan Solender, director of the municipal bond group at Lord Abbett, said short-term borrowing costs could fall.

“Right now many of these money market securities are stuck on dealer/bank balance sheets and they keep moving rates higher to try to entice buyers,” he said in an email. “So it will help to clear up some balance sheet space, which could be used to buy longer municipal bonds, but it remains uncertain how much of an impact that would have.”

MMD’s one-year, short-term spot rate has risen from 0.70% on March 10 to 2.02% at Thursday’s close.

By Reuters

March 20, 2020

(Reporting by Karen Pierog; Editing by Alden Bentley and Tom Brown)

[Muni Market Goes Topsy-Turvy. The Federal Reserve Has Stepped In to Help.]

It's not every day that closed-end municipal bond funds with relatively low leverage start trading at a 10% discount to their net asset value. For anyone who has watched markets over the past week, however, it is clear that these aren't normal times.

Investors fled municipal bond funds en masse during the week ended March 18, with the $12.2 billion outflow setting a record.

That rush into cash caused the muni market's yield curve to invert—in other words, it pushed short-term municipal bond yields above longer-term yields, as managers tried to sell more-liquid securities. The benchmark bond yield for a AAA-rated three-month muni bond, for example, climbed by 0.6 of a percentage point to 2.84% by early Friday. The five-year AAA bond, in contrast, was yielding 2.66%.

Continue reading.

Barron's

By Alexandra Scaggs

March 20, 2020 4:26 pm ET

[Fed Backstops Corner of Municipal Debt Markets Amid Calls for Support.]

The Federal Reserve said it would backstop money market funds that invested in municipal bonds, making sure they can meet redemptions.

WASHINGTON — The Federal Reserve tiptoed into the market for municipal debt on Friday, a small move that economists, lawmakers and state treasurers say should be expanded as the coronavirus places huge financial pressure on local governments.

The Fed will now let banks tap cheap loans by pledging short-term, highly rated municipal debt as collateral. That gives banks an incentive to buy local debt from money market mutual funds, creating demand for securities that had become hard to trade amid broader financial turmoil.

The move could keep the mutual funds, popular investments among ordinary workers and companies, from crashing as investors cash out. The funds will now be able to sell off their municipal bond holdings to satisfy those redemptions. It could also help soothe the market for local bonds — used to finance everything from sewer projects to public transportation — where interest rates have surged as investors flee amid coronavirus economic fears.

Continue reading.

The New York Times

By Jeanna Smialek

March 20, 2020

[Fed Includes Municipal Debt in Money-Market Lending Backstop.]

Fed also will provide daily swap line operations with five other central banks

The Federal Reserve on Friday expanded a lending operation that will accept municipal debt as collateral amid funding strains that could intensify as cities and states combat the coronavirus pandemic.

The changes apply to a lending facility to backstop the $3.8 trillion money-market mutual-fund industry unveiled on Wednesday. The Fed originally limited the program to the $800 billion in prime money-market funds, which invest in very short-term corporate debt, but on Friday extended it to certain municipal money-market mutual funds. Municipal bond money-market funds contain $134 billion, according to the Fed.

The Fed said it will also accept highly-rated municipal debt of less than 12 months as collateral for the facility. While that might help alleviate some strains in muni-debt markets, the bulk of stresses have been in longer-dated securities that aren't eligible for the facility.

Continue reading.

The Wall Street Journal

By Nick Timiraos and Heather Gillers

Updated March 20, 2020 1:37 pm ET

Fed Expands Emergency Program to Include Muni Funds After Rout.

- **Move seen as 'starting point' for battered muni bond market**
- **Fed could expand program to include variable-rate debt**

The Federal Reserve said Friday it had expanded its emergency program to provide liquidity to money market mutual funds, allowing the purchase of assets from single-state and other tax-exempt municipal money market funds.

Shares of BlackRock Inc.'s iShares National Muni Bond ETF, the biggest municipal-bond exchange-traded fund, traded higher after the announcement.

"Thank you to @federalreserve," U.S. Treasury Secretary Steven Mnuchin said in a tweet. "Today I approved the expansion of the Money Market Mutual Fund Liquidity Facility to include municipal securities. This will create additional liquidity to support the states and municipalities!"

Continue reading.

Bloomberg Economics

By Christopher Condon, Danielle Moran, and Amanda Albright

March 20, 2020, 8:00 AM PDT Updated on March 20, 2020, 10:36 AM PDT

BlackRock, Nuveen Unwind Leveraged Muni Trades Roiled by Havoc.

- **Mutual funds unwind $1.2 billion tender-option bond trusts**
- **Move contributes to flood of debt hitting the market**

Large municipal-bond funds run by BlackRock Inc., Nuveen, Pacific Investment Management Co. and Invesco Ltd. are unwinding a leveraged investment strategy that backfired this month, contributing to the flood of debt that's been unloaded during a record-setting sell-off.

Last week, fund companies began liquidating about 75 so-called tender-option bond trusts holding $1.2 billion worth of state and local government debt, according to data compiled by Bloomberg. The trusts issue floating-rate notes to money-market funds and use the cash to buy higher-yielding long-term bonds. Mutual funds seek to pocket the difference in yield between the two.

But the strategy is backfiring because yields on short-term debt have skyrocketed as investors pull cash out of money-market funds and banks struggle to resell the notes. A weekly index of tax-exempt debt with variable interest rates spiked to 5.2% on Wednesday, the most since 2008 and almost 2 percentage points more than yields on 30-year top-rated municipal debt.

To pay off short-term notes, mutual funds are selling municipal bonds held in the trusts as collateral. That has been putting more pressure on the market, which this month has suffered its biggest losses in at least four decades amid concern about the economic and financial fallout from the coronavirus.

"There comes a point where the rate gets too high and there's no money left for the investor," said Chad Farrington, a managing director at DWS Investment Management. "If funding costs get to certain level you must reduce the leverage."

On Monday, in an effort to relieve funding pressure in the muni market, the Federal Reserve agreed to purchase short-term securities from tax-exempt money market funds, including the variable rate demand obligations that make up almost 75% of short-term tax-exempt bonds, according to Citigroup Inc. While that appears to have eased some of the liquidity strains, with prices broadly unchanged Monday, short-term yields haven't come down.

The jump in short-term rates came as investors pulled $5.3 billion out of tax-exempt money-market funds the week ending March 18, according to the Investment Company Institute. That pullback caused dealer inventory of variable demand notes to swell to $5.7 billion on March 11, a 80% increase in two weeks, according to the Federal Reserve Bank of New York. The funds sold them back to banks that act as remarketing agents and liquidity facilities. When fresh data comes in this week, the inventory will likely be much higher.

The leverage employed by mutual fund companies has amplified losses in the closed- and open-end funds as rates climbed during the sell-off.

As of Friday, returns on 15 BlackRock closed-end muni funds that use tender-option bonds and preferred shares as leverage have dropped more than 20% this month and one, the BlackRock Maryland Municipal Bond Trust, has lost 30%, according to data compiled by Bloomberg. Five of Nuveen's closed-end funds have lost more than 20% and one has lost 30.5%. Nuveen's open-end High Yield Municipal Bond Fund, which also employs tender-option bonds, has dropped 21.7% this month.

Invesco and Pimco's muni closed-end fund share prices declined 15% to 25% this month.

Those drops are far bigger than the overall municipal market's. The Bloomberg Barclays index of investment grade munis has declined 10.3% this month, the biggest drop since at least 1980, and high-yield municipal bonds have fallen 19.1%.

Spokespeople at BlackRock, Invesco and Pimco declined to comment. A spokesperson from Nuveen didn't immediately return phone and email messages requesting comment.

The tender-option bond market is about $50 billion, less than a quarter its size before the 2008-2009 financial crisis, when hedge funds that used the securities were forced into fire sales. At the time, investors shunned the debt because it was guaranteed by bonds insurers like MBIA Inc. and Ambac Financial Group Inc., which were stripped of their AAA ratings because of losses tied to toxic mortgages.

The tender-option bond programs work like this: A fund deposits highly-rated bonds in a trust, which then issues two securities — a floating-rate bond backed by a bank that is typically sold to a money market fund and another security, known as an "inverse floater," retained by the mutual fund. The fund receives the "residual" income of the underlying bonds in the trust after paying interest on the floating-rate bonds and trust administration fees.

As short-term interest rates rise, the inverse floater produces less income and in extreme cases may pay none. The mutual fund has the ability to unwind the trust by paying off the short-term bonds and turning over the residual. The long-term bonds that were placed in the trust may be used to pay-off the floating-rate notes, which could push market prices down further.

Bloomberg Markets

By Martin Z Braun

March 23, 2020, 10:47 AM PDT

— With assistance by Matthew Himel, and Natalia Lenkiewicz

Bond ETFs Will Never Be the Same After Coronavirus.

Instant price discovery and liquidity have come at the expense of unprecedented losses.

Fixed-income exchange-traded funds have always been, and will continue to be, a contentious subject. Just the idea of a liquidity mismatch between the products and the underlying securities raises tough questions. Which is the more accurate reflection of a market: the benchmark index full of bonds that don't trade or the ETF that does?

As with most things, the truth probably lies somewhere in the middle. But for now, bond ETFs across the world are trading at staggering discounts to their net asset values in what some have dubbed an "illiquidity doom loop." More recently, that spiral has ensnared even funds that invest in some of the most stable fixed-income securities in the world. It's one thing if the largest high-yield municipal-bond fund is going berserk — as I wrote last week, that could be chalked up in part to steeply repricing a few securities tied to senior-living facilities. It's quite another for supposedly safe assets to get hammered. For better or worse, fixed-income ETFs can never be looked at quite the same way going forward.

A Bloomberg News article on Friday spotlighted the $6.2 billion iShares Short Maturity Bond ETF (ticker: NEAR). As the name suggests, it holds very short-term corporate debt, with an average duration of less than a year. Some of its biggest holdings include debt from Charter Communications Inc., Ford Motor Co., General Electric Co. and CVS Health Corp., all of which matures within the next eight months. Some of these businesses have had their struggles, yes, but they're not going belly-up imminently, even with the coronavirus outbreak.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

March 23, 2020, 3:00 AM PDT

Record Exodus From Muni-Bond Funds Fuels Worst One-Day Rout.

- **Outflow is nearly triple previous record of $4.5 billion**
- **Pullback comes as sell-off sends yields surging at record pace**

Investors pulled a record $12.2 billion out of municipal-bond mutual funds in the week ended Wednesday on concern about the widening impact of the coronavirus pandemic, triggering waves of forced selling by money managers that sent yields surging at the fastest pace ever.

The exodus, almost three times larger than the previous record, was the third straight weekly outflow as fears over the pathogen tipping the U.S. economy into recession deepened. Investors also yanked a record $5.3 billion out of high-yield municipal bond funds, which hold securities most at risk from a worsening economy. Last week, those funds lost $1.7 billion.

But even the safest municipal securities have been punished, creating deep liquidity strains as buyers run for the exits en masse as the virus-induced slowdown threatens to hammer public transit systems, cities, airports and others that borrow in the $3.9 trillion market. On Thursday, benchmark 30-year yields soared by 50 basis points to 2.99%, matching the record-setting jump from a week ago.

"It's been an incredible reversal in a short amount of time," said Brian Musielak, director of fixed-income portfolio management at Commerce Investment Advisors, who said he was shocked by the size of the outflow and the day's performance.

Fear-driven sell-off creating liquidity strains

Investors earlier this month began pulling money out of municipal-bond mutual funds for the first time in more than a year, ending a streak of 60 consecutive weeks of inflows that was just four weeks shy of tying a record. The individual buyers who are the municipal market's biggest investors often move in unison, pouring in cash when prices are rising and pulling it out when they decline.

The turmoil caused by the coronavirus pandemic has been widespread. Investors withdrew an unprecedented $35.6 billion from U.S. funds that buy up investment-grade debt, according to Lipper. The Down Jones Industrial Average has fallen 31% in the last 30 days and all but wiped out gains made since President Donald Trump was elected in November 2016.

Nuveen, one of the biggest muni bond fund managers, put $740 million of its municipal portfolio up for sale Thursday, according to people familiar with the matter. The sale comes as mutual funds are under heavy pressure to cover withdrawals.

The rout marks a dramatic reversal for a market where prices reached record highs earlier this year as a steady flood of cash poured in. That dynamic has abruptly changed as investors retreat, creating a liquidity crunch just as analysts are now trying to gauge how the virtual shutdown of the economy will ripple down to local governments. The concerns have effectively locked states and cities out of the financial markets, with Wall Street banks shelving all the biggest bond offerings because of the turmoil.

"It's amazing how things turn on a dime," said Jeffery Timlin, a managing director at Sage Advisory Services, who said just a month ago there weren't enough bonds to meet demand. Now he said mutual funds and exchange-traded funds have become "forced sellers."

"It creates a negative feedback loop," he said. "Some selling begets more selling begets more selling. Everybody is scared and nobody wants to buy."

Bloomberg Markets

By Romy Varghese and Amanda Albright

March 19, 2020, 12:45 PM PDT Updated on March 19, 2020, 2:28 PM PDT

NMZ: Beware The Virus's Impact On High-Yield GO And Revenue Bonds

Summary

- The Nuveen High-Yield Municipal Bond Fund NMZ is likely to be hit hard by the economic impacts of the COVID pandemic.
- The CEF is exposed to low-rated transportation and healthcare bonds that may be hit the hardest.
- NMZ also has high exposure to struggling city governments that are likely to face steeper financing costs and lower tax revenue.
- To make matters worse, NMZ primarily holds volatile long-term bonds and is leveraged roughly 1.5X.

Continue reading.

Seeking Alpha

by Harrison Schwartz

Mar. 16, 2020

Sleepy Municipal-Bond Market Goes 'Dystopian.'

With Barclays Center gone dark, about the only action left involving the arena can be found in, of all places, the bond market. Because it could be a long while before there's another Nets game or concert, bonds backed by luxury-suite sales, sponsorships, concessions and other income streams at Barclays have slumped by 6%—a startling move in the normally somnambulant world of municipal bonds.

In fact, New York municipal bonds of all stripes are getting thumped as investors brace for the full economic impact of Covid-19.

"The word I use is dystopian," said Matt Fabian, a partner at Municipal Market Analytics, an independent research firm.

Muni bonds are ordinarily among the market's safest investments, with a default rate of 0.18%, and New York's bonds are considered best-in-class. The credit ratings for New York City and the state are both one notch below AAA, according to Moody's, which on Feb. 20 praised the state for taking "proposed strong measures to correct its unfavorable spending trend."

That was before the coronavirus struck, though. Gov. Andrew Cuomo last week described the economic cost of the outbreak as "incalculable." Mutual funds such as the Pimco New York Municipal Income Fund II have fallen below their net asset value—a sign investors fear a surge in defaults in a market used to pay for schools and fire and police departments.

"Look around the municipal bond market and you'll see issuers with high expenses, budget issues and big pension obligations," said Ed Grebeck, CEO of debt-strategy firm Tempus Advisors. "I think the market is due for a reckoning."

Plenty of people have incorrectly forecast doom before, but it's also true that during the past several years the $3.8 trillion muni bond market has gone to help pay for more speculative developments such as ballparks, nursing homes and convention centers. The bonds are regularly used to pay for college dormitories, and now that universities have sent students home, those bonds look riskier.

That said, defaults are highly unlikely among big New York muni-bond issuers, such as the Metropolitan Transportation Authority or the Port Authority. Fares or tolls could be raised, and the government surely would step in to provide financial support if necessary. In the case of the Barclays Center, Moody's says it has strong reserves and long-term contracted revenue, so it can pay bondholders even if the arena remains dark for a while.

But some of the new generation of muni-bond borrowers might have no choice but to default.

For instance, American Dream, the big new mall in East Rutherford, N.J., was paid for in part with $1.1 billion in municipal bonds. The mall, which had not fully opened yet, shut its doors Monday to help slow the spread of Covid-19. Fabian predicted the mall's owners soon will be negotiating to restructure bond payments. He reckons owners of other struggling muni bond–backed enterprises will follow.

"You'll probably see businesses blaming things on the virus that aren't the virus's fault," Fabian said.

Crain’s New York Business

by Aaron Elstein

March 17, 2020 01:16 PM

Navigating The Muni Market In Today's Environment.

Summary

- In our view, it’s premature to predict the full impact of the coronavirus outbreak on society and the US and global economies until the impacts of the COVID-19 pandemic are behind us.
- After returning 4.62% for the year-to-date (YTD) through February, the Bloomberg Barclays High Yield Index returned -8.67% during the week of March 9, leaving YTD returns at -4.68% as of 3/13/20.
- We have focused on purchasing high-quality bonds over the last several years, even in our high-yield portfolios, as quality spreads have been narrow.

Continue reading.

Seeking Alpha

By Sheila Amoroso, Senior Vice President, Director, Municipal Bond Department, Franklin Templeton Fixed Income; Christopher Sperry, CFA, Vice President, Portfolio Manager, Franklin Templeton Fixed Income; Daniel Workman, CFA, Vice President, Portfolio Manager, Franklin Templeton Fixed Income; and Francisco Rivera, Vice President, Municipal Bond Department, Franklin Templeton Fixed Income

Mar. 18, 2020

Muni Bond and Other ETFs Are Trading at Big Discounts. Here’s Why, and What to Do.

Municipal bond exchange-traded fund investors probably had no clue what hit them on Monday. Muni bonds are supposed to be staid, steady-eddy investments, and are largely owned by high-ne--worth retail investors seeking tax-free income. Because they tend to be particularly buy-and-hold investments, they can be illiquid. And that can be a big problem, as some investors found out this week.

On March 16, the bonds in the $1 billion SPDR Nuveen Bloomberg Barclays High Yield Municipal Bond ETF (ticker: HYMB) portfolio fell 0.7%—pretty good, considering the stock market’s 12% loss. But the ETF itself plummeted 9.5%, far more than the bonds themselves fell.

The truth is, when markets become volatile, many ETFs, especially those invested in illiquid market sectors, behave more like closed-end funds, trading at premiums and discounts to their underlying portfolio values or net asset values (NAVs) to use a Wall Street term. This can happen in supposedly safe investments, like the $14 billion Pimco Enhanced Short Maturity Active ETF (MINT). Pimco's MINT has long been thought of as an alternative to a money market fund; it invests in similar securities that yield a bit more. But MINT was trading at a 0.39% discount—the equivalent of "breaking the buck," a sacrosanct imperative of money funds. In more egregious cases, such as In the SPDR Nuveen ETF's case, the price dislocation was so bad it ended the day trading at $45.84 a share—an 18.6% discount to its $56.34 NAV, according to Morningstar Direct. That is dramatic in any case, but especially for a large ETF that rarely had a discount of more than 1 percentage point in the past three years.

Continue reading.

Barron's

By Lewis Braham

March 18, 2020 12:41 pm ET

[Tax-Exempt Weekly Rates Beat 10-Year Muni Bond Rates. Time To Dump Long Bonds?]

Given the announcement that the U.S. Federal Reserve cut rates to nearly 0%, first thing this morning I started looking for the market reaction, particularly in short rates in high grade municipal paper. My terminal blinked that available tax-exempt variable rate debt obligations (called VRDO among the professional muni crowd) was at $17 billion.

That caught my attention. That market was an estimated $135 billion, so when more than 10% of outstanding paper is sitting on the desks of banks like JPMorgan Chase, Bank of America, Morgan Stanley and Barclays, that says something. VRDOs generally come in $100,000 denominations. Resets can be as short as daily and as long as monthly. They are listed by broker/dealers, but they are on e-trading platforms as well, such as ClarityBidRate. The fact that just the prior week the available supply number was under $11 million made it more poignant.

Continue reading.

Forbes

by Barnet Sherman

Mar 18, 2020

[Fitch Rtgs: Coronavirus Curbs Will Pressure US Sports Facility Revenues]

Fitch Ratings-New York-10 March 2020: Sporting event postponements, cancellations and/or reduced attendance in the US as a result of coronavirus concerns will lead to revenue and profitability declines and a drain on liquidity at affected stadiums, arenas and facilities, says Fitch Ratings. League-level ratings, including the National Basketball Association's (NBA) 'A-' with a Stable Outlook, are supported by longer-term media rights contracts, which should provide better near-term protection from coronavirus concerns compared with facility ratings. The majority of Fitch-rated facilities have sufficient liquidity to absorb short-term revenue disruptions in the form of six-month debt service reserves and moderate balance sheet cash. Revenue declines may affect credit if a material number of games are cancelled or played without audiences. Team level liquidity and ownership support will be critical for ratings in the event of prolonged disruptions.

The Indian Wells tennis tournament in Riverside County, CA is the first major sporting event in the US to be postponed and South by Southwest (SXSW), a large concert festival, is the first major concert event to be cancelled. Given the spread of the virus, it is more likely leagues or governments may decide to play without audiences or reschedule or cancel games, similar to measures taken in other countries. International and domestic professional sports leagues specified best practices for interactions between players and fans and restrictions on media and other non-team personnel in locker rooms.

The NBA and the National Hockey League (NHL) have less than a quarter of the season remaining, fewer than 20 games per team, but rescheduling remaining games could be difficult given limited dates and potential travel restrictions. The playoffs are an important part of team and facility profitability, and are slated to begin soon for the NBA on April 18 and the NHL on April 8. The leagues control the schedule and could make adjustments if circumstances rapidly change. Major League Soccer's (MLS) season is just kicking off while Major League Baseball's (MLB) regular season launches in just over two weeks.

Certain universities already ordered games to be played behind closed doors. The National Collegiate Athletic Association's (NCAA) college basketball tournament, known as 'March Madness', consisting of 68 teams playing throughout the US, starts on March 17. It remains an open question as to whether colleges will limit travel or involvement for the tournament.

Fitch-rated US facilities have multi-year naming rights agreements, sponsorships and premium seating and suites contracts and other contractual revenues providing a steady revenue stream. However, some of these contractual revenue streams include provisions for a minimum number of events and could be adversely affected by a reduction in games and/or games played without fans. All major sports venues have business interruption insurance covering a portion of lost revenue but it is not clear if coronavirus-related losses would be considered insured business risks. Fitch will evaluate each facility on a case-by-case basis in the coming weeks.

Empty venues would also leave teams vulnerable to a loss of game day food and beverage concession sales, parking sales and game day tickets sales, which would lead to an overall decline in net income. While a loss in game day revenues may be somewhat offset by a reduction in game day operating expenses, this will be minimal as most arena management and concession contracts are set for the entire season, leaving little expense flexibility.

The majority of revenue at the league level is from long-term TV deals. If games were played behind closed doors, this may drive an increase in TV viewing levels and could potentially drive an increase in certain TV subscription packages but this is likely to be a short-term effect. Particularly as TV contracts are longer-term, a brief increase in viewership is unlikely to provide the league with higher bargaining power when renegotiating TV contracts.

If the current shocks to the economy precipitate a more prolonged global recession, the discretionary nature of consumer spending on sports entertainment presents some risks to the industry. However, the research behind Fitch's report 'Sports: 10 Years in Infrastructure' suggests the sector fared quite well during the 2008 recession.

Contacts:
Chad Lewis
Senior Director, Infrastructure and Project Finance
+1 212 908-0886
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Andrew Joynt
Senior Director, Infrastructure and Project Finance
+1 212 908-0594

Henry Flynn
Associate Director, Infrastructure and Project Finance
+1 646 582-4580

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:
sandro.scenga@thefitchgroup.com

Fitch Rtgs: Coronavirus Poses Risk to US University Operations, Enrollment

Fitch Ratings-New York/Chicago-12 March 2020: US colleges and universities may experience operating and enrollment pressures as the spread of COVID-19 leads to campus shutdowns, says Fitch Ratings. Most universities have a risk management plan in place to address infectious outbreaks. Institutions with limited liquidity, as measured by available funds/expenses, a greater reliance on endowment draws to fund operations, and heavy dependence on tuition revenues are, on the whole, more susceptible to operating risks and small shifts in enrollment, with less flexibility to absorb revenue volatility before financial strength is affected. Institutions with greater operating margins and cash flow flexibility should be in a stronger position to weather uncertainty.

Operating risk could result from prolonged student, faculty or staff access restrictions, namely campus closures, lower dorm occupancy, or closures of branch campuses abroad. Campus closures lasting a few weeks should not affect operating performance but revenue and operating pressures will build the longer campuses are shut down. Fees from auxiliary services have grown in relative importance and a decline in fee revenue from services, such as housing, dining and parking, could affect margins if material or sustained into the fall 2020 academic period. Universities are not typically obligated to refund auxiliary fees, which are paid up front, once the academic period begins. Some universities may chose do to so on a prorated basis if those services are no longer being provided to students. Athletics-related revenue may also be pressured as ticket sales decline or games are cancelled, although most universities do not depend heavily on revenue from sporting events.

Reliance on online classes will increase over the next few months and likely contribute to the increase in online education over the longer term. We expect online and other non-traditional programs to expand and continue to affect competitive positioning on margins. The US Department of Education relaxed some of its regulations to support necessary changes in course delivery. Enrollment may decline at universities where online learning platforms are not robust during campus shutdowns

International students make up about 5.5% of all US enrollment, although they contribute disproportionately more in net tuition revenue as international students pay full tuition rates. Universities that have a material international student population may see reduced enrollment and student revenue pressure in the 2020-2021 academic year. While doctorate-granting and research institutions have more international students, the risk is mitigated somewhat by these universities' diverse revenue bases and typically stronger financial profiles. For domestic students, pressure may exist to choose an institution closer to home. Colleges will be closely monitoring the 'summer melt' this year as an inability to budget for shortfalls could aggravate operating pressures. The most selective institutions will likely fare better overall, as they have capacity to flex into a larger pool of applicants.

Market declines will negatively affect endowments but is unlikely to have a significant impact on ratings. Our ratings generally ignore investment gains/losses and draws are structured to remain smooth against a rolling asset base value. Endowments most susceptible to market swings tend to be the largest and most permanently restricted but these are typically held by highly-rated universities that do not rely on endowment draws.

Public university funding is one of the first things cut when states' budgets are pressured and current overall funding remains below pre-recession levels. The implications for state budgets relating to the coronavirus are still developing with the potential for revenue losses tied to reduced economic activity and increased spending for prevention and treatment measures. The depth and breadth of these effects, which remain unclear, will determine whether states materially reduce public university funding.

Contacts:
Emily Wadhwani
Director, US Public Finance Higher Education
+1 312 368-3347
Fitch Ratings, Inc.
One North Wacker
Chicago, IL 60606

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

---

Fitch Ratings: Coronavirus Effects for U.S. States and Locals Still Developing

Fitch Ratings-New York-12 March 2020: The vast majority of U.S. state and local governments are well-positioned to absorb the near-term credit implications from the coronavirus outbreak, but the situation remains uncertain and is evolving rapidly, according to Fitch Ratings.

Local government fund balances are generally robust and state governments typically benefit from exceptional inherent budget flexibility. Some governments, as reflected in lower Issuer Default Ratings (IDRs), are more vulnerable to budget strain from unexpected stress events such as the coronavirus pandemic. Ongoing market declines could increase pension liabilities and contribution needs over time. Capital markets access is generally not a concern given that states and locals typically amortize debt annually and use it primarily for deferrable capital projects. Fitch is assessing whether specific governments face near-term credit risk in this evolving situation. Fitch is reviewing economic and fiscal data, and is in regular touch with issuers.

The high IDRs for most states and locals reflect Fitch's view that they can absorb deterioration in the fiscal and economic environment without immediate effects on credit quality. For cities, counties, and school districts, Fitch's review of comprehensive annual financial reports finds that median available general fund balances were between 20%-30% of fiscal 2018 spending, reflecting the long period of economic expansion most governments have benefitted from.

Nearly all states have robust ability to adjust revenues and expenditures (including downloading costs to locals which are generally positioned to absorb them as noted above), and can tap into various balances on at least a short-term basis. States' median available governmental fund balance as a percentage of fiscal 2018 spending was a solid 8%, as states have likewise benefitted from the long period of economic expansion and generally rebuilt sizable budgetary reserves..

Coronavirus has led to increased spending by states and locals for prevention and treatment measures which are likely to escalate, and it will reduce economic activity and government revenues. Their potential depth and breadth will drive any rating changes. A severe downturn could pressure state and local governments' resilience and trigger more widespread rating implications.

Most states and some locals are susceptible to sometimes meaningful revenue declines absent policy action in the face of a significant financial market and/or economic downturn. States rely primarily on a mix of sales and income taxes, while local governments rely primarily on property taxes and to a lesser extent sales or income taxes. Governments most reliant on discretionary economic activity or directly engaged in healthcare delivery are more at risk. Dedicated tax bonds with more narrow revenue pledges are also at higher risk, though ratings incorporate an assessment of the resilience of these structures to deep historical declines, including through the Great Recession.

Fitch anticipates focusing on several factors over the coming weeks and months including:

–Tourism and visitor-related revenue such as hotel and lodging taxes;
–Sales and use taxes, or similar broad consumption levies such as general excise taxes;
–Severance taxes and other natural resource-related revenues, particularly for oil;
–Personal and corporate income taxes;
–The scope of direct government coronavirus spending;
–Labor market indicators including unemployment insurance filing claims, non-farm payrolls, and unemployment rate;
–Scope of travel or movement restrictions that limit economic activity;
–Federal measures including healthcare funding, direct consumer stimulus or industry-specific support;
–Effects of market volatility on pension systems, including annual contributions and liability burdens.

Fitch has observed anecdotal instances of coronavirus beginning to affect state and local governments with a small sample listed below. Fiscal effects are only just unfolding and Fitch anticipates more actions:

–Hawaii’s Council on Revenues recently revised the general fund revenue forecast downward by approximately $300 million over this fiscal year and next, primarily due to coronavirus effects;
–New York’s governor recently requested the state comptroller “perform a risk analysis” of the state’s revenue forecast, accounting for economic implications of the coronavirus;
–Washington’s Department of Health has requested $100 million in supplemental appropriations from the legislature for coronavirus management;
–San Francisco’s city controller recently reported sharp declines in hotel occupancy and airport traffic and he estimated city revenue losses in the tens of millions of dollars.

Fitch considers announced measures within the capacity of state and local governments to absorb at current rating levels. There will be additional measures from state and local governments including revenue forecast updates, supplemental appropriations and draws on reserve funds. Many state and local governments are also in the midst of the budget enactment process for the upcoming fiscal year and enacted budgets are likely to account for coronavirus effects to the extent possible.

Plausible estimates as to the extent of the U.S. population ultimately to be afflicted with the coronavirus are wide ranging. A macro and financial market shock can have significant knock-on events, and, depending on the magnitude and duration, the effects on the housing market and other currently unanticipated factors that could affect state and local government credit quality may need to be assessed. Fitch will continue to monitor state and local governments in the context of the shifting and complex effects of the coronavirus.

Contact:

Eric Kim
Senior Director
+1-212-908-0241
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th St.
New York, NY 10019

Arlene Bohner
Senior Director
+1-212-908-0554

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

XBRL US CAFR Taxonomy Released with New Statements, Schedules and Footnotes.

Now includes Single Audit Report schedules for municipalities and other federal grantees

XBRL US announced today the public review of the third version of the demonstration Comprehensive Annual Financial Reporting (CAFR) Taxonomy, which now includes seven financial statements, two footnotes, and two schedules from the Single Audit Report. The taxonomy will be published for a 60-day review period to give state and local governments, software providers, municipal securities analysts, and other users of government financial data, the opportunity to review the new and revised data standards and provide input on definitions, references, and the structure of the taxonomy. The taxonomy and supporting materials were prepared by the XBRL US Standard Government Working Group; it is available at https://xbrl.us/xbrl-taxonomy/2020-cafr/

The new release expands on the previous version which contained the Statement of Net Position; Statement of Activities; Governmental Fund Balance Sheet; and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances.

Version 0.3 now also includes Proprietary Funds statements for Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows. The new release also contains footnotes for Pension and OPEB; as well as the Schedule of Expenditures of Federal Awards, and the Schedule of Questioned Cost, both of which are used in the Single Audit Report.

Single Audits must be filed annually by federal grantees who expend more than $750,000 in federal funds; about 15,000 of single audit filers are state and local governments. With the enactment of the GREAT (Grants Reporting Efficiency and Transparency) Act in December 2019, data standards that render data machine-readable and fully searchable, will be required for information reported in Single Audit Reports submitted by grantees by 2023.

“With the passage of the GREAT Act for grants reporting, building data standards to accommodate Single Audit information is no longer optional,” said Marc Joffe, Senior Policy Analyst at the Reason Foundation and chair, XBRL US Standard Government Reporting Working Group, “XBRL is the most effective means to not only satisfy requirements in the legislation, but to ensure a successful rollout, resulting in greater timeliness, accuracy and automation of reported government financials.”

Materials available for reviewers include the Taxonomy, in XML and spreadsheet format, and a sample XBRL instance document. Those reviewing the taxonomy will have an opportunity to post comments related to individual elements and the structure of the taxonomy.

Members of the XBRL US Standard Government Reporting Working Group include Aquorn Inc., Bond Intelligence, DataTracks, Crowe LLP, Gray CPA Consulting, Intrinio, IRIS Business Services LLC, Lehigh University, Middle Tennessee State University, Novaworks LLC, Reason Foundation, Thales Consulting (CAFROnline), Touro College, Truth In Accounting, Northern Illinois University, the University of Maryland, the University of South Florida, and Workiva. Observers to the Working Group include NASACT (the National Association of State Auditors, Comptrollers and Treasurers) and the US Census Bureau, among other organizations.

About XBRL US

XBRL US is the non-profit consortium for XBRL business reporting standards in the US and represents the business information supply chain. Its mission is to support the implementation of business reporting standards through the development of taxonomies for use by US public and private sectors, with a goal of interoperability between sectors, and promoting XBRL adoption through marketplace collaboration. XBRL US has built standards for government agencies including the Securities and Exchange Commission, the Federal Energy Regulatory Commission, and the Department of Energy, as well as industry sponsored standards for surety insurance, municipal government reporting, and corporate actions. http://xbrl.us

Review the CAFR Taxonomy and participate in the public review: https://xbrl.us/xbrl-taxonomy/202--cafr/

Business Wire | March 9, 2020

Muni Bonds Plummet as Few Markets Are Immune From Selloff.

The S&P Municipal Bond Index posts its biggest one-day drop in more than a decade

Municipal-bond prices plunged to record lows Thursday amid a selloff in stocks and other assets, as investors dumped even gold-plated debt.

Yields jumped 58% from Tuesday through Thursday on 30-year bonds, according to Refinitiv, the biggest three-day increase since the firm began keeping records in 1981. The S&P Municipal Bond Index experienced its biggest one-day drop in more than a decade. Bond yields rise as prices fall.

As recently as Monday, the municipal market seemed like a refuge from stock volatility. With fears growing over the spreading coronavirus, investors scooped up munis, pushing yields to a nearly 40-year low.

But prices fell drastically this week after investors pulled $1.8 billion from muni-bond mutual funds over a two-week period. The outflows, which were the first in more than a year, reflect mounting investor concern that the coronavirus will drag down even stable investments such as taxpayer-funded roads and sewers. They may also signal the unraveling of a hypercharged base of buyers that crowded into tax-exempt bond funds to escape the consequences of the 2017 tax law and pushed prices to record levels.

“Today was the weakest day on record for the muni-bond market and prices fell faster than they ever have before,” said Matt Fabian, a partner at Municipal Market Analytics. “To the upside, we’ve gotten rid of some of the pricing excesses of 2019.”

Amid the selloff, the commonwealth of Massachusetts decided to wait for the market volatility to subside. Earlier in the week, it had been planning to do a $268 million bond deal on Thursday to fund its capital plan, but public officials pulled the deal Thursday morning.

On Wednesday, when the deal was still expected to go forward, the state had added a disclosure to its bond prospectus saying the coronavirus could adversely affect the state’s economy.

“There is no way to avoid financial impact,” said State Treasurer Deborah Goldberg.

Aggravating the volatility are fundamental changes in municipal-bond ownership over the past decade. There are far fewer buy-and-hold investors while mutual and exchange-traded funds have added $353 billion in the decade ended Dec. 31, an 82% increase. If investors decide to flee from those funds, they can exhaust their cash on hand and end up selling bonds at a discount.

Broker-dealer Headlands Tech Global Markets received more than 50,000 requests for bids on muni bonds per day on Wednesday and Thursday, compared with a typical 15,000, said Chief Executive Officer Matt Andresen. The number of firms that bid on each request, which typically averages around eight, has fallen to three, he said. Often, Headlands is the only bidder.

Adam Weigold, who manages $5.5 billion in municipal-bond mutual funds at Eaton Vance, said he was surprised to see so many funds selling bonds in response to outflows, rather than using cash to reimburse investors.

"I would have thought there would have been more cash out there," he said.

Several market professionals said the large number of traders working from home as part of efforts to mitigate community transmission of the virus may have further reduced liquidity in the market because their response times may have been slower without access to multiple screens and sophisticated trading floors.

Not everyone had a bad day. Mr. Weigold, encountered a seller asking 103 cents on the dollar for bonds that Eaton Vance's analysts had pegged at 110 cents. He ended up taking a pass, he said, when the seller wouldn't agree to lower the price to 101.

"For me, this is a great opportunity," Mr. Weigold said.

The Wall Street Journal

By Heather Gillers

Updated March 12, 2020 6:16 pm ET

Publicly Traded Water Utilities Draw Investors.

Stocks of publicly traded water utilities are drawing investors who are searching for sustainable investments

Publicly traded water utilities—usually one of the more stolid corners of the already-conservative utilities sector—have been on a tear for more than a year. Institutions are increasingly on the hunt for investments that meet new environmental, social and governance, or ESG, benchmarks. Meanwhile, individual investors, particularly retirees, are joining in on the rush as they look for safety and dividends.

In the 12 months ended Feb. 27, the water-utilities sector increased 23.9%, versus 10.5% for the Dow Jones Utility Average and 4.7% for the S&P 500. The stock prices of the three largest companies in the sector— Essential Utilities (formerly Aqua America), American States Water and American Water Works —rose 30.9%, 18.3% and 28.4%, respectively.

Looking for do-good stocks
One big aspect of water companies' appeal is a strong ESG profile. Water firms operate under environmental and governance mandates, and they provide an essential social service—which makes them look attractive in the current climate.

Investors searching for stocks that hit those standards don't "have much they can look at in the [utilities] sector," says Angie Storozynski, a former managing director at Macquarie Capital in New York. "Funds with strict ESG mandates cannot invest in most electric utilities because of their nukes and coal plants."

What's more, water utilities' fundamentals are much more appealing, Ms. Storozynski says. "To me, a water utility is the best kind of a utility, way better than electric or gas. Water utilities have a much longer investment horizon, lower operating risk, face lower customer-affordability pressures. They don't face technology risks."

There are also many fewer water companies on the stock market than other utilities, which means investors will crowd into a few names, driving their prices up. The whole sector consists of just nine publicly traded firms, and "there are only two publicly traded water utilities in the U.S. with a market cap above $10 billion," Ms. Storozynski says.

Reliable dividends

Dividends are another key part of water's appeal—even though on the surface their numbers don't seem to be as attractive as their peers'.

Companies in the water sector have been raising their dividends consistently—but their stock prices have risen even higher, driving down their dividend yields. The water sector's dividend yield now stands at 1.91%, compared with 2.61% for electric and 3.99% for gas, while the utilities sector as a whole yields 2.81%.

Water utilities' "dividend yields are very low versus the average for the S&P 500, and while they all consistently grow their dividends faster than the rest of the market…the total dividend-driven return for water utilities is not so big," Ms. Storozynski says.

Even so, the reliability of dividends paid by water utilities is attractive to investors, she adds.

Indeed, York Water, with an almost miniature market capitalization of about $600 million, has paid a dividend every quarter since 1816, the longest streak in U.S. stock markets, and American States Water, with a much larger market capitalization, $3.2 billion, has raised its dividend annually for the past 64 years, with an average annual total return of 15% from 2009 to 2019—not bad for a stock in a sector best known for its low risk and high regulations.

Mergers and acquisitions among publicly traded water utilities haven't been a substantial factor in recent years. Michael Gaugler, managing director for utilities and infrastructure at Janney Montgomery Scott in Philadelphia, says that there is occasional takeover chatter among the smaller names, but the potential acquirers, the larger water companies, are usually more interested in buying less expensive private or municipal water systems or systems located in a single state, to avoid multistate regulatory oversight.

He also calls water utilities a proxy for the ultrasafe but currently low-yielding 10-year Treasurys, although the sector didn't keep up with the record-shattering rise in bonds (and fall in their yields) at the end of February. Even so, "the only way this group gets, gets clobbered is if rates go the other way," Mr. Gaugler says. "And even then, it's probably a very soft landing."

The Wall Street Journal

By Nick Ravo

March 8, 2020

[S&P: Market Volatility Has Varying Impact On U.S. States' Capital Gains Tax Exposure]

Table of Contents

- Income Inequality
- Top Taxpayers' Reliance On Capital Gains
- Top State Tax Rates
- Income Tax Dependence
- Research Methodology

Key Takeaways

- In past recessions, stock market declines haven't affected U.S. state revenue collections uniformly, and thus some states are more exposed than others.
- At the same time, some states have received windfall capital gains tax revenue in recent years as the stock market has reached new highs.
- States most at risk from a drop in capital gains tax revenue rely on a disproportionate share of income tax from their top taxpayers, have high top tax rates, and derive a high proportion of their operating revenue from income tax.
- When the cycle turns, states we see as having potentially the greatest exposure to a drop in capital gains tax include in order of risk: California, New York, Connecticut, Massachusetts, and Oregon.

Continue reading.

Corporate Equity and Municipal Debt CUSIP Request Volumes Climb Higher.

Data Through February Shows Strong Volume of Pre-Market Activity

NEW YORK, March 13, 2020 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for February 2020. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a significant surge in request volume for new corporate equity and municipal debt identifiers

CUSIP identifier requests for the broad category of U.S.- and Canada-issued equity and debt totaled 5,353 in February, up 23.7% from last month and 14.0% on a year-over-year basis. (Year-over-year stats and changes measure the year-to-date totals for 2020 and historical year-to-date totals for 2019.) The increase in volume was driven by a 22.9% monthly increase in request for new U.S. corporate equity identifiers and a 62.6% monthly increase in requests for Canadian corporate identifiers. Requests for new U.S. corporate debt identifiers fell 11.8% from January to February

Municipal CUSIP request volume increased in February. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 10.8% versus January totals and 23.2% on a year-over-year basis.

"Through February, we are continuing to see strong request volume across most major asset classes, but we are not yet seeing what impact the market shock created by the COVID-19 outbreak will have on issuance," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "We will be monitoring this data closely in the coming weeks."

Requests for international equity and debt CUSIPs were mixed in February. International equity CUSIP requests increased 27.4% versus January and increased 31.7% on a year-over-year basis. International debt CUSIPs decreased 12.1% on a monthly basis and increased 53.7% on a year-ove--year basis.

To view the full CUSIP Issuance Trends report for February, please click here.

Public Finance Network Submits Letter on Economic Stimulus Bill.

On March 12, 2020, the Public Finance Network (PFN) submitted a letter to congressional leadership and the Trump administration imploring the government to keep the municipal market in mind when drafting a potential economic stimulus bill in response to the COVID-19 outbreak. The letter states that municipal bonds have the capacity to provide immediate relief to those affected and be implemented in a longer-term economic stimulus.

The letter requests to include temporary extension and permanent restoration of financing tools utilized by state and local governments, schools, hospitals, airports and special districts and other public sector entities to provide efficient and low-cost financing of critical investments and infrastructure. The three main policy suggestions in the letter include: restoration of advance refunding of tax-exempt bonds, restoration and expansion of the use of direct-pay bonds, and increased access to capital for small borrowers.

You can read the full letter to congressional leadership here. The same letter was also sent to Larry Kudlow, Director for National Economic Council and Steven Mnuchin, Secretary of the Treasury.

Some Muni Bonds Are Left Behind in Rush to Safer Investments.

Investors shy away from debt likely to be affected by coronavirus epidemic, such as travel and hospitality bonds

Municipal-bond prices have surged as the potential impact of the novel coronavirus has driven investors into safer assets. But not all bonds have enjoyed the rally, with investors shying away from riskier debt and from securities likely to be affected by the virus, namely travel and hospitality bonds.

Investors are paying less for debt from convention-center hotels and airports as the potential economic reach of the coronavirus becomes clearer. Overall prices on riskier bonds have fallen as well, with investors pulling money from high-yield funds and the S&P Municipal Bond High Yield Index experiencing its biggest one-day drop in more than three years Monday.

Some investors have become increasingly concerned that amid signs of a global slowdown, these less creditworthy bonds carry more risk than they are worth, analysts said.

“A whole bunch of municipal-bond credits are reliant on a well-functioning economy, are reliant on a well-functioning transportation industry,” said Nicholos Venditti, a portfolio manager at Thornburg Investment Management. “That’s a little scary.”

Overall, municipal-bond prices have continued to climb in the roughly $4 trillion muni market as investors seek out safe-haven investments, driving yields to a nearly 40-year low Friday, according to Refinitiv.

Muni bonds have been a sought-after investment over the past several years as falling supply and the increasing value of the tax exemption on municipal-bond interest have stoked demand. That leaves plenty of room for prices to fall as the market reacts to risks associated with the virus.

Yields rose between 12% and 35% from Feb. 28 to March 5 on a sampling of a dozen bonds backed by airports, airlines, a convention-center hotel and an amusement park, according to an analysis by Jon Barasch, director of municipal evaluations at financial analytics company ICE Data Services. The comparison is based on trade data and the firm's valuations of those bonds.

That contrasts with the broader municipal market, where yields fell 10% for five-year bonds over the same period and rose by a maximum of 3% for longer-maturity debt, according to ICE Data Services' Muni Yield Curve.

Beginning March 2, "the weakness became more prevalent," Mr. Barasch said. Yields rise as prices fall.

While municipal bonds are most often the liabilities of state and local governments with the power to collect taxes and fees, about $784.5 billion is issued on behalf of nonprofit or for-profit businesses, according to Federal Reserve data, typically for projects thought to have some public benefit, such as economic development.

Prices dropped on some bonds backed by airline payments last week, Municipal Securities Rulemaking Board data show. Bonds issued in October to build an aircraft-maintenance facility at Los Angeles International Airport traded at 115 cents on the dollar Thursday, down from nearly 119 cents on the dollar in mid-February. Bonds that financed a passenger terminal construction project at Houston's George Bush Intercontinental Airport, which last traded around 107 cents on the dollar in late 2018 and which analysts had valued at about 106, sold for 103 cents on the dollar on Friday.

Meanwhile, the S&P Municipal Bond High Yield Index dropped every trading day last week and fell more than three-quarters of a percent Monday, the biggest one-day drop since November 2016. The VanEck Vectors High-Yield Municipal Index ETF had its biggest price drop in at least five years Monday, a decline of more than 5%, as investors continued to pull money from high-yield munis.

Mr. Venditti said that the municipal market tends to react more slowly than the corporate-bond market, where bond prices have already fallen for many companies whose fates are linked to travel or economic growth. "Ultimately that lag may cost investors," he said.

For example, tax-exempt municipal bonds backed by United States Steel Corp. could fetch a yield of 2.394%, or an estimated 3.8% after taxes if sold today, according to an analysis of Bloomberg data by Mr. Venditti. That compares with an expected yield of 10.801% on the company's corporate debt.

It isn't just the infrastructure and transportation sectors that are vulnerable. High-yield muni-bond funds often contain the debt of senior-living facilities and financially distressed local governments, two borrowers looking particularly susceptible to the impact of the coronavirus. Long-term-care facilities around the country are bracing themselves after a facility in Kirkland, Wash., emerged as the site of some of the earliest U.S. cases. Meanwhile, stock selloffs and record-low bond yields are putting dents in public pension funds, threatening to drive up yearly retirement costs for local governments.

Investors pulled $128.5 million from high-yield municipal bond funds for the week ended last Wednesday, contributing to the first week of outflows from all muni funds in more than a year. Investors also pulled money out of high-grade muni funds, reflecting what Refinitiv senior market strategist Daniel Berger said may be an emerging preference for more liquid safe-haven investments such as Treasurys.

The Wall Street Journal

By Heather Gillers

Updated March 10, 2020 6:10 pm ET

Municipal Bond Issuers Halt Billions of Sales in Market Rout.

- **About $7 billion in planned sales were canceled or delayed**
- **The municipal market suffered its worst sell-off on record**

The worst municipal-bond market sell-off on record drove state and local governments to cancel or delay $7 billion of debt sales as yields soared and underwriters balked at bidding in auctions.

School districts in Nevada, Pennsylvania and Texas, as well as state agencies in Rhode Island, New York and Virginia, were among those that shelved offerings planned for this week, according to data compiled by Bloomberg.

The retreat came as municipal-bond prices tumbled sharply, driving up yields on even the safest 30-year securities by nearly a full percentage point, as panic about the spreading coronavirus rippled through Wall Street. The riskiest debt was hit particularly hard as investors pulled a record $1.7 billion from high-yield municipal funds in the week through Wednesday, according to Refinitiv Lipper US Fund Flows.

Municipal-bond sales — particularly those for lower rated borrowers — shift to a different day on occasion as banks seek more time to drum up bidders. But they're rarely postponed en masse due to broader market moves.

Amid the sell-off that followed the 2016 presidential election, some state and local governments pressed pause on many sales after a sharp up-tick in rates. At the time, New York City shelved a $1 billion sale of tobacco-settlement backed bonds and Los Angeles International Airport postponed a $436 million issue for capital projects.

Some of the largest sales postponed or moved to day-to-day status this week were $505 million in debt from the Virginia Public Building Authority, $450 million from the Ohio Water Development Authority and $340 million in pension bonds planned by Ontario, California.

Two governments in Arkansas, one in Georgia and one in New Mexico rejected bids sent in by underwriters for their sales and others received much less interest than normal, according to data compiled by Bloomberg.

Johnson City Central School District in New York had just one bidder, TD Securities, on their $10 million sale on Thursday, while in 2018 the district had five banks vying for its debt. At least one issuer, Merrimack County, New Hampshire, didn't receive any takers on its $17 million short-term note sale, data collected by Bloomberg shows.

Bloomberg Markets

By Danielle Moran and Sophia Sung

March 13, 2020, 7:40 AM PDT

— With assistance by Matthew Begley

[For the Muni-Bond Market, It's the Worst Week Since 1987.]

- **State and local government debt is headed toward a 4.2% loss**
- **It wiped out $66 billion in an index's market capitalization**

Municipal-bond bankers, traders and investors are closing out their worst week since 1987.

State and local government debt is headed toward a 4.2% loss, the biggest weekly drop since at least May 1987, according to data compiled by Bloomberg. That wiped $66 billion from the Bloomberg Barclays municipal-bond index's market capitalization.

It's unclear whether more pain is ahead as the coronavirus threatens to shut down broad swaths of the economy and causes fearful Americans to pull out their cash. The market showed signs of stabilizing on Friday, much to the relief of investors who saw 30-year benchmark yields jump about half a percentage point on Thursday alone, a record. Yields were mostly unchanged on Friday afternoon.

UBS Financial Services strategists said in a note on Thursday that they expect more volatility until there are signs of containment of the virus. They said investors are likely to keep pulling their money from mutual funds, which could slow down a rebound in prices.

People in the industry can commiserate with others, like stock traders, who had a bad week, too. In 1987, municipals at first felt the hit alone. That May, the state and local securities market fell 5% in a week. Later that year, the stock market crashed in a rout known as Black Monday, which wasn't rivaled until this week.

Bloomberg Markets

By Amanda Albright

March 13, 2020, 12:33 PM PDT

[Oil Crash Slams Municipal Bond Issuers (Podcast)]

Alaska is among several U.S. states that need much higher oil prices to fund their budgets. Bloomberg reporter Fola Akinnibi joins hosts Amanda Albright and Joe Mysak to assess the outlook after the crude market tumbled. Plus, muni market mayhem as spreads and volatility spike.

[Play Episode]

Bloomberg Markets

March 12, 2020 — 9:55 AM PDT

S&P: U.S. Oil-Producing States' Fiscal Preparedness Varies As Prices Collapse

NEW YORK (S&P Global Ratings) March 11, 2020–A sustained period of low oil prices is likely to generate negative credit pressures on U.S. oil-producing states (Alaska [AA/Stable], Louisiana [AA-/Stable], Montana [AA/Stable], New Mexico [AA/Stable], North Dakota (AA+/Stable), Oklahoma (AA/Stable), Texas (AAA/Stable), and Wyoming (AA+/Stable)). While shock declines in commodity prices are not new, the timing of this latest rout has potential to upend recent fiscal and economic improvement. It was not until last year–nearly five years after the last price rout–that S&P Global Ratings observed all oil-producing states having positive economic growth (see "With Oil Price Volatility, Recent Economic Gains In U.S. Oil-Producing States Are at Risk," published March 12, 2019, on RatingsDirect). If prices do not rebound quickly or if states fail to make timely budget adjustments, we may see varying degrees of lower-than-expected year-end results for fiscal 2020.

Any sharp pull-back in exploration and production is likely to inflict considerable strain on the economies of oil-producing states, particularly those that lack diversification. Should those states slip back into an economic recession, the three hardest-hit employment sectors will likely be construction, natural resources, and mining; manufacturing; and trade, transportation, and utilities.

The price shock will likely result in many states reconsidering current revenue forecasts and revising proposed fiscal 2021 budgets. S&P Global Ratings recently lowered all of its West Texas Intermediate (WTI) and Brent Henry crude oil price assumptions this week (see "Unrestrained Supply Swamps Oil Outlook: S&P Global Ratings Revises Oil & Gas Assumptions," published March 9, 2020, on RatingsDirect). WTI was revised to $35/bbl for 2020 and to $45/bbl for 2021 from $55/bbl. For fiscal 2020, most states had a price assumption of $50/bbl or higher when enacting their budgets.

S&P Global Ratings has long held that the outsized budget reserves of oil-producing states have provided an effective fiscal cushion during a transition to lower oil prices. Over the past five years, a changing economic outlook and a wide range of fiscal adjustments resulted in an easing of the negative pressure facing state credit quality. However, a fiscal shock to these states, so soon after their economic recovery, is likely to create a challenging budgetary environment.

What we are watching in oil-producing states

Alaska, the state most reliant on oil-related revenue, has depended on reserves to balance its budget since fiscal 2015. A period of austerity and using its vast investment earnings for general operations have provided recent budget relief as traditional reserve balances declined. However, equity market volatility and low oil prices, with already deep expenditure cuts, may limit the state's fiscal flexibility.

While Texas is the nation's largest producer of crude oil and natural gas, its economy has generally shifted toward broad diversification spurred largely by strong demographic trends and growth in the technology and service industries. Nevertheless, the state's extensive oil and gas activities have contributed to its strong economic growth. Following the last oil price shock, Texas' economy grew faster than all other oil-producing states, with real economic growth among the top ten of all states nationally.

Given their size, North Dakota and Wyoming are highly susceptible to energy market volatility, undergoing significant employment growth and contraction during the energy market's boom-an--bust cycles. While mining-related revenue makes up a significant portion of the states' budgets, each has sizable operating reserves to offset revenue volatility. However, Wyoming has been running substantial operating deficits for years as the result of declines in coal severance tax, which increased oil production has not entirely offset. Louisiana, which previously used one-time budget measures (including using reserves) to balance its budget, has over several years continued to work to strengthen its reserves position to help cushion potential economic softness.

Oil-related revenue makes up a small portion of Oklahoma's and Montana's budgets. However, oil production is a significant generator of statewide employment. Oklahoma was already seeing revenue softening this year. A prolonged suppression of oil and gas prices is likely to disrupt business activity and consumer spending, weakening income and sales taxes (Montana does not have a sales tax).

New Mexico, similar to other oil-producing states, has used recent increases in revenue to address pent-up service demands with fiscal 2020 budgeted expenditures increasing nearly 12% year over year. However, the state still has very strong reserve levels, budgeted at 25% of recurring spending. The state legislature has approved a fiscal 2021 budget with further boosts in expenditures. However, the governor has not yet signed it, and based on the recent oil price drop, is likely to announce substantial line-item vetoes to create a cushion against potential revenue decline, with an emphasis on cutting one-time spending.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

S&P: Lower Oil Prices May Create Budget Pressures For Some U.S. Local Governments And School Districts

Table of Contents

Key Takeaways

- A prolonged period of low oil prices could pressure employment, assessed valuation, and the general economic outlook of local governments throughout oil-producing states.
- We believe that sales tax revenues are at greatest risk for significant declines in oil-producing states, based in part on historical performance during the previous period of low oil prices.
- Risks vary across states given industry exposure, particularly when considering the different facets of upstream, midstream, and downstream operations.

Continue reading.

A Lot of 'Game Show' Pricing In Muni Market: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses the hi-yield muni rout, and airport economy risk. Hosted by Lisa Abramowicz and Paul Sweeney.

Play Episode

Bloomberg

March 13, 2020 — 10:53 AM PDT

Risky Munis Haven't Fallen This Much Since Trump's Election.

- **Muni high-yield index fell 1.5% each of the last two days**
- **Airlines, tobacco bonds lead decline in worst month since 2016**

The coronavirus is crushing high-yield municipal bonds.

Risky state and local government debt issued on behalf of airlines, oil companies, or backed by a national settlement with tobacco companies has declined 1.5% each of the last two days as investors were spooked by the impact the virus and crashing oil prices will have on the economy. VanEck Vectors High Yield Municipal Index ETF, the biggest high-yield municipal bond exchange traded fund, declined more than 8% during the first two days of the week, though it pared those losses with a 0.4% gain as of 11:31 a.m. Wednesday.

"We're probably in for a little bit of a rocky market for a while," said Dan Solender, head of municipal debt at Lord, Abbett & Co. "The energy sector is not huge for us, but there's still a lot of investors out there that see high-yield taxables having their issues and then just decide they're going to pull money out of high-yield munis."

High yield niche sees biggest rout since Trump's win
The last time high-yield municipal bonds fell more than 1.5% in a day was Nov. 14, 2016, following Donald Trump's election, as investors speculated his plans to cut taxes and boost spending would spawn inflation and erode the value of tax-exempt debt. They were wrong on both counts. Investors later flocked to tax-exempt debt after the Republican tax-bill limited state and local tax deductions and curbed the supply of new bonds by doing away with a major refinancing tactic. Underlying inflation has remained tame, although asset prices have ballooned.

Funds are selling their most liquid bonds like tobacco to raise cash for redemptions, according to Solender.

The Bloomberg Barclays Municipal Bond High Yield Index is down 3.1% this month. It declined 6% in November 2016.

Bloomberg Markets

By Martin Z Braun

March 11, 2020, 8:45 AM PDT

Muni Bonds Plummet as Virus Fallout Throws Market into Freefall.

- **10-year municipal-bond yields climb as much as 24 basis points**
- **Municipals are getting 'mauled' as retail investors pull back**

For days, there was one corner of U.S. financial markets that seemed oddly impervious to the turmoil wreaking havoc this month: the municipal-bond market.

On Wednesday, the comparative calm in the safe haven of the state and local debt market came to an end as prices were poised for their worst drop in at least nine years.

Yields on 10-year benchmark state and local government debt jumped 22 basis points to 1.15% as of 1:00 p.m. Wednesday, heading for the biggest one-day leap since Bloomberg's records began in 2011. Yields on long-dated bonds rose 24 basis points.

"The muni market is getting mauled," said Matt Dalton, chief executive officer of Belle Haven Investments, which oversees $11.5 billion of municipal debt. "Hedge funds are dumping yield, flows are negative as everyone wants to re-balance portfolios toward equities, which we believe may be too soon to do that."

The financial turmoil caused by the worsening outbreak of the coronavirus sent yields on the safest assets to new lows earlier in the week as global equities tumbled. But after stock prices stabilized, municipal-debt prices slumped Tuesday, and accelerated the drop Wednesday, erasing earlier gains. The swings struck the new issue market, where some state and local borrowers shelved planned deals, indefinitely postponing offerings that had been scheduled for months.

"Obviously, we had not anticipated the market volatility due to the coronavirus, oil situation, and the FOMC's emergency rate cut when our original sale date had been set," said Mark Mathers, the chief financial officer of Washoe County School District in Nevada, which postponed a $215 million sale set for this week.

The spreading virus poses risks to sectors like high-yield municipals, which have seen spreads widen, and airports, which are at risk of people avoiding flights. Some investors may be trying to sell certain securities that could be impacted by the virus. VanEck Vectors High-Yield Municipal Index ETF, the biggest high-yield muni ETF, has declined 8.5% since Friday.

Municipal-bond mutual funds lost $250 million during the week ended March 4, ending 60 consecutive weeks of inflows to tax-exempt funds, according to Refinitiv Lipper US Fund Flows data. Jeffrey Lipton, a managing director at Oppenheimer & Co., said he wouldn't be surprised to see another week of outflows when they report on Thursday.

"As long as the volatility continues and the uncertainty with Covid-19, I think we can expect to see some continued credit concerns, credit pressure — which obviously flows from high-yield upward to even the higher-quality credits," Lipton said.

The state and local government sell-off marks a sharp reversal from much of the last 14 months, when demand for state and local government debt seemed insatiable. Record inflows drove down bond yields even on the riskiest segments of the market and some investment-grade bonds in high-tax states traded better than AAA-rated benchmark yields.

A New York City general-obligation bond that matures next year traded as high as 0.95% yield Wednesday, more than double the yield on a one-year Treasury bond.

Belle Haven Investments's Dalton said that the market's bid-wanted lists are "massive in terms of line items" and many securities aren't receiving any interest.

"The last time I saw deals like we are getting today was when Meredith did her 60 Minutes interview," he said referencing, Meredith Whitney, the financial analyst who erroneously predicted in December 2010 that the coming year would see a wave of municipal defaults.

Bloomberg Markets

By Danielle Moran, Martin Z Braun, and Amanda Albright

March 11, 2020, 10:41 AM PDT

Frantic Muni Sell-Off Sends Yields Surging Most on Record.

- **30-year benchmark yields surge 51 basis points to 2.32%**
- **'I don't think anyone knows what's going on,' investor says**

America's state and local government bonds are usually a haven from financial havoc. Not this time.

Waves of panicked selling are racing through the $3.8 trillion market, causing prices of even the safest securities to tumble and driving up 30-year yields by an unprecedented 51 basis points Thursday. The amount of securities being put out for bid by investment managers has surged as they rush to raise cash. And municipal junk bonds — like those backed by airlines or state tobacco settlements — are in the midst of the biggest rout in more than two decades.

"I have never seen cuts like this," said Matt Dalton, chief executive officer of Belle Haven Investments, refering to the swift drop in prices.

The sell-off marks a dramatic about face for the municipal-bond market, where prices rose steadily until last week as the securities acted as a refuge from the stock-market's slide. Yet even as investors flocked into Treasuries Thursday, state and local debt yields surged by the most on record, as those on 30-year securities soared to 2.32% from as little as 1.38% Monday, according to Bloomberg's benchmark indexes.

"It's up one day big, it's down one day big," said Jason Appleson, a portfolio manager for PT Asset Management LLC. "I don't think anyone knows what's going on."

The fear about the steadily spreading coronavirus is raising the risk of another mass exodus from the market, which is dominated by risk-averse individuals who tend to pull back in droves when prices drop. That happened in the wake of the last recession because of misplaced speculation that there would be widespread defaults and again in 2013 on concern about rising interest rates.

The unprecedented risk of a potentially virus-induced recession is making individuals reluctant to invest, and a downturn in consumer spending and travel could hit airports, convention centers and others that have issued municipal bonds. But analysts say this week's selling has been driven more by fear than credit risk.

“Historically when there have been scares like this, it creates panic selling because of the investor base,” Appleson said.

The type of securities held by high-yield funds were particularly hard hit. Some backed by Ohio’s share of the legal settlement with cigarette companies tumbled to as little as 87 cents on the dollar, a 13% drop from the average price on Wednesday. Puerto Rico sales-tax-backed bonds also fell.

Yet even bonds that have essentially no risk of defaulting, like those backed by the states of California and Maryland, also dropped. The yield on top-rated 10-year bonds is now about 1.65%, more than twice what it is on comparable Treasuries. That’s the biggest gap since at least 2001.

“Those are like 2008-type figures,” said Gabriel Diederich, portfolio manager at Wells Fargo Asset Management.

That diverging direction of Treasuries and municipal bonds is threatening to compound the losses for some investment funds, which frequently make side bets against Treasuries to protect against the risk of higher interest rates. Those losses are coming just as investors are pulling out cash, forcing them to sell municipal securities to meet the redemptions.

The amount of bonds out for bids reached $2.5 billion Wednesday, the most since 2016, as investors look to get out of their holdings, according to data compiled by Bloomberg.

“They’re getting hit on both sides,” said Christopher Lanouette, a managing director for CIBC Private Wealth Management, who said he’s getting more defensive in the current market environment. “It’s difficult to have a lot of conviction.”

Bloomberg Markets

By Amanda Albright, Fola Akinnibi, and Martin Z Braun

March 12, 2020, 9:24 AM PDT Updated on March 12, 2020, 10:46 AM PDT

Bond ETFs Face Toughest Liquidity Test Yet in Virus Turmoil.

- **Fixed-income funds are trading at discount to net asset values**
- **Arbitrage isn’t compelling amid bond market upheaval: Perlman**

Bond ETFs are highlighting signs of liquidity stress in broader markets, with cash prices trading at persistent and deep discounts to the value of the underlying assets.

The $31 billion iShares iBoxx $ Investment Grade Corporate Bond ETF closed at a discount of 3.3% to its net asset value on March 11, the largest such divergence since 2008, according to data compiled by Bloomberg. Meanwhile, the $23 billion iShares 20+ Year Treasury Bond fund’s price has dropped 5% below its net-asset value, the most ever. And even the U.S. municipal market is feeling the squeeze: The VanEck Vectors High Yield Municipal Index ETF traded at a record 8.3% discount on Wednesday.

The historical volatility roiling American bond markets has created unprecedented dislocations in the ETFs that track them. But the market makers who normally step in to repair price inconsistencies, pocketing a virtually risk-free profit, are cautious. That's because their standard process has become significantly more complicated with many of their usual price gauges are out of whack.

It's not uncommon for an ETF to drop below its net-asset value — but it is unusual to see a continuation of that. In normal market environments, such a decline presents an arbitrage opportunity for certain middlemen known as authorized participants. Typically market markers will buy shares of the ETF as its price drops and redeem these shares with the issuer in return for the underlying bonds. The authorized participant will then sell those securities to capture a relatively risk-free profit. By reducing the supply of ETF shares, the fund's price typically returns to tracking the fund's net asset value.

But as the coronavirus outbreak unleashes historical turbulence in financial markets and liquidity dries up, ETFs spanning the bond spectrum are trading at steep discounts. That dynamic will likely persist until volatility subsides and market makers have a better sense of where they can sell the underlying debt, according to UBS Global Wealth Management's David Perlman.

"The market price is going to drop down to where the authorized participant believes that they'll be able to trade the bonds. They're not doing this out of the goodness of their hearts," said Perlman, an ETF strategist at the firm. "They don't jump in until they think they can execute the redemption and make a profit from doing so."

The inherent rub is that fixed-income ETFs, which trade on exchanges and behave like stocks, are much more liquid than the securities they hold. That's fueled fears that in the event of a sell-off, investors scrambling to redeem their holdings would overwhelm the managers, or the traders that channel bonds into and out of the funds. The likes of Mohamed El-Erian of Allianz SE and Scott Minerd at Guggenheim Partners have suggested they could act as a potential destabilizing force in illiquid credit markets where they have an outsized trading share.

Now, as credit spreads blow out and investors rush for the exit, fixed-income ETFs are being put to the test. That has Peter Tchir at Academy Securities concerned that authorized participants — in the process of selling the underlying bonds to lock in the arbitrage — will exacerbate the sell-off.

"That means, to me, that we are about to enter a cycle driven by arbitrage, where there is more pressure on short-dated corporate than the market can handle, causing a vicious cycle," Tchir, head of macro strategy, wrote in a note Thursday.

So far, there's little evidence to support the theory. But there have been a few early success stories: High-yield bond ETFs. The iShares iBoxx High Yield Corporate Bond ETF, ticker HYG, ended Monday with a modest discount of half a percentage point to its net-asset value even as its price dropped by the most since 2009. The ETF actually added $409 million of inflows that day, suggesting that despite the steep sell-off, there were buyers to be found.

And while shifting cash on a short-term basis may be more challenging this week, buy-and-hold investors likely haven't been impacted by the turmoil — beyond the price of their investments falling.

"If you're a long-term investor who's looking to add an ETF position to a portfolio of bonds, for example, the trading liquidity becomes less important," said Patrick Luby, senior municipal strategist at CreditSights.

Still, it's crucial to be cognizant of each market's idiosyncrasies, according to UBS Wealth's

Perlman. While this episode likely isn't the ETF liquidity reckoning that naysayers have called for, the ease of trading an ETF is ultimately dictated by its underlying market.

"We remind our clients that you do want to take into account the liquidity of the underlying market because ultimately that liquidity is going to be reflected in the price of the ETF during these challenging periods," Perlman said. "The ETF wrapper makes it easier to trade, but it doesn't make liquidity costs disappear."

Bloomberg Markets

By Katherine Greifeld

March 12, 2020, 10:55 AM PDT Updated on March 12, 2020, 2:19 PM PDT

Fixed-Income ETFs Are Trapped in Bond Market's Liquidity Crunch.

- **Bonds ETFs trading at steep discounts as liquidity vanishes**
- **Arbitrage opportunity less attractive amid swings: Schawel**

As fixed-income markets buckle under wild swings and scarce liquidity, the strain is starting to show in bond exchange-traded funds.

Cash prices in some of the most actively traded bond funds are now at steep discounts to the value of their underlying assets. The largest debt ETF — the $74 billion iShares Core U.S. Aggregate Bond fund — closed at a 4.4% discount to its net asset value on March 12, the largest divergence since 2008, according to data compiled by Bloomberg. Meanwhile, the $31 billion iShares iBoxx $ Investment Grade Corporate Bond ETF's price fell 5% below its net-asset value on Thursday, also the largest discount since 2008.

The havoc is reigniting arguments around fixed-income ETFs, which trade much more liquidly than the assets they hold. Critics have long warned the products were a pressure point that would crack in volatile times, as investors rush to redeem their holdings during a sell-off. But just as many arguments exist that ETFs give participants in less-active markets better prices in times of stress — and an exit route.

"The ETF at least gives you some way to get out if you need to. you're going to pay up for it, but if you have to get out, at least there's liquidity somewhere," said Eric Balchunas, senior ETF analyst at Bloomberg Intelligence. "The distance between the ETF and the NAV provides a great measure of the liquidity in the underlying market."

Rampant turbulence across bonds markets is souring appetite for the arbitrage opportunity that normally keeps ETF prices in lockstep with a fund's value. Normally, middlemen known as authorized participants will buy shares of a falling ETF in order to exchange for the underlying bonds with the fund's issuer. That market maker will then sell those securities to pocket a virtually risk-free profit. The ETF's price usually snaps back to the fund's net-asset value as the supply of ETF shares is reduced.

But fear over the coronavirus's economic fallout has unleashed historical volatility in fixed income, making it harder to unload the underlying bonds. As a result, the ETFs are trading at persistent discounts as thin liquidity sidelines market makers.

“If the authorized participants felt that they could buy an ETF at a 15% discount and then turn around and sell those components to the cash market 15% higher, they would,” said David Schawel, chief investment officer at Family Management Corp. “But clearly they feel like there’s not enough activity in the cash market, therefore they can’t do that.”

The carnage is notable across the risk spectrum. A combined $14.4 billion exited from investment credit, high yield and leveraged loan funds this week, the largest withdrawal on record. And even Treasuries — regarded as the ultimate safe haven asset — have suffered this week as investors sold their most liquid securities in order to raise cash.

The stress in fixed-income ETFs is a stark contrast to the landscape in equities, where the sell-off has been rather orderly. The price of the $227 billion SPDR S&P 500 ETF Trust — the largest ETF — dropped just 0.13% below its net-asset value on March 12. The second-biggest ETF, the $164 billion iShares Core S&P 500 fund, ended Thursday with just a 0.14% discount.

And the cracks are widening. The $3.6 billion VanEck Vectors High Yield Municipal Index fund’s price fell a record 19% below its net-asset value on Thursday, the largest discount in the $4.4 trillion ETF market. And even the early success stories are starting to feel the strain. The iShares iBoxx High Yield Corporate Bond ETF’s price has dropped over 1% below its net-asset value, after ending Monday with a modest half a percentage point discount amid its worst day since 2009.

Some are spying opportunity as fixed-income ETFs become further ensnared in the bond market’s liquidity crunch. The rapid plunge in prices creates a “unique” entry point for funds trading at a discount, according to Schawel, who pointed to investment-grade corporate bond ETFs as an example.

“There’s a leap of faith if you think that you’re buying a discount because the cash markets aren’t functioning very well,” Schawel said. “If these are assets that you’re wanting to own anyway, then I think it’s a very unique opportunity to buy things at an even greater discount.”

Bloomberg Markets

By Katherine Greifeld

March 13, 2020, 9:34 AM PDT

High-Yield ETF Rout Widens Gap With Benchmarks.

The structure of credit funds at least partially exacerbated the losses and volatility.

A rush to the exits has always raised fears of a liquidity mismatch.

Ever since the introduction of exchange-traded funds tracking the riskiest bonds, they’ve been haunted by fears of a liquidity mismatch with the underlying securities when investors stampede toward the exit. And yet, time and again, those concerns have proved to be unfounded.

During the sell-off in risk assets in December 2018, for instance, the largest ETF tracking junk bonds suffered losses but in an orderly fashion, never stumbling by more than 0.9% in a single day. Even in the past two weeks, the iShares iBoxx High Yield Corporate Bond ETF (ticker HYG) took the market volatility largely in stride. So did the Invesco Senior Loan ETF (ticker BKLN) and the VanEck Vectors

High Yield Municipal Index ETF (ticker HYD), which respectively are the largest ETFs tracking the leveraged-loan market and speculative-grade munis. Sure, they declined, but never to an extent that raised eyebrows about the ETF structure itself.

Then Monday happened.

HYG collapsed as much as 6.4%, the most extreme decline since May 2010. BLKN plunged as much as 7.8% in the biggest intraday decline since inception in March 2011. And HYD crumbled as much as 6.1% in the steepest drop since August 2011, just after S&P Global Ratings downgraded the U.S.

Of course, those moves didn't exactly come out of nowhere. The S&P 500 Index tumbled 7.6% and equities worldwide plummeted in what was nothing short of carnage for global financial markets. But a look at the benchmark indexes tracked by the ETFs suggest that the structure at least partially exacerbated the losses and volatility.

The S&P/LSTA Leveraged Loan 100 Index, for instance, fell 2.84% on Monday in the largest one-day percentage drop since November 2008. But that was still less than the 3.09% decline at the close for BKLN and pales in comparison to the ETF's intraday low. Similarly, the Bloomberg Barclays U.S. Corporate High Yield Index fell just 3.12%, and the iBoxx USD Liquid High Yield Index just 3.62%, both short of HYG's 4.3% retreat. And in the biggest deviation from expectations, the Bloomberg Barclays muni high-yield index that HYD tracks fell just 0.86%, compared with HYD's 5.1% plunge.

To be fair, many funds will have some margin of tracking error with their benchmarks, especially during volatile trading days. The $77.8 billion iShares Core U.S. Aggregate Bond ETF, ticker AGG, had some trouble, for instance — its price fell 0.13% compared with a 0.35% gain for the Bloomberg Barclays index it tracks. And the SPDR S&P 500 ETF Trust dropped 7.81% while the S&P 500 itself declined just 7.6%. Those are small enough differences to even out over the course of a few trading sessions.

It's harder to explain away the deviation among the high-yield ETFs. Speculative-grade muni bonds, in particular, are notoriously idiosyncratic and difficult to move in bulk during turbulent market conditions. When trading is calm, the bonds glide higher. And so does the ETF: In 28 of the first 34 trading days of 2020, HYD and its index moved within 10 basis points of each other. On days like Monday, 10 months of price appreciation can disappear within six-and-a-half hours as market makers slash prices on low-rated health-care systems and senior-living facilities.

The high-yield corporate bond ETF has had several days like Monday in which its losses exceeded its benchmark, or vice versa. But it, too, tends to project steadiness during boom times. From Oct. 3 through Jan. 24, a period marked by steady positive returns, the ETF deviated only once from the underlying index to the extent it did on Monday.

Whether the sell-off continues unabated is an open question. U.S. equity futures soared in overnight trading Tuesday on bets that fiscal stimulus would stave off the worst-case economic scenario from the coronavirus outbreak, and the S&P 500 was up 3 percent in early trading. Each of the ETFs tracking risky debt opened higher. Crucially, global primary markets began showing signs of life for some bond issuers. These are hardly favorable conditions for the riskiest corporate borrowers, with high-yield spreads the widest in four years and double what they were just two months ago, but at least there's a hint of an opening on the horizon.

Buyers of high-yield ETFs will just have to accept that there will be days like Monday. The funds have demonstrated that they're not going to blow up spectacularly like H2O Asset Management or Woodford Investment Management. But there might still be some fireworks along the way.

Bloomberg Opinion

By Brian Chappatta

March 10, 2020, 7:43 AM PD

KBRA Releases Research – Coronavirus (COVID-19) Impacts and Fears: A Focus on U.S. Airport Credit

Kroll Bond Rating Agency (KBRA) releases a research report discussing the growing coronavirus threat and the impact that it may have at U.S. airports.

Over the last week, it has become clear that the new coronavirus' impact will not be limited to distant parts of the world. As confirmed cases of coronavirus infection and deaths increase, U.S. businesses, schools, and families have begun to significantly curtail travel. In the short run, at least, this will impact hotels, airlines, and other travel-related industries. Meanwhile, the myriad secondary effects from supply chain and other economic disruptions has led most economists to believe there is at least a 50% chance of a U.S. recession in late 2020. For the Public Finance market, KBRA notes that all these issues will likely have the most immediate impact on economically sensitive taxes (e.g., sales tax) and on passenger traffic at airports. The extent of this impact will depend on the spread of the disease, the local and federal response to containment, and the public's confidence in those efforts.

In this report, we examine the impact that the COVID-19 threat may have on U.S. airports and the layers of protection that airports typically have available to them against disruptions in air traffic and related revenues. KBRA believes that airport impacts will vary, but our expectations are that strong cost recovery processes will support debt obligation repayment.

To access the report, click here.

Business Wire

March 5, 2020

S&P: COVID-19's Potential Effects In U.S. Public Finance Vary By Sector

With the COVID-19 outbreak having spread to 40 countries around the world including the U.S., S&P Global Ratings has updated its narrative on the economic and credit implications (see "COVID-19's Darkening Shadow"). Given that update, in this report we provide insight on what we will be watching in regard to credit conditions in U.S. public finance. (Also see "U.S. Public Finance 2020 Sector Outlooks Published," published Jan. 16, 2020 on RatingsDirect.)

Key Takeaways

- The growth forecast for the U.S. economy has been reduced as a result of the spread of the virus across the globe and we have seen record volatility in the equity markets. These are not welcome developments for U.S. public finance issuers.

- The economic fallout from the coronavirus has become more acute and there are sector-specific issues that could weigh on credit quality.
- The spread and timing in the U.S. and how it is managed will ultimately determine the credit implications across U.S. public finance.

[Continue reading.](#)

Muni-Bond Buyers Get a Coronavirus Warning in California Sale.

- **An economic crimp caused by virus could stunt budget**
- **State about to sell $2.2 billion of general-obligation bonds**

It didn't take long for an issuer in the $3.8 trillion municipal-bond market to warn investors that the coronavirus rapidly spreading around the globe has the potential to wreak fiscal havoc closer to home.

California, the home of the world's fifth largest economy, told prospective buyers of the $2.2 billion of general-obligation bonds that will be sold next week that a stock-market decline or a virus-triggered recession have the potential to stunt California's revenue.

"There can be no assurances that the spread of a novel strain of coronavirus called COVID-19 will not materially impact the state and national economies and, accordingly, materially adversely impact the general fund," California said in offering documents circulated to investors ahead of the bond sale. "While the effects of COVID-19 on the state may be temporary, it appears to be altering the behavior of businesses and people in a manner that may have negative impacts on global and local economies."

California's warning comes as governments globally are trying to come to grips with the virus before the world economy tips into recession. The concerns sent the Dow falling 12% last week, including the single biggest point drop in history. Yields on top-rated U.S. state and local debt maturing in 30 years fell about 18 points last week, the biggest drop since September 2013, as investors plowed into safe havens like bonds sold by California.

While California has enjoyed a robust recovery from the recession, with credit ratings the highest in nearly 20 years and unemployment at a record low, it is vulnerable to market declines because of its reliance on the wealthy for a significant chunk of its tax revenue.

About 70% of the state's general fund comes from personal income-tax receipts and the top 1% of taxpayers accounted for 47% of such collections in 2017, the bond documents say. Such people have their fortunes tied to the stock market, with capital gains accounting for about 10% of the state's annual revenue this year. That leads to volatility generally, and "stock markets in the U.S. and globally have seen significant recent declines that have been attributed to coronavirus concerns," California said in the documents.

The state, where about 40 people are being treated for the illness, told investors that while the impact is "currently uncertain," it may factor into Governor Gavin Newsom's updated budget for the next fiscal year to be released in May.

Despite the state's warning, the bond sale will likely see strong demand from buyers, given the continuing need to invest and shelter income from taxes, said Dora Lee, vice president at Belle

Haven Investments.

California 10-year general-obligations are yielding just 7 basis points over top-rated bonds and new securities from the state have been snapped up since the federal tax overhaul capped state and local tax deductions.

Newsom's administration expects to have $18 billion in the state's rainy day fund next year, from $16 billion this year, and that could cushion the state somewhat from a recession.

California "is in a better position financially to handle the outbreak than it was even a few years before," Lee said.

Bloomberg Markets

By Romy Varghese

March 2, 2020, 10:43 AM PST

Muni Bonds Are Menaced by the Coronavirus Spread (Podcast).

Hospital and transportation muni bonds could be hurt by the spread of the coronavirus, says Kathleen McNamara, senior municipal bond strategist at UBS Global Wealth Management. Bloomberg News reporter Amanda Albright and columnist Joe Mysak weigh the outlook. Plus, an ambitious West Virginia project makes a bond-market return.

Play Episode

Bloomberg

March 5, 2020 — 10:07 AM PST
