

## **WIFIA Program Closes Two New Loans in California.**

WASHINGTON, DC, AND CALIFORNIA, AUG 3, 2018 — The WIFIA program has issued its third and fourth loans to Orange County Water District (OCWD) and San Francisco Public Utilities Commission (SFPUC). The San Francisco Public Utilities Commission received a \$699 million loan to help finance its innovative Southeast Treatment Plant Biosolids Digester Facilities Project. This is the largest loan issued under EPA's Water Infrastructure Finance and Innovation Act (WIFIA) program to date.

"Today's nearly \$700 million WIFIA water infrastructure loan reflects a core Administration priority: accelerating investment in America's water infrastructure in a way that delivers a cleaner, healthier environment and supports a thriving economy," said EPA Acting Administrator Andrew Wheeler. "This WIFIA loan will enable San Francisco to modernize its wastewater treatment facilities while creating valuable jobs in the community."

The San Francisco Public Utilities Commission will replace its outdated biosolids digester facilities with modern, efficient technology. The new facilities will transform wastewater solids into high-quality biosolids and biogas. Additionally, the new digesters will be located farther away from existing residences, feature advanced odor control, and will be built to be more resilient to earthquakes.

"Rebuilding our biosolids digester facilities is crucial to realizing our vision to transform San Francisco's largest wastewater treatment plant into a modern resource recovery facility. With the federal government's low-cost loan program, we can realize significant savings for our ratepayers and create high quality employment and contracting opportunities in parts of the City that need it most," said SFPUC General Manager Harlan L. Kelly, Jr.

The project is estimated to cost \$1.43 billion and EPA's WIFIA loan will help finance nearly half that amount—up to \$699 million. According to the San Francisco Public Utilities Commission's estimates, EPA's loan is expected to save the commission up to \$398 million through the WIFIA program's low interest rates. Project construction is expected to begin in late 2018 and be completed in 2025.

Additionally, an innovative groundwater replenishment project expansion in Orange County received a \$135 million loan to help finance its Groundwater Replenishment System final expansion.

The announcement was made by EPA's Regional Administrator for the Pacific Southwest Mike Stoker at the project's future site on Ward Street in Fountain Valley. Stoker was joined by U.S. Congressman Dana Rohrabacher, Orange County Water District Board President Denis Bilodeau, and Orange County Sanitation District General Manager James Herberg.

"This advanced water recycling and groundwater replenishment project will provide Orange County residents and businesses with an additional local drinking water supply," said Stoker. "Not only will this project protect local water resources, it will make Orange County more resilient to future

droughts.”

With EPA’s WIFIA loan, the Orange County Water District (OCWD) will purify treated wastewater from the Orange County Sanitation District to produce an additional 30 million gallons per day of drinking water, which will be stored in the Orange County Groundwater Basin. This additional drought-proof drinking water supply reduces the region’s need to import water, benefits the environment through reduced discharges into the ocean, and increases replenishment of the local groundwater source.

“WIFIA borrowing enhances the Groundwater Replenishment System’s viability,” stated Bilodeau. “The WIFIA loan program creates another tool in the proverbial toolbox to finance critical water infrastructure projects like ours. The cost of borrowing is less than the private market would have been, which helps make the cost of the final expansion feasible to ratepayers. OCWD is trying to reduce reliance on imported water from the Colorado River and become self-sufficient, but OCWD won’t make water at any cost.”

The Orange County Water District estimates the project will cost \$282 million. EPA’s WIFIA loan will help finance nearly half that amount—up to \$135 million. Because the WIFIA program offers loans with low interest rates, the Orange County Water District is expected to save up to \$16 million compared to municipal bonds. Project construction is expected to create 700 jobs and is scheduled to begin in 2019 and be completed in 2023.

In addition to significant cost savings, a WIFIA loan permits extended repayment terms of up to 35 years, the ability to repay at any time without penalty, subordination in payment priority to other debt, flexibility when the loan is drawn with no interest accrual until funds are disbursed, and the opportunity to use the loan with other assistance like the State Revolving Fund for the remaining 51 percent of a project’s cost.

“Having been a proponent of the OCWD’s Ground Water Replenishment System project since its inception, I am pleased that the OCWD has received a \$135 million Water Infrastructure Finance and Innovation Act loan. This loan will help finance the final expansion of the GWRS, which will increase our drought-proof water supply and provide for the water needs of future generations of Orange County residents,” said Congressman Dana Rohrabacher (CA-48).

“Today marks a major milestone for EPA’s WIFIA program,” said EPA Office of Water Assistant Administrator David Ross. “With our loan to the Orange County Water District, EPA has issued over \$1 billion in WIFIA credit assistance this year, thanks to the hard work and dedication of the professionals within EPA’s Office of Water.”

## **WaterWorld**

August 3, 2018

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## **[Orrick Advises Enterprise Development Authority on Senior Secured Notes Offering and Credit Facility.](#)**

Orrick represented the Enterprise Development Authority (the “Authority”), a wholly owned, unincorporated governmental instrumentality of the Estom Yumeka Tribe of the Enterprise Rancheria (the “Tribe”) in connection with its Rule 144A/Regulation S offering of \$450 million aggregate principal amount of 12.000% senior secured notes due 2024 (the “Notes”). Wells Fargo

Securities acted as book-running manager for the offering. Orrick also advised the Authority on its entry into a \$10 million revolving credit facility (the "Credit Facility").

The Tribe is a federally recognized Indian tribe listed in the Federal Register as the Enterprise Rancheria of Maidu Indians of California. The Authority expects to use the net proceeds from the offering of the Notes to fund the costs associated with designing, developing, constructing, equipping and opening a Hard Rock branded hotel casino outside of Sacramento, to repay certain existing indebtedness and for general corporate purposes, while the Credit Facility will be used for working capital and other general corporate purposes. Hard Rock Sacramento FM, LLC will develop and manage the hotel casino, as well as license to the Authority various trademarks, service marks and commercial symbols associated with Hard Rock hotels, casinos, cafes and music venues.

The Orrick team that advised the Tribe on this transaction was led by public finance partner Townsend Hyatt and capital markets partner Stephen Ashley. Other members of the Orrick team included Lynne Hirata, Noel Pacheco, Maria Berghem, Grady Bolding, Thomas Mitchell and Rosalee Mahoney.

July.30.2018

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### **[Standard & Poor's Increases Credit Rating for the State of Michigan from AA- to AA.](#)**

On July 24, 2018, Standard & Poor's raised its credit rating for the State of Michigan's general obligation bonds from AA- to AA. This upgrade will affect bonds issued by local governments that benefit from State credit enhancement or intercept programs, including programs such as the State School Bond Loan Fund Program and the Michigan Finance Authority's Local Government Loan Program. For local borrowers participating in one of these programs, including school districts and municipalities, such rating change will trigger a material event filing pursuant to your continuing disclosure undertaking. Financial advisors retained by local borrowers to file continuing disclosure updates on their behalf will likely file material event notices for their clients with outstanding debt issued through one of these programs, advising the Electronic Municipal Market Access system of the rating change. If you are unsure whether you have an obligation to file an update or have not retained your financial advisor to make disclosure filings on your behalf and would like assistance with such a filing.

**Miller Canfield PLC - Thomas D. Colis, James Crowley, Ian F. Koffler, Donovan Cheff McCarty, Alan D. Szuma and Amanda Van Dusen**

July 30, 2018

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### **[Madison to Offer Municipal 'Mini Bonds'](#)**

MADISON, WI (Wisconsin Radio Network) - Madison residents can buy in to a special mini bond issuance later this year.

A new program is lowering the price of city bonds to just \$500 this fall, and Madison finance director Dave Schmiedicke says that's a good way for residents to get involved directly with city finances.

“Which hopefully allow more of our residents to invest in the specific project, a renovation and expansion of the Olbrich Botanical Gardens.”

Schmiedicke says that’s a price that even smaller investors and city residents can take advantage of. “Here in Madison, I think we value civic action, and this is one way to express that civic action and get a return on that investment.”

In all other respects, other than the price, the bonds will be the same as they normally are with a 10 year maturity. Schmiedicke says \$2.1 million worth of bonds will be issued.

Interest rates will be determined this fall ahead of the sale in October.

Wednesday, August 01, 2018 10:50 a.m. CDT

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## **[A Look at What a Public Bank Could Mean for D.C.](#)**

### **As officials study the idea’s feasibility, activist ire against Wells Fargo fuels proponents of a public bank**

Could business owners and others in DC soon benefit from a new bank owned and operated by the DC government? With \$200,000 put in the city’s 2018 budget by the DC Council, officials at the Department of Insurance, Securities and Banking are studying the feasibility of a publicly chartered bank.

#### **What’s a public bank?**

A public bank is a deposit-holding and loan-making institution created and run by a government — a city, county or state. Leaders of public banks are held to more direct accountability standards than private banks. Important decisions on lending and other bank operations must serve a public mission. Private banks have broadly defined regulatory requirements, such as lending to local communities, as mandated by the federal Community Reinvestment Act. Public banks have been set up to serve more specific, locally determined goals. In DC, this might take the form of loans to small businesses owned by people of color in wards 7 and 8. In California, officials say public banking can support marijuana businesses that have been denied private banking services because of the complex legal environment around the substance.

Financial assistance is already a part of economic development programs in DC, but a public bank would increase the number and complexity of services offered to stakeholders, according to a Department of Insurance, Securities and Banking overview of the feasibility study. A public bank in DC would manage all of the city’s financial accounts. This wholesale banking requires the capacity to manage the multi-billion-dollar accounts of corporations and other, smaller banks. Also, a public bank in DC could provide retail products to residents such as checking accounts and auto loans. So, a public bank in DC may be deposit-taking and loan-making.

**[Continue reading.](#)**

#### **The DC Line**

By Gordon Chaffin | Aug 1, 2018

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## **Senate Liberals Seek New Puerto Rico Debt Relief.**

WASHINGTON — A group of U.S. Senate liberals on Wednesday introduced legislation providing debt relief to Puerto Rico as the island territory struggles to recover from a devastating 2017 hurricane that worsened conditions in an already-suffering economy.

Independent Senator Bernie Sanders and Democratic Senator Elizabeth Warren have joined up with three other liberal Democratic senators in seeking broad debt relief for Puerto Rico and other U.S. territories.

The U.S. commonwealth declared the largest municipal bankruptcy in 2017 under the so-called federal PROMESA law, and is seeking to restructure in court more than \$70 billion in debt. It also has another \$45 billion or so in unfunded pension liabilities.

“Greedy Wall Street vulture funds must not be allowed to reap huge profits off the suffering and misery of the Puerto Rican people for a second longer,” Sanders said in a statement.

Their initiative is not expected to gain traction in the Republican-controlled Congress, but it could provide hints about what Democrats might pursue if they manage to win majorities in either the Senate or House of Representatives in November’s congressional elections.

The bill surfaced on the same day a federal judge took up but did not immediately rule on litigation by the Puerto Rican government challenging the ability of its federally appointed oversight board to enforce certain measures through the budget and fiscal plan. A U.S. House committee also held a hearing on management turmoil at the island’s bankrupt electric utility.

The Senate bill would give U.S. territories the option to terminate non-pension debt obligations under certain conditions.

It would provide \$7.5 billion for Puerto Rican creditors whose debt is terminated, including Puerto Rican residents, banks and credit unions that did business solely in Puerto Rico.

Another \$7.5 billion would be set aside for mainland creditors whose debt was terminated, including individual investors.

Backers of the legislation said the \$15 billion in Washington funding would not be made available to hedge funds and their investors, bond insurers or financial firms with consolidated assets greater than \$2 billion.

Spokesmen for a bondholders group that includes hedge funds and for bond insurer MBIA Inc declined to comment on the legislation on Wednesday.

Congress passed the PROMESA legislation in 2016, which created a seven-member board to manage Puerto Rico’s finances.

In U.S. District Court in Puerto Rico on Wednesday, Judge Laura Taylor Swain, who is overseeing the territory’s bankruptcy case, also received an update on privatizing the Puerto Rico Electric Power Authority (PREPA). Attorneys for the island’s oversight panel said the private market had “significant amount of interest” in taking over PREPA assets and operations.

Meanwhile, the U.S. House Committee on Natural Resources heard from energy, finance and

restructuring experts on ways to depoliticize PREPA and make it a regulated and fully functioning utility in order to attract private investment.

“This has been an ongoing problem we need to break this time,” said Committee Chairman Rob Bishop, who rejected the idea of federalizing the utility.

Since mid-July, there have been three executive directors either in place or named to oversee the utility’s restructuring and the restoration and upgrading of the U.S. territory’s electric grid, which was decimated by Hurricane Maria last year.

Although invited, Puerto Rico Governor Ricardo Rossello declined to attend. In written testimony, Rossello disputed allegations of political interference sparking turnover of the utility’s executive directors and board members. He said current PREPA head Jose Ortiz has unassailable credentials and has demonstrated in his previous government roles the ability “to put politics aside.”

**By Reuters**

July 25, 2018

(Reporting by Richard Cowan in Washington; Additional reporting by Karen Pierog in Chicago and Luis Valentin Ortiz in San Juan; Editing by Daniel Bases, Susan Thomas and Matthew Lewis)

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## **[New Jersey May Borrow \\$450 Mln to Protect Schools From Guns.](#)**

- **Borrowing is part of \$1 billion sale, including expansion**
- **It could boost state’s general-obligation debt by 50 percent**

New Jersey voters in November may decide to raise \$1 billion in the bond market, about half of which would be used to protect schools against shootings.

The borrowing initiative — which will also fund expansion programs at vocational institutions — has received widespread support in the legislature, which earlier this month approved putting it on the ballot by a nearly unanimous vote, with just one senator dissenting. Governor Phil Murphy is reviewing the bill and his office declined to say whether he would sign it.

If approved, the borrowing would allow New Jersey to increase its outstanding general-obligation debt by 50 percent to \$3 billion, according to the state’s latest debt report. Historically, New Jersey has relied on appropriation-backed debt sold through various agencies, with about \$33 billion outstanding.

The voter-approved bonds would probably draw strong interest from investors because such securities are scarce and debt service doesn’t rely on annual legislative appropriations, said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages \$20 billion of state and local debt, including some issued by New Jersey.

“For people looking for higher quality, looking for not having to worry about the appropriation, they’d probably get good reception,” Solender said.

### **Student Safety**

About \$450 million would finance school facility security grants to improve entryways and security

systems to defend public schools from mass shootings or attacks.

More than 215,000 students have experienced gun violence at a school since 1999, according to a database of such shootings compiled by The Washington Post. The issue attracted renewed attention after several deadly incidents this year, including one in Parkland, Texas, in February that left 17 dead and another in Santa Fe, Texas, that killed 10 people.

"The safety of the students is paramount," Republican state Senator Steve Oroho, a co-sponsor of the bond bill, said in an interview.

Another \$400 million would help vocational institutions expand their facilities and buy equipment to accommodate more students. County vocational school districts had to turn away about 17,000 students in 2017 because of a lack of facilities, according to the legislation.

Employers in the state are seeking more skilled workers, Oroho said. Fulfilling the needs of people who want to pursue a skill and providing employers with more qualified employees will benefit New Jersey in the long run, Oroho said.

"Not all debt is bad debt as long as you get the proper rate of return," Oroho said. "And education will always have a high rate of return."

Increasing the debt means the state will need to pay more principal and interest every year. About 7.5 percent of New Jersey's fiscal 2019 budget, or \$2.8 billion, will go toward debt service, not including payments on school-construction bonds, according to state budget documents. Adding another \$1 billion of general-obligation debt will increase principal and interest payments by as much as \$72.3 million per year, according to a fiscal analysis of the bond bill.

## **Pension Predicament**

While the borrowing initiative would add to New Jersey's debt load, the bigger credit concern for the state is its retirement obligations, said Baye Larsen, an analyst at Moody's Investors Service. New Jersey has about 56 percent of the funds needed to pay current and future retirees enrolled in its state pension plans, as of July 1, 2017. It has an unfunded pension liability of nearly \$41 billion.

"The growth in their adjusted net pension liability is going to significantly outweigh the growth in their bonded debt and that is really going to continue to be more of a credit driver for the state," Larsen said.

New Jersey general obligations maturing in 2028 traded Wednesday at an average yield of 2.7 percent, or about 74 basis points more than top-rate municipals, according to data compiled by Bloomberg.

Debt sold in the state gained 0.9 percent this year through Wednesday, beating the 0.05 percent advance in the broader municipal-bond market, according to Bloomberg Barclays indexes.

## **Bloomberg Markets**

By Michelle Kaske

July 26, 2018, 7:08 AM PDT Updated on July 26, 2018, 7:54 AM PDT



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## **S&P: Is Long Island Power Authority's Fiscal Gain Local Governments' Credit Pain?**

In 2010, the Long Island Power Authority (LIPA) filed property tax grievances with numerous local governments on Long Island, asserting that the property taxes embedded in the payments it makes to National Grid in connection with the power purchase agreements it has with that generation supplier reflect substantial tax overvaluations by local taxing jurisdictions for four power plants.

[Continue Reading](#)

Jul. 26, 2018

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## **CA Pension Fund Earnings Up, but Crushing Debts Remain.**

California's two immense public employee pension funds this month reported investment earnings higher than their assumed rate for the second straight year.

The California Public Employees Retirement System (CalPERS) said its investment portfolio earned 8.6 percent during the year that ended June 30, while the California State Teachers Retirement System (CalSTRS) topped that with an 8.96 percent gain.

That's certainly better than the minuscule earnings the two funds had seen earlier in the decade, but despite public crowing by union advocates, the earnings reports merely underscore the wide gaps between pension promises and assets to pay for them.

For one thing, making money on investments in the past year has been a no-brainer and relative to the stock market and other indices, the performance of both funds was modest.

That's because both were burned badly in the recession a decade ago when their speculative investments tanked and since then, both have adopted safer and more stable investment strategies that have limited upside potential.

Safer may be better in the long run, but modest earnings, by themselves, cannot cover the funds' asset shortages, called "unfunded liabilities." Both have scarcely two-thirds of the assets they would need to cover pension commitments, even assuming they meet their earnings projections of 7 to 7.5 percent a year.

CalSTRS' chief investment officer, Christopher Ailman, put it this way in a statement that accompanied its earnings report:

"We will rank high compared to similar funds, but it is only one year. We need to repeat that performance year in and year out, on average, over the next 30 years."

As they lower investment expectations, CalPERS and CalSTRS have turned to the state and other public employers to close their asset gaps, requiring them to raise their "contributions" by billions of dollars.

CalPERS is increasing its bite on employers on its own, as it is empowered to do, while the Legislature and Gov. Jerry Brown adopted a plan to prevent CalSTRS from slipping into insolvency



by increasing payments from the state and teachers modestly while hitting school districts hard, more than doubling their mandatory payments into the fund.

Making the increased payments has caused financial turmoil in local governments, especially cities, and in school districts.

As CalSTRS was reporting its 2017-18 earnings, CALmatters published a deep dive into how pension payments are clobbering the state's school systems, focusing on those in Los Angeles, Fremont and Sacramento.

"Over the next three years, schools may need to use well over half of all the new money they're projected to receive to cover their growing pension obligations," CALmatters' Jessica Calefati wrote, "leaving little extra for classrooms, state Department of Finance and Legislative Analyst's Office estimates show."

"Some districts are predicting deficits and many districts are bracing for what's to come by cutting programs, reducing staff or drawing down their reserves – even though per-pupil funding is at its highest level in three decades and voters recently extended a tax hike on the rich to help pay for schools," she continued.

Schools and local governments are feeling immense stress from ever-rising pension payments even though California's economy has been booming and tax revenues have been surpassing projections.

That's why we'll see dozens of cities and other local governments asking their voters for tax increases in November, and why school officials are pleading with Brown and legislators for more money.

By Dan Walters | July 25, 2018

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## **Federal Aviation Administration Announces that Municipalities May Not Regulate Airspace — Even for Drones**

The Federal Aviation Administration (FAA) recently issued a [press release](#) clarifying the abilities of municipalities to regulate drone operations in the navigable airspace. State and local governments "are not permitted to have their own rules or regulations governing the operation of aircraft," as it would conflict with superseding federal law, according to the release. The FAA reiterated that "[s]tate and local governments are not permitted to regulate any type of aircraft operations, such as flight paths or altitudes, or the navigable airspace."

However, state and local governments *may* utilize laws traditionally related to state and local police powers in order to regulate land use, zoning, privacy, and law enforcement operations. Hence, state and local governments may generally regulate the locations of aircraft takeoff and landing sites through their land use powers, which includes where drones can take off or land.

The FAA and the federal government's approaches on drone operations continue to evolve. Other issues we're monitoring include counter-drone technology, real-time flight waivers applications, and identification sensor systems.

**Harris Beach PLLC**

July 30, 2018

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## **U.S. Conference of Mayors and Ohio Mayors Alliance Release Report on Ohio Metro Economies.**

The U.S. Conference of Mayors and the Ohio Mayors Alliance today released a [report](#) on July 19, 2018 on the importance of Ohio city metro areas to the future growth of the Ohio economy. The report highlights that in 2017, 83.5% of the State's jobs and 86.1% of its wages were generated in Ohio's 14 metro areas. 85.1% of the State's economic output in 2017 occurred in its metro regions. All three economic indicators have risen over the last two decades.

Since 2000 Ohio's city metros accounted for all of the State's job gains and 87% of its economic output gains. During the same period the metro proportion of state jobs is 1.3% higher.

By the end of 2018, the report projects that the unemployment rate in five Ohio metros will be at or below 4.0% (Columbus 3.3%; Cincinnati 3.5%; Dayton 3.7%; Springfield 3.7%; and Lima 4.0%). All but three Ohio metros will have unemployment rates of 5.0% or below.

The report also forecasts that over the two year period (2019-2020) Columbus will lead Ohio job employment growth with an average annual gain of 1.60%. But in the 2021-2022 period, Columbus will be the only Ohio metro with employment gains.

The report concludes that Ohio cannot grow unless its city metro areas do, and that Ohio's regional economies will best be served by aggressively transitioning to new and emerging industries while preserving their manufacturing base.

The report was released in conjunction with the Ohio Mayors Alliance and was prepared by IHS Markit.

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## **Oregon Weighs Record Bond for Housing as Real Estate Prices Jump.**

- **Metro put \$653 million affordable housing bond on ballot**
- **As people flock to area, home prices are rising out of reach**

The Oregon agency that runs Portland's zoo is behind the biggest bond measure in the state's history to build homes. For humans.

Metro, a municipal entity known for running the Oregon Zoo and natural areas around Portland, is asking voters in November whether they want to borrow \$653 million to build and renovate housing for people priced out of the booming local real estate market. The move would expand the purview of Metro, which was created in 1978 to oversee the zoo, as well as land use, transportation and waste management in three counties.

Over the years, Metro, which is the only directly elected regional U.S. government, has expanded its responsibilities. It's a "natural evolution" of the agency to take on affordable housing as an influx of high-income earners puts homes out of reach for many residents, said Nick Fish, an elected Portland commissioner who's helping to lead the bond campaign.

“Working-class families are being priced out of every part of the region,” Fish said in an interview. “We’re seeing a one strike and you’re out economy, where people are one job loss, one medical emergency, one unforeseen crisis away from being on the street.”

Up and down the West Coast, cities are grappling with the downside of a nearly decade-long economic boom that’s brought skyrocketing residential real estate prices and an increase in homelessness. In November, California voters will consider \$6 billion in housing-related bonds on the state ballot, and San Franciscans may tax large businesses to provide services to the large homeless population in the technology-industry hub.

While high housing prices typically boost municipal tax collections, they can also limit economic growth, said Chris Morgan, director at S&P Global Ratings. Amid constrained supply of homes and labor shortages in the construction industry, growth in economic output in the far west — which includes Alaska, California, Hawaii, Oregon and Washington — fell to the third fastest in the U.S. last year from first in 2016, according to an April report from the company.

“We’re seeing the cost of housing as potentially representing more of an economic challenge in the near term,” Morgan said in an interview.

About 80 people a day are moving to the Portland area, according to a Metro analysis of last year’s Census data. The median sale price of a home has risen by 56 percent over the last five years, faster than the 31 percent growth nationally, figures from real estate brokerage Redfin show.

The Metro bond measure aims to create homes for 7,500 people. It can serve up to 12,000 if voters also approve a state constitutional amendment that would allow the proceeds to go to affordable housing developers that work with local governments. Currently, funds from general-obligation bonds can’t flow to private entities. Homeowners would pay an average of \$5 a month, or 24 cents per \$1,000 of assessed property value, to cover the cost of the added debt.

Metro would distribute the funds to its three counties — Multnomah, Washington and Clackamas — based on assessed value. The local governments would decide on projects that best fit their needs, such as easing homelessness in Portland or building senior facilities in Lake Oswego, an affluent suburb, Fish said.

Support is so broad for the initiative that the historically tax-skeptical Portland Business Alliance endorsed it, Fish said.

“The time is right for this,” he said.

## **Bloomberg Markets**

By Romy Varghese

July 20, 2018, 9:30 AM PDT

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### **[Fitch: Nacogdoches Hospital \(TX\) Bondholders Not Insulated from Weak Operations.](#)**

Fitch Ratings-New York-19 July 2018: Recent news that Nacogdoches County Hospital District, Texas (NCHD) has retained attorneys to consider debt restructuring has sparked commentary that

this is an example of uncertain bondholder protections in bankruptcy. Fitch Ratings believes this case demonstrates the importance of making a cautious and accurate assessment of the legal protections afforded to bondholders.

#### BONDS DO NOT MEET HIGH FITCH BAR FOR RATING DISTINCT FROM IDR

The sales tax bonds benefit from an ordinary pledge and security structure for municipal debt and are in our view at risk of automatic stay under Chapter 9 of the U.S. bankruptcy code (the code) and an interruption of payment during the proceedings. There is a plausible argument for special revenue treatment, but we set a high bar for considering debt as supported by special revenues under section 902(2)(E) of the code. (For more information, see “Fitch Rates Marin Healthcare District, CA’s Series 2017 GO Bonds ‘AAA’, dated Aug. 23, 2017.) Even in the event of a stay, an issuer can choose to continue to pay debt obligations while in bankruptcy, and NCHD has that option with respect to the sales tax bonds. Nevertheless, Fitch has rated the debt below investment grade since April 2017, with a current rating of ‘CC’, indicating that default of some kind appears probable.

#### RATING MIGRATION REFLECTS WEAK FUNDAMENTALS

In April 2017 we concluded a review that resulted in a downgrade of NCHD’s sales tax revenues bonds to ‘B’/Rating Watch Negative due to weakness in its revenues and operations, as well as its unwillingness to tap unused property tax capacity to support its operating solvency. We also concluded that the bonds did not meet our high bar for special revenue analysis and had not been issued under a specific state securitization law. In September 2017 we downgraded the rating to ‘CC’ based on continued deterioration of operations and severely weak liquidity.

In April 2016 Fitch revised its criteria for rating tax supported debt. In that revision we introduced the Issuer Default Rating (IDR) as a measure of an issuer’s operating solvency, and we clarified and provided strict limitations on when we felt there was a reasonable basis to rate a dedicated tax supported security distinct from and higher than an issuer’s IDR. Ratings could be distinct from an IDR under three legal structures that have clear protection in a Chapter 9 bankruptcy proceeding: “special revenue” obligations under section 902(2) of the bankruptcy code, securities issued through a securitization structure and intercept structures under state law. We also considered in the review whether the untapped taxing capacity of a hospital district or hospital authority should be incorporated into an IDR. In August 2016, we placed ratings related to NCHD and 24 other hospital districts and authorities on Rating Watch Evolving as we evaluated the underlying legal structures.

#### FITCH REVIEW OF PRIOR LEGAL OPINION

At the time of the initial downgrade and assignment of a ‘B’ IDR in April 2017, Fitch reviewed a legal opinion provided by outside counsel that concluded that the transaction is essentially a sale of the tax revenues to the bond trustee acting for the benefit of bondholders and not a borrowing by NCHD. Counsel further concluded on that basis that the tax revenues are not property of NCHD and would not be within its bankruptcy estate.

Fitch had two concerns with the analysis that leads to this legal conclusion. One, Fitch does not believe that there is sufficient legal precedent for us to adopt the true sale analysis in our rating based on the Texas statute cited. Further, as the opinion itself indicated, there is no common law precedent that addresses the proper characterization of the transfer of assets by a municipality in this type of situation. Two, as a factual matter, the transaction is described in all offering materials as a borrowing and is reported in the accounting statements of the municipality as a borrowing. There is no indication that the parties intended to treat the transaction as a true sale.

As a result, it is Fitch’s assessment that there is not a reasonable basis to support a rating above the issuer’s IDR. Fitch will only rate a transaction as a true sale in the context of a specific state

statutory scheme authorizing the sale as a part of a comprehensive securitization law such as those adopted in New York and Illinois for tax revenues and other revenue sources in various states. For more information see “What Investors Want to Know: Chicago Sales Tax Securitization” dated Nov. 28, 2017.

#### ELEMENTS OF SPECIAL REVENUE ANALYSIS

Legal opinions serve as the basis for Fitch’s consideration of whether bonds are secured by pledged special revenues. In addition, the following elements must be present that make clear the pledged revenues are not general operating revenues for general purposes of the debtor, sufficiently reducing the incentive to challenge special revenue status in a bankruptcy:

- A statutory scheme limiting the authority to levy a specific tax to the financing of capital projects.

- An express statutory prohibition on use of any revenues from the taxes for operations of the municipality, unless Fitch has a reasonable legal basis by which to determine that the pledged revenues would not be subordinated to operating expenses in a bankruptcy. If any residual revenues can be used for the entity’s operations and are at risk of being subject to netting, Fitch will consider them to be general revenues and rate the issue as unsecured debt.

- An identification of specific capital projects in a ballot initiative or in a resolution limiting the use of proceeds of the debt to those capital projects; for refunding bonds, it should be clear that the bonds being refunded meet this criterion.

- A structure in which bondholders do not have a claim on general revenues of the municipality, where the bonds are solely secured by a dedicated tax (general obligation bonds supported by the entity’s full faith and credit will typically not meet this criterion).

- A statutory requirement that a governmental official outside the municipality (e.g. the county) collects and remits the tax revenues to the paying agent, placing the funds outside the control and direction of the municipality. A statutory lien on the pledged revenues reduces the incentive to challenge special revenue status sufficiently to substitute for this requirement.

Clarity that the pledged taxes are property of the municipality and would not be considered at any point the property of the entity collecting and remitting the tax revenues; absent this, the rating would be capped at the collector’s rating.

Since NCHD’s pledged revenues are a general sales tax available for operations as well as debt service, Fitch had no basis to consider the bonds to be secured by pledged special revenues.

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## **S&P: Will Wildfires Scorch California's Utilities?**

Electric utilities in California are facing operational and financial risks from natural disasters that could potentially weaken their credit quality. In particular, the recent heightened risk associated with potential wildfire-related liabilities is a growing concern and presents an immediate threat to California's regulated electric utilities.

[Continue Reading](#)

Jun. 18, 2018

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## **Wells Fargo Takes \$8.7 million Arbitration Hit Over Puerto Rican Bonds.**

### **Finra panel says firm and broker are liable for damages, interest, fees and costs**

A Financial Industry Regulatory Authority Inc. arbitration panel has awarded clients of Wells Fargo almost \$8.7 million over the firm's handling of sales of Puerto Rican municipal bonds.

The panel found that Wells Fargo and Marc Rogers, one of its brokers, are jointly liable for paying Sylvia and Sammy Kaye Duncan and the couple's revocable trust approximately \$4.18 million in compensatory damages, \$832,000 in interest, \$2.7 million in attorney's fees, \$500,000 in punitive damages, \$206,000 in costs and \$102,000 in monetary sanctions.

Finra said that Wells Fargo and Mr. Rogers would be responsible for paying interest on the total of \$8,575,767.43 owed to the claimants at the rate of 9% per year from July 19, 2018 until paid in full.

The Duncans claimed that in their sales of the Puerto Rican bonds, Wells Fargo and Mr. Rogers breached their fiduciary duties, recommended unsuitable securities and investment strategies, were negligent, engaged in unauthorized trading and made negligent misrepresentations and omissions, as well as engaged in manipulative and deceptive practices.

### **InvestmentNews**

Jul 20, 2018

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## **San Francisco Issues Wastewater Infrastructure Green Bonds.**

Green bond issuer San Francisco Public Utilities Commission (SFPUC) is seeking both domestic and

international interest for its new tranches of Climate Bonds Certified green municipal bonds, of approximately \$402 million USD. Proceeds will be used to fund selected projects as part of the SFPUC Sewer System Improvement Project (SSIP), including stormwater, flood resilience, sewage treatment, wastewater, and associated control system infrastructure upgrades and is intended to address aging infrastructure, seismic reliability, combined sewer discharges, rising sea levels and localized flooding. Both the Series A and Series C bonds have been certified by Climate Bonds Initiative (CBI) under the Water Infrastructure Criteria.

18 Jul 2018

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## **New York Auctions \$1.8 Billion Sales Tax Debt.**

- **Second-biggest competitive sale of municipal debt in history**
- **Banks won't have problem clearing the deal, says Fiera's Laing**

New York State met eager demand for its debt as it auctioned \$1.8 billion of sales-tax bonds Wednesday, the second-biggest competitive sale in municipal market history, according to data compiled by Bloomberg.

Despite its size, the deal was easily digested because of a healthy demand for New York state sales tax bonds in a market starved for paper. Almost \$5 billion in debt issued by New York state and local governments is set to be called or mature over the next 30 days, \$1.4 billion more than the fixed-rated debt they plan to sell in that period, according to data compiled by Bloomberg.

"New York is picking a good time to bring this deal," said Guy Davidson, director of municipal investments at AllianceBernstein. "It's a sellers market."

Wednesday's sale was second in size only to a \$1.84 billion offering by the New York State Urban Development Corporation last year.

### **League Tables**

JPMorgan won \$372.4 million of bonds maturing 2019 through 2023 issued through the Dormitory Authority of the State of New York. Bank of America won \$854 million of debt maturing 2024 through 2036. Morgan Stanley won \$492.4 million of debt maturing 2037 through 2048. New York also sold a \$74 million tranche of taxable debt.

Bonds maturing in March 2028 were priced to yield 0.08 percentage points, or 8 basis points more than top-rated debt of the same maturity, according to data compiled by Bloomberg. A New York sales-tax bond with the same maturity traded at 11 basis points over AAA rated debt on June 14.

Banks, looking to get a strong start in the second-half of the year in rankings for competitive underwriting, bid aggressively, said Bryan Laing, vice president of credit research at Fiera Capital Inc.

Banks "are looking forward to those league tables, particularly in a year when the supply outlook is less certain than other years," Laing said. "They're not going to have a problem clearing the deal with investors either, because the demand is there."

Proceeds of the sales tax bond sale, rated Aa1 by Moody's Investors Service, the second-highest



investment grade, will finance capital projects for highways, bridges, rail and educational facilities.

## **Bond Backing**

The bonds are backed by a dedication of 1 percent of New York's 4 percent state sales tax, which is expected to yield \$14.1 billion in fiscal 2019, according to Moody's. The state budget office projects the tax dedication will provide coverage of 3.6 times debt service in fiscal 2018 based on \$3.42 billion of dedicated receipts and maximum annual debt service, including parity debt, of about \$942 million, Moody's said.

Sales tax receipts have grown at a 4.0 percent compound annual growth rate since 2010 and the state budget office projects growth of 3.9 percent from fiscal 2019 to 2022. The projections will "likely prove optimistic," because the estimate doesn't provide for an economic downturn during the period, according to Moody's.

Last month's U.S. Supreme Court decision which expanded the ability of state and local governments to collect billions of dollars in sales taxes from online retailers, will boost revenue, Laing said.

## **Bloomberg Markets**

By Martin Z Braun

July 11, 2018, 10:40 AM PDT

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### **[Hands-Off Approach May Be Changing in Hub of Muni Bankruptcies.](#)**

- **California treasurer hopeful wants to help cities on the brink**
- **State has laissez-faire attitude to municipal bankruptcies**

California is notorious for its hands-off approach to distressed cities. Fiona Ma wants to fundamentally change that if she becomes state treasurer.

Ma, a Democrat who's running against Republican Greg Conlon in November, said she would establish a website that would list credit ratings and key financial metrics for local governments. As part of that effort, municipal officials seeing fiscal straits ahead could ask for assistance from the treasurer's office, she said in an interview in San Francisco.

"Local governments have to balance every year. They are very limited in what they can do," said Ma, a certified public accountant who currently serves on the state's board of equalization, which administers some taxes. "We should be looking out for them."

That would mark a shift for California, home to four of the six biggest bankruptcies filed by municipalities in the past quarter century. While the state, through legislation or voter initiatives, has foisted limits on local governments such as on their taxing power and mandated spending, it has no system for monitoring cities that fall in distress.

Providing a central portal for local financial information could spur more investment in lesser-known cities by making it easier for bond buyers to assess conditions and risk, said Ma, who has also served in the state Assembly and on the San Francisco board of supervisors.

Bondholders “don’t want to invest in some of the smaller cities because they’re not sure whether in the next recession, they’re actually going to be paid back,” she said.

Ma would also ensure that she knows the impact on municipal governments before making decisions at the California Public Employees’ Retirement System and California State Teachers’ Retirement System, she said. As treasurer, she would have seats on the boards of both systems, the two largest U.S. pensions.

If Calpers, for instance, is considering a cut to the assumed investment target, which would spur higher contributions from localities to make up the difference, she wants to know if that could leave some scrambling to pay their bills, she said.

“We need to be sensitive that whatever the state does that affects local governments, that you do not surprise them,” Ma said. “Because that’s where they’re going to get in trouble.”

Ma is vying to replace Democrat John Chiang, who is leaving his post after an unsuccessful primary run for governor. She’s favored to win, as Democrats outnumber Republicans in California by almost 2 to 1.

## **Bloomberg Markets**

By Romy Varghese

July 12, 2018, 7:27 AM PDT

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### **[New Hampshire BFA Issues RFP for National Bond Administration Services.](#)**

[Read the RFP.](#)

**New Hampshire Business Finance Authority | Jul. 9**

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### **[Alaska's Tax-Credit Bond Plan Raises 'Subject-to-Appropriation' Questions.](#)**

As Alaska seeks to improve its financial standing it is turning to bonds to pay off \$1 billion of tax credits it owes to oil and gas producers.

But the state - which faced controversy for using the subject-to-appropriation clause to walk away from a lease obligation for a state office building - faces a constitutional challenge before it can go to the market.

State officials are seeking dismissal of a lawsuit claiming that the plan violates the Alaska constitution’s limits on new debt.

Gov. Bill Walker, who signed a bill approving the program last month, says it will reduce the state’s deficit while encouraging oil producers to invest in the state.

“The policy change will save state government money in the long run, immediately provides small, independent oil and gas companies cash to invest, and keeps good on the state’s past promise to

incentivize industry investment in Alaska and exploration for new oil,” according to a press release from his office.

Under the plan, producers who hold state tax credits for oil and gas exploration will get paid early in exchange for a 10% discount that the Walker administration says will pay for the bonding costs.

The bonds will be sold through a newly created Alaska Tax Credit Certificate Bond Corp. The bonds are subject to appropriation – relying on the legislature budgeting money every year to pay the debt service.

This isn’t Alaska’s first use of subject-to-appropriation bonds.

The state currently has \$237 million in outstanding subject-to-appropriation bonds that are paying off a state prison in Goose Creek and a residential housing facility for Alaskan native tribes, according to an April memo to the legislature.

Alaska has used such bonds for almost 70 years for projects such as acquiring public buildings for lease to the state government, Deven Mitchell, the state’s debt manager, stated in the memo.

He said such bonds are typically rated a notch below the state’s bond rating but said any concern about their marketability is “misplaced.”

“In short, Subject to Appropriation bonds carry specific ratings in the Municipal bond market, are a well understood and commonly used financing tool, and will be highly rated based on the state of Alaska’s credit,” Mitchell said.

The state would face the same negative impacts for failing to appropriate funds to pay off the bonds as it would for not paying off general budget obligations for public safety, pensions and other programs, he said.

Two years ago, the Alaska legislature cited the subject-to-appropriation clause when it broke its lease for a Legislative Information Office in downtown Anchorage.

The six-story building was renovated to meet the specifications of the state agency, which occupied it in 2014. Amid finger-pointing over the cost of the 10-year, \$33 million lease, state officials walked away from the lease and the building two years later, leaving the developers empty-handed after remodeling the building.

The building developers sued the state but a court found that the legislature acted within its rights not to appropriate funds for the rent.

The state’s decision to break its contract worried the Alaska Bankers Association at the time; it wrote to the legislature that doing so could impact the state’s creditworthiness and cost of borrowing.

“Using the subject-to-appropriation clause, given the circumstances the state was in at the time, for us it had negative implications,” said Mike Martin, secretary-treasurer of the association and chief operating officer of Northrim Bank.

The association’s view was that “once the state makes a promise it has an obligation it should honor,” Martin said.

Martin sees the issue of the legislative building, which he described as a “political football,” as a

unique situation and doesn't believe the state would do the same with bonds issued for the oil and gas tax credit program.

The group supports the oil and gas tax credit program as one of two major steps taken by the legislature this year to create a sustainable budget going forward. The other was a bill in which the state will annually draw 5.25% from the Permanent Fund – a pool of oil and gas tax revenues invested over the years – to reduce its deficit.

"I think it just creates a whole lot more stable environment," Martin said.

Opponents of the plan question whether it will result in savings and say it violates the Alaska constitution, which only allows for state debt to be incurred for capital improvement project or housing loans for veterans programs following voter approval.

Eric Forrer, a former University of Alaska regent and a retired contractor, filed the lawsuit on those grounds.

"We're now converting a very soft obligation into a hard-edged debt," said his attorney, Joe Geldhof.

An April legal opinion by the legislature's attorneys found a "substantial risk" that the plan to bond could be unconstitutional.

"They're converting it from something that's purely discretionary to something if we don't pay it impacts our credit rating," said Alaska state Sen. Bill Wielechowski, D-Anchorage, who asked for the legal review. "I would argue it puts the state into a much more detrimental position and could limit our ability to bond for future things."

Attorney General Jahna Lindemuth wrote a May 2 legal opinion stating that "financing tools like those proposed in this bill are not prohibited by the Alaska Constitution."

The proposed bonds would not be considered debt because they would be "subject entirely to the legislature's discretion to appropriate funds for that purpose, and the bonds give bondholders no recourse against the state," the opinion states.

Wielechowski said there's no question – even among those who oppose the plan like himself – that if the state issues bonds the legislature will appropriate money to pay them off.

"We have to pay our debt," he said.

According to the state Department of Revenue, a bond issue of between \$683 million to \$738 million would be sold in August followed by an deal from \$130 million to \$180 million sometime between August 2019 and August 2021.

Under that plan, the state will only pay interest on the debt for the first two years followed by increased debt service that would eventually decline to flat payments in the final five years of the 10-year schedule.

That plan reduces the cost of oil and gas tax credits from 8.1% of the general fund budget to 1.1% and results in more predictable and level annual payments, the agency stated.

Timothy Little, an analyst with S&P Global Ratings, said the rating agency doesn't see the oil and tax credit bond as a significant credit factor although "it does provide certainty going forward of how those liabilities would be funded."

In June, the rating agency moved Alaska's outlook to stable from negative and raised its ratings for general obligation bonds from the Alaska Energy Authority from A to A-plus following the passage of the state budget. S&P rates Alaska GOs AA.

Most appropriation bonds are ranked a notch below the agency's general obligation ratings, Little said.

"In general, when there is a requirement for the legislative body to make an appropriation we do factor into our assessment the willingness" to fund it, Little said.

But that willingness is "not always easy to quantify up front," he said.

## **The Bond Buyer**

By Imran Ghori

July 05 2018, 3:16pm EDT

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### **[Puerto Rico Bankrupt Utility Is Leaderless After Pay Scandal.](#)**

- **Upheaval comes amid furor over new CEO's \$750,000 base salary**
- **Public employees, residents face government austerity policies**

Most board members of Puerto Rico's power utility resigned Thursday after a chorus of outrage over pay for its new chief executive officer, who then pulled out of the job. The tumult leaves the troubled agency leaderless at a critical time in its bankruptcy and sale of its assets.

In a letter to Governor Ricardo Rossello, five members of the panel said they were dismayed by "petty political interests." Earlier, Rossello joined politicians and residents in decrying the \$750,000 salary pledged to incoming chief executive Rafael Diaz-Granados, which they said was exorbitant in light of the island's financial crisis and the possibility that public employees may soon face reduced benefits.

"We no longer believe that we have the support to perform the politically unpopular tasks necessary to drive the change from within PREPA," the board members wrote in the resignation letter, which was confirmed by a person with direct knowledge of the matter. "When the petty political interests of politicians are put ahead of the needs of the people, the process of transforming the Puerto Rican electricity sector is put at risk."

Diaz-Granados, himself a board member, quit that position and won't take the chief executive job, according to the person, who asked not to be named because it wasn't yet official.

Rossello will name board replacements before he leaves for a personal trip to attend the FIFA World Cup final in Moscow between France and Croatia, according to Public Affairs Secretary Ramon Rosario.

## **Rich and Poor**

Executive pay has turned into a sensitive topic for the U.S. commonwealth. As the entire island wades through bankruptcy proceedings, many regular Puerto Ricans, including low-level public employees, face the prospect of seeing pension payouts, Christmas bonuses and even sick and

vacation days slashed. Also under scrutiny is the paycheck for the executive director of the island's fiscal control board, which the U.S. Congress installed to right the island's fiscal accounts.

Diaz-Granados was named CEO on Wednesday, just hours after the surprise resignation of Walter Higgins. Higgins quit after the legislature had sought to prevent him from receiving a bonus on top of his \$450,000 salary. Diaz-Granados's higher base salary, which the utility said was in line with industry standards, appeared intended to circumvent the legislature's anti-bonus measure.

## **Daunting Task**

The Prepa crisis comes at a critical time. It's navigating bankruptcy court and working with investment bankers to sell generation assets, potentially putting the transmission and distribution business under a private concessionaire. The new leadership also faces the daunting task of addressing decades of ingrained corruption, inefficiency and poorly maintained infrastructure.

In a press release Wednesday, the utility said Diaz-Granados's pay was in line with industry standards, citing an American Public Power Association formula based on utilities' revenue.

Diaz-Granados defended his salary in local radio interviews Thursday. He said he was "sacrificing" to take the job, and said his previous position at General Electric Co. paid more than \$2 million a year.

Indeed, Constance Lau, the CEO of Hawaiian Electric Industries, a utility that had comparable annual revenue, made \$893,533 in base salary in 2017. CEO Patricia Kampling of Alliant Energy Corp., which also posted similar sales, earned \$980,000. But those utilities are investor-owned, and the similarities with Prepa's financial situation essentially end there.

By comparison, Gil Quiniones, CEO of the state-owned New York Power Authority, makes \$235,000 in base annualized salary. And before Higgins and Diaz-Granados, top Prepa executive Ricardo Ramos had a salary of just \$142,000.

## **Livid Residents**

Diaz-Granados, a multilingual Harvard University graduate who is originally from Colombia, spent 15 years at GE, including as president and chief executive officer of GE Spain and Portugal and GE Mexico. Higgins arrived on the island from Nevada in March without much Spanish, but brought 40 years of management experience.

Coraly Ortiz, a 43-year-old bank employee in San Juan, said she was furious about Diaz-Granados's salary.

"It's completely disproportionate and ridiculous, above all with the situation in Puerto Rico," she said. "They're creating an elite of overpaid government officials taking advantage of the crisis."

## **Bloomberg Markets**

By Michelle Kaske, Yalixa Rivera, and Jonathan Levin

July 12, 2018, 9:24 AM PDT Updated on July 12, 2018, 1:46 PM PDT

— *With assistance by Mark Chediak, and Lynn Doan*

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## **U.S. Judge Nixes Move to Toss Puerto Rico Bankruptcy Case.**

(Reuters) – A federal judge on Friday rejected an attempt by a major Puerto Rico bondholder to throw out the U.S. territory’s historic municipal bankruptcy case.

U.S. District Judge Laura Taylor Swain ruled that the creation by the U.S. Congress of a financial oversight board for Puerto Rico under a law known as PROMESA and the appointment of the board’s members did not violate the U.S. Constitution.

“The oversight board’s statutory objectives and scope of authority thus mark its character as territorial rather than federal,” Swain’s ruling said.

Aurelius Capital Management, an investment firm with a specialty in distressed debt, filed a motion last year arguing that the board’s creation violated the U.S. Constitution’s Appointments Clause. The hedge fund sought to dismiss the board’s May 2017 federal court case to restructure the territory’s roughly \$120 billion in debt and pension liabilities.

An Aurelius spokesman said the hedge fund declined to comment on the ruling.

Under the 2016 federal PROMESA law, Congress appointed six members to a board tasked with managing the territory’s finances, with then-President Barack Obama adding a seventh. PROMESA gave the board authority to push fiscally struggling Puerto Rico into a court-supervised restructuring akin to U.S. bankruptcy.

“As stated in Judge Swain’s opinion, PROMESA empowers the Oversight Board to ‘approve the fiscal plans and budgets of the Commonwealth and its instrumentalities’ and ‘override Commonwealth executive and legislative actions that are inconsistent with approved fiscal plans and budgets,’” the oversight board said in a statement on Friday.

Swain, who is overseeing Puerto Rico’s case, previously dismissed a lawsuit by Aurelius and other investors over the territory’s default on its general obligation bonds.

(Reporting by Karen Pierog in Chicago; Editing by Daniel Bases and Leslie Adler)

July 13, 2018

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## **Puerto Rico Utility Directors Resign, Alleging Political Interference.**

**Most of the Puerto Rican power monopoly’s board resigns after the governor demands a CEO salary cut**

The independent directors of Puerto Rico’s bankrupt public power monopoly resigned Thursday, alleging political interference after top lawmakers and the U.S. territory’s governor demanded cuts to a chief executive compensation package.

Five board members at the public power monopoly known as Prepa said in a resignation letter that “political forces in Puerto Rico” had been meddling in their decisions and “want to continue to control Prepa.” The incoming CEO was among the board resignations, leaving Prepa leaderless a day after the current CEO, Walter Higgins, said he was departing.



The seven-member board came under fire after offering Mr. Higgins's successor a \$750,000 salary, which top Puerto Rican politicians criticized as excessive for a bankrupt utility. Gov. Ricardo Rosselló said the compensation was "not proportional" to Prepa's financial condition and called on the utility's board members to cut the CEO salary or resign.

"When the petty political interests of politicians are put ahead of the needs of the people, the process of transforming the Puerto Rican electricity sector is put at risk," the resignation letter said.

The departures threw Prepa's leadership into disarray as the utility vies with bondholders in court to drive down a \$9 billion debt load and solicits new investments for a dilapidated power system.

The resignations also marked an unusual rebuke to political meddling for a public authority often accused of being politicized. Prepa has long been plagued by frequent turnover at the top, with politically connected officials cycling in and out depending on the party in power. Board Chairman Ernesto Sgroi, one of the directors who resigned Thursday, was Mr. Rosselló's 2016 campaign treasurer.

"I strongly reject the allegations of political interference by outgoing members of the governing board," the governor said in a statement.

Wall Street creditors supported the installation of independent board members under a 2016 governance overhaul. The turmoil in Prepa's leadership further clouds the strategy for repairing the damage from last year's hurricane season and improving service for consumers.

"There is a total meltdown of the Puerto Rico Electric Power Authority right now," said Puerto Rico Senate Minority Leader Eduardo Bhatia. He said the resignations could prompt a takeover by the U.S. territory's federal financial supervisors or by Congress.

A spokesman for the House Natural Resources Committee, which has jurisdiction over U.S. territories, said the political influence on Prepa proved it wasn't truly independent.

Since last year's devastating hurricane season, U.S. lawmakers and the Energy Department have discussed a temporary federal takeover of Prepa, but the idea didn't gain broad traction, according to people familiar with the matter. Puerto Rico's federal oversight board tried to take over Prepa last year but was blocked in the courts.

Prepa tapped board member Rafael Díaz-Granados as its new CEO on Wednesday after Mr. Higgins abruptly resigned from the position, saying he believed he wouldn't be paid what he was owed by Prepa. Mr. Higgins, a high-profile hire with decades of industry experience, was on the job less than four months.

Lawmakers maneuvered in recent weeks to cut nearly half a million dollars in bonuses from his compensation and likewise criticized the pay package offered to Mr. Díaz-Granados, a former General Electric Co. executive who led that company's operations in Spain, Portugal and Mexico. Prepa said the compensation was comparable to CEO pay at other utilities of Prepa's size and complexity.

Prepa, one of the largest U.S. utilities, entered a court-supervised bankruptcy last year after a long financial decline. Mr. Rosselló and the oversight board want an end to the utility's monopoly structure with its various assets privatized.

Union employees worry the strategy will cost them their jobs, while bondholders argue they must be compensated as assets are spun off. The oversight board wants electrical rates slashed to effectively

boost family incomes and spur economic growth.

The power grid was destroyed when Hurricane Irma and Hurricane Maria hit Puerto Rico back-to-back last September, and hundreds of customers in central mountainous regions still haven't had service restored with another hurricane season under way. With Prepa's system severely damaged, bonds backed by electricity revenue have tumbled in value. A frequently traded bond due in 2040 sold for less than 45 cents on the dollar Thursday, according to Electronic Municipal Market Access.

Prepa has spent hundreds of millions of dollars repairing transmission and distribution lines, unnerving creditors who worried the money wasn't being well spent. Prepa also has been dogged by allegations of corruption and mismanagement that remain under investigation in Congress.

Costly and unreliable power service is a drain on family incomes and the quality of life in Puerto Rico, which owes roughly \$70 billion in debt and another \$50 billion in unfunded pension liabilities.

Prepa's problems have been decades in the making. It earned praise for powering Puerto Rico's industrialization efforts in the 1940s and 1950s but became more inefficient over time as generating plants, which largely rely on fossil fuels, required major upgrades that were never made or left uncompleted.

When the island sank into recession, Prepa's finances worsened as business and residential demand for power declined. The exodus of Puerto Ricans to the continental U.S. in the wake of Hurricane Maria is shrinking the island's population, depleting Prepa's customer base and leaving creditors fewer avenues to get repaid.

## **The Wall Street Journal**

By Andrew Scurria

July 12, 2018

*Write to Andrew Scurria at [Andrew.Scurria@wsj.com](mailto:Andrew.Scurria@wsj.com)*

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### **[S&P Withdraws Various Puerto Rico Gov't Agency Ratings.](#)**

SAN JUAN - Credit rating company S&P Global Ratings has withdrawn its "long-term and unenhanced ratings" on the Puerto Rico Municipal Finance Agency's \$413,115,000 2005 series A bonds, \$59,075,000 2005 series B refunding bonds, and \$258,645,000 2005 series C refunding bonds.

"The ratings were withdrawn due to lack of timely information sufficient to maintain the ratings," S&P said in a report Thursday to the markets.

It also withdrew its ratings for Puerto Rico Municipal Finance Agency's \$510,615,000 2002 series A bonds; Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority's \$13,215,000 1998 series A industrial revenue bonds; and Puerto Rico Public Building Authority's \$128,895,000 1993 series L, revenue refunding bonds.

A rating suspension does not imply that the entity is not servicing its debt obligations or that its financial position has deteriorated, but rather that it failed to provide certain information such as its

finances, liquidity or operations.

## **Caribbean Business**

By Eva Lloréns Vélez on July 6, 2018

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### **[New Jersey Is Back From the 'Abyss,' Murphy Says. Credit Raters Need More.](#)**

- **Record \$3.2 billion pension payment first step, governor says**
- **Budget in place, he looks to oversee progressive initiatives**

Governor Phil Murphy's record \$3.2 billion pension payment was an easy sell to New Jersey lawmakers who had fought him on other budget initiatives. Still, he said, it was bittersweet to sign a spending plan that won't impress Wall Street enough for an upgrade.

Credit-rating analysts want to see other elements of what the state was lacking under his predecessor, Republican Chris Christie, including recurring revenue, fulfilled obligations and a sizable surplus. Until then, Murphy said Monday in an interview, New Jersey's once top grade will remain second-worst among U.S. states, behind Illinois.

Christie, who insisted that smaller government and lower taxes would boost New Jersey's economy, oversaw a record 11 downgrades by the three major rating firms during his two terms. In many ways, Murphy is his antithesis — a union-backed progressive who believes the solution to New Jersey's recovery is raising taxes to support increased spending on schools, education and infrastructure.

The 2019 budget brings New Jersey "one step back from the abyss," said Murphy, a retired Goldman Sachs Group Inc. senior director and former ambassador to Germany, who took office in January.

## **Soccer Fan**

"This is a major step, but it's one step," the Democrat said as he sipped iced tea at a Red Bank restaurant near his riverfront mansion, in his first media interview since signing a \$37.4 billion spending plan for the fiscal year that began July 1.

Dressed in jeans, his trademark Allbirds woolen sneakers and a taco-patterned shirt in recognition of Mexico's World Cup match with Brazil, the 60-year-old governor gave a glimpse of weeklong negotiations with Democratic legislative leaders who had objected to his plan to raise more than \$1.5 billion in revenue with a millionaire's tax and a higher sales tax. Without an agreement by July 1, he risked a government shutdown.

On Sunday night, Murphy signed a budget that contained most of what he wanted, though in slightly different form, he said. After negotiations, he agreed on a higher income tax for those who make at least \$5 million, no sales-tax increase and a surcharge on the corporate business tax that he had initially resisted.

## **Budget Deal**

Murphy went along despite initial reservations that companies would head for lower-cost states.

"Having a sensible solution on some of these tax policies was, I think, all that they were asking for,"

Murphy said of unnamed corporate chief executives with whom he said he had spoken during budget talks. A state will lose businesses no matter what, he said, but the goal was “to keep more than your fair share.”

Republicans fear the state will lose more of its residents and businesses. Democrats are “taxing with impunity,” Doug Steinhardt, chairman of the New Jersey Republican Party, wrote Tuesday in a northjersey.com column.

“Democratic leaders brand their budget compromise a stronger and fairer New Jersey,” Steinhardt wrote in his column. “It isn’t. We are weaker and poorer because of it.”

On Monday, Murphy said he was a few moments late to the interview because he was having a phone conversation with a chief executive of a publicly traded company, which he declined to identify, that already was planning to add 800 employees to its New Jersey workforce of 100. Companies consider more than taxes when deciding where to locate, he said.

“If all you care about, literally all you care about, is the tax rate, and you don’t care about infrastructure, location, public education, higher ed, what are you doing with incubators, what are you doing to develop talent, keep talent — New Jersey will have a hard time in that fight, right?” he said. “It’s like a single-issue voter.”

Demand for New Jersey bonds has increased this year. Debt sold in the state has gained 0.17 percent, beating the overall municipal-bond market’s 0.25 percent loss, according to Bloomberg Barclays Municipal Bond Index.

In the weeks heading to the spending deadline, Murphy had public appearances and news conferences alongside members of groups backing a \$15 minimum wage and environmental causes as well as unions representing public employees. Christie had alienated the government workforce by failing to make promised pension payments after they agreed to pay more toward retirement and health benefits — and then calling for more concessions.

Murphy said he intended to keep employees in his corner, even as he examines how to reduce their costs to taxpayers.

“I’m committed to earning that trust back,” he said. “It isn’t just to have a nice relationship. It’s the right thing to do, to again be a state that people say, ‘You know, I trust this place.’ Rating agencies, God willing, will trust us again.”

## **Bloomberg Politics**

By Elise Young

July 3, 2018

— *With assistance by Michelle Kaske*

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## **[Fitch: California Better Equipped for Next Recession.](#)**

Fitch Ratings-New York-02 July 2018: There is a strong likelihood California’s next governor will encounter recession, though a new Fitch Ratings report says that the state is fundamentally better

positioned to withstand the next inevitable economic downturn.

With Governor Jerry Brown's final budget now official and his second term nearing an end, California continues to benefit from strong economic growth in the midst of the second-longest national economic expansion. Whether the state's choice for next governor is Democrat Gavin Newsom or Republican John Cox, the state is likely to experience a "what goes up, must come down" scenario with a stiff economic test likely for California's economy.

'Governor Brown's popularity among voters helped him to successfully raise taxes, establish a rainy day reserve and budget conservatively, advantages the next Governor may not have,' said Senior Director Karen Krop. 'However, the next governor will benefit from structural changes made over the last decade that will heavily affect how the state's budget performs through the next inevitable recession.'

Among the post-recession changes made that underpin Fitch's 'AA-' rating for the state are lower voting requirements to approve state budgets, improved access to internal liquidity, transference of some state responsibilities to local governments, and a new funding mechanism for the rainy day fund. While the structural enhancements are in place, the next governor will face the same pressure to address issues such as healthcare, homelessness, infrastructure and access to higher education, among other quality of life challenges that will be magnified in a broader economic downturn. This makes the response when the next recession comes very integral to California's future ratings and Outlook.

'California after Governor Jerry Brown' is available at '[www.fitchratings.com](http://www.fitchratings.com)'

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## **[Fitch: Georgia Water Credits Risks Rise in Dispute with Florida.](#)**

Fitch Ratings-New York-06 July 2018: In a recent US Supreme Court (SCOTUS) decision, the justices sided with Florida in an ongoing dispute over water allocations between Florida and Georgia from the Chattahoochee and Flint River basin. The eventual outcome of this lawsuit could have credit

implications for water utilities as it would raise the need for borrowing to create additional supply, Fitch Ratings says.

The special master appointed to hear the dispute between Florida and Georgia decided there was insufficient evidence to prove that limiting Georgia's water use would benefit Florida. However, SCOTUS reviewed that decision and ruled the special master should reconsider Florida's argument that a cap in Georgia's water consumption could benefit Florida's Apalachicola Bay.

As urban populations grow, competing demands for water and supply stability are making decisions like this one more important for water utilities and increasing the frequency of disputes. A court decision that leads to a reduction in, or ultimately limits, supplies could raise a water utilities' borrowing to finance additional supply development. That would force utilities to strike a careful balance between charging higher water rates and/or assuming lower financial margins. The added costs of water replacement supply development could also divert funding from ongoing renewal and replacement of existing infrastructure, escalating future expenses.

Raising water rates is becoming more difficult as, for decades, water and sewer rate increases exceeded CPI and median household income (MHI). While CPI slightly more than doubled from 1988-2014, typical residential water bills more than tripled and wastewater rates more than quadrupled, according to The American Water Works Association. User charges have steadily climbed toward Fitch's 2% of MHI affordability benchmark, although Fitch-rated credits by and large still have sufficient affordability cushion.

Declining water use in the US overall has meant that cross border disputes will occur within fast growing regions that share water resources. Water use in the United States in 2015 was estimated at 9% less than in 2010, making withdrawals the lowest level since before 1970, according to the U.S. Geologic Survey.

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## **Fitch Upgrades DC to 'AA+' and Rates \$476MM GOs 'AA+'; Outlook Stable.**

Fitch Ratings-New York-03 July 2018: Fitch Ratings has upgraded the District of Columbia's (the District) Issuer Default Rating and the ratings on approximately \$4.8 billion of general obligation (GO) bonds to 'AA+' from 'AA'.

Fitch has also assigned an 'AA+' rating to the following District GO bonds:

- \$172.9 million series 2018A general obligation bonds;
- \$303.4 million series 2018B general obligation refunding bonds.

The series 2018A and B bonds are scheduled to be sold through negotiated sale on or about July 18.

The Rating Outlook is Stable.

### **SECURITY**

The bonds are general obligations of the District, with its full faith and credit pledged. Also pledged is revenue from a special real property tax, unlimited as to rate or amount and levied in an amount to pay debt service on GO and parity bonds.

### **ANALYTICAL CONCLUSION**

The upgrade of the District's IDR and GO rating to 'AA+' from 'AA' reflects ongoing strong economic and fiscal performance despite federal contraction and the District's repeatedly demonstrated ability to manage its budget to meet identified needs, most recently by increasing revenues to provide enhanced funding for the Washington Metropolitan Area Transit Authority (WMATA, the local public transit operator). Fitch has raised the assessments of the District's revenue framework and long-term liability burden key rating drivers. A more than 40-year history without Congressional intervention in revenue policy substantially mitigates concerns about the theoretical limit to the District's independent revenue control implicit in the federal relationship while the improvement in the long-term liability burden assessment incorporates the strong growth prospects for the District's resource base and recognition of the notable share of its liability burden that is exported to non-residents.

The ratings continue to reflect the District's exceptionally strong budget control by an independent chief financial officer (CFO), prudent financial management throughout the business cycle and strong growth prospects. The federal government plays a key role in the District's credit profile given its economic importance to the District and direct fiscal support for retiree liabilities as well as Medicaid. A statutory cap on debt service, strong commitment to long-term capital planning with sizable pay-go commitments and steady economic growth should keep the long-term liability burden relatively stable.

### **Economic Resource Base**

Government employees and spending comprise a significant portion of the District's economy and provide an important source of stability. The District's economic base has proven resilient to federal volatility, including sequestration and a federal government shutdown. Continued private sector expansion, supported by robust population growth and favorable demographic trends, offsets the exposure to federal spending.

### **KEY RATING DRIVERS**



#### Revenue Framework: 'aa'

The District's revenue growth will likely be in line with or above the level of U.S. economic growth, driven by overall economic expansion. The District has unique limitations in its independent legal ability to raise revenues given the level of congressional oversight; however, a long record of District revenue actions without Congressional interference substantially reduces the risk presented by this factor.

#### Expenditure Framework: 'aa'

The District has solid flexibility to manage primary expenditure demands, with workforce challenges common to many highly unionized localities, offset by low carrying costs. Material federal support assists the District in managing key spending needs, including Medicaid and pensions. Federally mandated reforms also established structural budget management tools that impose spending discipline and limit the natural spending growth rate.

#### Long-Term Liability Burden: 'aa'

While pension and OPEB funded positions are very favorable, the District bears a substantial burden commensurate with its responsibility for services that are normally provided by a combination of state and various local levels of government. Statutory policies establish clear caps, but extensive capital needs indicate long-term liability burden metrics will remain around current levels for the foreseeable future. The liabilities as a percentage of market value metric, which incorporates the benefit of the strong tourism presence in the District's economy and other non-resident economic activity, indicates a lower burden than suggested by the resident personal income-based metric alone.

#### Operating Performance: 'aaa'

The District is well positioned to address cyclical downturns with robust reserve balances and related statutory funding requirements, midrange inherent budgetary flexibility and relatively strong expected general fund revenue growth. The CFO's office provides extensive budget monitoring and control, supporting the District's operating profile.

### RATING SENSITIVITIES

**FISCAL MANAGEMENT:** The District's 'AA+' IDR is sensitive to shifts in fundamental credit characteristics, including continued strength in the District's concentrated economic profile, proactive and conservative financial management including solid reserve funding and continued careful management of a sizable long-term liability burden with debt issuance matched to economic and fiscal capacity.

**FEDERAL OVERSIGHT AND SUPPORT:** The federal government's role is a critical factor in the District's rating. Direct fiscal contributions support the District's strong expenditure framework and temper the long-term liability burden. Material changes in the federal government's relationship with the District could trigger rating movement. Congressional intervention in the District's revenue policy would lower the revenue framework assessment.

### CREDIT PROFILE

The District's income levels are very high, but an income equity gap remains. The 2017 per-capita personal income was by far the strongest in the nation (relative to U.S. states) at approximately \$77 thousand, or more than 150% of the national level. However, the poverty rate is also high at 19% versus a national rate of 13%. Population growth has been triple the national rate since 2010, reaching nearly 700,000 in 2017. The District is responsible for funding its public schools, including charter schools, and overall enrollment has grown steadily at roughly 3% annually between 2014

and 2017, with additional growth anticipated in coming years, commensurate with the overall population trends.

#### Revenue Framework

The District has diverse tax revenues with real and personal property taxes, personal and corporate income taxes and a sales and use tax. Combined, these sources account for approximately three-fourths of its general fund revenues.

Stability in property taxes offsets volatility in the income and sales taxes, while the growth potential of the latter two taxes supports Fitch's assessment of strong revenue growth going forward. Strong revenue growth over the past decade, well above the rate of national GDP, indicates fundamental resilience despite federal government contraction. Fitch's assessment recognizes that the actual historical growth rate that is somewhat overstated given revenue policy actions the District implemented during this period.

The District's independent legal revenue-raising capability is theoretically limited by federal oversight, but not fundamentally so given a long historical record without any Congressional interventions on District revenue measures. The federal Home Rule Act established the District as essentially a federal agency for budgeting purposes, requiring explicit congressional approval as part of federal appropriations bills before local budget bills become effective. Local budget bills are the only way for the District to authorize spending of revenues, including tax or fee increases implemented under separate local legislation.

Under a local Budget Autonomy Act enacted by the District council in 2012 and a local court decision upholding it, the District believes its local funds budget is now only subject to a 30-legislative days congressional review period. Some members of Congress have challenged this assertion and, in Fitch's view, the final outcome remains somewhat unclear.

Since a 2016 decision in the District's Superior Court, the District has followed the budgeting process outlined in the Budget Autonomy Act. After council and mayoral approval, the District submits the local funds budget bills to Congress and considers them fully enacted after a 30-legislative days congressional review period. However, Congress has continued to follow Home Rule Act provisions and included the District's local funds budget in its federal appropriation bills.

Historically, the federal appropriations bills have included all provisions, including revenue changes, in the local funds budget approved at the District's level. They have also usually included additional policy riders inserted by Congress that modestly restrict the District's expenditure authority. For fiscal 2018, Congress inserted provisions prohibiting any expenditure of local funds to legalize marijuana and tightly limiting expenditures for abortions. As it traditionally has, the District intends to comply with these provisions included in the federal appropriations bills.

The Home Rule Act also subjects all non-budget enacted local legislation, including revenue raising measures, to a 30- (for civil matters) or 60-(for criminal matters) legislative days congressional review period. Congress can void the legislation during the review period with a joint resolution of both houses, signed by the president. This represents a significant political hurdle, as locally approved legislation has been voided only three times and not since 1990. None of the voided legislation related to fiscal policy or revenue changes.

Beyond the federal provisions noted above, the District has no other legal limitations on its ability to raise revenues through tax or fee increases, or base broadenings. Since the 1973 enactment of the Home Rule Act, Congress has never voided or otherwise overturned revenue-raising measures approved by the District's council and mayor.

## Expenditure Framework

The District's responsibilities are very broad, as it provides city, county and education services to its population. In addition, the District also functions as a state government sharing the most significant expenditure challenge facing most state governments, Medicaid. An enhanced Federal Medical Assistance Percentage (FMAP) match provides the District with a level of federal support exceeding that provided to most states, offsetting some of the burden.

Overall spending should continue to grow in line with revenues. The District faces a wide range of expenditure pressures but benefits from a resilient revenue stream primed for continued growth.

Federal action to revise Medicaid's programmatic and financial structure, including a basic restructuring of federal Medicaid funding to a capped amount, remains a possibility. Whether a change in Medicaid funding has consequences for Fitch's assessment of the District's credit quality would depend on the District's fiscal response to those changes. Responses that create long-term structural deficits or increased liability burdens could negatively affect both the expenditure framework assessment and the IDR.

Carrying costs (debt service, pension actuarially determined contribution [ADC] and OPEB actual contribution) are low at about 8% of spending and should be fairly stable (if actuarial assumptions for the pensions are achieved as noted below) as the District consistently pays full actuarial amounts for both pensions and OPEB. Debt amortization is relatively slow, reflecting statutory caps that limit annual debt service. Federal support also plays a key role in minimizing carrying costs. District employees except police, firefighters, and teachers participate in either the federal Civil Service Retirement System (for those hired before Oct. 1, 1987), with the District making percentage of payroll contributions as a participating employer or a District-managed defined contribution system.

Police, firefighters and teachers participate in single employer defined benefit plans managed by the District of Columbia Retirement Board (DCRB). Under the federal National Capital Revitalization and Self-Government Act of 1997, the federal government took on the liabilities and annual contribution requirements for police, firefighters and teachers accrued through June 30, 1997. District funding of actuarial liabilities accrued since then has been in line with actuarially determined amounts. Fitch anticipates annual pension spending will remain relatively stable given the DCRB's adoption of more conservative actuarial assumptions including a closed 20-year amortization, level dollar (as opposed to the more common level percent of payroll) amortization and 6.5% investment return assumption.

The District's workforce is highly unionized with approximately 75% of the workforce subject to collective bargaining, and Fitch views the workforce environment as a neutral to weaker factor in the District's overall expenditure flexibility assessment. Employees are not permitted to strike but all collective bargaining units are eligible for binding arbitration to resolve contract negotiations.

The District reports it has settled contracts with essentially all bargaining units, except for the police officers' union. While Fitch has not fully evaluated terms of other labor settlements, the District's CFO reviewed them for fiscal sustainability the costs and are incorporated into the fiscal 2019 budget and multi-year financial plan. The budget and fiscal plan also includes estimates for settlement of the police contract, on terms consistent with what the contract for fire and emergency medical services personnel. Given the anticipated strong growth in revenues, Fitch does not believe the new contracts will materially affect its expenditure framework assessment.

Recent action by the District, Maryland, Virginia (collectively the contributing jurisdictions), and the Washington Metropolitan Area Transit Authority (WMATA, the local public transit operator) addresses the authority's key capital needs without materially affecting the District's expenditure

and long-term liability demands. In 2018 legislative sessions, the contributing jurisdictions all implemented measures to provide a combined approximately \$500 million annually in new and permanent capital funding. This level of dedicated funding meets WMATA's recent request from the jurisdictions to allow it to fully fund an ongoing capital plan to improve safety and reliability. As the District's only public transit operator, WMATA's sustainability and success is an important factor in the District's economic growth prospects.

For the District, the increased contributions will be supported with a mix of recurring revenue increases and dedication of pay-go capital funding. The recurring revenue will derive first from a dedicated share of sales tax revenues. That dedication will be ultimately supported by several tax policy changes including rate increases in the sales tax to 6% from 5.75% (matching Maryland and Northern Virginia) and in the ride-sharing tax to 6% from 1%, as well as 3-cent of a 4-cent increase in the commercial property tax rate to \$1.89 per \$100 from \$1.85.

Importantly, this newly dedicated funding is on top of other capital and operating support the contributing jurisdictions have historically provided to WMATA, and Fitch anticipates that the other support will continue. The District's operating contributions have consumed between 4% and 5% of its general fund operating expenditures in recent years, while the District's annual share of WMATA's capital budget has been approximately \$130 million, or 10% of the District's capital spending.

#### Long-Term Liability Burden

Pensions and OPEB liabilities are very low with both obligations essentially fully funded, setting the District apart from the vast majority of U.S. governments. Federal support described earlier plays a key role in this extremely strong funded position. However, the debt burden reflects the District's responsibilities for functions that would normally be shared between state and local governments. Pro-forma combined debt and pension liabilities are approximately \$11.5 billion, or 22% of the District's 2017 personal income (debt represents 21%).

Given the District's position as one of the nation's premier tourist destinations and other significant economic activity generated by non-residents including commuters, Fitch also considers a total liabilities-to-market value metric. Relative to fiscal 2017 taxable assessed value of just over \$200 billion, the ratio is approximately 6%. As the nation's capital and home to many not-for-profit groups, one-third of the District's tax base is tax-exempt, somewhat overstating this ratio.

Fitch's analysis includes outstanding debt as of March 31, 2018 and an estimated \$550 million in new money issued since then or anticipated later this year. This includes recent GO bond anticipation notes, the new money portion of the bonds rated here and an additional new money issuance anticipated for later this year.

Fitch expects the District's long-term liability burden to remain relatively stable driven by a steady flow of capital needs, offset by likely steady and strong economic growth. The District's annual long-range capital financial plan report provides an extensive assessment of foreseeable capital needs over a multi-decade timeframe and its ability to fund them. This type of explicit very long-term capital planning is uncommon for state and local governments. Fitch anticipates the District will remain committed to addressing what it considers a long-term capital needs gap identified in its report by regularly issuing new debt but also by increasing other financing sources including pay-go.

#### Operating Performance

The District's resilient revenue base, solid spending flexibility and sizable reserves leave it very well positioned to manage through a moderate economic downturn. Available general fund balance was approximately 24% of spending at almost \$2 billion at the end of fiscal year 2017 (ended Sept. 30),

aided by a roughly \$300 million operating surplus. The revised budget for fiscal 2018 forecasts a roughly \$100 million surplus, which should allow the District to further boost its sizable reserves.

Available general fund balance includes all unrestricted fund balance (including the cash flow reserve and fiscal stabilization reserve), and two components of the restricted general fund balance (the contingency cash reserve fund and emergency reserve fund). The latter two funds were established under federal statute to provide fiscal flexibility and both are available for intra-year cash flow needs, supporting Fitch's view that they are part of the District's available financial cushion.

Fitch views the extensive powers and responsibilities of the independent CFO and other federally established mechanisms as key strengths of the District's operating environment. Fiscal discipline instilled following the District's financial crisis in the 1990s is institutionalized, largely in the form of the CFO's office. The CFO establishes the official binding revenue forecast used for budgeting and regularly updates it; monitors annual revenue and expenditure trends to ensure budget compliance and to flag any unanticipated shortfalls; scores all local legislation with potential fiscal consequences and can essentially block legislation that leads to a projected budget deficit; and develops annual multi-year revenue estimates.

Under the Federal Home Rule Act, the District's annual budget also includes a detailed multi-year outlook for operating and capital revenues and spending. Revenues in particular (presented by the CFO) tend to be based on conservative assumptions. While the federal financial control board is dormant, federal law establishes clear guidelines for its automatic reinstatement (namely, signs of significant District fiscal distress).

During the current economic expansion, the District made rapid progress in restoring fiscal flexibility with measures like steady rebuilding of its general fund balance (including establishing the cash flow reserve and fiscal stabilization reserve accounts in fiscal 2011) and rolling back temporary personal income tax increases implemented to address effects of the great recession.

## CURRENT DEVELOPMENTS

In the June 2018 quarterly revenue estimate, the CFO projected modest growth in local sources, general fund revenue growth of 2.4% in fiscal 2018, and then approximately 3% growth in the outyears through 2022. The fiscal 2018 projection is particularly affected by short-term stimulus effects of the recent federal tax changes enacted in December 2017. The CFO's overall revenue outlook derives from an expectation of continued economic growth, but at a slightly reduced pace. Fitch considers the revenue estimates prudent and achievable, assuming continued national economic stability.

The District's council-approved fiscal 2019 budget includes modest increases in local funds spending of less than 2%, supported by revenue growth and use of between \$100 million to \$200 million of the prior year's ending balance specifically designated for fiscal 2019 spending. Given the District's historical practice of conservative revenue and expenditure budgeting, Fitch anticipates actual performance could exceed the forecast leading to another operating surplus.

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## **New York City Turns Inward With 2019 Budget.**

New York City's fiscal 2019 budget process concluded on June 14 with the adoption of an \$89.15 billion budget. The budget incorporates recently settled state and federal questions while managing for future risks, addressing new spending requests, and increasing reserve set-asides.

[Continue Reading](#)

Jun. 25, 2018

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## **Connecticut Receives Federal Approval for All Qualified Opportunity Zone Nominations.**

On May 18, Connecticut Governor Dannel Malloy announced that the U.S. Department of the Treasury approved all 72 "Qualified Opportunity Zones" that had been nominated by his administration, 29 of which are located in Hartford, New Haven, Stamford and Bridgeport.

Qualified Opportunity Zones are a creation of the Tax Cuts and Jobs Act (the Act), enacted on December 22, 2017, and serve as part of a new tax incentive mechanism to spur long-term investment in economically distressed communities throughout the United States. Pursuant to the Act, U.S. states and certain territories can nominate communities to be designated as Qualified Opportunity Zones, with such nominations subject to approval by the Secretary of the Treasury.

A taxpayer who invests in a designated Qualified Opportunity Zone through a Qualified Opportunity Fund (an Opportunity Fund) is eligible for preferential tax treatment. For these purposes, an Opportunity Fund is an investment vehicle that (i) is organized as a corporation or partnership formed for the purpose of investing in Qualified Opportunity Zone property and (ii) holds at least 90 percent of its assets in Qualified Opportunity Zone property. Notably, there are some significant tax

benefits that Opportunity Fund investors may be eligible to receive:

1. **Tax Deferral:** If an investor sells an asset and reinvests the resulting capital gain in a an entity constituting an Opportunity Fund within 180 days from the date of such sale, the investor can defer tax on the reinvested capital gain (the Deferred Gain) until the earlier of (i) the investor's disposition of its investment in the Opportunity Fund or (ii) December 31, 2026 (the Taxation Date). To defer the associated tax on the Deferred Gain, the investor must so elect when filing its U.S. federal income tax return for the year in which the Deferred Gain arose.
2. **Reduction of Tax on Capital Gains:** If an investor holds an Opportunity Fund investment for at least five years, such investor's basis in the Opportunity Fund (initially \$0) will be increased by 10 percent of the Deferred Gain. This "step-up" in basis will be increased by an additional 5 percent of the Deferred Gain if the Opportunity Fund investment is held for at least seven years. In any event, on the Taxation Date, the taxpayer will be subject to capital gains tax on the lesser of (i) the Deferred Gain over the taxpayer's adjusted basis in the Opportunity Fund or (ii) the fair market value of the taxpayer's investment in the Opportunity Fund over the taxpayer's adjusted basis in the Opportunity Fund. In a best-case scenario (i.e., if the taxpayer holds its Opportunity Fund investment for at least seven years and the taxpayer's investment in the Opportunity Fund has appreciated), the taxpayer will generally be subject to capital gains tax on only 85 percent of its initial Deferred Gain and will have deferred the associated tax on 85 percent of the Deferred Gain for at least seven years.
3. **Elimination of Tax on Realized Appreciation:** If an investor holds an Opportunity Fund investment for ten or more years, the investor's basis in the Opportunity Fund will be stepped up to the fair market value of its investment on the date the investment is sold or exchanged. As a result, following 85 percent of the Deferred Gain being subject to tax at capital gains rates on the Taxation Date (item 2 above), any future appreciation of the taxpayer's interest in the Opportunity Fund subsequent to the Taxation Date will generally be tax-free to the investor if the investor holds the Opportunity Fund investment for more than ten years.

Importantly, a taxpayer must self-certify its investment in an Opportunity Fund. No approval or action is required by the Internal Revenue Service; rather, the taxpayer must complete the appropriate form and attach it to the taxpayer's federal income tax return. Such form is not yet available, but is expected to be released by the IRS this summer.

## **Day Pitney Advisory**

June 29, 2018

Day Pitney Author(s) Von E. Sanborn Aaron T. Kriss Jeffrey M. Kole

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## **[Is Washington, D.C. Prepared for the Amazon HQ2 'Prosperity Bomb'?](#)**

The biggest news in economic development in the past year has been the bidding war among cities and counties in response to Amazon's announcement that it is seeking a location for a second headquarters (dubbed HQ2) which would employ up to 50,000 workers with an average annual compensation over \$100,000. The company received more than 200 bids, and in January announced a short list of 20 finalists, including Washington D.C. and two areas in suburban Maryland and Northern Virginia.

As the countdown to a final decision continues, it's worth thinking about the impact—both positive



and negative—if Amazon were to select the District proper, which is enjoying a renaissance that nonetheless leaves some residents and neighborhoods behind. A newspaper columnist in Seattle, the home of HQ1, coined the term “prosperity bomb” when reflecting on the upsides and downsides of the company’s presence.

Washington, D.C. is a city with significant assets, enough to make us a serious contender for Amazon: an educated workforce, good schools (if you can afford to buy a house in the right neighborhood or know how navigate the system), renowned colleges and universities, and extensive public transportation and walkable communities. The addition of up to 50,000 new jobs, most of them high-paying, would further strengthen and diversify the city’s economy, which has long relied on federal employment and associated industries.

[Continue reading.](#)

## **The Brookings Institute**

by Martha Ross

Friday, June 29, 2018

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## **[New Municipal Public Right of Way Laws Fueled by Changes to Ohio Revised Code.](#)**

In response to Ohio House Bill 478, new right of way (ROW) ordinances are currently being considered by a number of Ohio municipalities. Ohio House Bill 478 amends Ohio’s existing laws governing use and occupancy of the public ROW to further accommodate small cell facilities in support of 5G cell phone technology. The new legislation will go into effect on August 1, 2018. ([See Ohio House Bill 478](#))

As a result of the forthcoming changes to [1]ORC Chapter 4939 by Ohio House Bill 478, a flurry of Public Way Notices (PWN) have recently been filed with the Public Utilities Commission of Ohio (PUCO) by municipalities considering the enactment of new or revised ROW ordinances. Since May 1, 2018, 27 PWNs have been filed with PUCO.

Although it seems likely that many of the newly proposed ROW ordinances being considered by municipalities are *intended* to apply to small cell facilities in the ROW, ambiguous language in certain sections of the new proposed ordinances could allow municipalities to impose their new requirements upon energy companies with existing facilities in the public ROW. Such application may cause permitting delays and increased costs for an energy company attempting to repair, replace, or maintain its infrastructure.

For instance, on May 4, 2018, an Ohio village filed a PWN for a proposed ordinance entitled “Small Cell Facilities for Wireless Support Structures.” The title reflects that the proposed ordinance is intended to govern only wireless communication facilities in the ROW, but inexact drafting within the Village’s new proposed ordinance could put energy companies at risk of falling under the new ROW rules for the Village. Examples include:

- The term *facilities* is undefined and used throughout the proposed ordinance, whereas the terms “Micro Wireless Facility” “Small Cell Facility”, “Eligible Facilities” and “Wireless Facility” are all defined. One could argue that when *facilities* is used alone, it means something other than those

specifically defined terms. Thus, *facilities* could be read to include underground or aboveground transmission and distribution lines.

- The term “Work Permit” is defined broadly as “A permit issued by the Village that must be obtained in order to perform any work in... any part of the public ROW...” This requirement could apply to any work by a utility on infrastructure located within the ROW, as it is not limited to ROW work involving small cell facilities and wireless support structures.

Similar problems from imprecise drafting may continue in other forthcoming ROW ordinances from municipalities that have recently filed PWNs.

Drafts of the proposed ordinances are not yet available from the majority municipalities that have recently filed. This is because of a new tactic employed by these municipalities – to file notice with PUCO of their consideration and proposed enactment of a public way ordinance, pursuant to ORC § 4939.04(E), without attaching the proposed ordinance supposedly under consideration. Many municipalities responded that the ordinance supposedly under consideration had not yet been drafted following written request of the proposed ordinances by the author. It seems these municipalities are taking the position that notice to PUCO of their consideration of an *undrafted* PWO somehow starts the 45-day notice period under ORC § 4939.04(E).

Application of new municipal ROW ordinances to energy service providers is not limited to the situation of imprecise drafting within an ordinance geared towards small cell facilities. Some of the PWNs filed with PUCO are for newly proposed municipal public way ordinances with broad and sweeping changes regarding a City’s governance of the public way, intended to impact energy service providers.

For example, Akron’s new proposed ordinance requires initial and annual registration with the City, and mandates registration fees, annual maintenance fees, new construction permit fees, and bonds for registration, construction, restoration, and removal, among other costly and burdensome requirements.

It is important for energy companies to be aware of the upcoming changes to municipal ROW ordinances in Ohio due to amendment of ORC 4939 from House Bill 478.

[1] Ohio Revised Code Chapter 4939 governs use of municipal public ways and generally grants authority to municipalities to manage the rights of way in their jurisdiction. House Bill 478 will amend Chapter 4939 to provide, among other things, that municipalities must permit wireless service providers, cable providers, and video service providers, to attach small cell wireless facilities to municipally owned support structures located in the right of way, including on utility poles, traffic signals, and street lights and to construct, maintain, operate, or replace a wireless support structure in the right-of-way.

**Benesch**

July 9, 2018

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## **[Why It May Be Time to Own Illinois, Connecticut Debt.](#)**

James Iselin, head of municipal finance for Neuberger Berman, discusses online tax collection and owning debt from Illinois and Connecticut. He speaks in this week’s “Muni Moment” with Bloomberg’s Taylor Riggs on “Bloomberg Markets.”

[Watch video.](#)

## **Bloomberg Markets**

June 29th, 2018, 7:33 AM PDT

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### **University of Oklahoma Is Weighing Rent Subsidies for Troubled Dorm.**

- **Apartment complex opening in August is only 28 percent leased**
- **Competitors have slashed rents as much as \$100 per month**

The University of Oklahoma may aid a struggling municipal-bond financed luxury dorm by offering housing “scholarships” to help students afford rental payments, university administrators and the non-profit owner of the project said on a conference call with investors.

The university, which has about 27,000 students on its main campus in Norman, is also weighing whether to allow first year students to live in the 1,230-bed complex or reduce occupancy in other dorms. The new apartment building, known as Cross, opens in August and is just 28 percent leased. It features a “blow dry bar and salon,” cycling studio, cafe and a Lululemon store.

“We are keenly aware of the challenges that Cross is facing,” Steve Hicks, chief executive of Baton Rouge, Louisiana-based Provident Resources Group, a non-profit that financed the student housing with \$250 million of municipal bonds, said on the call late Tuesday. “We have complete confidence that we have the right team to address these issues, these challenges and to effectively address them in the coming months.”

The Oklahoma project and another municipal-bond financed complex at Texas A&M, which had to slash rents to fill beds, underscore the risk to investors of overbuilding luxury accommodations as students become more cost-conscious. While many universities have tapped outsiders to finance and build dorms to conserve money for academics, the University of Oklahoma project shows that developers will turn to the universities for assistance if projects falter.

In late May, S&P Global Ratings downgraded the dormitory bonds to BB, two steps into junk, and left a negative outlook on the securities, signaling they may be cut deeper. Some of the taxable securities due in 2037 last traded for an average of 88 cents on the dollar, down from about 109 cents in October.

Cross is opening in a housing market in Norman that “is very different,” than originally anticipated, said Marty McBurney, an assistant vice president at a unit of Balfour Beatty Plc, which built and manages Cross Village. The average occupancy for off-campus student housing is 74 percent and competitors have cut rents by as much as \$100 a month.

“Competitors lowering their rates definitely had an impact on our rates,” McBurney said.

Cross was too slow to cut rents and had trouble attracting students earlier this year because it was still under construction and prospective residents couldn’t tour it, said Provident and Balfour executives.

Provident has hired a consultant to review and improve advertising and the university is marketing the complex to prospective transfer students, executives said. But there is a limit to the university’s

assistance: Oklahoma won't require sophomores to live on campus or return a \$20 million lease payment, officials said.

There's no danger of imminent default on the bonds. Cross has enough money to pay debt service in 2018 and 2019. Provident is forecasting 60 percent occupancy in 2019.

The university must analyze the impact of opening Cross to first year students on the revenue that supports existing dorms and the debt that financed them, said Chris Kuwitzky, the university's chief financial officer.

"We can't do anything that would harm the debt service coverage ratio on that debt," Kuwitzky said, adding he expected to report back to investors in 30 to 60 days.

Provident and its banker Royal Bank of Canada are also studying the feasibility of buying some of the university's existing dorms to create a "housing system." Provident would finance the purchase by selling new debt backed by revenue of the portfolio, allowing it to "cross-collateralize" the assets and revenue stream for the new bondholders.

## **Bloomberg**

By Martin Z Braun

June 27, 2018, 7:17 AM PDT

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### **[Public Banking Will Be on the Ballot in L.A. this Fall.](#)**

The Los Angeles City Council is moving forward with a proposed ballot measure that would ask voters this fall whether they want to create a publicly owned bank.

In a [unanimous vote](#), council members on Tuesday, June 26, gave the go-ahead to begin the process of [adding a measure](#) on the November 2018 ballot that would amend city charter in order to create a city-owned bank. The city's code currently prohibits it from entering into a "purely commercial venture," unless it's approved by voters.

To advocates, this move is a historic one that can set the tone for other public banking movements happening across the nation.

"The outcome will reflect the pulse of the national movement," says Trinity Tran with the Public Bank LA campaign.

[Continue reading.](#)

NEXT CITY

BY ALEJANDRA MOLINA | JUNE 29, 2018

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### **[L.A. Metro P3 Funding Options and the California Infrastructure Financing](#)**

## Act.

The Los Angeles County Metropolitan Transportation Authority (Metro) is the agency that operates public transportation for all of Los Angeles County. With the passage of Measure M by voters in 2016, Metro has signaled their intent to improve and expand public transit in L.A. County. Just this year, Metro adopted “Twenty-Eight by ‘28,” an initiative spearheaded by Mayor Eric Garcetti. The initiative aims to complete [28 major transportation projects](#) by the 2028 Summer Olympic Games, set to be hosted in Los Angeles. This is an ambitious goal. Of the projects listed, 17 are already scheduled to be completed by 2028; however, eight have schedules that would need to be advanced, and three would need new funding resources.

In order to secure accelerated funding, Metro has been publicly [exploring the option of using Public-Private Partnerships \(P3\)](#). In this type of partnership, a public agency trades some sort of long-term return, such as fares or tolls collected, in return for a private investment. P3s, while [becoming increasingly common](#) in the United States, have never been used on the scale of a multi-billion dollar rail line through one of the most densely populated corridors in the country. Given the uptick in interest by local governments to utilizing P3s to fund infrastructure projects, an understanding of the P3 laws in California will be extremely important for companies hoping to take advantage of such opportunities.

The California Infrastructure Financing Act (IFA; Cal. Gov’t Code § 5956 et seq.) is broadly applicable to California public agencies below the state level, including cities, counties, joint powers authorities, local transportation commissions or authorities, or “any other public or municipal corporation.”

The IFA states, “a governmental agency may use private infrastructure financing pursuant to this chapter as the exclusive revenue source or as a supplemental revenue source with federal or local funds” (Cal. Gov’t Code § 5956.9). The statute does prohibit the use of the act for “state projects” though, including “state-financed projects” (Cal. Gov’t Code § 5956.10).

One of the main advantages of the IFA for both the public and private partner are the broad exemptions granted from many standard contracting limitation in the Government and Public Contract Codes. This flexibility was intentional—giving local agencies broad latitude to “utilize private investment capital” to meet their needs (Cal. Gov’t Code § 5956.1). Instead of the traditional public bidding process, the statute requires “competitive negotiation” and also affirmatively allows agencies to consider unsolicited proposals. Competitive negotiation is something different, and less stringent, than competitive bidding. Local government agencies have the authority to develop projects proposed by a private entity and then competitively negotiate exclusively with that single entity (Cal. Gov’t Code § 5956.5). This competitive negotiation process works like an arms-length transaction in the private sector and is based on a best value methodology.

Other than competitive negotiation, the only other constraints on the selection process written into the IFA are three general requirements:

1. The primary selection criteria must be demonstrated competence and qualifications of the private entity for the relevant tasks;
2. The selection criteria shall ensure that the facility be operated at fair and reasonable prices to users; and
3. The competitive negotiation process must prohibit illegal practices such as kickbacks and participation in the selection process by government employees who have a relationship with a private entity.

Nevertheless, the IFA does limit an agency's authority to pursue P3s to "fee-producing infrastructure project[s] or fee-producing infrastructure facilit[ies]," meaning the "project or facility will be paid for by the persons or entities benefited by or utilizing the project or facility" (Cal. Gov't Code § 5956.3). Examples of fee-producing infrastructure facilities or projects include airports and runways, tunnels, highways or bridges, commuter and light rail, and municipal improvements, among others (Cal. Gov't Code § 5956.4). It should also be noted that revenues cannot be diverted by the local governmental agency for other purposes (Cal. Gov't Code § 5956.6). Additionally, any agreement for the government entity to lease the facilities to the private entity is limited to a maximum of 35 years, at the end of which, ownership and possession must revert to the agency at no charge.

Though the positives and negatives of public-private partnerships differ from project to project, it's easy to see the appeal of P3 in situations where time is of the essence. Traditional contracts without any private financing typically require a cumbersome competition process. P3s, on the other hand, can be awarded on a sole-source basis as long as the finalized contract followed a "competitive negotiation" process.

by Kevin Massoudi

USA June 29 2018

**Pillsbury Winthrop Shaw Pittman LLP**

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## **[Puerto Rico Overseers Scale Back Spending After Labor-Law Changes Fail.](#)**

### **The U.S. territory's financial supervisors cut bondholder payments by more than half over 30 years**

Puerto Rico's federal supervisors said they would cut government spending and scale back economic growth projections after the U.S. territory's legislature declined to overhaul labor laws.

The federal board overseeing Puerto Rico's finances voted to cut bondholder payments, university scholarships, municipal subsidies and public employee bonuses after lawmakers didn't adopt at-will employment laws designed to spark hiring and economic growth.

The revised fiscal framework also leaves less money for infrastructure investments and for Puerto Rico's legislature and judiciary. The pot of money available for bondholders was slashed to \$14 billion over 30 years from \$39 billion, according to the oversight board's executive director Natalie Jaresko.

Revising labor laws has been a top priority for the oversight board. Puerto Rico's 40% labor participation rate is the lowest in the U.S., while youth unemployment on the island is 24%, more than double the overall U.S. rate, according to World Bank data.

Puerto Rico owes roughly \$70 billion to bondholders and \$50 billion in unfunded pension obligations and is restructuring those debts under a court-supervised bankruptcy proceeding. The oversight board was counting on bringing more residents into the workforce to increase tax collections.

But lawmakers balked at repealing labor protections that impose strict liability on employers for discharging workers.

The reduction in debt payments could complicate Puerto Rico's exit from court protection—the larger the losses that need to be imposed on bondholders, the harder it will be to negotiate settlements with them.

"When reforms to increase economic growth are not implemented, unfortunately, more cuts and more controls are needed," oversight board member Ana Matosantos said at a Friday news conference.

The oversight board is also clashing with Puerto Rico Gov. Ricardo Rosselló over pension cuts and other austerity measures as bondholders and retirees compete for top status in the restructuring.

Puerto Rico is struggling to rebuild following a devastating hurricane season last year that destroyed the power grid, killed an unknown number of residents and drove hundreds of thousands more to the mainland U.S.

The electric power authority known as Prepa is \$9 billion in debt and under bankruptcy protection as well. Harvard University researchers last month estimated the death toll from Hurricane Maria at more than 4,600, far exceeding previous official figures.

Puerto Rico bonds have nonetheless rallied in recent months as government revenue rebounded stronger than expected and insurance payments rolled in for property damage and lost business.

## **The Wall Street Journal**

By Andrew Scurria

June 29, 2018 6:58 p.m. ET

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### **[Why California Is Losing Teachers and Laying Off Secretaries.](#)**

**Sacramento is flush, but cities and school districts can't keep up with rising public pension costs.**

Nine years into a bull market, housing prices in California have reached record highs. Investors are enjoying soaring capital gains, which in turn has created a windfall for the state budget. California is now sitting on \$16 billion in budget reserves while many states struggle to balance their budgets. But beneath this patina of prosperity, many cities are careening toward bankruptcy. Schools are laying off employees and slashing programs. Some districts complain they are having trouble retaining teachers. What gives?

California property taxes, which fund local governments, are capped by the state constitution's Proposition 13 at 1% of a home's value and can't rise by more than 2% annually. So although housing costs have soared since the recession—the median home price in San Francisco is \$1.6 million—cities and school districts aren't rolling in the dough.

At the same time, municipalities are getting socked with big bills from the California Public Employees' Retirement System and the California State Teachers' Retirement System, known as Calpers and Calstrs. For years the two funds overestimated their investment returns while underestimating their expected payouts. This helped keep local-government and worker pension costs low for a while, but now the state, cities and school districts are having to play catch-up.



[Continue reading.](#)

## **The Wall Street Journal**

By Allysia Finley

June 29, 2018 7:23 p.m. ET

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### **Michigan Cities Move Off the State's Critical List.**

#### **For the first time in 18 years, no city or school district is under the control of an emergency manager**

It wasn't just Detroit and Flint. Dearborn, Pontiac, Benton Harbor—all were run by state-appointed emergency financial managers in recent years.

For the first time since 2000, no city or school district in Michigan is under such control, a sign the state has put the auto industry's downturn and other financial woes in the rearview mirror.

Gov. Rick Snyder, who appointed 22 emergency managers—more than all his predecessors combined—credits his use of emergency managers with controlling costs and resolving issues like unfunded liabilities of cities. Last week, he released the Highland Park School District from receivership, the most-recent case in which the state has handed control back to elected officials.

"The fact that the state now has no emergency managers in place for the first time in 18 years shows how well that commitment has worked," Mr. Snyder said.

Michigan has been more aggressive in its use of emergency managers compared with other states. The state law authorizing the governor to appoint emergency managers has existed since 1988 but became controversial after Mr. Snyder expanded their authority in 2011. After voters overturned the law in 2012, the governor signed another version that couldn't be challenged by referendum.

At the time, the state was still reeling from the 2007 financial crisis and the downturn of the auto industry, including the bankruptcy of Detroit-based General Motors in 2009. Most states allow for some fiscal oversight of municipalities, but Michigan grants managers the most authority, experts say.

Many credit the appointment of emergency manager Kevyn Orr with helping Detroit work through its fiscal emergency and bankruptcy. But Flint, which had four different managers between late 2011 and early 2015, also shows why some voters object to the use of emergency managers.

The state attorney general has charged two former emergency managers in Flint for their role in changing the city's water source, which caused lead to leach from aging pipes, making water unsafe to drink for nearly 100,000 residents and catapulting drinking-water contamination to a national issue.

A task force appointed by Mr. Snyder to investigate Flint's water crisis recommended revising the emergency-manager law, but no changes have been made.

The governor appointed an emergency manager in Highland Park in 2012 after annual budget deficits ballooned from lower revenues tied to declining school enrollment. A recovery plan will



enable the district to pay off its debt, state officials said.

In many cases, the financial problems of cities and school districts stemmed from unsustainable pension liabilities, financial mismanagement and troubles in the auto industry, which caused regional declines in jobs, population and revenue.

Michigan's unemployment rate, which now stands at 4.6%, hit 13.7% in 2009, its highest level since the early 1980s. Wayne County, where Detroit is located, lost 286,000 residents, or nearly 14% of its population between 2000 and 2013, the year the city filed for bankruptcy.

More recently, the auto sector's rebound, including the proliferation of high-tech companies that support the industry, has boosted jobs and tax revenue in and around Detroit.

"Like most policies, there's good and bad. In a lot of those communities, there still remain a lot of long-term challenges," said Eric Scorsone, a Michigan State University economics professor who recently served as the state's interim deputy treasurer overseeing the emergency-management program.

## **The Wall Street Journal**

By Kris Maher

July 1, 2018 8:00 a.m. ET

Write to Kris Maher at kris.maher@wsj.com

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### **Court Ruling on Unions No Lifesaver for Illinois' Sinking Finances.**

CHICAGO (Reuters) - A U.S. Supreme Court ruling on Wednesday that dealt a blow to public sector labor unions will not be a fix, at least in the short term, for massive financial problems in Illinois, where the case was filed, public finance and economic experts said.

Illinois Republican Governor Bruce Rauner, who backed the lawsuit against the state government's biggest union, hailed the court's decision as a major victory for taxpayers, "who must bear the high cost of government."

The 5-4 ruling in the case brought by state worker Mark Janus found that forcing workers who opt out of unions to pay so-called fair-share dues to labor organizations violated free speech rights. But the opinion also noted that nationally, the "ascendancy of public-sector unions has been marked by a parallel increase in public spending."

The opinion cited Illinois' "severe budget problems," including a nearly \$160 billion unfunded liability for pensions and retiree healthcare in 2013, a huge pile of unpaid bills, and near-junk level credit ratings.

#### **NEGATIVE ECONOMIC IMPACT**

"We think the Janus decision does little to nothing to solve the state's financial situation," said Frank Manzo, policy director at the Illinois Economic Policy Institute.

The ruling would negatively impact Illinois' tax collections, he said, as the institute projects the

number of state and local government union members to drop by 49,000 to 268,000 and average annual government worker wages to fall by \$1,767 given the impact right-to-work laws have had on lowering incomes.

It could take years before union membership and revenue are diminished to a point where labor organizations are rendered irrelevant to politicians who control the purse strings. In the short term, the court's decision could fuel labor discontent in Illinois and stymie fiscal progress.

"To the extent that this decision gets government workers agitated and undercuts their trust in their employer, they might resist reform efforts and that could make it harder to control costs or restructure," said David Merriman, director of the Fiscal Futures Project at the University of Illinois' Institute of Government & Public Affairs.

The Rauner Administration and American Federation of State, County and Municipal Employees Council 31, the defendant in the Janus case, are already embroiled in battles over \$400 million in back pay owed to state workers, and a new contract.

S&P Global Ratings analyst Gabriel Petek said the ruling will have no immediate effect on Illinois' BBB-minus rating.

"We will be watching with an eye toward how, following the Supreme Court's ruling, the state might be able to better manage its baseline cost trajectory related to employee compensation," Petek said.

He added that the ruling does not help the state alter pension benefits. Past efforts to reduce costly benefits have been halted by the Illinois Supreme Court on state constitutional grounds.

In the U.S. municipal bond market where the state pays a big yield penalty, Illinois' so-called credit spread for 10-year bonds narrowed by 2 basis points on Wednesday to 170 basis points over Municipal Market Data's benchmark triple-A yield scale.

Richard Ciccarone, who heads Merritt Research Services, a muni bond data and research provider, said the ruling has potential over the long run to impact Illinois' political culture and possibly move the state towards some fiscal balance.

"The idea that we're going to cure all of our financial problems immediately is probably more of a dream than it is a reality," he said.

By Karen Pierog

Thursday, June 28, 2018 5:17 p.m. CDT

(Reporting By Karen Pierog; Editing by Daniel Bases and Frances Kerry)

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## **[Michigan State to Fund \\$500 Million Sex-Abuse Settlement Through Bond Offering.](#)**

### **Board also votes to retain interim President John Engler, despite recent calls for his resignation**

Michigan State University will fund its unprecedented \$500 million settlement with survivors of

Larry Nassar's sex abuse through proceeds from a bond offering, after the board of trustees unanimously approved the settlement and bond amount at a raucous meeting Friday morning.

The board also voted to retain interim President John Engler, despite recent calls for his resignation by two trustees and multiple state officials.

The school, a Midwest powerhouse with an enrollment of 50,000 students, said it won't tap any state appropriations or use tuition funds for the settlement payout. It is in talks with its insurers, and has said it expects to recover at least some funds through them.

Any recovered funds will go directly toward paying down the debt, the board said at a packed meeting marked by shouts of "Shame on you, MSU" and calls for the interim president, Mr. Engler, to resign.

Melanie Foster, who chairs the finance committee on the board of trustees, said the money to repay the bond will come from income from the school's investments. Last year the school generated about \$391 million of which a little less than half is nonrestricted.

The money the school has invested comes from any annual surplus in the general fund, which includes tuition, money from housing and athletics among other sources.

"The truth is the money is fungible, it all goes into a general revenue pot and it's collectively invested and it's collectively spent," said Mark Haas, the school's vice president for finance and treasurer.

Service on the bond will be roughly \$35 million a year. The school is also instituting a 1% across the board cut on its \$2.6 billion operating budget, which will generate roughly \$26 million a year. In addition, the future pace of new construction will likely be slowed, Ms. Foster said.

"We're tightening our belts," she said.

Nassar pleaded guilty last year to state sexual-abuse charges in Michigan and to federal child-pornography charges, for which he is serving an effective life sentence. He was accused of sexual abuse by hundreds of women, while working as a team physician at MSU and for the U.S. Olympics gymnastics team.

Michigan State agreed in principle to the settlement last month, but at the time it wasn't clear how the school would cover the costs.

Before any payout begins, the plaintiffs and Michigan State still need to sign off on a final agreement, and the settlement must be approved by the federal judge handling the case.

MSU General Counsel Robert Young said Friday that the parties are in "the final stages" of drafting the final agreement.

In a court filing Wednesday, lawyers for the plaintiffs and Michigan State agreed to appoint a former California superior court judge to administer payments from the settlement fund.

The board voted 6 to 2 at the start of the meeting to retain Mr. Engler. Earlier this month the Chronicle of Higher Education reported that he had suggested in emails with other administrators that one of the lead plaintiffs would get a kickback for rounding up other survivors.

The first speaker in the public comment portion of Friday's meeting was Kaylee Lorincz, a woman

who alleged in April that Mr. Engler had offered her a \$250,000 settlement without her lawyer present.

Approaching the microphone to cheers from the audience, she reiterated the earlier claim. Mr. Engler has said that he and Ms. Lorincz have different “memories and interpretations” of the meeting at which the offer was allegedly made.

“Everything I said in that statement and the statements that followed is the complete and honest truth,” she said Friday.

Grace French, who was abused by Nassar, said during the comment period that it was “incredibly dangerous” for Mr. Engler to remain in his leadership role after accusing survivors of being manipulative and of lying, as it could deter others from coming forward and reporting their abuse, she said.

In an emotional appeal to the board, Bryant Tarrant, whose daughter Jessica was a patient of Nassar, said, “You have failed my daughter and you continue to fail.”

“There’s been a serious lack of leadership from this board and from this current interim president,” he said, adding that the board has “no business selecting the next university president.”

Despite the vote at the start of the meeting in favor of keeping Mr. Engler at the helm, people in the crowd continued to yell for him—and, in some cases, trustees—to resign. Trustee Mitch Lyons addressed those complaints, saying the best course was to keep Mr. Engler on and find a permanent president instead of pausing to find another interim president and potentially scaring off candidates for the permanent job.

“Nobody wants to walk into this hot mess right now,” Mr. Lyons said. “John said some really stupid things, and I’ve told John that, but John has moved the ball forward in terms of making this campus safer.”

Michigan State’s bond offering is likely to find an audience in the municipal bond market because the supply of high-quality debt has been scarce this year, depressed by changes in the 2017 tax-cut law.

“I would think it’s going to be well received, even though the purpose is kind of tainted,” said Gary Pollack, head of fixed-income trading at Deutsche Bank Private Wealth Management. While municipalities have sold bonds to fund legal settlements in the past, “normally they’re not as high profile as this one,” he said.

## **The Wall Street Journal**

By Melissa Korn and Douglas Belkin

Updated June 22, 2018 4:14 p.m. ET

—*Daniel Kruger contributed to this article.*

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## **Fitch: Recent Labor Board Ruling Highlights Implementation Risk in Illinois' Enacted Budget.**

Fitch Ratings-New York-22 June 2018: A decision last week by the Illinois Labor Relations Board (ILRB) could open up a \$400 million hole in Illinois' fiscal 2019 budget, highlighting the implementation risks in a budget reliant on one-time items and policy measures with uncertain fiscal benefits, according to Fitch Ratings. While the state avoided immediate political stalemate, the on-time budget fails to make material progress in addressing the state's sizable accounts payable backlog. Given the potential that budget performance will fall short of expectations, Fitch anticipates the governor and legislature may need to revisit the 2019 plan as soon as this fall.

For the first time in four years, Illinois enacted an on-time budget for the coming fiscal year when the governor signed the \$38.5 billion (general funds) budget and accompanying legislation into law on June 4th. Despite the implementation risks, enacting an on-time budget with bipartisan support allowed the state to enter the new year with a clear fiscal plan, and provided clarity for the state's key fiscal partners, including municipal governments, school districts, and public higher education institutions.

Illinois' 'BBB' Issuer Default Rating (IDR) reflects many years of weak operating performance and fiscal decision making. The state continues to benefit from a solid economic base and still substantial independent legal ability to control its budget. The Negative Outlook reflects Fitch's assessment that fiscal pressures may accelerate in the near term. The state avoided a budget impasse, but the enacted budget entails significant implementation risk. Fitch's rating on the state will be lowered if the state returns to a pattern of deferring payments for near-term budget balancing and materially increases the accounts payable balance; while stabilization of the rating is contingent on the state's ability to maintain budgetary balance over multiple years, indicating more sustainable fiscal management. Upward rating momentum is unlikely until the state more comprehensively addresses its accumulated liabilities.

### **STEP PAY DECISION ADDS TO BUDGETARY UNCERTAINTY**

The state could face an unbudgeted spending increase of roughly 1% in fiscal 2019 due to the recent litigation and ILRB's resulting actions. In 2015, the governor halted step pay increases under an expired labor contract. The AFSCME union challenged the suspension on the grounds that state law required current work conditions to continue in the event of contract expiration. Illinois' Supreme Court ruled in March 2018 in favour of AFSCME. Last week, the ILRB rejected the governor's request to send the issue to an administrative law judge for a hearing. Fitch anticipates a final remedy to be determined as soon as early this fall by the ILRB. Based on the Supreme Court ruling, it will likely require the state to provide for unpaid step-pay increases going back to 2015. Based on estimates provided by the administration to the ILRB, the state could face an additional \$412 million in expenses in fiscal 2019 if AFSCME's recommended 'make-whole' remedy is implemented immediately.

### **ONE-TIME MEASURES AND UNADDRESSED ISSUES**

The fiscal 2019 budget relies on \$800 million in interfund borrowings, which under current law must eventually be repaid. This is more than, and in addition to, the approximately \$400 million in interfund borrowings included in the budget for the current fiscal year (ending June 30) that are still outstanding.

Illinois also did not make material progress in addressing its sizable accounts payable backlog with the enacted fiscal 2019 budget. As of April 30, the state comptroller reported a general funds bill

backlog of \$7.2 billion, or nearly 20% of the fiscal 2019 enacted general funds budget. With only a very narrow budgeted \$14 million general funds surplus for fiscal 2019, Fitch anticipates no material progress in reducing the backlog, absent robust and unanticipated revenue growth. The recent favourable decision in *Wayfair v. South Dakota* provides some potential upside for state revenues in Illinois and elsewhere. But the state reports that its enacted budget already assumes benefits from a favorable *Wayfair* decision.

The bills backlog and interfund borrowings could total between \$8 billion to \$9 billion by the end of fiscal 2019. These liabilities are in addition to the state's approximately \$200 billion long-term liability burden for debt and unfunded pension obligations as estimated by Fitch (roughly 30% of state personal income).

## BUDGET ASSUMPTIONS CREATE RISK

Fitch remains concerned that several elements of the enacted fiscal 2019 budget may be delayed beyond the fiscal year or could fall short of estimates. For the second year in a row, the budget assumes approximately \$300 million in one-time revenues from the sale of the Thompson Center office building in downtown Chicago - the governor also included the sale as part of his fiscal 2017 executive budget. The facility sits atop several lines of the Chicago Transit Authority's subway system and a final sale requires close negotiation and coordination with the city of Chicago. The administration notes that the timing of a sale is also somewhat contingent on legislative approval of a change in the state's procedures around surplus property sales; absent that approval the sale process would likely extend beyond the fiscal year.

Uncertain pension savings are also a key component of the enacted budget, accounting for approximately \$400 million in expenditure reductions or 1% of the enacted general funds budget. The budget includes three pension proposals; two to buy out some portion of current members' future benefits at a reduced long-term cost, and one to shift a limited amount of costs to school districts and public universities. The buyout proposals account for the bulk of the savings.

The two buyout proposals will require significant administrative work by the pension systems. Based on initial reports from the state and the systems, the buyouts may not be fully implemented for several months and potentially well into the new fiscal year which could limit the savings the state is able to accrue. The savings estimates also rely on assumptions of the portion of eligible members that will opt into the buyouts which adds to the unpredictability of actual savings. While the state intends to use general obligation bonds to fund the buyouts, Fitch does not consider that a material concern as the new debt will essentially replace reduced net pension liabilities.

The third pension change will require employers in the state university retirement system and teachers retirement system (public universities and school districts, respectively) to assume a portion of the pension contribution for retiring employees if they grant salary increases in excess of 3% during the period used to determine the employee's final average salary in pension benefit calculations. This anti-spiking measure is expected to generate a modest \$20 million in savings in fiscal 2019.

## IMPROVEMENTS IN STATE AID

State aid for school districts will increase roughly 5% year-over-year, with a \$350 million increase tied to the state's evidence-based funding formula that was first implemented last year. K-12 spending overall is up nearly 6% with a sizable \$300 million increase in state pension payments to the Teachers Retirement System. For municipal governments, the enacted budget rolls back a portion of cuts to various shared tax revenues that were first implemented in fiscal 2018. The budget

reduces the state's withholding of the local share of income and sales tax revenues to 5% from 10%, providing an additional \$66 million and \$31 million respectively for municipalities. The state also reduced its administrative fee for collections to 1.5% from 2% on various local taxes, providing an additional \$15 million for local governments.

Higher education appropriations increase as well, by 2%, or roughly \$60 million in fiscal 2019. The pension cost shift noted above will somewhat reduce the benefits of these aid increases for school districts and public universities. The estimated \$20 million in savings are well short of the nearly \$600 million in pension cost shifts that were proposed in the governor's executive budget.

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## **Puerto Rico Signs Law to Overhaul Storm-Battered Energy Utility.**

- **Governor says it makes island a 'more competitive destination'**
- **Public power company followed government into bankruptcy**

Puerto Rico Governor Ricardo Rossello signed into law Wednesday a bill that clears the way for the partial privatization of the island's bankrupt electric company, which has been plagued by aging infrastructure and mismanagement that left millions in the dark after Hurricane Maria.

In addition to heralding a more storm-resistant energy grid, Rossello promised that the move would also lower above-mainland electricity prices for homes and business. It allows the government to move forward with a plan that could sell off power generation assets and put the transmission and distribution business under a private concessionaire.

"Today, we begin to see Puerto Rico as a more competitive destination, where quality of life will improve because the cost of energy will drop and the environmental impact will be reduced," Rossello said Wednesday at the signing ceremony in the northwest municipality of Isabela.

Puerto Rico has defaulted on its debt, and is drastically restructuring its government portfolio. The partial privatization of the eight-decade-old monopoly, known as Prepa, has long been advocated by the fiscal oversight board installed by federal lawmakers. But it may have a political cost on the island, where many are wary of mainland profiteers and question whether electricity prices will

actually come down.

Prices on Puerto Rico bonds have rebounded this year from the record lows they hit after Maria. Prepa bonds maturing in 2042 traded Wednesday at an average price of 42.5 cents on the dollar, up from nearly 30 cents at the start of 2018, data compiled by Bloomberg show.

## **Bloomberg Business**

By Yalixa Rivera

June 20, 2018, 10:22 AM PDT

— *With assistance by Michelle Kaske*

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### **[Taxpayers in the Hamptons Among the Most Exposed to Rising Seas.](#)**

- **Southampton, New York has high property tax value at risk**
- **New Jersey and Florida are the most susceptible states**

Almost no city stands to lose as much money from climate change as Southampton, New York.

The affluent Long Island suburb — where the median price of a home for sale is almost \$2 million — has the second highest level of its property-tax revenue at risk among municipalities with a high likelihood of chronic flooding in the next twelve years, according to data gathered by the Union of Concerned Scientists. Only Central Coast, California had more.

The group found that sea level rise, driven primarily by climate change, puts hundreds of thousands of homes and commercial properties in the U.S. at risk of being flooded at least 26 times per year by 2030. The incessant deluges would depreciate property values, erode infrastructure and eventually diminish tax revenue, causing local credit ratings to sour and making it more difficult to finance projects needed to contend with rising sea levels.

[Continue reading.](#)

## **Bloomberg**

By Danielle Moran

June 19, 2018, 9:37 AM PDT

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### **[S&P Medians And Credit Factors: Maryland Counties And Municipalities](#)**

Maryland local governments' credit quality remains strong, in S&P Global Ratings' view, supported by continued economic momentum, low unemployment, and above-average wealth and income metrics. Furthermore, the management teams in Maryland generally adhere to formalized policies and procedures leading to strong budgetary performance.

[Continue Reading](#)



Jun. 20, 2018

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## **Still Rebuilding After Hurricane Maria, Puerto Rico Hopes to Spur Critical Infrastructure Investment.**

**Officials have outlined an ambitious set of P3 projects supporting electrical and water resilience, as well as economic development.**

OXON HILL, Md. — With power almost completely restored along Puerto Rico's still-fragile electrical grid nine months after Hurricane Maria, island officials have turned their attention toward securing investment in resilient infrastructure.

The fiscal plan recently certified by the Puerto Rico Financial Oversight and Management Board forecasts about \$60 billion in federal funds flowing through the U.S. territory over the next eight to 10 years.

Funding like that hasn't been seen on the island since the 1990s, and Puerto Rican officials at the 2018 SelectUSA Investment Summit just outside Washington, D.C. said Thursday they hoped it would entice other investors.

"I think that Puerto Rico can be a great case study for the Trump administration in how you can use investment in infrastructure to support economic development and also rebuild and modernize aging infrastructure," Omar Marrero, Puerto Rico Public-Private Partnerships Authority executive director, told Route Fifty.

Gov. Ricardo Roselló on Wednesday announced \$1.5 billion in projected investments across six public-private partnership, or P3, projects that officials hope will help the government transfer finance, production and maintenance risks. For comparison, the U.S. P3 market was valued at \$2.6 billion in 2016.

Roselló's administration has moved to overhaul its highly subsidized maritime transportation system—providing ferry service between metro areas and outlying islands—by making it part of the Federal Transit Administration's pilot program for private investment. The territory is also eying a \$50 million to \$150 million procurement for on-campus student housing at the University of Puerto Rico Mayagüez Campus.

A third P3 project, costing between \$150 million and \$400 million, would see the Puerto Rico Aqueduct and Sewer Authority, or PRASA, replace all water metering and externalize non-revenue water—the water lost before reaching the customer. Residents currently pay PRASA's non-revenue water operational loss, close to 60 percent, but smart metering is expected to help residents identify leaks.

The three other P3 projects have been proposed by the private sector, after Puerto Rico amended its laws to allow for that.

Tesla pitched a high-capacity energy storage system at critical substations, an environmentally friendly alternative to the diesel-fired "peaker" units currently in use. Should another hurricane cause an electrical collapse, the energy stored in giant batteries could be used for power.

**Route Fifty**

By Dave Nyczepir,  
News Editor

JUNE 21, 2018

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## **[Court Allows Certain City of Oakland Claims to Proceed Against National Bank.](#)**

On June 15, the U.S. District Court for the Northern District of California [granted in part and denied in part](#) a national bank's motion to dismiss an action brought by the City of Oakland, alleging violations of the Fair Housing Act (FHA) and California Fair Employment and Housing Act. In its September 2015 complaint, Oakland alleged that the bank violated the FHA and the California Fair Employment and Housing Act by providing minority borrowers mortgage loans with less favorable terms than similarly situated non-minority borrowers, leading to disproportionate defaults and foreclosures causing reduced property tax revenue for the city. After the 2017 Supreme Court decision in *Bank of America v. City of Miami* (previously covered by a Buckley Sandler [Special Alert](#)), which held that municipal plaintiffs may be "aggrieved persons" authorized to bring suit under the FHA against lenders for injuries allegedly flowing from discriminatory lending practices, Oakland filed an amended complaint. The amended complaint expanded Oakland's alleged injuries to include (i) decreased property tax revenue; (ii) increases in the city's expenditures; and (iii) neutralized spending in Oakland's fair-housing programs. The bank moved to dismiss all of Oakland's claims on the basis that the city had failed to sufficiently allege proximate cause. The court granted the bank's motion without prejudice as to claims based on the second alleged injury to the extent it sought monetary relief and claims based on the third alleged injury entirely. The court allowed the matter to proceed with respect to claims based on the first injury and, to the extent it seeks injunctive and declaratory relief, the second injury.

**Buckley Sandler LLP**

USA June 20 2018

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## **[Kentucky Supreme Court Limits Charitable Tax Exemption to Property Taxes Only.](#)**

Delving deeply into the history of the charitable exemption from taxes under Section 170 of the Kentucky Constitution as well as the use tax, the Kentucky Supreme Court recently held that the exemption applies only to property taxes. *Dep't of Revenue v. Interstate Gas Supply, Inc.*, 2016-SC000281-DG (March 22, 2018). Section 170 exempts from taxation all institutions of "purely public charity."

Interstate Gas Supply, Inc. ("IGS") applied for a refund of certain use taxes it collected and remitted on behalf of Tri-State Healthcare Laundry, Inc. ("Tri-State"), an entity which serves the laundry needs of three charitable hospitals. Tri-State is not a 501(c)(3) tax exempt organization, so it does not qualify for the charitable exemption from sales and use taxes afforded to those entities under KRS 139.495. Tri-State is, however, recognized by the Kentucky Department of Revenue ("Department") as an institution of purely public charity, entitled to the Section 170 exemption.

Tri-State purchased natural gas from IGS during the relevant periods. IGS requested a refund of Kentucky use tax, arguing that Tri-State's status as a purely public charity exempted it from all revenue-raising taxes pursuant to Section 170 and that as stated in *Commonwealth ex. rel. Lockett v. City of Elizabethtown*, 435 S.W.2d 78 (Ky. 1968) the use tax was in effect a property tax, thus bringing it within the scope of Section 170, even if that section was deemed to apply only to property tax. The Kentucky Board of Tax Appeals and the Franklin Circuit Court both found that Section 170 applied only to property taxes, but the Court of Appeals agreed with IGS and the City of Elizabethtown decision and held that the use tax operated like a property tax so that Section 170 applied to its imposition as well. The Department appealed to the Kentucky Supreme Court, which granted discretionary review.

The Kentucky Supreme Court first analyzed the scope of Section 170 and held that the exemption was intended only to apply to Kentucky property tax. Undertaking a review of both the plain language of Section 170 and its many references to property as well as a number of cases that had taken up the issue, the Court held that the Section 170 exemption for institutions of purely public charity applied only to ad valorem taxation.

As to IGS's argument that the use tax operated so similarly to a property tax that it should fall within the scope of Section 170, the Court analyzed *City of Elizabethtown* as well as a number of other cases, and also undertook a review of the sales and use tax regime in Kentucky. While noting some similarities between the use tax's imposition of tax on the storage and use of items within Kentucky, the Court ultimately held that the use tax was intended as a complement to the sales tax and arose out of a transaction, not the ownership or valuation of such property. The Court also noted the criticism *City of Elizabethtown* had drawn over the years. The Court stated that nowhere else in the country had a use tax been treated as akin to a property tax, and in the Court's words, such a conclusion "is simply wrong." Accordingly, the Court overturned *City of Elizabethtown* and declined to extend the scope of Section 170 beyond property taxes.

This decision, combined with House Bill 487, which implanted a number of new tax policies in Kentucky, has resulted in a perfect storm of uncertainty in the nonprofit world as to whether these organizations must register for and/or collect and remit certain taxes. Without the assurances in *City of Elizabethtown* and the new policies found in H.B. 487, many nonprofits may be responsible for collecting and remitting sales tax on items such as admissions to special fundraising events, silent auction items, and certain types of memberships or programs (for example, summer camps or little league memberships). The Department has promised to issue more guidance and is working with organizations such as the Kentucky Nonprofit Network to disseminate information in an efficient and effective manner given the number of nonprofits that may not be aware of the changes. So, it's often best to consult with a tax professional who can provide your organization with advice tailored to your specific circumstances.

## **Bingham Greenebaum Doll LLP**

USA June 25 2018

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## **[The Wealthy Atlanta Suburb Fighting to Secede From Its City.](#)**

**The metro area has been divided into ever smaller pieces segregated by race and class. If Stockbridge splits up, the poorer parts will be left with \$15.5 million of debt.**

As Vikki Consiglio tells it, a new Georgia law that has alarmed Wall Street had its genesis two years ago, with a birthday dinner for her husband in Atlanta's Buckhead neighborhood, at a steakhouse in a graceful, brick-paved complex of high-end furniture stores and designer boutiques. "A light just went off," she says.

Her own neighborhood in the suburbs—a cluster of gated communities surrounding a country club—lacked the same exclusive feel along its main drag. "I want those things, those amenities," Consiglio says. "I wanted to be part of a gated community in a high-end area. Instead, when I come out of the gate, I see a Waffle House and dollar stores."

Consiglio's home is part of Stockbridge, a predominantly black city in Henry County, some 20 miles south of Atlanta. She says her section can't attract businesses like Buckhead's because of the lower income of the rest of Stockbridge. Her idea: The whole neighborhood could break away. Consiglio is the spokeswoman for the movement that pushed for and won a state law to allow a "de-annexation."

[Continue reading.](#)

## **Bloomberg Businessweek**

By Margaret Newkirk

June 21, 2018

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### **Researcher: Harvey's Pension Problems the First, But 'Certainly Won't Be Last,' to run afoul of state law**

The city of Harvey remained locked in a court fight with state officials and its own public worker pension funds over its ability to use sales tax dollars to pay its bills. But it likely is just one of dozens of cities and other governments across Illinois poised to land on the wrong side of a state law mandating pension fund payments.

"Harvey may be somewhat of an extreme case given all the factors, among which is its history of corruption," Kass, assistant director for the Center for Municipal Finance at the University of Chicago Harris School of Public Policy, told the Cook County Record. "But I wouldn't be surprised to see more pension funds across the state file similar paperwork with the comptroller's office the same way Harvey has. There might not be a ton of Harveys, but many other places have the same issue of pension system underfunding."

After the Harvey pension fund for retired police officers moved to intercept and lay claim to millions earmarked for the city, ultimately setting off a legal quagmire, Illinois Comptroller Susana Mendoza justified diverting the funds as requested by pointing to a 2011 enacted state law that requires her office to do just that when municipalities are accused of failing to make their obligated pension payments.

The case in Harvey is being closely monitored across the state and other parts of the country given the gravity and widespread nature of the problem. In addition, bondholders have also taken note of the proceedings, as such claims by pension funds could also leave them cut out of the municipal revenue they would otherwise be owed, as the Cook County Record previously reported.

However, in a related opinion letter, Mendoza allowed the city to pay a group of investors holding

city bonds, as those particular bonds were funded from a special Harvey city sales tax, and that tax should not be considered state funds. Thus, those funds cannot be withheld and diverted to pensions.

Harvey city officials say the legal entanglement has deepened the city's problems, recently forcing city officials to lay off dozens of government workers, among them as many as 40 police and fire department officials.

"A big part of this is so many of these pension funds have been so grossly underfunded for so long and that's why you're seeing so many of them experiencing the same troubles," Kass added. "Look at North Chicago; they're one of the other places pretty much in the same predicament. While the initial law may have required pension contributions, it lacked an enforcement mechanism."

In all, Kass estimates that there are at least 53 other municipalities that have seen police and fire pension funds underfunded on par with the figures that have caused much of the destruction in Harvey. Across the state, police and fire pensions are reported to have only been funded on an average of just 60-67 percent over the last decade.

"Harvey may be the first, but it certainly won't be the last where you see something like this happen," Kass said. "And as far as the law goes, it's clearly written about what can be intercepted by the comptroller's office whenever the situation occurs."

Kass said it remains to be seen what the controversy could truly come to mean for Harvey's already frustrated taxpayers.

"In theory, you can raise taxes as high as you want, but that doesn't mean the people can afford to pay them," she said. "Harvey already has a high tax rate that's only matched by its high delinquency rate. There's a real need to evaluate the dynamics and demographics of these places and the question of whether or not they can handle much more of the same thing. Some places may already have a cap of their own, while for places like Harvey the solution may have to come from a higher level of government involvement."

Kass said she's heard some potentially good ideas offered concerning possible long-term solutions, but she she thinks what's happening in Harvey is the wrong way to go in terms of handling things.

"Right now, Harvey is laying off police and firemen and I know that can never be a good idea," she said. "Just firing people, especially essential people to making a society work, is not the answer anyone needs."

## **Cook County Record**

By Glenn Minnis | Jun 21, 2018

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### **[Connecticut Wants to Borrow \\$500 Million. In Return, It Promises Thrift.](#)**

***In rare move in municipal debt world, state pledges to curb spending, cap future borrowing and funnel excess revenues into reserve fund***

Connecticut is making a new promise to bondholders in exchange for \$500 million: self-discipline.

The cash-strapped U.S. state is preparing to issue new debt that requires Connecticut to limit its spending, cap future borrowing and funnel excess revenues into a reserve fund. The \$500 million bond issue priced Tuesday and will be delivered to investors June 20.

It is a rare step in the world of municipal debt. No other state has attached such fiscal austerity measures to an outstanding bond issue, according to analysts at S&P Global Ratings. The restrictions will stay in place for the next five years.

The unusual offer has the potential to lower borrowing costs for Connecticut in the near term and enforce fiscal discipline following a bitter state budget battle in 2017. The covenants helped win enough support to end the stalemate.

But the restrictions could also hamstring the state in the event of a future crisis. The only way to suspend certain covenants is with a three-fifths vote of the legislature and a declaration of fiscal emergency from the governor. The current governor, Dannel Malloy, is scheduled to leave office in January.

"If it goes badly the cost might be really high," said Kim Rueben, senior fellow at the Urban Institute

Connecticut's idea reinforces the predicament facing many U.S. states as they struggle to pay for core services like education and infrastructure at a time of soaring costs for debt, retirements and health care.

Pensions, retiree health insurance and Medicaid together consume about one out of every five tax dollars collected by state and local governments. Estimates of how much money they still need to pay for all future pension obligations vary from \$1.6 trillion to \$4 trillion. In Connecticut that shortfall is \$34.8 billion, according to S&P.

A legislative standoff over how to balance pensions, debt and other liabilities with day-to-day operating costs delayed Connecticut's budget last summer and froze aid to municipalities. The mayor of Hartford, the state's capital, warned that he would seek bankruptcy protection if the city didn't receive additional aid from the state.

Lawmakers and Mr. Malloy reached a deal in October that helped Hartford avoid bankruptcy. It included the new series of commitments attached to any bond offering over the next two years.

Spending has to be limited to 98% to 100% of revenues depending on the year and it can't grow faster than inflation. The state also has to limit new borrowing to no more than \$2 billion a year and put excess revenues into a reserve fund. More reserves could improve the state's bond rating, ratings firm S&P Global said in a statement.

Connecticut has repeatedly overshot revenue predictions, leading to several contentious budget fights. But in April, state budget officials projected a \$1.34 billion income-tax revenue surge above what was originally expected. About half of the windfall came from one-time payments from hedge-fund managers racing to beat a federal tax deadline on some past offshore earnings, according to the state budget office. The numbers also could have been boosted by residents cashing in stock in late 2017 to pay taxes on capital gains to take full advantage of the state and local tax deduction, which the new federal tax law capped.

The state used that excess revenue to fill a \$717.5 million budget hole and add \$556.4 million to its reserve fund.

The limits on borrowing and spending helped win support for the budget compromise at the final

hour, said Connecticut House Speaker Joe Aresimowicz.

“We have faced now six or some could argue eight consecutive years of a very difficult budget,” Mr. Aresimowicz said. “We want to take bold steps forward to ensure that if it’s all of us back in the same room next year or whoever it may be, they’re not facing the same situation that has allowed legislators to punt year after year on the difficult decisions.”

Enshrining the rule in bond documents was quicker and easier than a constitutional amendment that requires a popular vote, said Democratic Sen. John Fonfara. Mr. Fonfara championed a provision of the covenant limiting the budget’s reliance on certain income-tax collections.

“How do you bind future legislatures? The covenant was the means by which we intend to do this,” Mr. Fonfara said.

But violating any of these covenants would amount to a default on the bonds and could prompt investor lawsuits. The new restrictions could also make it more difficult to act quickly if a new emergency arises. Lawmakers later reduced the length of the fiscal austerity covenants to five years from 10 years as a way of adding more flexibility.

Other states are watching Connecticut to see how its experiment fares and whether borrowing costs drop, analysts and government finance officers said. Price data late Tuesday showed the state paying less to borrow, relative to market rates, than it had in March, according to the Connecticut State Treasurer’s Office.

“It’s sort of putting your money where your mouth is by embedding it in the bond documents,” said Florida bond director Ben Watkins. “It’s a firmer commitment than just talk.”

## **The Wall Street Journal**

By Heather Gillers

Updated June 5, 2018 6:32 p.m. ET

—*Joseph De Avila contributed to this article.*

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### **[Breaking Up California Would Throw the Muni-Market Into Turmoil.](#)**

- **California has \$74 billion of long-term debt outstanding**
- **California’s debt would be distributed among the three states**

If California voters decide to split the state in three — as billionaire Tim Draper has proposed — it would roil the \$3.8 trillion municipal-bond market.

The venture capitalist’s initiative to break California into three states qualified for the November ballot, election officials announced late Tuesday. Such a crack-up has long been a fantasy for some wealthy coastal Democrats politically out of sync with inland Republicans.

If approved by the voters and the U.S. Congress, the arrangement would hit the municipal market hard. That’s because California, which has \$74 billion of long-term debt outstanding, is the largest U.S. seller of bonds financing state and local government operations.



Under Draper's measure, California's debt would be distributed among the three states based on the population. But investors won't get a say in that.

## **Bloomberg Markets**

By Romy Varghese

June 13, 2018, 10:46 AM PDT

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### **Puerto Rico Asks Buyers of Rickety Power System to Rewrite Rules.**

- **After Maria, investors get blank slate to rebuild and profit**
- **Almost 10,000 customers still lack electricity months later**

Now that Puerto Rico's massive and moribund public power utility is almost back from the dead, Wall Street is weighing what its parts might be worth.

The bankrupt U.S. commonwealth's investment bankers last week started sounding out suitors for the eight-decade-old monopoly known as Prepa, whose rickety infrastructure was almost erased by Hurricane Maria in 2017. The halting efforts to repair the damage and improve the antiquated grid have been the central obstacle in recovery. Now, the government is so eager to find a solution that it is even asking companies that might privatize the system how they would prefer it to be regulated.

But it wasn't immediately clear who would want a utility business on a broke island whose population has been increasingly fleeing to the mainland. Meanwhile, residents — some still in the dark — worried that a deal would enrich mainland profiteers at their expense.

"We are tired of people coming here to get rich and take advantage of us," said Melissa Diaz, 48, a homemaker and mother of one who lives in San Juan.

## **Nowhere But Up**

Proponents, including Governor Ricardo Rossello, say service and pricing can only improve if a company takes the utility off its hands. The authority for decades has been a honey pot for politicians of all parties and a font of patronage. Its dated infrastructure relies on shipped-in oil, a notoriously expensive fuel. But the commonwealth, which owes creditors and pensioners around \$120 billion, is in no position to shoulder upgrades on its own. Just Friday, the parties in the painful bankruptcy appeared to have a tentative deal on the central question of who can claim sales-tax revenue. But dozens of other matters remain pending, and no one knows how much Puerto Rico will owe, much less when it will be able to raise money again in the bond market.

So while the power system's status quo appears untenable, even with hurricane aid pouring in, nobody knows what the energy future will look like in private hands — or exactly what oversight new owners would face. Indeed, the government is portraying the market as a blank slate. It has said that its base scenario would include selling generation assets and retaining transmission and distribution holdings, while transferring those operations to a private concessionaire.

## **Divide and Profit**

AES Corp. Chief Executive Andres Gluski said in an interview last week in San Juan that he's considering a proposal. He declined to give details, but said he's already floated ideas to the



government. He said the commonwealth should divide its system into eight microgrids that are more resistant to a whole-island collapse like the one after Maria.

“We want to continue contributing to the future of Puerto Rico,” said Gluski, whose company already runs a coal-fired plant and a solar plant on the island.

The commonwealth is also open to alternatives it hasn’t yet considered. In a June 4 letter, its bankers from Citigroup Inc. and Rothschild & Co. asked interested parties to submit in writing a description of the circumstances in which they would be most willing to bid.

## **Your Call**

One section of the questionnaire asked about companies’ preferred regulatory environment and the role they envisioned for the power authority, the Puerto Rico Energy Commission, a four-year-old oversight body whose role is likely to evolve as private capital arrives. For instance:

“Please present your views regarding the structure and authority of the Puerto Rico Energy Commission (‘PREC’). Please be as specific as possible including naming the features you consider important.”

And later:

“What, in addition to standard items ... should the regulator have authority to approve? Please provide an explanation for your answer.”

While the elected government and its partners will have the ultimate say, the documentation suggests a rare opportunity for companies to influence every aspect of their work environment — for better or for worse.

“I don’t know that asking the firms how they’d like to be regulated is the recipe for good regulation,” said Manuel Teodoro, a professor of political science at Texas A&M University who has studied water-utility privatization in the U.S. He said there’s nothing inherently wrong with seeking out different points of view, as long as the private sector isn’t the only one that gets heard.

## **Solid Partner**

Of course, the answers to the questionnaire might vary with the assumptions about the eventual structure of the deal. Under the base scenario — in which Puerto Rico would retain ownership of the transmission and distribution business — the question would really be about how to regulate the government entity.

Under such arrangements, privately run generation companies would have contracts with the commonwealth, as would the operator of the state-owned transmission division.

“You’d want to make sure that, if I’m going to have a contract to operate this utility, that the utility can live up to its obligations,” said Paul Patterson, who covers utilities, not including Prepa, as an analyst for Glenrock Associates.

## **Pricey Power**

Teodoro said privatization is typically associated with improvements in service, while public utilities generally have the edge on lower prices. But because Puerto Rico’s infrastructure is so inefficient and its bureaucracy so unwieldy, its electricity prices are already well above private mainland rates — a burden on the 44 percent of island residents who can’t afford basic necessities. (Puerto Rico’s

residents are U.S. citizens, but their poverty rate is twice as high as Mississippi, the poorest state.)

“The important thing is to create a strong regulatory commission to ensure the energy rates will not increase, further aggravating Puerto Ricans’ economic situation,” said Jose Caraballo Cueto, a professor at the University of Puerto Rico and president of the island’s economists’ association.

The Prepa workers’ union known as Utier opposes privatization. Angel Figueroa, its president, said the island’s consumption rates are relatively low and its needs massive, so he’s suspicious of why anyone would invest. He said the only explanation is that buyers see a benefit in the billions of federal dollars allocated to mend the grid after Maria.

Prepa employees fix power lines following Hurricane Maria. Photographer: Xavier Garcia/Bloomberg  
But for all the apprehension, many Puerto Ricans wonder what other alternatives they have. A full week into the 2018 Atlantic hurricane season, close to 10,000 power customers are still without electricity.

“After living more than four months without electricity after Maria, for me they can sell everything,” said Carlos Vega, a 32-year waiter who lives in the Bayamon municipality outside San Juan. “Surely, whoever comes will do a better job than all the governments that have passed through.”

## **Bloomberg**

By Yalixa Rivera and Jonathan Levin

June 11, 2018, 4:00 AM PDT

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### **[S&P: Pension Pressures For Illinois Municipalities Could Become An Imminent Budgetary Challenge Under The State's Revenue Intercept Law.](#)**

Invoking a statute designed to compel Illinois municipalities to fund their public safety pension plans according to statutory minimum levels, pension boards in the cities of Harvey (not rated) and North Chicago (A/Stable) recently petitioned the state comptroller to intercept state revenues due to the municipalities.

[Continue Reading](#)

May 14, 2018

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### **[Wholesale Water Contract: Arkansas Court of Appeals Addresses Municipality/Water Authority Rate Calculation Dispute.](#)**

The Arkansas Court of Appeals addressed in a May 23rd opinion a dispute between an Arkansas municipality and public water authority in regards to the sale and purchase of water. See *Northeast Public Water Authority of the State of Arkansas v. City of Mountain Home, Arkansas*, 2018 Ark. App. 323.

Mountain Home, Arkansas (“Mountain Home”) and Northeast Public Water Authority of the State of

Arkansas (“Northeast”) disagreed as to the meaning of certain terms in a wholesale water purchase contract (“Contract”).

Mountain Home and Northeast entered into the Contract in 2012. The Contract replaced one that had been in place since 1982.

[Continue reading.](#)

**Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.**

June 14, 2018

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## **Twenty Years of STAR Bond Investment in Kansas Reaps Big Rewards, a Few Flops.**

More than half a billion dollars has been wagered by local and state government officials in Kansas on taxpayer-financed economic development projects under a program that relies upon adherence to the state’s motto — to the stars through difficulties.

The sale of State Tax Revenue bonds — also known as STAR bonds — grant municipal governments an opportunity to finance major commercial, entertainment and tourism areas and repay the debt with state and local sales tax revenue generated by the developments. There have been failures and successes since implemented two decades ago.

For scope of achievement on the STAR bond landscape, look no further than the Kansas Speedway and the Village West shopping complex outside Kansas City, Kan. It’s a flashy show-me example of the inducement as a platform for business growth and job development.

Bonds used to finance Village West were paid off in 2016 — five years early. The retail and entertainment hub created 5,700 jobs at more than 100 businesses.

“It was a very successful tool,” said Pat Pettey, who has watched evolution of the state’s No. 1 tourist attraction as a member of state and municipal government. “For us, at the beginning, given where we were at that time, it was great for attracting businesses.”

Just as easily, the promise of a STAR bond development can burn out prematurely. In Overland Park, the Museum at Prairiefire, part of a retail development, gobbled up one-third of \$65 million in STAR bond investment capital. The museum, which has a dinosaur as the star attraction, operated at a \$2 million loss in 2015 and 2016 — and floundered in red ink during 2017.

Another bump on the STAR bond highway was the Heartland Park Topeka motorsports complex that was foreclosed in 2015, unsuccessfully sought new STAR bond financing and has reopened under new management.

The tragic death in 2016 of a 10-year-old boy on a giant water slide at the Schlitterbahn park in Kansas City, Kan., cast doubt about future of that STAR bond investment. Closure of the slide generated uncertainty as to whether Schlitterbahn could survive. STAR bond tax revenue was expected to repay bond debt.

Mike Taylor, spokesman for the Unified Government of Wyandotte County, said it was possible STAR

bonds could be issued to support new attractions at the Schlitterbahn.

Undeterred, communities across the state are optimistically plowing ahead with plans for developments crafted to revitalize downtown areas and create destination-scale projects that attract one-third of visitors from more than 100 miles away.

“STAR bonds are proven to be an effective economic development tool beneficial to the state of Kansas,” said state Rep. J.R. Claeys, a Salina Republican.

Salina officials are digging into the STAR bond portfolio to bring about a hotel, car museum and rehabilitation of an historic theater in the downtown.

Knocking on the door is the \$165 million complex in Wyandotte County for the American Royal agricultural events center. It will be transferred from Kansas City, Mo., with about \$80 million from STAR bonds.

“This is about creating a bright future for the American Royal ... and hanging a sign in the state of Kansas that Kansas is open to agriculture,” said Korb Maxwell, an attorney with the American Royal.

In Derby, state and local officials applied STAR bond financing to an \$18 million dinosaur park. Garden City is developing the Sports of the World Complex for soccer, skating, rugby and hockey on the east side of the city. It will pull down \$24 million in STAR bonds.

“This is a great project for our region and will go a long way toward meeting some of our community enhancement goals,” said Lona DuVall, president of the Finney County economic development corporation.

A STAR bond development in Dodge City will invest \$13 million in Boot Hill Museum and Heritage Center and the Long Branch Lagoon Water Park.

Atchison set out to work with STAR bonds for an aviation museum and to update the city’s farmers market.

“These aren’t projects that the private market is going to do,” said Trey Cocking, deputy director of the Kansas League of Municipalities.

Looking back, the Kansas Department of Commerce authorized \$165 million in STAR bonds for the Kansas City Wizards stadium, \$150 million for a Cerner Corp. office campus and \$65 million for a U.S. soccer training facility.

In 2006 to 2009, the city of Manhattan received \$50 million in STAR bonds to develop the Flint Hills Discovery Center, which brings to life the culture, heritage and natural surroundings of the tall grass prairie in Kansas. Other projects tied to the incentive were the Salt Mine Museum in Hutchinson and the Waterwalk in Wichita.

In 2017, the Legislature and Gov. Sam Brownback agreed to extend availability of the bond mechanism through 2022.

## **The Topeka Capital-Journal**

By Tim Carpenter

Jun 17, 2018

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## **Judge OKs Steel Valley Bond Issue to Finance Pay Inequities for Teachers.**

An Allegheny County Common Pleas Court judge approved the Steel Valley School District's request to use a bond issue debt to finance gender-related pay gaps related to a recent court settlement.

During a brief court hearing Wednesday morning, the school district's attorney, Jerri Ryan, told Common Pleas Judge Michael Della Vecchia that the money from the bond issue would fund salary adjustments across the district to avoid more litigation in the future.

Steel Valley asked the court to allow it to issue \$1.75 million in bonds, rather than raise property taxes in the short term, according to a May 21 petition.

Municipal finance experts contacted recently by the Pittsburgh Post-Gazette said that debt issuances are typically used for big capital projects, not costs related to legal settlements.

Naomi Richman, senior vice president at Moody's Public Finance Group, said last week the ratings agency is "not aware at this time of any cases involving Pennsylvania municipalities, including school districts."

Steel Valley in April reached a settlement with five female teachers who claimed in a lawsuit in U.S. District Court that they had been unfairly hired at lower salaries than male coworkers.

The teachers, who were hired between 1997 and 2008, began at the lowest step on the pay scale despite prior work experience. The district cited "policy" while paying some male teachers with similar experience more, according to the lawsuit.

As a result of the federal court settlement — for an undisclosed amount — Steel Valley reviewed three years of records to address pay gaps throughout the district and it will make a lump sum payment to the affected teachers, according to the petition. It is unclear how many employees are affected.

Steel Valley, a 1,400-student district that serves Munhall, Homestead and West Homestead, employs about 200 people, including nearly 130 teachers.

In his ruling, Judge Della Vecchia said he was not taking a stance on the substance of the case, only that the district followed proper procedure in requesting the bond issue.

### **Pittsburgh Post-Gazette**

by Matt McKinney

June 13, 2018

Matt McKinney: mmckinney@post-gazette.com, 412-263-1944, or on Twitter @mmckinne17

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## **Atlanta Locks in Savings on Sewer Debt Even as Market Shrinks for Municipal Bonds.**

Atlanta expects to save about \$500,000 by refinancing a loan taken out in 2008 to help pay for

upgrading the city's water and wastewater system, a city finance official said Wednesday. The transaction is of note because the city secured a beneficial rate as municipal bonds face a swirl of headwinds.

Atlanta awarded \$51.2 million in bonds in transactions dated Wednesday. The closing is set for June 21.

The Atlanta City Council approved the issuance Wednesday in a special call meeting. The council immediately sent the paper to Mayor Keisha Lance Bottoms for her signature, which enables the transaction to move forward quickly.

Atlanta did not extend the pay-off date of the debt in order to receive a lower interest rate. The \$51.2 million is structured as three separate entities, each with a different retirement date and still set to terminate in 2041, according to terms outlined by EMMA/MSRB. The dates for final payoff of the amount of bonds issued include:

Nov. 1, 2039 - \$8.5 million;  
Nov. 1, 2040 - \$16.9 million;  
Nov. 1, 2041 - \$25.8 million.

There's nothing new or novel about governments issuing new debt to pay off older debt that carried a higher interest rate.

The 2008 bonds carried a variable rate that was changing every week, according to Jerraé Williams, Atlanta's treasurer/chief of debt and investment. The all-in, true fixed rate of the \$51.2 million bond issue is 4.15, according to John Gaffney, Atlanta's deputy chief financial officer.

"In lieu of interest rates that are going to continue to increase, we need to fix out the cost," Williams said. "We converted the variable rate to fixed rate. We are saving money, about \$500,000."

However, these sorts of transactions that once were routine are entering a new era. The tax overhaul bill President Trump signed into law in December 2017 made debt issued by state and local governments less attractive to one of their major buyers - banks.

During the first quarter of 2018, more than six of the nation's largest banks reduced by \$7.8 billion their holding of debt issued by state and local governments, according to a May 31 report by bloomberg.com. The report was based on a review of the banks' first-quarter filings with the U.S. Securities and Exchange Commission.

The report observed:

"The figures show a significant pullback from buyers that had been steadily expanding their ownership of state and local government securities since the end of the recession, helping bolster demand. If the large banks are a guide, the quarter will mark the first time the industry has retreated from the \$3.9 trillion market since 2009."

In addition, the Fed indicated Wednesday it may approve two more rate hikes this year, according to a report by businessinsider.com.

Against this backdrop, Atlanta's incoming chief financial officer, Roosevelt Council, observed that the timing of the transaction was ideal.

"Our timing couldn't have been better, because the [Federal Reserve] board chairman talked about

increasing rates, basically today," Council said. "We were able to lock in a pretty good price as it pertains to that."

The mayor has nominated Council as CFO and his appointment is pending the council's approval.

## **Saporta Report**

By David Pendered

June 13, 2018,

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### **[Hounded by Woes, Chicago Sees Musk's Train as Win for Its Economy.](#)**

- **Boring Co. lands bid to build multibillion high-speed train**
- **Musk's investment shows "faith" in city economy, analyst says**

Chicago, slammed by rating agencies for its fiscal woes, President Donald Trump for its violence and even its own governor for the school system's debts, is getting a boost from visionary Elon Musk.

Mayor Rahm Emanuel and Musk, the billionaire chief executive officer of electric carmaker Tesla Inc., Thursday officially unveiled the plans for a high-speed train service that will make the approximately 15-mile (24-kilometer) trip from downtown Chicago to O'Hare International Airport in 12 minutes, a fraction of the current commute.

That Musk's Boring Co. emerged as the winning bidder is a coup for the 18-month-old company, whose futuristic ideas have yet to be proven. But Chicago bondholders are also voicing cautious optimism that the project — which will use electric vehicles to transport passengers through new underground tunnels — is an economic win for the nation's third-largest city. Chicago said it won't require any public funds.

"It's very good news that a company like the Boring Co. would be considering a major investment in Chicago-area infrastructure," said Paul Mansour, head of municipal research at Conning, which oversees about \$9 billion of state and local debt, including Chicago bonds. "It shows faith in the future of the Chicago-area economy."

Chicago's public transit has long been a talking point for Emanuel when touting the city's virtues. Musk's investment also coincides with Emanuel's courtship of Amazon.com Inc., which placed Chicago on the list of 20 cities that may be home to its second headquarters. Chicago is also embarking on the largest terminal expansion plan in O'Hare's history, a long overdue revamp of what once was the world's busiest airport.

"Bringing Chicago's economic engines closer together will keep the city on the cutting edge of progress, create thousands of good-paying jobs and strengthen our great city for future generations," Emanuel said in an emailed statement. "This transformative project will help Chicago write the next chapter in our legacy of innovation and invention."

More than 50 companies have relocated their headquarters to Chicago under Emanuel's tenure, according to World Business Chicago. Emanuel took office in 2011 and is up for re-election next year.

"Chicago's competitive edge is unbelievable," Emanuel said during a press conference on Thursday

with Musk, touting the city's transportation system, universities, and workforce. "This will add to it and give us a cutting edge and helps us maintain and build the commanding world-class economy we have."

The investment is also significant given the fiscal strains facing Chicago and Illinois. The city had \$35.8 billion of unfunded pension liabilities by the end of 2016, and the state's retirement systems were short \$137 billion, as of June 30, raising the risk of tax increases down the road. Those pension liabilities caused Moody's Investors Service to cut Chicago's rating to junk in 2015, making it the only major city outside of Detroit without an investment-grade rating.

Speaking to reporters, Emanuel praised the tremendous opportunity the investment will bring to the city, emphasizing that Boring is bearing all of the cost.

"He's bearing the cost," Emanuel told reporters. "We get the upside with no financial risk at all."

Even if it wanted to, Chicago couldn't afford to be too big of a contributor to the kind of project envisioned by Musk, according to Richard Ciccarone, president of Merritt Research Services LLC, which analyzes municipal finance. Emanuel has already hiked property, sewer and water taxes to cover rising pension payments.

"We've used up so much of our taxing and debt capabilities," Ciccarone said in a telephone interview. "For us, we've got to do whatever we can to extract help from the private sector."

Chicago will start one-on-one contract negotiations with Boring, according to the city. Once an agreement is reached, the city council would need to approve it.

"it's very preliminary," said Dennis Derby, a portfolio manager at Wells Fargo Asset Management, which holds \$39 billion of municipal debt, including Chicago bonds, "but it should help the economic and transportation infrastructure of the city."

## **Bloomberg**

By Elizabeth Campbell

June 14, 2018, 10:24 AM PDT Updated on June 14, 2018, 2:32 PM PDT

— With assistance by Sarah McBride

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## **[California Cities Keep Declaring Fiscal 'Emergencies,' and Investors Are in on It.](#)**

***Communities in the Golden State are using a loophole and citing financial distress so they can put new taxes on the ballot. Pasadena is exploiting it to tax pot.***

The phrase may trigger images of desolate streetscapes and fiscal pain, or evoke a new risk for investors who buy municipal bond funds in search of tax-exempt income. But for many Golden State cities, the words signal opportunity. Because of rules designed to limit tax increases, cities can get proposed tax hikes on Tuesday's primary ballot only by declaring a crisis. At least two have done so this year, following at least 50 since 2008. Muni bond investors and analysts are in on the ruse—in many cases giving it the equivalent of a shrug. To get a tax question before voters this week, Santa



Cruz has issued such a declaration for the third time in 13 years. Over that time, the Monterey Bay beach town's bond rating has improved.

Unlike other states, which lay out a process for a town to be deemed in distress, California leaves it to municipalities themselves to determine. There's no checklist or external agency deciding whether a situation meets the layman's understanding of the words "fiscal" and "emergency." And there are few consequences. Pasadena, the triple-A-rated home of the Rose Bowl, declared a fiscal emergency so it can ask voters on Tuesday to approve a cannabis tax. Otherwise the palmy town north of Los Angeles, where tourists stroll past Victorian estates and historic landmarks, would have to wait for the 2020 election.

"They're nowhere close to being insolvent or threatening to file for bankruptcy," says Eric Friedland, director of municipal research for Lord Abbett, which manages about \$20 billion in municipal bonds, including for a mutual fund that specializes in California debt. "This is more of brinkmanship."

In California, government needs often run up against strong anti-tax rules that began with Proposition 13, a landmark decision by voters in 1978 to limit property tax hikes. Then, as cities turned to fees and other levies, voters 18 years later passed Proposition 218 to ensure those were subject to their approval as well. Now a town that wants a new general tax or a targeted increase can ask voters only during an election in which the members of the governing body are running. The exception: when there's a unanimous vote by a governing body declaring an emergency.

No agency tracks the declarations, but after the last recession there was a spate from Colusa County to Los Angeles, according to Moody's Investors Service. Eric Hoffmann, senior vice president at Moody's, calls such moves a "pinkish flag." A fiscal emergency may actually show that a city is heading off a crisis, he says.

That's partly the case for Santa Cruz officials, who anticipate a gap of as much as 11 percent of the general fund in fiscal 2022 as revenue slows and costs such as pensions rise. They're asking voters to approve a sales tax increase to 9.25 percent from 9 percent. The referendum normally would have gone before voters in November, says Marcus Pimentel, the city's finance director. But because the county may float a tax to address housing at that time, the City Council declared an emergency to get its ask considered in June. "They didn't want to put anything that risked voter fatigue on tax measures for November," says Pimentel. Even though it's the third time the city has pulled the maneuver, its bond rating remains a strong AA. "It really doesn't impact our rating like somebody defaulting on their home on a credit report," he says.

A consultant eased Pasadena's concerns that its first emergency would hurt its AAA rating from S&P, says Finance Director Matt Hawkesworth. With recreational marijuana legal in California as of January, the city has to pay to regulate the industry. "We don't have the financial resources to support the work that we're required to do," he says.

Cities are abusing the system, says Jon Coupal, president of the Howard Jarvis Taxpayers Association, which pushed for the restrictions on tax increases. "Patently inappropriate," he says of Pasadena's move in particular. "Very rarely is there a true emergency."

In other states, a municipal fiscal emergency is a grave event. Michigan can install emergency managers with sweeping power to overhaul finances and services. Their decisions can be momentous, for better or worse. The state-appointed viceroy in Detroit pushed a plan to leave a once-record bankruptcy that cut pensions and payments to bondholders. But cost-cutting decisions by an emergency manager in Flint led to the city's drinking-water crisis in 2014. New Jersey took over the finances of the seaside resort town of Atlantic City in 2016, yet it remains at risk of

bankruptcy.

In California, an emergency declaration can also allow a municipality to skip an outside evaluation of its finances and file immediately for court protection. San Bernardino did just that in 2012. But cities that aren't intent on filing for bankruptcy with their declarations must contend with reputational risk and local ire. At a recent meeting in Moraga, a quiet San Francisco suburb where the typical home sells for \$1.3 million according to Zillow, council members discussed fury from their residents. Last year they declared a fiscal emergency when the costs of a sinkhole and a bridge failure drew down their savings. Even as they rescinded the action, most of the members continued to insist it was the right move.

"We had everything but the locusts attacking us at that moment," said Vice Mayor Teresa Onoda during the meeting.

## **Bloomberg Businessweek**

By Romy Varghese

June 4, 2018

— *With assistance by Steven Church*

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### **[Illinois Governor Signs 'Balanced but Imperfect' FY 2019 Budget.](#)**

CHICAGO, June 4 (Reuters) – Illinois Governor Bruce Rauner signed into law on Monday a \$38.5 billion, fiscal 2019 budget that he called balanced but not perfect.

The spending plan for the fiscal year that begins July 1 breezed through the state legislature last week with strong bipartisan support in marked contrast to previous years. It was the first full-year budget approved by Rauner since he took office in 2015.

An impasse between the Republican governor and Democrats who control the legislature left Illinois without complete budgets for an unprecedented two straight fiscal years. The stalemate finally ended when lawmakers enacted a fiscal 2018 budget and hiked income tax rates over Rauner's vetoes last July.

Revenue from the tax increase is incorporated in the new budget. Rauner, who is running for reelection in November, has vowed to roll back the tax increase.

"This budget is a compromise. It's not perfect," Rauner told reporters. He complained that the spending plan does not go as far as he would like to cut unfunded pension liabilities, and does little to address the state's unpaid bill backlog that stood at \$7 billion on Monday.

The budget adds \$350 million to a new K-12 school funding formula enacted last year, increases higher education spending by 2 percent, reduces cuts in state aid to local governments, and appropriates \$1.3 billion to pay previously incurred expenses. About \$270 million from the sale of the state's main office building in Chicago is once again counted on in the budget even though a transaction remains unrealized.

The spending plan relies on a voluntary, bond-financed buyout of certain pension benefits that could

save the state about \$423 million.

Illinois, which is struggling with a \$129 billion unfunded liability, has been unable to reduce retirement benefits for workers in its five pension funds due to a constitutional prohibition enforced by state courts.

The on-time budget was welcome news for the U.S. municipal bond market, where Illinois general obligation bonds fetch higher yields than any state.

Illinois' credit spread over Municipal Market Data's benchmark triple-A yield scale for 10-year bonds dropped 24 basis points to 165 basis points late last week.

The enacted budget faces scrutiny by credit rating agencies, which rate Illinois a notch or two above the junk level.

"Our focus is on the state's ability to maintain budgetary balance over multiple years, and whether this budget makes progress in the state's long-term fiscal sustainability," Fitch Ratings analyst Eric Kim said on Friday.

(Reporting By Karen Pierog; Editing by David Gregorio)

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## **[S&P: Despite An On-Time Budget For Fiscal 2019, It's More Of The Same In Illinois.](#)**

Timely enactment of a fiscal 2019 budget in Illinois is consistent with the stable outlook S&P Global Ratings currently maintains on the state's credit rating. At 'BBB-', however, the general obligation rating incorporates our view of the state's longer-term vulnerabilities and remains the lowest possible rating within the investment grade categories.

[Continue Reading](#)

Jun. 5, 2018

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## **[A Connecticut Bond Default Isn't Out of the Question.](#)**

***Unlikely, sure. But it never pays to be overconfident.***

When it comes to Connecticut connotations on Wall Street, the first thing that comes to mind is surely Greenwich, the world's hedge-fund mecca. Home to AQR Capital Management, Viking Global Investors LP and Lone Pine Capital, among others, the town's name is synonymous with money. A 500-foot stretch along U.S. Route 1 has dealerships for Alfa Romeo, McLaren and Rolls-Royce automobiles.

Take one of those cars for a spin up to Hartford, and you'll find a much different scene. Connecticut's capital approved a plan earlier this year allowing the state to pay off the city's general-obligation debt — in other words, a bailout. Without the maneuver, bankruptcy and bond defaults seemed unavoidable for a municipality where the population is declining and a third of those who remain live in poverty.

But by assuming the struggling city's debt burden, Connecticut only complicated its own problems. It has been downgraded three times in as many years by S&P Global Ratings, had a fiscal 2017 net pension liability of \$37.2 billion (up almost \$10 billion from a year ago) and easily has the most tax-supported debt per resident among U.S. states. On top of all that, it has the fewest jobs in finance, insurance and real estate since 1996.

[Continue reading.](#)

## **Bloomberg Opinion**

By Brian Chappatta

June 8, 2018, 5:00 AM PDT

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### **Puerto Rico's Sales-Tax Bonds Soar on Optimism About Deal.**

- **Deal may allow senior bondholders to receive what they're owed**
- **Some money could also been steered to general-obligation debt**

Puerto Rico sales-tax-backed bonds rallied after a tentative agreement struck in the island's bankruptcy promised to steer a large share of that revenue to owners of the securities, leaving them facing smaller losses than investors previously anticipated.

The details of the pact between two court-appointed agents, disclosed in a filing late Thursday, show that owners of the bonds would get just over half of the future sales-tax revenue they're currently entitled to each year. They would also get all of the \$1.2 billion of revenue that's been frozen in a reserve account until the bankruptcy court decides who has a right to the money.

The deal, if ultimately approved, would resolve a key dispute in the island's record-setting bankruptcy, where creditors have been fighting over who has the highest claim on the government's tax collections. The arrangement could leave owners of the most senior sales-tax bonds, known as Cofinas, paid in full. That's a better settlement than one floated a few weeks ago, according to a person familiar with the matter.

"Seniors are in good shape because they get the money first," said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages \$20 billion of state and local debt, including Puerto Rico securities. "With more than half the money going to the Cofina side, the seniors may be fully covered."

Governor Ricardo Rossello declined to comment because he said a final agreement hasn't been reached and talks are ongoing. "We want the government to continue being part of that negotiation," he told reporters in San Juan. "For the benefit of the people of Puerto Rico, I prefer not to comment on the details of the negotiation."

Spokespeople for a group of general-obligation bondholders and a pool of senior sales-tax investors declined to comment on the details of the tentative settlement.

The bonds climbed on the details, pushing up the price of senior sales-tax securities due in 2040 by nearly 10 percent to an average of 83 cents on the dollar. Subordinated debt maturing in 2041 climbed 13 percent to 41.8 cents. The prices of the island's general-obligation bonds were little

changed.

Puerto Rico's debt payments have been on hold as it works through bankruptcy. There's about \$780 million that's originally earmarked to repay Cofinas in fiscal 2019. The potential settlement would give Cofina more than half of that amount, with the government receiving the rest to repay commonwealth creditors and cover essential services, according to the court documents.

"On the commonwealth side, it's not clear what goes to bondholders and what goes to everything else," Solender said. "Nothing specifically has changed for bondholders on the G.O. side, at this point."

The agents for Puerto Rico and Cofina, the Puerto Rico government-owned corporation that issued the bonds, have asked U.S. District Court Judge Laura Taylor Swain to hold off on ruling on the issue for 60 days as they work out the final details.

The rally since the tentative agreement was announced Wednesday has delivered large gains to investors who've held on to their bonds even as they plummeted in the wake of Hurricane Maria. The price of the subordinate Cofinas Friday is more than five times what they traded for in November, when they touched a record low of 8.2 cents on the dollar.

"It's better than Internet stocks," Solender, whose firm holds senior and subordinate Cofinas, general obligations and debt sold by the island's bankrupt public power utility.

## **Major Hurdle**

Resolving the issue of the sales-tax revenue is a major hurdle in Puerto Rico's bankruptcy because it's essential to determining how much Cofina and general-obligation bondholders will recover. Those two classes of securities account for about \$35 billion of the more than \$70 billion that the commonwealth owes. Swain called the deal announcement "an enormously significant development" during a hearing Wednesday in San Juan.

As part of the settlement, Cofina would receive all of the money held by Bank of New York Mellon Corp., its trustee, as of June 30, 2018. There was nearly \$1.2 billion in that account as of May 1, according to disclosure filings posted on Municipal Securities Rulemaking Board's website.

Starting July 1, Cofina would also get 53.7 percent of the sales-tax receipts that are dedicated to repaying the bonds, growing by 4 percent annually to a maximum of \$1.85 billion by 2041. The dedicated revenue totals \$783.2 million for fiscal 2019, which starts July 1.

## **Overdue Payments**

While Puerto Rico continues to direct sales-tax revenue to the trustee, Cofina bondholders stopped receiving payments in June 2017. They're owed about \$550 million of principal and interest in fiscal 2018, which ends June 30, according to disclosure filings.

Once Cofina receives its full 53.7 percent allocation of the revenue, Puerto Rico will get the rest. Those monies will be placed in escrow and used to resolve claims against the commonwealth, though the island has the ability to use the cash for essential services after its liquidity is exhausted, according to the court filing. A federal board that oversees Puerto Rico's finances will determine which services are essential.

## **Bloomberg Markets**

By Michelle Kaske

June 8, 2018, 5:46 AM PDT Updated on June 8, 2018, 1:00 PM PDT

— *With assistance by Steven Church*

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## **Puerto Rico Tax Deal Gives Federal Board Power Over Use of Cash.**

- **That may rekindle clash between board and Governor Rossello**
- **Bonds rally as investors cheer tentative pact to end dispute**

The deal to steer some of Puerto Rico's future sales taxes to a key group of bondholders puts a U.S. oversight board in charge of whether the rest should keep crucial services running if the government runs into financial trouble again.

If the tentative pact between the court-appointed agents is enacted, the federal Financial Oversight and Management Board for Puerto Rico — and not the island's elected officials — will decide if the remaining sales-tax revenue is needed to fund "essential" services, according to terms of the proposed agreement filed in federal bankruptcy court. That will be the case even after the territory's bankruptcy ends.

Bypassing government officials may renew a court struggle between the board and Governor Ricardo Rossello, who succeeded last year in blocking the board from taking control of the island's bankrupt electric utility. To some residents, many of whom favor becoming a state, the board's power smacks of colonialism by weakening their say over Puerto Rico's fate.

On Friday, the governor said there's no final agreement and declined to comment on the details because talks are continuing. His administration wasn't part of the agreement and is still evaluating it.

"We want the government to continue being part of that negotiation," he told reporters in San Juan. "For the benefit of the people of Puerto Rico, I prefer not to comment on the details of the negotiation."

Either the board or Puerto Rico needs to outline what exactly are the island's most necessary expenditures, said Daniel Solender, head of municipal investments at Lord Abbett & Co., which manages \$20 billion of state and local debt, including Puerto Rico securities.

"The concern is that there's just no clear definition out there," Solender said. "There needs to be some agreement on what's essential and what shouldn't be."

Investors have questioned the amount of money that Puerto Rico actually has, partly because they suspect that some of what the government describes as spending for essential services may be discretionary. The island has also made dire predictions that it was poised to run out of cash, only to later find the funds needed to avert a shutdown.

Under Promesa, the law passed by the U.S. Congress that allowed Puerto Rico's insolvent government entities to file bankruptcy, the federal board is responsible for developing debt adjustment plans for each agency that seeks court protection, including the commonwealth itself and the government owned utility, known as Prepa.

In November, U.S. District Court Judge Laura Taylor Swain ruled that the federal overseers must share control with local officials. She said Promesa allowed the board to put public agencies into bankruptcy, but doesn't allow it to run them.

But now the two court appointed agents, representing the central government and the agency that sold Puerto Rico's sales-tax bonds, have proposed giving the board, not local officials, control of the revenue.

Investors cheered. On Friday, Puerto Rico's sales-tax debt with the highest legal claim to the money rallied 10 percent to 83 cents on the dollar.

The case is *The Official Committee of Unsecured Creditors v. Bettina Whyte*, as agent of, the Puerto Rico Sales Tax Corp., 17-257, U.S. District Court, District of Puerto Rico (San Juan)

## **Bloomberg Markets**

By Steven Church and Michelle Kaske

June 8, 2018, 2:36 PM PDT

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### **[Puerto Rico's Governor Leaves \\$0.00 for Bondholders.](#)**

Post-Hurricane Maria's devastation, Puerto Rico's financial struggles have worsened with parts of the commonwealth still without power and many people struggling to meet their basic needs. In his efforts to prioritize the continuation of public essential services over making debt service payments, Puerto Rico's Gov. Ricardo Rossello has recently proposed his fiscal year 2019 General Fund budget that has \$0 allocation toward the island's central government debt service.

If this proposed budget passes, it will be contrary to Puerto Rico's debt oversight board's decision that contractually obligated the central government to pay \$2.54 billion in debt service in the fiscal year 2019.

In this article, we will take a closer look at Puerto Rico's debt restructuring plan, adherence to the oversight board's fiscal plan and what \$0 budget allocation means for Puerto Rico's bondholders.

[Continue reading.](#)

**municipalbonds.com**

by Jayden Sangha

Jun 07, 2018

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### **[S&P: New York State's Enacted 2019 Budget And Tax Reform Good For PIT Bondholders, But For Taxpayers It Depends.](#)**

The Tax Cuts and Jobs Act of 2017 and its extensive changes to the federal internal revenue code have significantly affected New York State tax burdens and tax receipts in S&P Global Ratings' view.

As a result, the state's fiscal 2019 enacted budget decouples the state's income tax from the federal tax law.

[Continue Reading](#)

Jun. 6, 2018

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### **S&P Medians And Credit Factors: Tennessee Local Governments.**

Tennessee municipalities and counties (or local governments [LGs]) have demonstrated stable credit quality in recent years, and S&P Global Ratings expects credit quality for Tennessee LGs to remain stable in the near term.

[Continue Reading](#)

May 23, 2018

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### **S&P: Georgia Cities Face Potential Negative Impact If Issues With Large-Scale Deannexations Become More Pervasive Or Go Unaddressed.**

With the passage of Georgia Senate Bills (SB) 262 and 263, which propose revised boundaries for the City of Stockbridge (unrated) and the incorporation of Eagle's Landing without apportionment of Stockbridge's debt, S&P Global Ratings notes that the Georgia local government ratings portfolio faces potential negative impacts if this trend continues.

[Continue Reading](#)

May 30, 2018

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### **S&P: Minnesota's New Pension Bill Is A Positive Step Toward Sustainable Funding.**

Minnesota's new pension bill is a positive step toward improving funding of the state's pension plans, but because contributions remained fixed in state statute, there could eventually be a regression in plan funded status, in S&P Global Ratings' view.

[Continue Reading](#)

Jun. 7, 2018

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### **Houston's Third Ward Turns to Community Land Trust Model.**

Houston's Third Ward residents are turning to community land trusts as a push against the effects of



rising home prices.

The Third Ward, a historically black community, was established in the late 19th century. Now, more than a century and a half later, the community finds itself threatened by gentrification — in particular, displacement of longtime residents by soaring house prices and property taxes. In response, residents are considering action to help preserve affordability in the face of encroaching gentrification and hold on to the rich culture of the Third Ward. The city's response, reports the [Houston Chronicle](#), is a city-funded community land trust.

A community land trust is a nonprofit entity that aims to make housing permanently affordable through the purchase of land that it can make available for rent or for homeownership to low-income residents at affordable rates in long-term agreements. Community land trusts are on an upswing in cities throughout the country, in response to gentrification and the displacement of low-income, longtime residents and tightly knit communities.

[Continue reading.](#)

NEXT CITY

BY BRIANNA WILLIAMS | JUNE 8, 2018

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## **[Houston Unveils \\$1 Billion Harvey Aid Action Plan.](#)**

Houston officials have released the [first action plan](#) for how to spend \$1.15 billion in federal housing aid, part of a \$5 billion package allocated to the state, the Houston Chronicle [reports](#). The split is about 60/40 single-family homes and apartments.

"Even though a billion dollars is a lot of money, we know it isn't enough to meet all of the housing needs in Houston," Tom McCasland, director of Houston's Housing and Community Development department, told the Chronicle. "But the opportunity here is one we've never had before. It's a big step toward a city where everyone has a safe, affordable home, in a thriving neighborhood."

Texas officials planned to publish one statewide plan in March, but Houston Mayor Sylvester Turner accused the state land office of "hogging the \$5 billion" and cutting the city out of talks. Now, instead, Houston gets to allocate about \$1 billion; surrounding Harris County will publish a similar plan for its \$1 billion, and both plans will be attached as amendments to the statewide plan that will address the rest of the Gulf Coast.

[Continue reading.](#)

NEXT CITY

BY RACHEL KAUFMAN | JUNE 11, 2018

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## **[A Seismic Change Is Coming to California's General Industrial Stormwater Permit.](#)**

California is considering the first-in-the-nation general industrial stormwater permit incorporating

Total Maximum Daily Load (TMDL)-related numeric action levels (TNALs) and numeric effluent limitations (NELs). These new standards have the potential to further ramp up federal Clean Water Act (CWA) citizen suit litigation. Under the State Water Resources Control Board's (State Board) [proposed amendment to its stormwater general industrial permit](#) (IGP), a "Responsible Discharger" whose stormwater discharge exceeds an applicable NEL automatically will be in violation of the IGP. Unless it complies with the permit's existing exceedance response action process, it also will be in non-compliance if its discharge exceeds an applicable TNAL.

Recognizing these consequences, and the difficulties some dischargers have complying with existing IGP requirements, the State Board is proposing two alternative compliance options. Touted as an effort to promote green infrastructure and water reuse, these options could revamp how industry manages stormwater. Both alternatives involve capture and reuse of the runoff from the 85th percentile 24-hour storm event, with the difference being the stormwater retention location. Under the "on-site" option, retention occurs at the facility. Under the "off-site" option, retention occurs at the local publicly owned treatment works (POTW).

[Continue reading.](#)

**Hunton Andrews Kurth LLP**

June 5, 2018

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## **[Fitch: Water Conservation Regulations Not Likely to Affect California Utilities.](#)**

Fitch Ratings-San Francisco-05 June 2018: Legislation establishing state-wide water conservation standards is not likely to affect ratings for California water utilities, according to Fitch Ratings. That said, rate affordability could become an issue over time.

The regulations, signed into law last week by Governor Brown with implementation beginning in 2022, establish goals for indoor per person water usage, require utilities to set annual water budgets, and institute incentives for recycled water. They follow California's recent five-year drought during which the Governor declared a state of emergency and imposed a state-wide mandatory 25 percent cutback on water use and individual cutbacks for urban utilities of up to 36 percent.

In response to the drought and state mandated conservation efforts, many utilities have already adapted to new normal levels of water demand and raised rates or adjusted rate structures. As such, the legislation codifies changes already underway which, along with increasing capital investments, have pushed some utilities' rates close to or above Fitch's affordability threshold.

Water utilities have largely incorporated increased long-term water conservation and lower demand levels into their planning efforts and rate plans. Although the planning efforts are positive, rate affordability remains a long-term concern.

With an average rating of 'AA', Fitch-rated California water and sewer agencies maintain strong credit profiles overall. While increasing business pressures are likely, Fitch believes that most utilities have sufficient capacity to manage changes in water demand levels and maintain credit quality. Like other water and sewer utilities across the country, California utilities benefit from sound fundamentals rooted in their essential services, monopolistic business nature and generally

local rate-setting authority that help to insulate these utilities through changing business and economic cycles.

Longer term, however, credit quality could come under pressure for individual utilities where there is an unwillingness to raise rates to accommodate potentially lower demand levels and support current and projected financial metrics. However, Fitch expects these instances to be rare given the historical willingness of California utilities to preserve their financial results despite operating challenges.

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## **[How California Could Get Its Money Out of Wall Street.](#)**

***The world's fifth largest economy could keep the money in a state-owned bank to fund local infrastructure.***

California needs to spend more than \$700 billion on infrastructure over the next decade. Where will this money come from? The \$1.5 trillion infrastructure initiative unveiled by President Trump in February includes only \$200 billion in federal funding for infrastructure projects across the U.S., and less than that after factoring in the billions in tax cuts in infrastructure-related projects.

The rest is to come from cities, states, private investors, and public-private partnerships. And since city and state coffers are depleted, that chiefly means private investors and PPPs, which have a shady history at best.

At the same time, California has over \$700 billion parked in private banks earning minimal interest, private equity funds that contributed to the affordable housing crisis, and “shadow banks”—unregulated financial institutions of the sort that caused the banking collapse of 2008. If California had a public infrastructure bank chartered to take deposits, some of these funds could be used to generate credit for the state while remaining safely on deposit in the bank.

[Continue reading.](#)

**Yes! Magazine**

by Ellen Brown

Jun 06, 2018

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## **Fitch: Hawaii Credits Unaffected as Volcano Continues.**

Fitch Ratings-New York-30 May 2018: Based on Fitch Ratings' review of initial reports and damage assessments, rating changes are unlikely for Hawaii's U.S. public finance, port and airport credits following ongoing volcanic activity on Hawaii Island. Fitch does expect the state's tourism-driven economy to feel some adverse peripheral effects from the volcanic activity in the short term, but ultimately the fiscal impact of the eruption on rated entities in Hawaii will be largely mitigated by Hawaii's financial flexibility, support from federal and state governments, and private insurance policies.

Kilauea, one of four active volcanoes on Hawaii Island, has been erupting continuously since 1983. The island's major tourist attraction, Hawaii Volcanoes National Park, has closed during the recent increase in eruptive activity but reflects the positive role of volcanoes in Hawaii County's economy. Volcanic events during the most recent activity include localized lava flows, ash and gas eruptions affecting air quality and visibility, and related seismic activity.

The local government most affected by the eruption to date, Hawaii County, is likely to use a combination of federal relief funds, state support and insurance claims to pay for most volcano-related damage. The May 11 federal disaster declaration for Hawaii County enables individuals and local governments to seek individual assistance from the federal government.

Fitch maintains an 'AA+' Issuer Default Rating (IDR) on Hawaii County (population of nearly 200,000), which incorporates an 'aaa' operating performance assessment based in part on its available liquidity. While the ultimate impact of the Kilauea eruption to Hawaii County's economy is not yet known, property damage has been modest to date, destroying 100 to 200 homes in a relatively remote region of the island. Several thousand residents have been displaced, and short-term impacts on tourism, a key industry, appear likely. However, property taxes supporting most local government services are not expected to be materially affected. Lava flows have also threatened Puna Geothermal Venture, which provided one-quarter of the island's electrical supply prior to its recent shutdown, but local utility managers report sufficient reserve capacity to offset this loss.

On the transportation side, management for Hawaii's harbors division (a division of the Hawaii Department of Transportation [HDOT] with harbor system revenue bonds rated 'AA-' with a Stable Outlook) has confirmed to Fitch analysts that commercial ports on Hawaii Island, including facilities at Hilo Harbor and Kawaiahae Harbor, are fully operational with no restrictions resulting from volcanic activity. The harbors division consists of 10 commercial harbors on six islands. Honolulu serves as the state's principal port and trans-shipment station for cargo that is bound for the other islands.

Cargo and passenger operations remain unimpeded, with vessels continuing to safely enter the harbors and dock. Cargo continues to be discharged without impediment with passengers disembarking and embarking from cruise vessels. Furthermore, management for the harbors division commented that seismic events related to the volcanic activity have not affected the structural integrity of HDOT port facilities to date; HDOT personnel continue to conduct ongoing

assessments to monitor potential structural damage to harbor facilities as seismic activity continues.

Similarly, management of Hawaii's airports division (another division of HDOT, airport system revenue bonds rated 'A+' and subordinate COPs 'A' with a Stable Outlook) has confirmed to Fitch that, to date, there has been no disruption to air service at either of the airports on Hawaii Island (Ellison Onizuka International Airport at Keahole and Hilo International Airport), and that there has been no structural damage to either facility. The airports division manages airports across the Hawaiian archipelago.

While port and airport facilities are unscathed by the eruption, follow-on effects to the broader tourism-driven economy are likely in the short term. The closure of Volcanos National Park is likely to affect overall visitor numbers, and certain airlines have waived change fees for travel to Hawaii Island. Harbor division management further acknowledged that certain cruise lines have chosen to reroute ships to avoid Hawaii Island due to the volcanic events.

Airport division management indicated to Fitch that they continue to monitor the tourism industry as it relates to the Kilauea eruptions. For May, they noted that air traffic is at or above levels seen a year prior, indicating limited effects from the volcano on overall results thus far. Management noted that most travellers diverting from Hawaii Island are choosing to travel to other Hawaiian islands rather than forgoing Hawaiian travel altogether. Fitch will continue to monitor activity levels for both airport and harbors divisions to evaluate any longer-term effects on financial results.

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**[With Shootings on the Rise, Schools Turn to 'Active Shooter' Insurance.](#)**

**Gun violence costs lives — and money. The financial burden can overwhelm governments, especially when they're small or struggling.**

After every mass shooting, more calls come in: from private companies, from large stadiums, and — increasingly — from government agencies and public schools. They all want to talk about the same thing. “We probably have seen a tenfold increase in inquiries since Parkland,” says Paul Marshall, an insurance broker for McGowan Program Administrators, an underwriter based in Ohio. “People just feel vulnerable when [a shooting] happens. And that’s when we get phone calls, because it feels inevitable and very difficult to manage.”

Since the February attack on Marjory Stoneman Douglas High School in Parkland, Fla., which killed 17 and launched a nationwide push for additional gun control measures, at least seven South Florida school districts have purchased about \$3 million worth of “active shooter” coverage from McGowan. This kind of coverage, which the insurance broker first began offering in 2016, is a small but rapidly growing slice of the company’s portfolio. There’s no database that tracks which school districts carry this type of coverage, but Marshall says his company is consistently seeing 20 percent increases in the number of inquiries month over month. Other insurance companies are also seeing an increase in inquiries and purchases of this type of insurance. Over the course of one week shortly after Parkland, Hugh Nelson, senior vice president at Southern Insurance Underwriters Inc., says he received half a dozen inquiries. According to Reuters, while some insurance companies have offered these policies since 2011, many more have sprung up since 2016.

It’s one trend following another, deeply troubling one: The incidence of active shooter events is going up. According to FBI data, the average number of shootings per year jumped from 6.4 between 2000 and 2006 to 16.4 in the period from 2007 to 2013. (Overall, active shooter incidents, which the FBI defines as events in which an individual is actively engaged in attempting to kill people in a populated area, claimed 1,043 lives between 2000 and 2013.) In 2014 and 2015, that number rose again, to 20 shootings per year. About 10 percent of those occurred on government property, while an additional 24 percent occurred in schools. In fact, according to data recently compiled by The Washington Post, since the 1999 massacre at Columbine High School in Littleton, Colo., some 208,000 children at 212 schools have experienced gun violence on campus.

Some of the deadliest of these incidents have happened in just the past six years. In addition to the Parkland shooting in February, there’s been a mass-casualty shooting at a concert in Las Vegas, which killed 58; in the Pulse night club in Orlando, which killed 49; in a San Bernardino, Calif., city center, which killed 14; and at Sandy Hook Elementary in Connecticut, which killed 26. In May, the latest attack took place: A student shot and killed 10 of his classmates at Santa Fe High School in Texas.

Aside from the loss of life and the pain these events inflict on a community, deadly shootings also have financial costs that can be difficult for governments, especially small or struggling municipalities, to bear. San Bernardino had already filed for bankruptcy when it had to pay \$4 million for the response to the terrorist attack at the Inland Regional Center. Connecticut gave the city of Newtown \$50 million just for the costs of rebuilding Sandy Hook Elementary School. The total costs from the 1999 shooting at Columbine High School also came to roughly \$50 million. In Parkland, the Florida Attorney General’s Office paid for funeral costs, and the school district plans to tear down and rebuild the part of the school where the shootings occurred.

The tangible costs alone can overwhelm a government: litigation, compensating victims, paying for funerals, providing trauma counseling, reconstructing or refurbishing buildings, and investing in new security measures to prevent another attack, to name a few. The impact of intangible costs to a community — reputational damage, loss of tourism revenue and high turnover among workers — is

impossible to measure, according to experts. “These events are very expensive in so many ways. People are so traumatized by responding to the event that they leave the field. I’ve talked to people who’ve left education because of this,” says Mike Dorn, a school security expert at Safe Havens International who is currently working on his 13th active shooter case. Dorn was also a school district police chief at Bibb County Public Schools in Georgia for 13 years.

In the face of these potentially huge costs, there is debate about whether and to what extent general liability policies will cover active shooter events. Marshall, the McGowan insurer, says that general liability policies typically have what’s called a “duty to defend” clause, meaning that they require a lawsuit to be filed in order to activate coverage. That’s a process that can take months or even years. And general policies will not provide victims with the kind of compensation that’s likelier to stave off litigation.

In contrast, active shooter policies tend to go into effect as soon as a person walks onto the organization’s property and commits a targeted attack, and they generally cover attacks with any weapon, such as guns, knives, bombs or vehicles. Coverage pays for a host of expenses associated with these events as well, including victim expenses, particularly medical bills; agency costs, like extra security and business income losses; and traditional liability costs for lawsuits.

Some insurance companies that offer this kind of coverage also offer risk assessment and mitigation strategies to organizations trying to prevent an active shooter attack, says Nelson of Southern Insurance Underwriters. “Many governments are already doing this type of [risk mitigation and preparation] thing, but they want to see what more can be done,” Nelson says.

McGowan’s risk mitigation policies also make up a substantial part of its coverage, though Marshall says some governments and agencies already feel like they’re doing enough to secure their properties. Marshall says one prominent city parade hired risk-mitigation services from McGowan this year, which included social media monitoring and coordination with local police. According to him, it was the first year the parade didn’t have to deal with a violent attack threat.

That aspect of the coverage was one of the main reasons that Palm Beach County School District, the fifth largest district in Florida and the 10th largest in the country, decided to purchase active shooter insurance last summer. Dianne Howard, the district’s director of risk and benefits management, says Palm Beach was one of the first jurisdictions to adopt this kind of insurance in her state. “We wanted the risk assessment and training service” that came with the coverage, Howard says. “Sometimes, departments tell you that they’re doing everything they need to do, but when you look at other places where [attacks] have happened, you see there was actually a problem. So I wanted an outside perspective to see what else we could do.”

Howard purchased the district’s insurance from McGowan, and she said the company found some “areas where we could improve” in terms of mitigating risk. She purchased \$1 million in coverage, which she said she hopes to increase. (According to Marshall, many others have done so since the Parkland shooting.)

Some risk mitigation techniques, however, can actually interfere with their insurance policies. Arming teachers — an idea that has received support mainly among Republicans in Congress and in statehouses — is one such security strategy. When some Kansas school districts considered letting teachers and campus administrators carry concealed weapons after the Sandy Hook massacre, their insurance companies pushed back. “Concealed handguns on school premises pose a heightened liability risk. We have chosen not to insure schools that allow employees to carry concealed handguns,” EMC Insurance Companies wrote to Kansas districts. Several districts abandoned their plans to arm teachers as a result.

"We don't recommend arming teachers in the United States," Dorn, the school security expert, says. "Trying to teach people to [use a gun against] an active shooter is even harder than just teaching them how to use a firearm." Dorn says that even police officers sometimes don't respond appropriately in emergency situations. In Parkland, a campus police officer notoriously stayed outside of the building even as he heard gunshots inside.

Dorn also cautions against similar solutions, like the Pennsylvania superintendent who suggested students were protected from active shooter situations thanks to a bucket of river rocks in the classroom, or the other Pennsylvania school district that issued mini baseball bats to teachers. "Great idea. Now some kid gets mad and gets ahold of the bat and beats up another kid and we have a \$4 million lawsuit on our hands," Dorn says.

He says behavioral interventions — like identifying potentially violent students and intervening before anything takes place — are by far the most effective strategy for stopping violence on school property. They're also less expensive than physical solutions such as bulletproof glass and metal detectors. "If you're a school without strong behavioral approaches [to preventing violence], you're extremely vulnerable to litigation, because this is so well established. It's like a standard of care," Dorn says. "You can spend \$5 million [on extensive security measures] and still have a shooting because you didn't spend a tiny fraction of that on good behavioral approaches."

As the difficulty of preventing violence becomes clearer to the public, and if violent incidents like Parkland continue to become more common, Marshall and Nelson both say they expect that this portion of their insurance practice will continue to grow. Just recently, Marshall says, a large municipality flew him out for an informational presentation and decided immediately to buy coverage.

And insurance companies keep updating the coverage they offer in response to tragic events. A year ago, McGowan did not offer coverage for vehicle attacks. Now it does. The sorts of coverage that insurance companies provide will continue to evolve, says Marshall. "At this point, [people feel that] everyone is kind of a target." Attackers today, he says, have become more likely "to handle disputes in a violent manner, with guns, knives, vehicles, bombs. It's very concerning to people."

GOVERNING.COM

BY NATALIE DELGADILLO | JUNE 2018

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## **[How to Calculate What Opioid Overdoses Cost Government.](#)**

**New research provides a formula to help cities and counties know what to expect, financially, when drug deaths spike.**

As governments grapple with the rising cost of the opioid crisis, one group may have found a way to predict how high those costs will go.

For every three fatal overdoses, a local government's public safety costs can increase by an average of 1 percent, or \$150,000, according to research from the data platform OpenGov. What's more, once deaths start spiking, government costs tend to steadily increase at that rate for about three years until they begin to plateau.

The findings give local governments an idea of what to expect financially as they respond to rising



overdose deaths. The data were gathered from 20 cities and counties across five states considered to be on the front lines of the crisis — Kentucky, Maryland, Massachusetts, Ohio and Pennsylvania — and released exclusively to Governing.

[Continue reading.](#)

GOVERNING.COM

BY LIZ FARMER | JUNE 4, 2018

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## **[Tough Conversations About Climate Change Planning in California.](#)**

The nature of sea-level rise is such that it threatens whole regions at once, with no respect for municipal boundaries. But in most cases, local communities are left to develop their own strategies for addressing the threat. And the decisions they make, based on local concerns about environmental conditions and property rights, have ramifications that spread out to neighboring cities and towns.

The coastal city of Del Mar, California, in San Diego County, is currently facing that challenge. Last week, the Del Mar city council, which represents about 4,300 residents, [voted against](#) including the strategy of “managed retreat” in its long-term Sea-Level Rise Adaptation Plan.

Managed retreat refers to a simple concept that can be very complicated in practice: abandoning land and sometimes developed property in coastal areas as the sea rises. It’s considered a last resort for sea-level rise adaptation. While the city had initially [included the strategy](#) in its plan last month, the city council ultimately decided to strike it from the documents after residents objected that it would sink the values of their properties overnight.

[Continue reading.](#)

NEXT CITY

BY JARED BREY | MAY 29, 2018

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## **[The Role of Community Land Trusts After Hurricane Maria.](#)**

Lucy Cruz has lived all of her 58 years in Caño Martín Peña, an informal community centrally located in the Puerto Rico capital of San Juan. Eight distinct neighborhoods make up the community, clustered around a stream, a caño, that gives the area its name and identity.

Some 1,200 homes in Caño Martín Peña lost their roofs during Hurricane Maria, according to Cruz, who says that the community has worked collectively to gather supplies and rebuild those roofs. They have managed to rebuild 75 completely, but in many places, blue tarps keep out the elements, according to Cruz. Access to federal funds can make a substantial difference.

For working class areas of Puerto Rico, like Caño Martín Peña, it’s been a tough go of accessing those funds. FEMA, the Federal Emergency Management Agency, has strict requirements for emergency funding recipients to prove homeownership. Proving that in the aftermath of a Hurricane

can be difficult.

[Continue reading.](#)

NEXT CITY

BY ZOE SULLIVAN | JUNE 1, 2018

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## **Illinois Passes Budget, Moving to Avert Repeat of Impasse.**

- **House approves spending plan that Senate passed late Wednesday**
- **Budget now goes to Governor Rauner's desk for signature**

Illinois lawmakers approved a bipartisan spending plan, leaving the state poised for its first on-time budget in four years and avoid a repeat of the record impasse that pushed its credit rating to the brink of junk.

The state House of Representatives voted Thursday to approve the \$38.5 billion spending plan for the year that starts July 1, after the Senate approved the measure late Wednesday. Governor Bruce Rauner said he will sign the package of bills, which will mark the first time since the Republican took office in 2015 that the state has enacted a full-year budget on time.

"We've had to come a long way to get to this point," said Representative Greg Harris, a Democrat, who thanked his colleagues on both sides of the aisle. "It is a balanced budget."

Both Harris and Representative Tom Demmer, a Republican, presented parts of the appropriations bill on the House floor to demonstrate the plan's bipartisan nature. Harris pointed out that Hans Zigmund, Rauner's budget director, was sitting in the gallery and had helped advise lawmakers.

This "reflects a true sense of bipartisan negotiation to find a budget that's balanced, a budget that's workable, and something that can give us stability and predictability over course of the upcoming year," Demmer said on the floor before the vote.

Illinois's bonds, which had already rallied this month amid optimism a budget would be approved on time, moved higher on Thursday, when the debt was among the most-frequently traded in the municipal market. Taxable debt due in 2033, the most active, climbed 1.7 percent to 96.3 cents on the dollar, pushing the yield down 16 basis points to 5.46 percent, according to data compiled by Bloomberg.

Both legislative chambers approved the spending plan with broad support from Republicans and Democrats, a stark contrast to previous years of contentious debate. Last year's partisan fighting over the budget nearly turned Illinois into the first U.S. state to lose its investment-grade status. The failure of the Democrat-led legislature and Rauner to reach an agreement led to a record two-year stalemate that wrecked havoc on the state's finances.

That impasse ended last July after lawmakers overrode Rauner's veto to enact a tax-hike. The money from that levy made this year's budget negotiations easier as the gap between spending and revenue had narrowed.

"There's still a lot that needs to be done, but it's a big positive sign," said Dan Solender, head of municipal investments at Lord Abbett & Co., which holds \$20 billion of state and local debt,

including Illinois bonds. "Given the optimism now, it could bring in more buyers," he said, adding that "the trends are turning positive instead of further down."

Starting June 1, a three-fifths majority of each legislative chamber is required to pass any bill, making approval of a spending plan more difficult. The state's unpaid bill backlog stands at \$6.6 billion, according to the comptroller's office, which is less than half of what it was last July, after they piled up because of the stalemate.

The 2019 budget spends more on education and includes cuts to the department of corrections and other operating areas, as well as some pension savings through buyouts and other changes, according to lawmakers. The state's unfunded pension liability across its five retirement systems climbed to \$137 billion as of last June, bond documents show.

On Thursday, Moody's Investors Service, which rates Illinois Baa3, one step above junk, warned that the state is facing an "inflection point" as its pension costs are poised to climb in the coming years, eating up more of the budget. Without changes, like foisting more pension costs on lower levels of government, state spending on pensions, debt and other retirement benefits will climb \$1.3 billion, eating up about 30 percent of revenue next year, Moody's said in an emailed report.

"I don't think just getting a budget passed by the end of the regular session is any sort of accomplishment that's positive for the state's credit," Ted Hampton, Moody's lead analyst on Illinois, said in a telephone interview. "A key point of consideration for us will be whether the enacted budget helps manage or exacerbates the state's long-term fixed cost challenge."

## **Bloomberg**

By Elizabeth Campbell

May 31, 2018

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### **[Illinois' Accounting Practices Deny Investors Transparency.](#)**

**It has been nearly two decades since the state of Illinois had a balanced budget.**

Faced with a mounting debt crisis and growing social unrest, the state is grappling with the very real possibility of being downgraded to junk status. Yet, Illinois' most recent budget deficit ran much smaller than many had expected, raising fresh suspicion over the state's accounting practices.

A study conducted by the Illinois Policy Institute found that state lawmakers employed "cash-based" accounting as a way to mask the true extent of the budget shortfall. The Policy Institute determined that the reported deficit of just under \$8 billion for fiscal 2017 was really \$14.6 billion when factoring in spending incurred in the actual year.

Against this backdrop, investors must be reminded that Illinois' perilous financial situation cannot be concealed or distorted through unethical accounting practices. This is important to bear in mind when weighing the decision to invest in the state's municipal bonds.

[Continue reading.](#)

**municipalbonds.com**

Sam Bourgi

May 31, 2018

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## **Savings From Illinois' Pension Buyout Plan Could Fall Short.**

CHICAGO (Reuters) – Illinois might not be able to bank on all of the \$423 million in much-needed pension savings from a buyout plan included in a fiscal 2019 budget that received final approval in the state legislature on Thursday, government finance experts said.

The budget for the fiscal year that begins on July 1 calls for bond-financed buyouts of pension benefits after past attempts to cut retirement benefits were tossed out by courts on constitutional grounds.

The fact that buyouts would be voluntary raised concerns about the feasibility of the projected savings.

Illinois is struggling with an unfunded pension liability that has climbed to \$129 billion after years of skipped or actuarially inadequate annual state contributions to its five retirement systems. Those contributions are projected to grow from \$8.43 billion in fiscal 2019 to just over \$10 billion by fiscal 2023, according to a state legislative commission report.

Under the buyout plan, current workers could cash in the 3 percent compounded cost of living adjustment (COLA) owed them in retirement for 70 percent of the value and a reduced 1.5 percent COLA. The state would also offer vested former workers 60 percent of the value of their pensions if they choose to end them.

Steve Malanga, George M. Yeager Fellow at the Manhattan Institute, a conservative think tank, called the savings from the buyouts “speculative.”

“Often these buyouts don’t attract as many participants in the public sector as they might in the private sector because of how good the benefits are for government employees,” he said in an interview.

He added that given the “especially generous” compounded 3 percent COLA, only workers urgently in need of money may opt for a buyout of that benefit.

But Republican State Representative Mark Batinick, who has worked on pension buyout legislation for three years, said the plan is based on reasonable assumptions.

“I don’t think the issue with any of this is going to be the (buyout) takers,” he said.

Laurence Msall, president of the Civic Federation, a Chicago-based government finance watchdog, said it was difficult to determine the effectiveness of the plan without an actuarial analysis. He also took issue with the up to \$1 billion of general obligation bonds the state would sell over three years to fund the buyouts.

“The state has had an expensive practice that will continue this year to rely on borrowing to fund the pension buyout,” he said.

MISSOURI PENSION BUYOUTS

So far Missouri is the only state to offer pension buyouts to former workers, according to Keith Brainard, research director at the National Association of State Retirement Administrators. He added he is unaware of any states buying out COLAs.

Of the 17,005 former workers in the Missouri State Employees Retirement System, 3,740 applied for a lump sum payment, resulting in a first-year saving of about \$2.5 million and a projected long-term reduction in state contributions of nearly \$90 million, the pension fund reported in January.

Ted Hampton, a Moody's Investors Service analyst, said the pension buyout and other aspects of the enacted state budget will be evaluated to see if they "really advance the capacity to deal with retiree benefits and debt service long-term, or whether they are primarily a way to provide near-term fiscal relief."

Pensions, along with retiree healthcare and debt service on bonds, will consume 30 percent or more of state revenue in fiscal 2019, Moody's said in a report released on Thursday.

While that is about triple the median level for U.S. states, Moody's warned that reducing statutory pension funding requirements would weaken Illinois' credit rating, which at Baa3 with a negative outlook is just a notch above junk.

Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis

MAY 31, 2018

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## **[Moody's Says State Withholding Harvey Money is "Credit Negative" for all Illinois Municipalities.](#)**

On p. 32 of its new Credit Outlook this week, Moody's notes last week's decision by the Illinois comptroller partially denying the City of Harvey's request for relief from revenue withholding under a state law requiring minimum pension contributions is the latest in a series of events involving Harvey that reinforce strong protections for pensions to the detriment of bondholders, and is thus credit negative for Illinois' local governments. The comptroller's response has important implications for other municipalities in the State of Illinois (rated Baa3/negative outlook) struggling to provide services and pay pensions because it clearly prioritizes underfunded pensions over municipal services.

Harvey is structurally insolvent, with an available fund balance of negative \$56 million, or negative 199% of revenue, as of the fiscal year that ended April 30, 2017. The city has already racked up numerous general obligation bond defaults, missing two debt service payments in fiscal 2016, six in fiscal 2017 and as of February had missed four in fiscal 2018. Harvey historically has underfunded actuarially determined contributions (ADCs) for its public safety pension plans, contributing very little to its firefighter pension fund from 2009-2013, and even its far higher 2017 contribution fell far below the ADC.

Local pension plans in Illinois can request that the state withhold revenue from a sponsoring municipality if that municipality does not make minimum contributions. Harvey's public safety pension funds have made such requests, and the state has withheld more than \$2 million to date. In protest, Harvey warned that it cannot afford to provide essential public services. The city asserts that it will soon be unable to meet payroll, and last month announced layoffs. The state comptroller's office has responded that it has no discretion under state law to consider Harvey's hardship.

Now facing solvency challenges, Harvey's pension funds have won legal judgments that mandate city funding. Following a host of judicial rulings and appeals over the state's revenue withholding, including at the Illinois Supreme Court, the state comptroller's office announced its intention to send \$2.3 million of withheld revenue to Harvey's police pension fund to begin satisfying that judgment.

We estimate that at least 25%, or roughly \$5.4 million, of the city's \$21.9 million of budgeted general fund revenue in fiscal 2017 was eligible for withholding under the comptroller's announced framework. Since the city's two pension judgments amount to nearly \$20 million, it will likely take several years of revenue withholding to retire the obligations unless a court intervenes, a settlement is reached or state law is changed.

Moody's declaration of "credit positive" or "credit negative" does not connote a rating or outlook change. It is indicative of the impact of a distinct event or development as one of many credit factors affecting the issuer.

## **Capitol Fax**

Tuesday, May 29, 2018

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### **Credit Analysts Focus on Substance Over Timing of Illinois Budget.**

CHICAGO — The heat is on for Illinois lawmakers to address the state's financial problems in a fiscal 2019 budget that faces a May 31 deadline for passage with a simple-majority vote, credit rating analysts said on Friday.

Illinois' general obligation (GO) bond ratings, the lowest among the 50 states, are just a notch or two above the junk level, reflecting a huge unfunded pension liability, escalating pension contributions and a chronic budget deficit.

"The question is what progress will the state make, if any, in breaking out of those long-running challenges?" Moody's Investors Service analyst Ted Hampton said in a phone interview. He added that the outcome of the budget process will be more significant than when the process ends.

An impasse between Republican Governor Bruce Rauner and Democrats who control the legislature left the nation's fifth-largest state without complete budgets for an unprecedented two-straight fiscal years. Lawmakers enacted a fiscal 2018 budget and income tax rate hikes over Rauner's vetoes in July, sparing Illinois from becoming the first state with a junk rating.

"Nobody sees the advantage of creating another impasse," said Steve Brown, spokesman for House Speaker Michael Madigan.

Rauner, who proposed a \$37.6 billion general fund budget in February, has been meeting with legislative leaders to try to reach a deal on a spending plan for the fiscal year that begins July 1.

But details are scarce.

"Rank and file members have no idea what the budget is going to look like," State Representative Jeanne Ives, who narrowly lost the March Republican primary for governor against Rauner, said during Friday's House session.

Prospects for tackling the state's \$129 billion unfunded pension liability appear to be slim given bipartisan opposition in the House to Rauner's proposal to shift some pension costs onto school districts.

Constitutional concerns are also clouding chances for legislation Rauner wants to reduce pension costs by giving workers a choice of counting future raises they may receive toward their pensions or receiving retirement payments that include a 3 percent annual cost-of-living increase.

Fitch Ratings analyst Eric Kim said a return to political gridlock that fuels fiscal pressures could trigger a negative rating action for Illinois' GO debt.

Using recently revised criteria, Fitch on Friday downgraded by five notches the rating on \$2.5 billion of Build Illinois sales tax revenue bonds to A-minus. The firm cited too big a spread between the debt's previous AA-plus rating and the state's GO rating of BBB with a negative outlook.

Meanwhile, Illinois' so-called credit spread for 10-year bonds over Municipal Market Data's benchmark triple-A yield scale narrowed in recent days to 190 basis points, signaling easing concerns by investors over the state's debt.

(Graphic: Illinois credit spread January-May 24 - <https://reut.rs/2KVG25c>)

(Reporting by Karen Pierog in Chicago; Editing by Daniel Bases and Matthew Lewis)

By Reuters

May 25, 2018

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## **Fitch Downgrades Illinois' \$2.5B Build Illinois Bonds to 'A-'; Outlook Negative.**

Fitch Ratings-New York-25 May 2018: Fitch Ratings has downgraded and removed from rating watch negative the ratings on the following Build Illinois sales tax revenue bonds of the state of Illinois to 'A-' from 'AA+':

- \$1.41 billion senior obligation bonds;
- \$1.08 billion junior obligation bonds.

Fitch placed the bonds on Rating Watch Negative on April 4 following release of its revised criteria for rating U.S. state dedicated tax bonds. With the annual update to its "U.S. Public Finance Tax-Supported Rating Criteria", Fitch specified more limited situations in which a state dedicated tax security can be rated without regard to the state's general credit quality. Additionally, the revised criteria include detail on circumstances in which a state dedicated tax security, while not considered distinct from the state's Issuer Default Rating (IDR), can nonetheless be treated as stronger than but still linked to the state's general credit risk. In these cases, Fitch limits the rating to no more than three notches above the state's IDR.

Under the revised criteria, the degree of allowable notching above the state's IDR, for those credits that do not meet Fitch's requirements for rating without regard to the state's IDR, is informed by: the breadth of the dedicated revenues (the narrower the better); the nature of the borrowing program (the more specific the better); and the use of residual revenues (the more segregated the



better).

This downgrade is based on a review of the Build Illinois bonds under the revised criteria.

The Rating Outlook is Negative, reflecting the Negative Outlook on the state's IDR, to which the Build Illinois bond ratings are now linked.

## SECURITY

Build Illinois bonds have a first and prior claim on the state share of the 6.25% unified sales tax and a first lien on revenues deposited into the Build Illinois Bond Retirement and Interest Fund (BIBRI). Debt service payments on the junior obligation bonds are subordinate to outstanding senior lien debt service; the senior lien is not closed.

## KEY RATING DRIVERS

**RATING LINKED TO STATE IDR:** Dedicated revenues for the Build Illinois bonds are structurally protected from the state of Illinois' general operations through statutory and bond document provisions, warranting a rating above the state's IDR of 'BBB', Outlook Negative. However, because the bond security includes a statutory pledge of the state share of sales tax revenues, and those revenues flow to state general operations after debt service set-asides, the bonds cannot be rated without regard to the state IDR under Fitch's revised criteria.

**TWO-NOTCH DISTINCTION:** The narrowness of the pledged revenue stream, based on the additional bonds test leverage limitations for the senior and junior liens, and the statutorily defined nature of the borrowing program support a rating two notches above the Illinois IDR.

**ROBUST COVERAGE AND RESILIENCE:** Debt service coverage on both the senior and junior lien bonds from the state share of sales tax revenues (pledged revenues) is very high. Given the legal leverage limitations, pledged revenues can sustain a significant level of decline and still maintain ample debt service coverage on both the senior and junior liens. This is consistent with a 'aaa' assessment of resilience through economic declines.

**MODEST GROWTH ANTICIPATED:** Illinois' economic performance, while positive, has lagged that of the U.S. as a whole and Fitch anticipates pledged revenues will grow essentially in line with inflation. This is consistent with a 'a' assessment for pledged revenue growth prospects.

## RATING SENSITIVITIES

**STATE IDR LINKAGE:** The ratings on the Build Illinois bonds are sensitive to changes in the state of Illinois' IDR, to which they are linked.

**PLEDGED REVENUE TRENDS:** The ratings are also sensitive to the performance of sales tax revenues and resulting debt service coverage, although the state IDR linkage currently limits the rating to well below what an analysis of the pledged revenue stream alone would support. Limits on additional debt issuance that require very high historical coverage provide significant cushion against revenue declines.

## CREDIT PROFILE

Illinois is a large, wealthy state at the center of the Great Lakes region. It benefits from a diverse economy centered on the Chicago metropolitan area. Illinois' economy has gradually shifted, similarly to the rest of the U.S., away from manufacturing to professional and business services. The remaining manufacturing sector is less concentrated in the auto sector than surrounding states but remains vulnerable to cyclical downturn. By most measures the economy has grown slower than the



nation for many years, and population levels have been stagnant.

Build Illinois bonds are secured by a first priority pledge of the state share of sales tax revenues (80% of total state sales tax revenues) up to the amounts needed annually to meet debt service requirements, as well as a lien on the moneys in the fund (BIBRI) that receives monthly transfers of the state share of sales tax revenues. The state sales tax rate has been 6.25% since 1990 and the state share is defined statutorily as 80%, or 5% out of the 6.25% levy. The state share was \$8.5 billion in fiscal 2017 (essentially flat with 2016), providing 26x coverage of annual debt service on aggregate debt, including the junior obligations. Debt service declines steadily each year.

Certain of the Build Illinois bonds authorized by legislation enacted in July 2009 also benefit from revenues deposited in the state's Capital Projects Fund. These revenues include sales taxes levied on candy and grooming products, and on certain beverages. Ultimate security for these bonds is the same as all other Build Illinois bonds and Fitch's analysis focuses on the pledge of the more significant state share of sales tax revenues.

#### LINKED TO STATE IDR

To rate a state dedicated tax security above the state's IDR, dedicated revenues must be structurally insulated from the state's general financial operations. Strong legal provisions for the Build Illinois bonds establish a flow of funds where the state share of sales tax revenues (pledged revenues) is segregated from Illinois' general operations to first meet requirements under the Build Illinois bonds' master indenture, including for debt service. This structure enhances the prospects for full and timely payment, allowing for a rating above the state's IDR, but does not meet Fitch's criteria for rating without regard to the IDR.

As there is no bankruptcy framework available to U.S. states, evaluation of the prospects for varying security structures at a time of fiscal distress is by necessity somewhat judgemental. Absent a bankruptcy framework, the primary limit on state action and source of protection for state bondholders is the contract clause of the U.S. constitution and equivalent clauses in state constitutions. Although contract clause protections under federal and state constitutions restrict the ability of a state government to impair its obligation to pay bondholders from dedicated tax revenue, the judicial interpretations of the contract clause indicate that it does not impose an absolute constraint. One of the key legal tests of whether a contract can be impaired is whether the impairment is necessary and reasonable.

Given this legal backdrop, under the revised criteria, the only cases in which Fitch can rate a state dedicated tax bond distinct from and without regard to the state IDR are rare situations where Fitch believes that the nature of the dedicated revenue stream or the legal structure render remote the possibility of a successful impairment argument. The security must be very clearly segregated from state operations and have no nexus with general state functions. Examples include bonds issued to fund state unemployment compensation and worker's compensation systems.

#### STRONG LEGAL PROVISIONS

In the Build Illinois Bond Act and the 1985 master indenture for the Build Illinois bonds, the state pledges and establishes a first and prior claim on the state share of pledged revenues for payment of the bonds. The pledge is limited to the greater of the amount necessary to meet annual debt service requirements, or 3.8% of the state share – the indenture defines this amount as the Required Bond Transfer and this has been the 3.8% of pledged revenues since fiscal 2013. The Act and the indenture require the State Treasurer and Comptroller to make monthly payments of the greater of 1/12th of 150% of the certified annual debt service or 3.8% of the state's share of sales tax revenues to the trustee.

The Act serves as an irrevocable and continuing appropriation and provides irrevocable and continuing authority for the Comptroller and Treasurer to make these monthly payments, as directed by the Governor. Under the Act and Indenture, the state also covenants not to impair the rights of bondholders, and specifically not to limit or alter the basis of the pledged revenues.

## TWO-NOTCH DISTINCTION

The Build Illinois bond structure warrants a rating two notches higher than the state's IDR given the narrowing of the dedicated revenues through the additional bonds tests (ABT) and the specific nature of the borrowing program. The open-ended use of residual revenues for general state operations keeps the rating below the maximum three notches above the state's IDR allowable under Fitch's criteria.

While the state share of the sales tax revenues is a broad revenue source, the leverage limitations imposed by the senior and junior liens' ABTs' significantly narrow the scope of the dedicated (pledged) revenues. At full leverage under the ABTs, 9.8% of the state share of sales tax revenues would be used for debt service.

Specific uses for Build Illinois bond proceeds are defined in the Act. While the four defined uses are broad, the Act also explicitly lists specific projects or types of projects to be funded with Build Illinois bond proceeds. The state has targeted its use of the Build Illinois program with bond proceeds primarily used by three agencies (Department of Commerce and Economic Opportunity, Department of Natural Resources, and the Environmental Protection Agency) and for smaller economic development projects. The state has not used the program for general capital borrowing.

The state share of sales tax revenues in excess of the annual Required Bond Transfer is available for general operations. Sales tax revenues are a key revenue source for Illinois' general operations, comprising between 25%-30% of annual general fund revenues in most years. The recent increase in income tax rates will reduce the portion of general fund revenues derived from sales tax revenues, but they will remain significant. Also the indenture permits the state to transfer excess pledged revenues at the end of each fiscal year to its general fund. The state reports that \$2.5 million is typically kept within the indenture with any amounts above this transferred to the general fund. Between fiscal 2015 and 2017, the state transferred an average of approximately \$125 million of excess pledged revenues to its general fund.

## EXCEPTIONAL RESILIENCE OF PLEDGED REVENUES

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers the results of the Fitch Analytical Sensitivity Tool (FAST), using a 1% decline in national GDP scenario, as well as assessing the largest decline in revenues over the period covered by the revenue sensitivity analysis.

Based on a 15-year pledged revenue history, FAST generates a 3% scenario decline for the state share of sales tax revenues in the first year of a moderate economic downturn. The largest peak-to-trough historical decline was 12% between fiscal 2008 and 2010.

Additional bonds tests require debt service be no more than 5% of the state's prior year sales tax receipts to issue senior lien bonds and 9.8% to issue junior obligation bonds; this effectively requires 20x coverage to issue senior lien bonds and 10.2x coverage to issue junior obligation bonds. With issuance up to the 10.2x ABT for junior lien bonds (the maximum legal leverage on the pledged revenues), the state share of sales tax revenues could withstand a 90% decline - equivalent to 31x the projected decline in Fitch's scenario of a moderate economic downturn and 7.5x the largest historical peak-to-trough decline - and still cover maximum annual debt service. This is an

exceptional level of resiliency.

## MODEST GROWTH IN REVENUES

With a relatively slowly growing state economy, Fitch expects pledged revenues will grow essentially in line with inflation. Sales tax revenues are economically sensitive, as illustrated by the cumulative 12% decline during the Great Recession. Revenue performance was more robust after the end of the Great Recession. But growth has tailed off recently and fiscal 2017 collections were roughly equal to fiscal 2015. The state reports that the current softness is caused in part by lower gasoline prices. The state levies its sales tax on gasoline as a percentage of the per-gallon price. Over the past decade and including the Great Recession, average annual growth in pledged revenues has been 1.4%, just below inflation. Fitch anticipates pledged revenues will grow modestly on a real basis over the long term.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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## **Puerto Rico Update: Bond Insurers Leading A Divided Charge.**

Another courtroom battle is shaping up between holders of the Puerto Rico Sales Tax Corp (COFINA) bonds and Puerto Rico general obligation bonds. At stake are who has the first claim on the sales tax revenue, one of the few reliable revenue sources dedicated to bond service. The issue arises because the government has not guaranteed the COFINA bonds in a way that puts them on par with GO obligations. The issue is particularly critical to the bond insurers who differ on their exposure to the two issuers. AMBAC has insured some \$7.3 billion and MBIA some \$4.2 billion of

COFINA bonds representing 75% of AMBAC's and 49% of MBIA's total exposure in Puerto Rico. Hence, a ruling that favors the GO bondholders could be devastating to AMBAC and windfall to Assured Guaranty (AGO) which has greater GO bond exposure. Some \$26.3 billion of Puerto Rico's \$73 billion in bonds carry monoline bond insurance, so all the carriers face serious write offs no matter who wins, however, the AMBAC exposure appears the most crippling. The total exposures are \$8.5 billion for AGO, \$9.7 for AMBAC and \$8.5 billion for MBIA. While this battle takes shape COFINA has also gone into court to obtain relief from its \$17 billion bond obligation through a mandatory reduction of the principal amount.

On another front, Governor Ricardo Rossello has thrown out a projection of a 70% to 90% recovery for island GO bondholders if all goes well over the next decade. This projection is more motivated by his power struggle with the oversight board, which wants deeper cuts in the Governor's budget, than by economic realities. The facts in support of any such projections would lead one to a different conclusion. The islands debt burden from bonds and pension obligations total some \$123 billion. Divide this by a population of 5.3 million and you get an average debt burden per person of \$35,142. Consider this in the light of a population where almost half live in poverty and the average income is \$19,350 making the average debt burden 181%. Compare this to the USA where we worry about a 20 trillion national debt which works out to about \$55,500 per citizen. Compared to an average income of \$53,800 means we have a much lower average debt burden of only 103%. Oh, but I forgot to include our unfunded social security and Medicare obligations of at least another, say, \$10 trillion? That would kick our average person debt burden up to 155%. Is that scary or what? Maybe those worrying about our unsustainable debt growth aren't so far off.

The economic hard facts are that, while a few select bondholders with better collateral may possibly achieve a 70% recovery, the average for the rest will likely achieve no more than 15%. This will be done in stages as agreements are reached which are unachievable but have to be dealt with by other than the current participants. A few years later the next generation gets to redo the agreements, blaming the incompetence of their predecessors and the inability to see into the future or anticipate the next hurricane. Isn't a Puerto Rico moment what politicians of all stripe are facing? Isn't that what's going on with those tobacco bonds or unfunded state and municipal pension promises? Yet the market must go on and we all play musical chairs without recognizing that high coupons on bonds mean a lower chance of getting your principal back. Want proof? Our Distressed Municipal Debt database, which contains over 4,000 defaults shows an average coupon rate since 1983 of 8.03%. So when you see yields of 8%, recognize that when they default, the average recovery was 8.7 cents on the dollar.

## **Forbes**

Richard Lehmann, Contributor

MAY 26, 2018

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### **[Fitch: Budget Impact of Marijuana Legalization Modest for NYC.](#)**

Fitch Ratings-New York-24 May 2018: The potential budgetary impact of legalizing marijuana for recreational use in New York State would be modest for New York City with no impact on credit quality, according to Fitch Ratings. Fitch expects the decision to legalize in New York State, which as a whole would also see modest revenue gains, will be based on political and public policy considerations rather than budgetary ones.

A recent report by New York City's Comptroller estimates the legal adult-use marijuana market at \$3.1 billion in New York State, including \$1.1 billion in New York City. The \$336 million in annual tax revenue to New York City estimated by the comptroller represents 0.3% of fiscal 2019 budgeted revenues of \$89 billion. The budget, which does not assume legalization for recreational use, includes \$100 million in excise taxes from medical marijuana, which has been legal since 2014. Fitch expects any increased receipts would take time to become fully realized. If legalization is approved by the state, many details would remain to be worked out, including which elements to tax and at what rate.

The comptroller also estimates a \$36 million savings from reduced misdemeanor arrests if legalization is approved, although the mayor has already announced an order for the New York Police Department to stop making marijuana-related arrests and the Manhattan district attorney announced that his office would no longer prosecute most marijuana-related cases.

As Fitch noted in "U.S. States Experiment with Cannabis Legalization," (August 2017) states have taken a variety of approaches to cannabis legalization (Fitch uses the broader term cannabis to refer to both marijuana, which typically connotes the dried form of the plant used for smoking, as well as oils and other formulations derived from the same plant). Eight states and the District of Columbia have legalized cannabis use for adults for nonmedical purposes, and another 22 have legalized it for medical purposes only. Taxes on nonmedical cannabis vary greatly, reflecting a range of both tax rates and the elements that are taxed. Some states tax based on price, with others based on weight, and taxes can be levied on producers, retailers and/or customers.

The New York City comptroller report's estimate of \$336 million in annual taxes, which is based on surveys of marijuana use and sales per user in states that have already legalized recreational marijuana, equates to a tax rate of 30%, which is sizable but in line with the effective tax rates estimated by Fitch in its review of states that already have legalization for recreational use. States with high effective tax rates may see legal sales shift back to black markets over time, especially if neighboring states legalize with lower effective rates. Price declines over time could also result in reduced tax revenues if the tax is tied to price.

Neighboring states New Jersey and Connecticut are also considering legalization for recreational purposes. Legislators in all three states have proposed bills, and the new governor of NJ made legalization a campaign promise.

In our earlier report, Fitch noted the need for flexibility in implementing new laws, as they may not achieve the expected goals within the anticipated timeframe. Obstacles to successful legalization include state restrictions on cultivation, distribution and sales, which may conflict with other policy goals.

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## **Fitch: California Solar Rule Neutral for Resi, Power Issuers.**

Fitch Ratings-New York-22 May 2018: California's potential building requirement for many types of new residential construction to include solar panels will have a limited credit effect on public power issuers, homebuilders and the housing markets in the state, Fitch Ratings says. If the requirement is implemented, it will be an incremental component of a broader regulatory trend for which Fitch-rated issuers have prepared. California building code already requires all new residential construction to be zero net energy (ZNE) by 2020 and all commercial buildings to be ZNE by 2030. The lack of new construction in California will lower the impact on house prices.

We do not expect the building requirement to have a material effect on public power issuer ratings. The requirements are consistent with the ongoing trend toward greater energy efficiency and reduced per capita electricity consumption in the state. Public power utilities have been planning for, and adapting their long-term supply strategies to, responding to this trend.

Furthermore, many Fitch-rated public power issuers are in built-out communities with modest levels of new home growth. Those in higher growth areas, such as Roseville, already factored the much greater energy efficiency of new homes into their load forecasts.

We do not expect the mandate to install solar panels to meaningfully affect prices of existing homes in the state. Sales of new homes account for a smaller portion of homes sold in California. The incremental cost of installing solar panels is relatively marginal to the buyers of homes in the state, where home prices are already high to begin with. However, higher interest rates and increasing home prices in recent years, combined with the additional cost of installing solar panels, will likely continue to erode affordability for new homes in the state, particularly for entry level/first-time homebuyers. Nevertheless, the total cost of homeownership is likely to go down with lower monthly energy costs. California is one of the largest states, in terms of new home construction, with new home permits in the state accounting for about 9% of the U.S. total in 2017.

Homebuilders in the state have already begun marketing roof top solar features and changed practices to comply with ZNE codes, although adoption has been relatively limited, as most homebuyers have not been willing to pay for the added cost. The requirement to install solar panels could exacerbate the already tight construction labor market. Thus, the large public homebuilders rated by Fitch are well-positioned for the change, as these builders generally have better access to labor and materials due to scale. We expect homebuilders not marketing solar features to have ample time to do so, as the rule would not go into effect for two years. There is a small risk solar panel installations rise quickly, creating supply pressures that raise prices and slow down construction. This risk would be higher if states such as Nevada, Texas and Florida adopt similar building standards.

On May 9 the California Energy Commission voted to adopt the building standards beginning in 2020. The standards still need approval from the California Building Standards Commission. In addition to solar panels, the standard includes requiring residential and commercial buildings to have updated attic insulation and commercial buildings to conform to more energy efficient lighting

standards. The standards would apply to apartment buildings of 1-, 2- and 3-stories and single-family homes.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[Florida Cities Are Most at Risk From Climate Change, Report Says.](#)**

- **Miami Beach most exposed city in the U.S to climate change**
- **Four Twenty Seven developed new climate change risk index**

The picturesque Florida cities of Miami Beach and Sarasota carry high investment-grade credit ratings and are popular travel destinations. They're also two of the most exposed U.S cities to climate change in the country, according to a new analysis by advisory firm Four Twenty Seven.

The Berkeley, California-based firm has developed an index surveying 761 cities' and 3,143 counties' exposure to sea level rise, water stress, heat stress, cyclones and extreme rainfall based on analysis of changes between current and future conditions. It found that communities in Florida are the most susceptible to climate change risks, with Miami Beach being the most exposed city and Manatee County being the most-exposed county.

The data will help investors, ratings companies and local governments better evaluate the issue, said Frank Freitas, chief development officer at Four Twenty Seven. "We're hoping that municipalities and investors can engage in conversations that see market support for initiatives that foster resilience going forward, just like we've seen investors engage with companies in equity markets on

ESG and climate risk,” Freitas said.

The \$3.9 trillion municipal-bond market has been slow to take climate change risks seriously, said Nicholas Erickson, assistant vice president of portfolio management at Sage Advisory Services. But the hurricanes that battered Florida, Texas and Puerto Rico last year show how significant weather-related events could be for local economies, he said.

“It could have a huge impact,” he said.

Investors have pushed credit-ratings companies to give them more of a warning about environmental risks. Moody’s Investors Service and S&P Global Ratings say they incorporate environmental risks in their ratings through their analysis of factors such as leaders’ preparedness for weather events. Even so, rating methodologies for states, local governments and utilities don’t “explicitly” address climate change as a credit risk, Moody’s said in a report last year.

For Florida cities and counties, home values could suffer as a result of the risks of cyclones and flooding, which could in turn hurt property-tax revenue that governments rely on, the Four Twenty Seven report said. In order to address water shortages or droughts, water utilities may have to spend more on infrastructure or their customers may have to pay more in fees, it added.

Charleston, South Carolina, and Virginia Beach, Virginia, topped the ranking for cities susceptible to severe hurricanes and typhoons in the future. Heat stress, which measures the frequency and severity of hot days and average temperature, was found to predominantly affect the Southeast and Midwest.

Freitas said he hopes the firm’s findings don’t cause investors to avoid investing in projects out of the most exposed places to climate change. “Understanding risk is the first step toward helping people invest in resilience as well,” he said.

## **Bloomberg**

By Amanda Albright and Danielle Moran

May 22, 2018, 4:00 AM PDT

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### **[S&P: Colorado SB 18-200 Outlines A Path Toward Pension Funding; Is It Enough?](#)**

DALLAS (S&P Global Ratings) May 21, 2018 – On May 9, Colorado’s legislature passed Senate Bill 18-200, which outlines adopted changes to the state’s pension system to restore to full funding within 30 years. The governor has not yet signed the law.

[Continue Reading](#)

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### **[S&P Medians And Credit Factors: Virginia Local Governments.](#)**

Local government (LG) ratings in the Commonwealth of Virginia remain strong and stable characterized by low unemployment, high income and wealth levels, and strong budgetary



performance, often supported by formal financial policies and regular budget monitoring.

[Continue Reading](#)

May 23, 2018

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## **L.A. Metro Boosts Disclosure With New Investor Website.**

The Los Angeles County Metropolitan Transportation Authority launched a new investor relations website Thursday.

The site is powered by BondLink, a Boston-based firm that has been rolling out new municipal bond investor websites regularly since Colin MacNaught, a former Massachusetts deputy treasurer, created the company in 2016 with Chief Technology Officer Carl Query.

The new website comes just months after Metro unveiled a \$5 billion capital plan with a long list of projects it wants to complete before the city hosts the 2028 Summer Olympics and Paralympics. The Twenty-Eight by 28 plan is aimed at completing 28 major road, transit and bicycle projects before the event.

“We are excited to work with them; they have a robust capital program, good management and they are an active credit and issuer,” said Colin MacNaught, BondLink’s co-founder and chief executive officer.

The company has created investor websites for issuers across the country. In California, it created websites for the state government, the Port of Los Angeles and West Basin Water District and hopes to launch two more California websites next week.

The websites provide a portal for issuers to share status updates on projects funded by bonds or quarterly cash reports, and allows investors to sign up for custom alerts. The Metro website will provide access to more than 10,000 documents including information on bond sales, credit ratings and investor resources.

BondLink’s websites enable issuers to provide more frequent disclosure to investors, which besides accomplishing the Government Finance Officers Association’s best practices goals, also attracts a broader swath of investors, MacNaught said.

“Academic research shows that more timely disclosure can lower borrowing costs for issuers,” MacNaught said.

Metro remains committed to minimizing borrowing costs in its capital finance program, Metro Treasurer Donna Mills said in a statement.

“This new website will enhance our investor outreach and improve our disclosure and transparency in the capital markets,” Mills said.

Given the size of its capital program, even a small increase in demand for the bonds would lower borrowing costs significantly, MacNaught said.

“California is such a big market and retail plays such a big part of that bond market,” MacNaught said. “Providing a really convenient investor platform for issuers like Metro and the Port of Los

Angeles is a big benefit for bond investors including retail.”

BY SOURCEMEDIA | MUNICIPAL | 05/24/18 07:05 PM EDT

By Keeley Webster

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## **S&P: California's Tax Increment Bonds Prove Increasingly Resilient; Sector Trend Is Stable To Positive.**

In 2018, S&P Global Ratings expects California’s tax increment bond quality to remain stable to positive, supported by assessed valuation (AV) that is on the upswing, limitations on additional debt, and a stable legislative landscape.

[Continue Reading](#)

May 16, 2018

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## **Chicago Schools Double Bond Sale as Rates Head Higher.**

- **Board of Education sold \$561 million of G.O. refunding bonds**
- **Demand for yield, rate hike outlook seen as reason for change**

The Chicago Board of Education doubled the size of its bond sale Thursday to \$561 million amid signs of strong demand for the junk-rated district’s high-yielding securities.

The offering, which was initially planned for next week until officials moved it up, is the first this year for the nation’s third-largest school district and was increased from the \$260 million initially scheduled. Because of its chronic fiscal strains, the system’s uninsured bonds carried yields that were 1.93 percentage point to 2.24 percentage points more than top-rated securities, with debt backed by Assured Guaranty Municipal Corp. offered for as much as 1.35 percentage point over the benchmark, according to a repricing note sent to an investor.

The acceleration of the district’s bond sale came after yields rose this week amid concern that the Federal Reserve may raise interest rates more aggressively than previously anticipated.

“There’s a consensus that on the horizon there’s not a lot of yield coming, and so buyers are certainly putting their money to work,” Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago, said in a telephone interview. “For an institution that needs capital in a rising interest rate environment, you want to raise as many dollars as you can at this cost of capital — it could be more expensive down the road.”

High-yield bonds have been one of the few bright spots in the municipal market this year, delivering returns of 1.9 percent despite the losses posted by most securities, according to Bloomberg Barclays indexes. Prices on the Chicago district’s debt have rallied over the last year, reflecting the significant step-up in state aid for a system that had long been in fiscal crisis largely due to its escalating pension bills.

This month, the most-actively traded Chicago Board of Education debt traded at an average price of

\$1 at a 4.96 percent yield, compared to 79.6 cents at a 7.3 percent yield in May 2017, according to data compiled by Bloomberg.

In August, lawmakers and Governor Bruce Rauner overhauled Illinois's school funding formula, making the state pick up the normal cost of Chicago's teacher pensions, a major expense for the cash-strapped district. That change, along with a hike in other state aid and property taxes, means Chicago schools have an additional \$444 million of revenues, according to bond documents.

The state now covers \$221 million of normal pension costs for Chicago schools and provides an additional \$93 million in other state funding, according to bond documents. The district also enacted a \$130 million property-tax levy for pensions, according to an online presentation to investors.

"CPS is on the hook for a lot less of their pension burden than they have in the past, and there's a number of other funding sources that are offsetting that risk," said Dennis Derby, a portfolio manager at Wells Fargo Asset Management, which holds \$39 billion of municipal debt, including Chicago school bonds. His firm is considering buying Thursday's deal. "The market reception is significantly better than it was two years ago because there's less uncertainty tied to funding going forward."

It's a more positive story than a year ago, but still there's a lot of pension debt to fund, said Dan Solender, head of municipal investments at Lord Abbett & Co., which holds \$20 billion of state and local debt, including some issued by district. The Chicago teachers' pension fund is about 50 percent funded, leaving an unfunded liability of about \$10.9 billion, according to bond documents.

"They're telling an improving story," Solender said in a telephone interview. "They still have a lot to do to really improve themselves to get out of the below investment grade category."

Another risk is the board's reliance on the fiscally-stressed state of Illinois that faces ongoing political squabbles over its budget. Rauner, a Republican who is facing re-election this year, proposed a spending plan in February that ends the state's pension pickup of CPS's normal pension costs. Democrats have resisted Rauner's plan, and it remains to be seen what budget, if any, Illinois leaders will approve for the year that starts July 1.

In April, S&P Global Ratings revised its outlook on the board to positive from stable, citing the jump in state aid, but the board is still rated B, five steps below investment grade, partly due to its "extremely weak liquidity," according to S&P.

There's no question that this year is different for the board. Ending the school year early, canceling summer school and slashing school spending were all floated as options for the district in 2017 as it struggled to make its June 30 pension payment.

"A large part of it is the credit outlook for CPS is substantially better than it was even just a year ago," Derby of Wells said. "And management has done a commendable job in getting their message across to investors."

## **Bloomberg**

By Elizabeth Campbell

May 17, 2018

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## **S&P: Pension Pressures For Illinois Municipalities Could Become An Imminent Budgetary Challenge Under The State's Revenue Intercept Law.**

Invoking a statute designed to compel Illinois municipalities to fund their public safety pension plans according to statutory minimum levels, pension boards in the cities of Harvey (not rated) and North Chicago (A/Stable) recently petitioned the state comptroller to intercept state revenues due to the municipalities.

[Continue Reading](#)

May 14, 2018

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## **Chicago Schools Sell Upsized Bond Deal Ahead of Schedule.**

CHICAGO, May 17 (Reuters) - The junk-rated Chicago Public Schools (CPS) on Thursday more than doubled a planned bond refinancing issue to \$561 million and accelerated its pricing amid rising rates in the U.S. municipal market.

The district had initially sized the issue at \$260 million and set a tentative pricing date for next Tuesday through senior underwriter Loop Capital Markets.

"I guess they are taking advantage of the market while rates are increasing," said Daniel Berger, Municipal Market Data's (MMD) senior market strategist.

The 10-year bond yield on MMD's benchmark triple-A scale has climbed 10 basis points since Monday.

There was no immediate comment from CPS on the bond pricing.

Yields in the deal topped out at 4.95 percent for general obligation bonds due in 2035 with a 5 percent coupon, according to a repricing released by underwriters. Insurance by Assured Guaranty Municipal Corp on an additional 2035 maturity produced a lower yield of 4.05 percent.

Spreads over MMD's scale ranged from 193 basis points to 224 basis points for uninsured bonds and were as high as 135 basis points for insured bonds.

Escalating pension payments have led to junk credit ratings, drained reserves and debt dependency for CPS, the country's third-largest public school system.

School officials have touted an improved financial outlook under a new Illinois school funding formula enacted last year that boosted the flow of state funding to CPS by \$450 million.

The district still has an "extremely weak cash position," according to S&P Global Markets, which last week rated the bonds at 'B' with a positive outlook.

The sale came a day after the Illinois State Board of Education placed the district's special education services under supervision after finding some CPS policies and practices violated a federal law protecting disabled children's right to a free and appropriate public education.

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## **WV Governor Announces Bond Sales and Investor Relations Website**

Charleston — As the state prepares to put up for sale about \$800 million in general obligation bonds for larger projects of the Roads to Prosperity program, Gov. Jim Justice announced the creation of a bond sale and an investor relations site.

Found at [investorrelations.wv.gov](http://investorrelations.wv.gov), the governor said the bonds carry a strong rating by Moody's S&P Global Ratings and Fitch Ratings and have maturities ranging from one to 25 years.

Among the information housed on the site is a list of West Virginia bond offerings, the state's credit ratings and a step-by-step process to purchasing West Virginia bonds.

A frequently asked questions (FAQ) on the site answers such questions as:

What is a State of West Virginia General Obligation bond ("GO bond")? Do GO bonds require voter approval? What is a Revenue Bond? What is a Lease Revenue Bond? What are key factors in pricing municipal securities? What are Credit Ratings? What does it mean when a bond or note is taxable? What is a preliminary official statement (POS)? What is the pricing/sale date? What is the difference between a competitive and negotiated sale? A news release said West Virginia residents can purchase tax-exempt bonds by contacting one of 15 firms in the underwriting syndicate and selling group led by Bank of America Merrill Lynch. Bonds may only be offered through a preliminary official statement and be purchased through a registered broker.

"These bonds are part of a program that will finance over \$2 billion in road infrastructure improvements," Justice said in the release. "The projects will rebuild and reconstruct West Virginia's aging roads and bridges as well as starting up several new highways projects. This is your chance as a West Virginian to invest directly in the Mountain State's future, and help move our state forward for generations to come."

By Andrea Lannom

**Register-Herald**

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## **City of Billings Sued Over Franchise Fees in Utility Bills.**

A complaint is filed in Yellowstone County District court claiming franchise fees collected by the City of Billings on water and garbage utility bills are illegal.

The contention comes after the state Supreme Court struck down similar fees in the past.

The 15 page complaint is filed in Yellowstone County Court on the behalf of six Billings Public Works utility customers.

The complaint is seeking class action status which would up the number of plaintiffs from six to over 30,000.

“Billings residents sue the city of over utility franchise fees.”

That’s the headline in today’s edition of the Yellowstone County news.

A copy of the complaint shared with KULR-8 argues that these franchise fees are actually an illegal sales tax.

The franchise fee is listed under current charges standard utility bill.

The City of Billings outlined what the “franchise fees” are for and where they go in the “rules and regulation governing water and waste water services” published in February of 2009

Section 1611 states that the utility shall pay all money collected from franchise fees to the city of billings for use of its rights-of-way to install water/waste water lines. such money shall be deposited in the general fund.

This is where the complaint takes issue.

The plaintiffs argue the city’s “franchise fees” are not reasonably related to the city’s cost of providing water, sewer, and garbage disposal services.

This is because the general fund is used to support the general administrative costs of the city and other services provided by the city, including but not limited to public safety, municipal court, parks, recreation and public lands, and city finance costs.

The complaint asks the court to prevent the city from collecting future franchise fees and repay customers who have paid the fee over the last eight years.

That could be a hefty fee for the city in the neighborhood of \$15 million.

Breaking that number down, the average customer could see roughly \$30 returned to them after court costs are assessed.

Now again all that is only comes if a judge grants class action status in this case.

We did reach out to the city for comment.

City Administrator Bruce McCandless couldn’t comment on the complaint as he has not been served with it yet.

However, he did say that this past march council members did request the franchise fee be removed from utility bills during the next fiscal year.

By Mary Jane Belleza

May 17, 2018

**KULR**

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**[Congress Was Just Handed a Blueprint for Solving Puerto Rico’s Debt Crisis.](#)**

A recent report concludes that the factors that contributed to Puerto Rico's debt crisis were inadequate management and oversight practices by the government. This included poor policy decisions by government leaders with regards to public debt financing and public pension funding, and a prolonged economic contraction, which has cut across all economic sectors in the island. Puerto Rico has an estimated \$70 billion in public debt and close to 50 billion in unfunded liabilities.

In summary, General Accountability Office (GAO) report recommendations released May 9 include:

- modifying the federal tax exempt status for Puerto Rico municipal debt
- applying federal investor protection laws to Puerto Rico
- modifying the Securities and Exchange Commission's (SEC) authority over municipal bond disclosure requirements

From a practical point of view these recommendations may seem untimely. The government of Puerto Rico is currently under the jurisdiction of a congressionally mandated oversight board and in bankruptcy-like proceedings in the Federal District Court. The government also will not have access to the municipal bond markets for the foreseeable future,.

It should be noted that Rep. Nydia Velázquez (D-N.Y.) recently presented H.R. 1366 to amend the Investment Company Act of 1940 to protect mutual fund investors in Puerto Rico as other American citizens in the mainland. The House approved the bill with bipartisan support. In the previous Congress, the bill had also been approved by the House, but was blocked by the Senate.

This report comes on the heels of a series of pronouncements made in the last few weeks by various congressional members on Puerto Rico's financial crisis and political future.

Just last week Rep. Rob Bishop (R-Utah) as chairman of the House Energy and Natural Resources Committee, declared that he favored statehood for Puerto Rico. Sen. Bill Nelson (D-Fla.), who is up for reelection in the 2018 midterm elections, declared he would favor statehood if Puerto Ricans asked for it, apparently ignoring that in the last two local plebiscites the statehood alternative won.

Florida's Republican Gov. Rick Scott, who is running against Nelson for the Senate seat, also declared that he favors statehood for Puerto Rico. As a political commentator ironically noted, it would appear that the next elected Florida senator will also represent Puerto Rico.

On the other hand, both Sens. Marco Rubio (R-Fla.) and Lisa Murkowski (R-Alaska) have argued that statehood for Puerto Rico is not currently on the discussion table, and that economic and financial recovery are the main concerns. Of course, statehood and economic and financial recovery are not mutually exclusive, and it is possible to address both simultaneously.

In fact, GAO'S recommendations on modifying the federal tax exemption enjoyed by Puerto Rico municipal bonds silently underlines the status question. It is precisely because Puerto Rico is an unincorporated territory — belonging to, but not a part of the United States.

As a matter of constitutional law, any other stateside municipal bond which hypothetically enjoyed a federal tax exemption would run afoul of the Uniformity Clause. This is the same issue that was raised by the December 2017 amendments to the Federal Tax Code, which classified Puerto Rico as a foreign jurisdiction for purposes of imposing a 20 percent taxation rate on American Controlled Foreign Corporations earnings at the time of entering the United States.

The GAO report is correct in pointing out that Puerto Rico's current fiscal and economic woes are due to the mismanagement by elected officials in Puerto Rico throughout the years.

Puerto Rico's government addiction to public debt financing, concurrent with a private sector dependent on federal and territorial tax incentives, has until recently benefited the financial goals of investors, manufacturers, and certain political sectors in Puerto Rico at the expense of long-term stability and growth.

As to be expected, the GAO report studiously avoids making any political or constitutional recommendation. Historically speaking Congress shoulders some of the responsibility by statutorily facilitating this state of affairs. In this context, PROMESA is a belated recognition by Congress that the unincorporated territorial model for Puerto Rico is spent.

Only when the political underpinnings of the current relationship between Puerto Rico and the United States are addressed can real progress be achieved on the social and economic fronts. Congress should act on GAO's recommendation as a step in the right direction, formally incorporating the territory of Puerto Rico, and treating in all matters it as any other state jurisdiction.

THE HILL

BY ANDRÉS L. CÓRDOVA, OPINION CONTRIBUTOR — 05/14/18

*Andrés L. Córdova is a law professor at Inter American University of Puerto Rico,, where he teaches contracts and property courses. He is also an occasional columnist on legal and political issues at the Spanish daily El Vocero de Puerto Rico.*

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## **[Seattle Wanted to Break Up With Wells Fargo. Then It Committed to Three More Years.](#)**

Breaking up is hard — especially if you're a city trying to break up with a bank.

Especially if the other banks aren't all that interested in dating you.

That's more or less why Seattle just signed a three year extension to keep banking with Wells Fargo, even though officials voted a year ago to cut ties with the bank because of its role in funding the Dakota Access Pipeline.

The city council resolved to find a new financial institution before ending the Wells Fargo contract at the end of 2018. But this week, City Finance Director Glen Lee gave them an update on the search for a bank.

"The reality is, none wanted to participate and bid for our services, and given the time it takes to shift to a new service, we felt it was prudent for the city to move forward," Lee said.

Lee said some banks offered to run certain services, but none applied to handle the city's lending and deposits. Wells Fargo provides lending and deposit services for the city, processing about five-billion dollars a year in city finances.

Since no other bank applied, Seattle will bank with Wells Fargo for three more years.

In the meantime, city staff are studying the idea of a municipal bank, which Lee said Mayor Jenny Durkan supports. That idea was proposed at the state level in the past, but never gathered steam.



City staff want to hire a consultant, possibly in conjunction with other Washington cities, to set up a public bank.

Cities such as San Francisco and L.A. have also considered municipal banking, but only North Dakota and Native American tribes currently have their own banks.

Environmental activists and Native American leaders in the region celebrated last year's decision by the Seattle City Council. Under the ordinance approved last year, the city of Seattle will not work with any business that engages in unethical business practices.

The council voted to stop banking with Wells Fargo because it's a lender for the Dakota Access Pipeline — and because of a scandal last year in which accounts were set up for clients without their knowledge. More than a dozen banks are connected to the pipeline, including CitiBank, I-N-G, Chase and Bank of America.

KUOW

By PAIGE BROWNING | MAY 14, 2018

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## **Puerto Rico Bondholders Pitch \$10 Billion Debt-Cutting Deal.**

### ***Proposed sales-tax agreement rejected by Puerto Rico's federal overseers***

Major Puerto Rico creditors agreed how to split up sales-tax collections and cut \$10 billion in public debt but were rebuffed by the U.S. territory's federal financial supervisors.

The settlement framework unveiled Monday concerns future sales-tax revenue collections that Puerto Rico transferred to a public corporation to raise \$18 billion in securitization bonds known as Cofinas. Competing creditors have tried to free up that money in Puerto Rico's court-supervised bankruptcy proceeding to pay down other government debts.

The federal board overseeing Puerto Rico's finances would need to approve any settlement for it to take effect. An oversight board spokesman said the proposed terms were crafted without its input "and are completely unaffordable."

The proposed deal swings the pledged taxes to a new lockbox which would distribute securities to participating debtholders at a discount to their claims, providing Cofina bondholders 64.5 cents on the dollar.

Creditors holding general obligation debt backed by Puerto Rico's full faith and credit would receive 58.6 cents on the dollar, according to settlement documents.

The oversight board approved a fiscal plan that includes a \$6.7 billion surplus over six years from which creditors could be repaid, provided a host of other fiscal and structural reforms are enacted.

An agent for Cofina bondholder interests appointed by the oversight board supports the proposed division of sales-tax monies, settlement papers said. The agent appointed to attack the Cofina structure on behalf of unsecured creditors "did not support any portion."

The judge presiding over Puerto Rico's bankruptcy heard arguments last month on ownership of the sales tax collections, a dispute that has dominated the proceedings since they began more than a

year ago. She hasn't yet issued a ruling or decided whether to punt the matter to Puerto Rico's highest local court.

Mutual funds with large holdings of subordinated Cofina debt including OppenheimerFunds Inc. weren't signatories to the proposal.

How the dispute is resolved will reverberate throughout the U.S. municipal marketplace as investors gauge the safety of Cofina-like investments backed by specific revenue streams. Discussions around an alternative settlement proposal with Puerto Rico's public pensioners are ongoing, according to a spokesman for hedge funds holding Cofina debt.

## **The Wall Street Journal**

By Andrew Scurria

May 14, 2018

Write to Andrew Scurria at [Andrew.Scurria@wsj.com](mailto:Andrew.Scurria@wsj.com)

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### **Puerto Rico Bonds Rally as Rival Creditors Float Settlement.**

- **Senior sales-tax bonds soar to 71 cents on the dollar**
- **While plan rejected, it moves toward settling major conflict**

Puerto Rico bonds rallied after a group of investment firms and insurers reached agreement on a restructuring plan that would allow them to receive larger-than-expected recoveries on their defaulted debt, marking a first step toward resolving a key clash between creditors who have been fighting in bankruptcy court.

The gains, which pushed some securities up by as much as 22 percent Monday, came despite the plan's rejection by Puerto Rico's federal financial overseers, who said it would leave the government facing budget shortfalls for years and was put together without their input.

But the framework hashed out by the owners of sales-tax-backed debt and general-obligation bonds shows progress toward resolving their disagreement over who has the highest claim to Puerto Rico's cash — an issue at the heart of the government's record bankruptcy. It also offers a baseline that investors could use to estimate what they stand to recover, which has been difficult given the divergent outcomes of previous bankruptcies and the toll on the island caused by Hurricane Maria in September.

"The big argument that everyone is waiting for is who gets the sales-tax money — who has control of that money," said Dan Solender, head of municipal investments at Lord Abbett & Co., which holds \$20 billion of state and local debt, including some Puerto Rico debt.

"That a good number of the bondholders have reached an agreement is pushing this forward," he said. "It's the first positive movement in that direction in a long time."

The plan received support from those who insure or hold about \$11 billion of Puerto Rico bonds, including Aurelius Capital Management, Monarch Alternative Capital, Fir Tree Partners and GoldenTree Asset Management. It also includes a group that represents residents who hold sales-tax debt.

The proposal calls for owners of sales-tax bonds, known as Cofinas, with the most senior claim on the revenue to recoup as much as 95 percent of their investments. Owners of subordinate Cofinas would get up to 43 percent, while general-obligation bondholders would receive almost 59 percent, according to a summary circulated by the group.

The rally was led by Puerto Rico's senior sales-tax debt, which was the most actively traded municipal security Monday, though general-obligations also gained. Senior sales-tax bonds due in 2040 climbed to as much as 72.5 cents on the dollar from 59.5 cents Friday, only to pare those gains by dropping to an average of 68.7 cents later in the day. General obligations due in 2035 rose to an average of 44.5 cents from 41.4 cents Friday.

Some investors expressed skepticism about the run up given that the plan was dismissed by the oversight board set up to oversee Puerto Rico's fiscal recovery. In a statement Monday, the panel said that the restructuring proposal was "completely unaffordable" and out of step with the government's latest fiscal plan because it would still leave Puerto Rico spending more than it brings in. The creditors said it would reduce the government's debt by \$10 billion.

Dora Lee, vice president at Belle Haven Investments, which holds insured Puerto Rico bonds among its \$7 billion of municipal-debt holdings, said the creditor proposal isn't a viable one for the island.

"It wasn't a sustainable recovery plan," she said. "It neglected the fact that the revenue has to come from a viable economic base. That core issue hasn't been addressed."

"Whenever there's a glimmer of good news, the bonds trade up, reality sets in and people realize that again, we're back at square one," she said. "Whenever there's good news out of Puerto Rico you need to take a deep breath and remind yourself you're dealing with Puerto Rico."

The rally pushed the price of the general-obligation bonds to the highest since early October. The bonds traded for as little as 21 cents in December, before Governor Ricardo Rossello began offering more optimistic assessments of the island's recovery from the hurricane.

The island's government and general-obligation bondholders have been allied against Cofina bondholders, who say sales-tax revenue should be used to repay them before it's spent for other purposes. The commonwealth and the general-obligation owners want U.S. District Court Judge Laura Taylor Swain to throw out a law that transfers the sales taxes to a governmental agency, known as Cofina, whose only responsibility is to use the cash to pay its bondholders.

"Any kind of progress toward resolutions should translate into prices in some way," said Matt Fabian, a partner at Municipal Market Analytics Inc. "It at least gives a theoretical anchor at which bond prices can trade."

## **Bloomberg Markets**

By William Selway and Danielle Moran

May 14, 2018

— *With assistance by Martin Z Braun, and Steven Church*

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## **S&P: Puerto Rico Bondholders' Proposed Settlement May Resolve Conflict But Leaves Treatment Of Tax Revenues Unclear.**

DALLAS (S&P Global Ratings) May 16, 2018—S&P Global Ratings believes a proposed settlement announced by a group of Puerto Rico bondholders on Monday could, if executed, lay to rest the conflict over the allocation of pledged general obligation (GO) and Puerto Rico Sales Tax Financing Corp.

[Continue Reading](#)

May 16, 2018

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## **California Private Activity Bond Market Took a Big Dive in 2017.**

The bond market for affordable multifamily housing in California took a step back in 2017.

A year after the California Debt Limit Allocation Committee (CDLAC), which is responsible for administering the state's tax-exempt private activity bond program, issued \$4.8 billion in 2016 to help fund rental housing developments, the amount dropped to \$3.4 billion in 2017 – a 30 percent decrease. The result was 114 properties funded in 2017, a drop from 179 funded in 2016.

The decrease included significantly fewer apartments. In 2016, there was funding for 20,671 apartments, but that dropped to 12,185 in 2017 – a stunning decrease of 41 percent in apartments created.

The decrease is a reason for concern in the Golden State and reflects a nationwide drop in bond deals in the wake of the 2016 election and tax reform.

[Continue reading.](#)

### **Novogradac & Company LLP**

Published by James R. Kroger on Thursday, May 10, 2018 - 12:00am

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## **California's Governor Race Has Bond Investors Worried.**

- **Top gubernatorial candidates lack specifics on fiscal plans**
- **Angst mounting about what happens when boom turns to bust**

Saying goodbye to Jerry Brown is tough for the bond market. A progressive with a frugal bent, the Democratic governor won fans on Wall Street. As analyst Ben Woo put it, "He is the one who saved California."

So far, his potential successors aren't making the farewell any easier.

The Democratic frontrunners vying to replace him, Gavin Newsom and Antonio Villaraigosa, have been long on policy promises but, according to bond managers, short on specifics about how they would keep the budget balanced in a state with a \$2.75 trillion economy. That's worrisome to

investors eager to avoid a return to deficits, especially given that California's current boom will inevitably cool.

"The state is pretty well prepared right now. Is the next governor going to squander that?" said Jennifer Johnston, a research analyst in San Mateo, California, for Franklin Templeton Investments, which manages more than \$65 billion in municipal debt.

Brown, in his second stint as governor, can be viewed as a tough act to follow from more than just an investor perspective. The 80-year-old has over the last 16 months become the outspoken chief of blue states' resistance to President Donald Trump's policies on everything from immigration to climate change. California has challenged the U.S. government at the pace of two lawsuits per month since Trump's inauguration.

But on Wall Street, Brown is best known for whittling away the \$27 billion budget deficit he faced as he took office in 2011 — a time when pundits were comparing California to debt-ridden Greece — and turning around state finances with spending cuts and voter-approved tax hikes. California's credit rating, once the lowest in the nation, rose to AA-, its best showing since 1999, according to S&P Global Ratings. Officials are estimating a \$6 billion surplus in the year that starts in July. Meanwhile, the state's economy has become the world's fifth-largest.

Woo, a senior analyst at Columbia Threadneedle Investments in Minneapolis, said his firm bought more California bonds in 2012 thanks to Brown's handling of the financial crisis. Now that the economy is in vastly better shape, he said it's a "tall order" to expect the next governor to share Brown's fiscal discipline.

Voters will pick the candidates in a June 5 primary. As of 2012, the two top vote-getters advance to the general election regardless of party, which could result in an unprecedented match-up of two Democrats for governor. With 27 candidates and many undecided voters, polls have suggested a variety of outcomes.

### **'Dodging Questions'**

The one consistency has Newsom, a former mayor of San Francisco and the current lieutenant governor, holding a comfortable lead for a spot in the general election. Villaraigosa, mayor of Los Angeles for two terms, ranks second in several surveys, with state Treasurer John Chiang next in the running for Democrats. Among Republicans, the leader is John Cox, a businessman who has never held political office.

The Democratic leaders have talked about easing the state's dire housing shortage, alleviating the homeless crisis and boosting the education system. Bond managers' complaint is that they haven't said enough about how they would pay for such initiatives, nor what they would do in a recession, which Brown himself has repeatedly warned is due to come.

"They're all dodging hard questions," said Ksenia Koban, a municipal-credit analyst at Payden & Rygel Investment Management in Los Angeles.

### **Single Payer**

When asked about the criticism, Newsom said his focus on implementing single-payer health care — a goal favored by the most liberal wing of the Democratic party — proves that he's concerned about the bottom line. While municipal bond analysts see such a move as inherently risky to the state's finances, if even possible under a Trump administration, Newsom said it wouldn't be as expensive as the current system that he deems unsustainable.

"If you care about fiscal discipline, if you care about unfunded liabilities and if you care about the growth of government and costs, this issue has to be tamed," Newsom, 50, said in an interview.

Villaraigosa and Chiang have criticized Newsom's push as irresponsible without a detailed funding plan, portraying themselves as the best to carry on Brown's legacy of fiscal conservatism.

Villaraigosa, 65, pointed to his tenure as mayor of Los Angeles from 2005 to 2013, saying he negotiated higher pension contributions from city employees, laid off workers and reduced deficits to avoid bankruptcy. "I have been a strong fiscal steward of taxpayer dollars," he said. (Michael Bloomberg, founder of Bloomberg News parent Bloomberg LP, has donated \$1.5 million to an independent campaign supporting Villaraigosa.)

Chiang, 55, said he's a "progressive who can handle a checkbook." He cited his moves as controller to withhold the pay of lawmakers for failing to settle on a balanced budget on deadline, and issuing IOUs as the state faced a cash crunch during the last recession.

### **Spending Criticism**

The wild card is Cox, who placed second behind Newsom in two recent polls. He has railed against current fiscal policies, saying in an interview that only compared to the "spendthrifts" in the Democrat-led legislature can Brown be considered frugal.

"Spending in California is out of control," said Cox, 62. "The tax burden has gone up tremendously. That's hardly fiscal responsibility."

Should Cox advance, he'd likely face a serious challenge going against Newsom or Villaraigosa in the general election, considering that 45 percent of California's voters are registered Democrats and only 25 percent are Republicans. The other likely pairing is Newsom versus Villaraigosa, and both have yet to show the same level of fiscal discipline as Brown, said Matt Fabian, a partner with research firm Municipal Market Analytics.

"Investors in California have to assume that credit quality could erode," he said.

Payden's Koban said the main issues the next governor will face, and that the candidates aren't addressing, are rising pension costs, an aging population and a tax structure that limits the financial flexibility of cities during a downturn. But residents, much less politicians, aren't focused on them.

"The problems coming down the pipeline are severe," she said. "We're not quite there psychologically as Californians because things are looking rosy and the economy is booming."

### **Bloomberg**

By Romy Varghese

May 7, 2018, 4:00 AM PDT

— *With assistance by Kartikay Mehrotra*

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### **[How Long Beach Found Itself in Financial Crisis.](#)**

The \$102 million in state and federal emergency disaster funds given to Long Beach after

superstorm Sandy masked financial problems that, with the relief money now drying up, led the city into a fiscal crisis, officials and analysts say.

Long Beach faces a \$2.1 million shortfall after making retirement and management separation payments, potential layoffs of city staff, police and firefighters, and a budget that proposes a 12.3 percent tax hike to bridge a \$4.5 million revenue deficit next year.

Taxpayers — and state Comptroller Thomas DiNapoli — are asking: How did it come to this?

Long Beach officials in 2017 touted a financial swing from the brink of bankruptcy to being \$9 million in the black — a \$24.2 million turnaround — but current and former city leaders say the previous collapse was never addressed and stayed hidden because of the disaster relief funds after superstorm Sandy.

“We’re almost where we were before Sandy,” Long Beach City Council President Anthony Eramo said of the current crisis. He also said problems the city faced before Sandy have not gone away. “We knew this would be a tough year and hard decisions would have to be made. . . . I knew the lack of Sandy money would make this a tough year.”

Eramo, DiNapoli, and municipal finance analysts say city officials should have made more difficult decisions such as cutting services and making incremental tax increases in previous years to avoid the larger tax increase proposed this year. The City Council passed a 1 percent tax boost last year — an election year.

The proposed \$95 million budget for the fiscal year starting July 1 will mean an average \$400 increase for homeowners.

DiNapoli announced last week that his office would audit the city’s finances.

“It is imperative that officials address the city’s declining financial condition during the current budget cycle,” his office said in the annual budget review.

The Wall Street bond rating agency Moody’s Investors Service this month maintained the city’s Baa1 rating — considered a moderate credit risk, but issued a negative outlook, citing cash flow challenges “following years of operating deficits and the City Council’s failure to approve budgeted borrowing to pay for operating expenses.”

Lower ratings can mean higher interest rates and costs of borrowing.

“Any time a local government borrows for operating expenses, we view that as a negative,” Moody’s vice president and senior analyst Rob Weber said.

Long Beach has borrowed to cover retirements and other payments for years.

“It’s identical to putting your budget on a credit card,” said Matt Fabian, a partner with Municipal Market Analysts, a municipal research and consulting firm specializing in the bond market. “It’s not a sustainable practice.”

## **Newsday**

By John Asbury

May 10, 2018 5:16 PM

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## **How Detroit Battled Its Way Out of Bankruptcy.**

Unlike wine, serious municipal financial problems, such as underfunded pensions, do not improve with age.

That was a major lessons learned from the 2013 bankruptcy of the city of Detroit, said Eugene Driker, a mediator during the bankruptcy process, who spoke at a municipal finance session at the 2018 ULI Spring Meeting in Detroit.

"The city failed to grasp the seriousness of the situation," said Driker, of the Detroit-based law firm Barris, Sott, Denn & Driker. "Every day was Christmas in the eyes of some people who had some kind of unrealistic outlook and failure to grasp problems. They were hoping some savior would come in and save them." Other U.S. cities have pension shortfalls and retiree health care obligations that dwarf those that were faced by Detroit, he noted.

Driker and other panelists noted that the period of bankruptcy was a major time of upheaval for the city, but Detroit has emerged fiscally stronger and now is poised for greater growth. Detroit filed a voluntary petition for relief under Chapter 9 of the U.S. Bankruptcy Code in July 2013.

"I was one of five mediators who helped mediate the creditor claims in bankruptcy," Driker said. "When we started, none of us thought it would end in five years, and no one thought it would end in 16 months. Since the end of bankruptcy in November 2014, there's been a remarkable transformation of the city. You see it every day in the neighborhood I live in—and all other places. Many of you are amazed that what you see doesn't match the dystopian image the city has had for years."

In bankruptcy, the city shed some \$7 billion in debt, restructured another \$3 billion in debt, and put an estimated \$1.7 billion into improved services. In the bankruptcy, the city cut \$7.8 billion from payments to its retired workers and \$4.3 billion in retirement health care benefits.

Under the deal dubbed the "grand bargain," state money was used to support Detroit's pension funds, and donations from private foundations and the Detroit Institute of Arts were used to protect city-owned art masterpieces from being sold to raise money to pay creditors.

Detroit's bankruptcy marked a turn in the city's fate. Along with the city's economic downfall, however, came rare opportunities for investment, creation, and collaboration. Shortly after filing for bankruptcy, the city began to see major changes in its downtown and Midtown neighborhoods, but more recently Detroit's resurgence is gaining traction in areas that have been disinvested for decades.

Detroit was insolvent when it filed for bankruptcy protection, said John Naglick, chief deputy chief financial officer and finance director for the city. "The city's operating strategy had been to issue debt, but the deficit would have been worse," he explained. "Detroit had gone from 1.8 million residents in 1950 to 700,000 residents at the time of the filing. Legacy costs were consuming 40 percent of the budget and were projected to could climb to 60 percent by 2016. We had three times as many pensioners as workers."

When the city eliminated \$7 billion in debt and unfunded liabilities, "pensioners and retirees took the biggest hit—\$3.8 billion," he said. "It was harsh on retirees, but it allowed the city to restore basic service to residents."



Bankruptcy allowed the city to have another life, said Jed Howbert, group executive for planning, housing, and development for the city. "I joined the city in May of 2014, and my concern was less about how bankruptcy affected the city but more about where do we go from here?" he said. "There was a feeling of confidence in the future of the city. With the finances on a firm footing, it was a huge bonus in attracting business to the city."

Following the bankruptcy, there was accelerated growth downtown, which in turn created a stronger real estate market and has led to growth now moving beyond downtown.

"The most important thing that has changed is the narrative of the city—how Detroiters are talking about themselves," Driker said. "People have a bounce in their step now. There's a buzz about the city worldwide that has changed the outlook of the city."

The period during bankruptcy was not a fun time to be in the city, said Sonya S. Mays, president and chief executive officer of Develop Detroit, which builds vibrant, resilient communities and expands opportunities for residents. She was working on Wall Street at the time and decided to come home to help.

"It was deeply personal for me because there were some people in my family who were retirees," she said. "It was a pretty tough environment, but I never lost sight of the human toll. I got focused on the future of Detroit."

Once Detroit emerged from bankruptcy, Mays decided to stay rather than return to Wall Street. "It was clear that downtown was doing better, but what about the other areas of Detroit?" she said. "We are trying to create development in parts of the city that haven't seen development in some time."

## **Urban Land Magazine**

By Mike Sheridan

May 7, 2018

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### **[Every Illinoisan Owes \\$11,000 for Pensions With No Fix in Sight.](#)**

- **Three years after court threw out reform, no progress made**
- **State's five retirement funds are short \$137 billion**

Three years ago today, the Illinois Supreme Court struck down the state's attempt to cut its employees' pension benefits to chip away at a retirement-system debt that's swelled to almost \$11,000 for every man, woman and child.

Since then, Illinois's credit rating was downgraded to the verge of junk, its bonds have tumbled and its largest city — Chicago — was stripped of its investment-grade status by Moody's Investors Service. And Republican Governor Bruce Rauner and the Democrat-led legislature have made no real progress toward a new plan that doesn't violate the state constitution's ban on reducing benefits.

"Illinois failure to address its pension crisis has resulted in further deterioration of the state and cities' financial condition, exorbitantly high borrowing costs, and an inability to address other critical needs at the state and local level," said Laurence Msall, president of the Civic Federation, a

Chicago nonprofit that tracks state and municipal finances. “Time is not your friend when your liabilities are compounding and your revenues are not.”

The funding shortfall across Illinois’s five retirement systems climbed to \$137 billion by last June, a jump of about \$17.8 billion since 2015, after the government for years failed to make adequate contributions. That pension deficit — more than four times larger than its debt to general-obligation bondholders — is adding hundreds of millions of dollars in costs to Illinois’s budget each year as the government plows more money in to catch up.

Illinois has been contending with the issue for decades. In 1994, Illinois passed a law that was supposed to ensure that the state had enough assets to cover 90 percent of its liabilities by 2045, though it went on to skip annual payments or fail to contribute enough. At the same time, investment returns were hammered by last decade’s stock-market busts.

“There hasn’t been any progress made,” Dick Ingram, executive director of the Illinois Teachers’ Retirement System, the state’s largest pension. “It’s a case of the numbers have gotten so big that nobody honestly really knows what to do.”

Even as the state is set to pay \$8.5 billion to the five retirement systems in 2019, it’s still not enough. Unfunded liabilities keep growing. And the 2019 contribution is more than three times the state’s payment a decade earlier: Illinois paid \$2.8 billion to pensions in 2009. By 2045, the projected contribution will be \$19.6 billion, according to a March report, based on actuarial valuations.

Illinois has actually made the problem worse since its highest court’s ruling in 2015. In the past, if a pension fund’s assumed rate of investment return got lowered, the state would step up its contribution. But last year lawmakers approved so-called smoothing, allowing the state to phase in hundreds of millions of dollars of those increased contributions. It helped the state ease its budget shortfall temporarily but will be costly over the longer term.

The longer the state doesn’t address the pension crisis, the closer Illinois gets to taxes that are overly burdensome, to credit downgrades, to not paying pensions or even bond defaults, said Richard Ciccarone, president of Merritt Research Services.

Everyone wants to find a “silver bullet,” said Illinois Representative Robert Martwick, chair of the personnel and pensions committee. But he’s exploring any way to save money. He’s held hearings on everything from reducing the debt by selling more than \$100 billion of pension-obligation bonds to consolidating downstate police and fire pension funds to save money. The state cannot grow its way out of this problem, Martwick said.

“We’re in some really, really difficult financial times here,” Martwick said in a phone interview. “We’re still digging a hole for ourselves.”

Rauner supports the so-called “consideration model,” which in part allows state employees to choose lower, delayed cost-of-living adjustments in return for ensuring their future raises count toward pensions. Opponents argue this still violates the ban on lowering benefits. “We need more pressure on the General Assembly,” Rachel Bold, a spokeswoman for Rauner, said in an email.

In 2013, lawmakers tried to enact a solution, approving cuts to cost-of living adjustments and a higher retirement age for some workers. The measure was estimated to save more than \$100 billion over 30 years. But the court struck down the law unanimously, saying it violated the state constitution’s ban on reducing retirement benefits.

In the wake of the court ruling, unions have been emboldened, according to Jeff Johnson, president of the Municipal Employees' Annuity and Benefit Fund of Chicago. He says members even quote the court decision to him, noting their benefits are protected. Johnson's own Twitter page includes a screenshot of one of the most famous lines.

"Crisis is not an excuse to abandon the rule of law," the May 8, 2015 state supreme court decision reads.

Apparently crisis isn't enough reason for the government to take action either. At least not in Illinois.

## **Bloomberg**

By Elizabeth Campbell

May 8, 2018, 5:57 AM PDT

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### **[Santa Fe Task Force: Try for State Public Bank, Not a City One.](#)**

SANTA FE, N.M. — Santa Fe is not ready for a public bank, but the city should work with the Legislature and state officials to look into creating a public bank at the state level that Santa Fe and other cities could utilize.

That's one of the recommendations of the city's Public Bank Task Force's final report that was presented to the City Council on Wednesday.

The report concludes that "current legal and regulatory requirements are not conducive to the creation of a State-chartered Public Bank," and would require legislation to change existing laws. If that were to happen, then state officials could consider forming a public bank.

"We believe this more appropriate statewide scale would justify work needed to amend the current legal and regulatory restrictions," the report says. "We also think incurring business planning costs and examining capitalization requirements would be justified."

Several people who spoke during a public hearing on the matter said they were disappointed that the task force determined a public bank wasn't feasible for the city at this time. But they were encouraged by the prospect of a public bank owned by the state.

Glenn Schiffbauer, executive director of the Santa Fe Green Chamber of Commerce, said 95 percent of businesses in the state are small businesses, which often have trouble obtaining loans. He said a state-owned public bank could help rectify that.

"I think it's a great start and since we do a lot of lobbying (at the state Legislature) we are willing to help in any way we can," he said.

City Councilor Renee Villareal, who helped lead the effort to study the possibility of forming a public bank, said she remained encouraged by the report. She promised to introduce resolutions consistent with the task force's recommendations.

"I'm not forgetting about the public bank effort," she said. "We're not done yet."

Mayor Alan Webber said he supported a state-owned public bank when he ran for governor in 2014.

"I still think it's worthy of consideration," he said.

The nine-member task force was appointed by former Mayor Javier Gonzales a year ago to provide information to the City Council about public banking so it could make an informed decision about whether it should take steps to apply for a New Mexico bank charter.

According to the task force's report, the purpose of a public bank is to "maximize the financial and human potential of the community."

"Local investing of economic resources can address critical, locally identified priorities in ways current financial entities are not able to accomplish," the report says.

Benefits of a public bank include keeping public money invested locally, lowering costs for borrowing and lending, and using internal money to finance infrastructure, according to the report.

## **Albuquerque Journal**

By T. S. Last / Journal Staff Writer

May 9th, 2018

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### **[Puerto Rico's Bankruptcy Advisers Could Get Closer Scrutiny.](#)**

#### ***Oversight board prepares disclosure requests targeting legal and financial advisers***

Puerto Rico's federal supervisors are preparing to scrutinize the U.S. territory's bankruptcy advisers, reflecting broader concerns about potential overcharging and conflicts of interest in public contracting, according to people familiar with the matter.

The federal board overseeing Puerto Rico's finances is considering making new disclosure requests to the law firms and financial experts hired to navigate the largest-ever U.S. municipal debt restructuring, people familiar with the matter said.

U.S. and local lawmakers have criticized the amounts being spent on attorneys and bankers, including the oversight board's own advisers, at a time when pensioners and creditors are facing cuts. Its initiative is aimed at uncovering any undisclosed side deals or subcontracts and whether any third parties act as pay-to-play gatekeepers for public contracts, the people said.

An oversight board spokesman declined to comment.

Going bankrupt has been an expensive affair for Puerto Rico as it struggles against creditors fighting to maximize their claims and secure top priority in a restructuring. Professional fees in Puerto Rico's court-supervised bankruptcy are projected to consume \$1.1 billion over six years, or 1.65% of the amount of government debt being restructured.

Funding the oversight board itself is expected to cost island taxpayers another \$430 million through 2023.

The disclosure requests are expected to cover the oversight board's legal and financial advisers in addition to the island government's, people familiar with the matter said. While the scope of the requests hasn't been finalized, they would go beyond disclosure rules put in place last year after a

controversial contract award to power grid construction company Whitefish Energy Holdings LLC.

A federal rescue package approved in 2016 empowers the oversight board to review contracts and to issue subpoenas for documents “relating to any matter under investigation.” Its current policy flags contracts over \$10 million for review.

The oversight board has previously addressed potential conflicts of interest in its work, requiring its seven volunteer members to submit financial disclosures to an ethics examiner detailing their sources of income and business interests.

Disclosures were also required of Gov. Ricardo Rosselló’s former oversight board liaison, Elías Sánchez Sifonte, who was criticized by opposition lawmakers for working for law and government relations firms while serving on the board. Mr. Sánchez, who resigned the position last July, said he did nothing wrong and made all required disclosures of his business ties.

A few of Puerto Rico’s bankruptcy attorneys from Greenberg Traurig LLP and O’Melveny & Myers LLP charge fees of more than \$1,000 an hour, though the average hourly rate for the firms’ restructuring professionals has hovered around \$700, according to court documents.

A Greenberg Traurig spokeswoman said the firm’s contracts require it to disclose any subcontractors it uses to the contracting agency. A spokesman for Puerto Rico’s financial adviser, Rothschild & Co., declined to comment.

In a response three days after this article was published, a spokesman for O’Melveny & Myers said “we do not pay any referral fee or engage in any fee-splitting arrangements with any third-parties for any services provided.”

Rep. Rob Bishop, R-Utah, who chairs a congressional committee with jurisdiction over U.S. territories, has questioned why Puerto Rico needs its own professional teams when the oversight board was designed to represent the island government’s interests in court. The dual representation is partly a function of the rescue law, which hands some policy powers to the board and keeps others with local elected officials.

The bankruptcy at times has pitted the oversight board against Gov. Rosselló, who is defying its mandates to cut pension benefits and eliminate employee protections. Separate legal teams argued over who could control Puerto Rico’s electric monopoly, the board or the governor. His advisers are negotiating repayment terms with bondholders, yet any settlement requires the board’s approval.

Oversight board chairman Jose Carrion told Rep. Bishop in a March letter he would collaborate with the governor to minimize legal fees while suggesting that some duplicative spending was unavoidable “as long as this structure remains in place.”

On a call with reporters last week, oversight board executive director Natalie Jaresko said the best way to cut down on fees was to end the bankruptcy quickly. But she acknowledged that a debt adjustment plan may not be up for court approval for a year or longer.

Creditor appeals could further prolong the legal process if they don’t reach negotiated settlements. The oversight board’s financial framework projects a \$6.7 billion surplus over six years for repaying creditors, assuming other labor, pension and tax reforms are enacted.

The Wall Street Journal

by Andrew Scurria

May 9, 2018 12:06 p.m.

Write to Andrew Scurria at [Andrew.Scurria@wsj.com](mailto:Andrew.Scurria@wsj.com)

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## **Puerto Rico Bonds Rally as Rival Creditors Float Settlement.**

- **Senior sales-tax bonds soar to 71 cents on the dollar**
- **While plan rejected, it moves toward settling major conflict**

Puerto Rico bonds rallied after a group of investment firms and insurers reached agreement on a restructuring plan that would allow them to receive larger-than-expected recoveries on their defaulted debt, marking a first step toward resolving a key clash between creditors who have been fighting in bankruptcy court.

The gains, which pushed some securities up by as much as 22 percent Monday, came despite the plan's rejection by Puerto Rico's federal financial overseers, who said it would leave the government facing budget shortfalls for years and was put together without their input.

But the framework hashed out by the owners of sales-tax-backed debt and general-obligation bonds shows progress toward resolving their disagreement over who has the highest claim to Puerto Rico's cash — an issue at the heart of the government's record bankruptcy. It also offers a baseline that investors could use to estimate what they stand to recover, which has been difficult given the divergent outcomes of previous bankruptcies and the toll on the island caused by Hurricane Maria in September.

"The big argument that everyone is waiting for is who gets the sales-tax money — who has control of that money," said Dan Solender, head of municipal investments at Lord Abbett & Co., which holds \$20 billion of state and local debt, including some Puerto Rico debt.

"That a good number of the bondholders have reached an agreement is pushing this forward," he said. "It's the first positive movement in that direction in a long time."

The plan received support from those who insure or hold about \$11 billion of Puerto Rico bonds, including Aurelius Capital Management, Monarch Alternative Capital, Fir Tree Partners and GoldenTree Asset Management. It also includes a group that represents residents who hold sales-tax debt.

The proposal calls for owners of sales-tax bonds, known as Cofinas, with the most senior claim on the revenue to recoup as much as 95 percent of their investments. Owners of subordinate Cofinas would get up to 43 percent, while general-obligation bondholders would receive almost 59 percent, according to a summary circulated by the group.

The rally was led by Puerto Rico's senior sales-tax debt, which was the most actively traded municipal security Monday, though general-obligations also gained. Senior sales-tax bonds due in 2040 climbed to as much as 72.5 cents on the dollar from 59.5 cents Friday, only to pare those gains by dropping to an average of 68.7 cents later in the day. General obligations due in 2035 rose to an average of 44.5 cents from 41.4 cents Friday.

Some investors expressed skepticism about the run up given that the plan was dismissed by the oversight board set up to oversee Puerto Rico's fiscal recovery. In a statement Monday, the panel

said that the restructuring proposal was “completely unaffordable” and out of step with the government’s latest fiscal plan because it would still leave Puerto Rico spending more than it brings in. The creditors said it would reduce the government’s debt by \$10 billion.

Dora Lee, vice president at Belle Haven Investments, which holds insured Puerto Rico bonds among its \$7 billion of municipal-debt holdings, said the creditor proposal isn’t a viable one for the island.

“It wasn’t a sustainable recovery plan,” she said. “It neglected the fact that the revenue has to come from a viable economic base. That core issue hasn’t been addressed.”

“Whenever there’s a glimmer of good news, the bonds trade up, reality sets in and people realize that again, we’re back at square one,” she said. “Whenever there’s good news out of Puerto Rico you need to take a deep breath and remind yourself you’re dealing with Puerto Rico.”

The rally pushed the price of the general-obligation bonds to the highest since early October. The bonds traded for as little as 21 cents in December, before Governor Ricardo Rossello began offering more optimistic assessments of the island’s recovery from the hurricane.

The island’s government and general-obligation bondholders have been allied against Cofina bondholders, who say sales-tax revenue should be used to repay them before it’s spent for other purposes. The commonwealth and the general-obligation owners want U.S. District Court Judge Laura Taylor Swain to throw out a law that transfers the sales taxes to a governmental agency, known as Cofina, whose only responsibility is to use the cash to pay its bondholders.

“Any kind of progress toward resolutions should translate into prices in some way,” said Matt Fabian, a partner at Municipal Market Analytics Inc. “It at least gives a theoretical anchor at which bond prices can trade.”

## **Bloomberg**

By William Selway and Danielle Moran

May 14, 2018

— *With assistance by Martin Z Braun, and Steven Church*

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## **[Fitch: US - China Tariffs Could Hurt Some US States In Midterm.](#)**

Fitch Ratings-New York-25 April 2018: The escalating trade dispute between the US and China could lower some state and local tax revenues if China’s proposed tariffs on \$50 billion of US goods are implemented, Fitch Ratings says. Several states with substantial agriculture and aircraft exports would likely see localized declines in economic activity and tax revenues.

The relative likelihood of the tariffs actually being enacted is uncertain. Early this month China published a list of 120 US products, amounting to \$3 billion in exports to China, which will be tariffed. China followed its initial announcement with a second published list of 230 US products (\$50 billion worth of exports) that it also threatened with tariffs. President Trump responded by proposing a further \$100 billion in tariffs on imported Chinese goods on top of \$50 billion of Chinese imports the administration already targeted for near-term tariffs. China reportedly intends to respond to the president’s proposals in the coming weeks. Whether China’s response will take the

form of additional retaliatory tariffs, protectionist measures, or some other set of actions, remain to be seen.

Iowa has the highest exposure to losses from agricultural exports to China. Iowa's 2016 soybean global exports were \$3.1 billion, according to the United States Department of Agriculture. Iowa was also the largest exporter of pork and pork products at nearly \$2.0 billion and corn at \$1.7 billion in export value in 2016. This totaled 3% of Iowa's 2016 gross state product (GSP), according to the Federal Reserve Bank of St. Louis.

Other US states are also major exporters of soybeans. Illinois exported the greatest quantity of soybeans in 2016 at \$3.2 billion, while Minnesota exported \$2.1 billion worth of soybeans. However, these state economies are large and diverse and agriculture exports account for a smaller portion of GSP than is true for Iowa.

A broad array of vehicles and vehicle parts would be tariffed if US-China trade disputes accelerate and the tariffs are put in place. Just over half of the state of Washington's global exports is in the US Census Bureau's category, "civilian aircraft, engines and parts." The \$46.4 billion of this category the state exported in 2016 equaled 9.8% of Washington's GSP.

We do not anticipate a loss of imports from China would significantly affect the state economies. US importers have sufficient ability to replace Chinese imports with alternately-sourced products, albeit at a slightly higher expense.

If the tariffs are enacted and are sustained into the medium term, we believe the tariffs could also lower business activity and sales and income taxes derived from both business activity and employment in some places. These negative revenue impacts could coincide with a softening of revenues if this trend continues.

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**[Fitch: Amazon HQ2 May Have Some Long-Term Credit Impact.](#)**



Fitch Ratings-New York-30 April 2018: The location of Amazon's second headquarters (HQ2) will not have a near-term impact on local government ratings or the housing market around the eventual winner, says Fitch Ratings.

The jobs brought by HQ2 will only affect the local governments that can capture the attendant property, sales and income taxes. The projected 50,000 jobs the regions will gain varies from a minimal impact on the New York-Newark-Jersey City MSA, which has a labor force of more than 10 million, to a more significant 7.4% of the labor force in Raleigh, North Carolina. The increase in salaries paying more than \$100,000 per year varies as well.

We do not anticipate a change in the local housing markets as the market has enough supply to absorb the increased housing need. The average home price index for the regions rose by 5.9% between first-quarter 2017 and first-quarter 2018. Rents grew more slowly over the period.

Fitch reviewed MSA-level data from the U.S. Bureau of Labor Statistics and the U.S. Bureau of Economic Analysis for the 20 finalist locations from which there are 17 MSAs, as Newark, New Jersey and New York City are in the same MSA, as are Montgomery County, Virginia, and Washington, D.C. Data for Toronto, Canada may not be directly comparable to U.S. data. Fitch believes the MSA is the best measure of overall economic impact, as workers will not necessarily choose to live within the geographic boundaries of the location chosen.

Amazon has narrowed the pool of potential HQ2 locations to 20, and is expected to announce its decision sometime in 2018. There may be a further narrowing of the field before the final announcement.

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## **Fitch: Kentucky Wired Wins Commonwealth Approvals; Funding Hurdle Remains.**

Fitch Ratings-New York-01 May 2018: Although the Kentucky Wired PPP project has won legislative and gubernatorial support for appropriations and bonding authority, securing funding for an \$88 million commonwealth commitment to resolve outstanding project issues remains a key financial hurdle, according to Fitch Ratings.

On April 14, Kentucky's legislature passed SB 200, legislation that authorizes the Kentucky Communications Network Authority (KCNA, a state agency) to borrow up to \$110 million by "leveraging future revenues." The governor signed the bill into law on April 26. The borrowing authorization in SB 200 provides a mechanism for the commonwealth to pay \$88 million owed under a memorandum of understanding (MOU) reached between the commonwealth and various project parties to address outstanding supervening events under the project agreement. However, the specifics of how the commonwealth will use the borrowing authority under SB 200 to raise the necessary funding is not established yet, posing an ongoing risk to the project. The Kentucky Wired project remains on Rating Watch Negative due to the uncertainty regarding the future borrowing. Fitch will continue to monitor the situation and will re-evaluate the transaction upon further details of the plan of finance.

To date, Kentucky has abided by all terms of the project agreement and Fitch anticipates the commonwealth will fulfill its MOU obligations, including the \$88 million funding commitment. A failure to do so could put the ratings of related project debt and the commonwealth itself at risk, according to Fitch. A failure by Kentucky to meet its obligations under the PPP contracts will also create some uncertainty among market participants, including contractors, infrastructure investors and lenders regarding the vitality of PPP finance for infrastructure more generally.

SB 200 authorizes KCNA to borrow up to \$110 million by leveraging future revenues, and KCNA intends to use \$88 million of this to fund the commonwealth's commitment under the MOU. However, the commonwealth has not determined exactly how to raise the necessary funding. Under SB 200, the revenues that could be leveraged are from "provision of government-to-government services and sale or lease of excess capacity." After discussions with the commonwealth and KY Wired, Fitch interprets that to include various options such as higher availability payments from Kentucky reflecting public sector use of KY Wired's infrastructure, or leasing of some of KY Wired's broadband capacity to private vendors. Fitch anticipates the commonwealth, through KCNA, will determine a funding approach within the next several weeks given funding deadlines laid out in the MOU.

Under the MOU, the commonwealth has already paid \$2 million of the \$88 million settlement using available project liquidity. The next payment of \$13 million is due on July 6, with the balance due over the course of a new construction period as outlined in the MOU (ending October 13, 2020 with a longstop date of October 13, 2021).

With SB 200 the legislature also modified the funding for ongoing availability payments for the project over the next biennium. In the separate budget bill, the legislature had designated the availability payments as Necessary Government Expenses (NGEs) without line item appropriations. SB 200 revises that to instead establish specific line item general fund appropriations for the availability payments, as originally requested by the governor.

Failure of the commonwealth to fund the settlement agreement would imperil the MOU and the project itself as Fitch noted in a recent rating action commentary on the project debt ("Fitch Maintains Rating Watch Negative on Kentucky Wired Infrastructure Company's Senior Revs" dated

April 10, 2018). It would also raise concerns for Fitch about Kentucky's willingness to abide by terms of the project agreement and could lead to negative rating action on the project debt, the commonwealth's counterparty obligation rating, Kentucky's IDR, and ratings on approximately \$8 billion in appropriation-supported debt. Fitch rated the commonwealth's counterparty obligation for the Kentucky Wired PPP project using our "Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria" and notched it from Kentucky's IDR given the strength of the commonwealth's legal commitments under the project agreement. In Fitch's view, counterparty obligations under PPP project agreements extend beyond simply making availability and milestone payments to also include adherence to all terms of the agreements as well as related commitments such as those in the proposed settlement agreement.

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## **[Blockchain Municipal Bond Plan Inches Forward With Berkeley Vote.](#)**

- **Council votes to direct city manager to evaluate venture**
- **California city could be first to apply technology to munis**

Berkeley, California, is inching closer to possibly becoming the first municipality to apply blockchain technology to public finance to raise funds for community projects.

In a unanimous vote Tuesday night, the City Council asked the city manager to evaluate the benefits of a pilot venture that may result in the city selling an undetermined amount of municipal bonds with the technology that underpins cryptocurrencies.

The initiative led by vice mayor Ben Bartlett aims to boost the community's participation by offering the municipal debt in minibond securities for less than the typical minimum denomination of \$5,000. Blockchain, which is a platform that uses so-called distributed ledgers to allow digital assets to be traded securely, would record the bonds and subsequent transactions as soon as they're issued.

Coupling minibonds with blockchain is "meant to get around Wall Street," Bartlett said during the meeting before the vote.

A couple members of the council said they needed to know more about the idea. Councilwoman

Susan Wengraf questioned the need for using blockchain. “If we’re doing mini muni bonds, which I think is a great idea, isn’t blockchain overkill?” she said.

## **Bloomberg**

By Romy Varghese

May 2, 2018, 7:30 AM PDT

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### **California City Infamous for Graft Seeks Muni-Market Atonement.**

- **Once corrupt Bell plans to sell general-obligation bonds**
- **Seven city leaders were found guilty after the 2010 scandal**

Bell, California, is returning to the municipal-bond market for the first time since a graft and corruption scandal that reverberated nationally for the breadth of the venality.

The small city just south of Los Angeles plans to sell about \$25 million in general-obligation bonds to refund older securities, according to S&P Global Ratings. The company ranks the debt BBB+, three steps above speculative grade. Bell last sold general obligations in 2007, according to data compiled by Bloomberg. While backed by bond insurance, that debt was also rated BBB+ by S&P.

The bond sale, underwritten by Stifel, is “definitely a good sign” for Bell, said city Finance Director Tineke Norrdin. The offering is expected the week of May 21, said David Brodsky, a managing director at KNN Public Finance, the city’s financial adviser.

In 2010, the Los Angeles Times exposed that politicians and top administrators of the city of about 37,000 people were among the highest paid in the nation even as its residents were among the poorest. The city manager earned nearly \$800,000 a year while part-time city council members received about \$100,000 annually. Criminal investigations ensued. Seven officials were found guilty of multiple charges, S&P said.

After the arrest of the city administrative officer in 2010, Bell defaulted on a \$35 million principal payment on lease-revenue bonds that were privately placed with Dexia Credit Local. The city has since resolved the litigation over the default and has even garnered one-time funds from various settlements related to the bond issue, according to S&P.

Bell’s rating outlook is stable, an indication that the city has “sufficiently reformed its practices and policies and has rehabilitated its finances” since then, S&P said. “The stable outlook also reflects our expectation that, over time, the city’s staff retention will improve and the city’s political culture will continue becoming more transparent and responsive.”

## **Bloomberg**

By Romy Varghese

May 2, 2018

— *With assistance by Sophia Sung*

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## **S&P: New Jersey's Pension-Funded Ratios Improve, But Liabilities Are Expected To Remain Large.**

New Jersey's pension-funded ratios have slightly improved from last year, which S&P Global Ratings anticipated when it revised its state general obligation (GO) rating outlook to stable from negative Aug. 25, 2017. Nevertheless, S&P Global Ratings believes state pension liabilities will remain large and a key credit weakness for the foreseeable future.

[Continue Reading](#)

Apr. 30, 2018

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## **Rep. Lofgren Introduces Clean Energy Victory Bond Act.**

[Click here](#) to learn more.

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## **Near-Junk Illinois to Sell More Bonds - Will Investors Buy In?**

Illinois will add to its more than \$30 billion debt load with a bond sale on Wednesday, testing yield-hungry investors' desire to lend to the state as it grapples with continuing political and financial issues.

Illinois is the worst-rated state in the municipal market. The Prairie State's credit quality has crumbled in recent years as expenses have far outpaced revenues.

Since the 2008 financial crisis, fiscal woes have also afflicted some other states and cities, which, like Illinois, face potentially debilitating pension liabilities. Investors have given most others a pass, though, because states are still generally thought of as safe credits.

That's because of their ability to raise revenues through taxes and slash expenses, as well as their inability to file for bankruptcy. No state has defaulted on its general obligation bonds since Arkansas in 1933.

[Continue reading](#)

### **The Wall Street Journal**

By Gunjan Banerji

April 24, 2018

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## **Illinois Faces Rising Yields as Politics Cloud Return to Market.**

- **State is selling \$500 million of general-obligation bonds**

- **Yields on its bonds are nearly twice as much as benchmark**

When Illinois returns to the bond market this week, its legacy of protracted fights over the budget will cast a costly shadow.

The lowest-rated state's \$500 million sale Wednesday comes as investors demand steadily higher payouts to compensate them for the government's financial strife. While the difference between the yields on Illinois bonds and top-rated securities narrowed sharply after the state boosted taxes and ended its budget impasse in July, the gap has been steadily rising again amid the uncertainty caused by election-year politics.

Yields on Illinois bonds that mature in 2028 have jumped 0.85 percentage point since they were first sold in October, almost twice as much as those on benchmark debt, according to data compiled by Bloomberg.

"The yields will be more than they should be paying given their rating," said Dan Solender, head of municipal investments at Lord Abbett & Co., which holds \$20 billion of state and local debt, including some issued by Illinois. "They have a lot of headline risk. The budget is going to be not a simple thing to get through."

Illinois's finances are still recovering from the record budget impasse that ended in July after the Democrat-led legislature overrode Republican Governor Bruce Rauner's veto to enact an income-tax hike to help close the deficit. The gridlock drove unpaid bills to a record \$16.7 billion, and that backlog is still nearly \$9 billion. The red ink reflects its "strained operating fund liquidity and a history of insufficient revenue," Moody's Investors Service said in a report this month.

Illinois's yields have increased modestly compared with those on other bonds in anticipation of the deal, which follows two large offerings at the end of last year, according to Peter Hayes, head of the municipal bond group for BlackRock Inc., which oversees about \$129 billion of state and local debt. Those sales, totaling about \$6.75 billion, could curb demand because some investors have diversification rules that limit how much debt they can hold from one issuer, Hayes said.

"There are several elements that are definitely a headwind to Illinois here that investors are aware of," said Hayes, whose firm's municipal holdings include about \$484 million of Illinois general-obligation bonds. "That probably will require premium for them to get market."

The state has six weeks to approve a spending plan by a simple majority. After May 31, a higher threshold — three-fifths majority vote in each legislative chamber — is required to pass anything. In February, Rauner, a Republican who is seeking a second term in November, presented his budget for the year that starts July 1. The plan relies on \$500 million in savings from shifting pension costs to local school districts and universities, which Democrats have said would be a shock to localities.

Moody's Investors Service and S&P Global Ratings rank Illinois one level above junk. Investors want to be compensated for the state's risks, said Dennis Derby, a portfolio manager at Wells Fargo Asset Management, which holds \$41 billion of municipal debt, including Illinois bonds. His firm is considering buying the deal, he said.

"We don't view Illinois as a default risk," Derby said. "However, there's obviously very strong headline risk and very strong political risk going into an election year with a budget that feels uncertain at this point in time."

The budget for the year that ends June 30 still has an estimated deficit of \$1.5 billion, according to bond documents. Rauner and lawmakers need to cut costs and or adjust revenue, and there's no

guarantee that might be addressed, according to the documents.

"This is a competitive sale and the market will dictate the levels," Rachel Bold, a spokeswoman for Rauner, said in an email.

But overall, the financial outlook for the state has improved since last summer, said Neene Jenkins, a vice president and municipal credit analyst at AllianceBernstein, which oversees \$41 billion of municipals. That's reflected in the yield penalty the state pays, which jumped to as much as 3.4 percentage points in June. It's now just about 2 percentage points.

"We saw some progress last summer," which the market recognizes, Jenkins said. "There's still work to be done."

## **Bloomberg**

By Elizabeth Campbell

April 23, 2018, 6:44 AM PDT

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### **Who Ruined Illinois?**

***Everyone knows the state is a mess. It wasn't always that way.***

However bad you think government might be," Bruce Rauner tells an audience, "it's worse." Rauner, a Republican governor seeking reelection, has plenty of reasons to portray his state as fundamentally broken. It's a way to explain why he hasn't been able to make the big changes in Illinois he promised when he ran four years ago. But it's also a great line for a knowing audience, and the crowd of call center workers in Moline, on the Mississippi River, laughs appreciatively.

Illinois voters have endured a lot from their state government. It hasn't been just one recession or one administration that's done the damage, either. It's been nearly a generation of political upheaval and dysfunction at the state Capitol. "Springfield has not been working for them, and I think voters, residents of Illinois are frustrated and angry. They should be," Rauner tells me after his Moline event. "Always unbalanced budgets. Not paying pensions. Not growing the economy and creating good-paying jobs. Massive corruption, cronyism and patronage. And four of my nine predecessors have gone to prison. It's a broken system."

Nearly everyone agrees with Rauner that the system is broken, but there's no consensus about why the system is failing. Pick your favorite culprit — legislators, unions, pensions — and you may have a case. But the one thing that current and former elected officials, academics and Springfield insiders cite most is perhaps the most painfully obvious: "Illinois government did work," says former Gov. Jim Edgar, a Republican who presided over what now looks to be the state's heyday in the 1990s. "But then we had bad luck with a couple of governors."

Illinois governors are powerful. They have many executive tools at their disposal that their counterparts in other states don't possess. As chief executives, they have the biggest say on the state's financial situation and the biggest platform to tend to the state's economy. But over the last two decades, public confidence, financial stability and economic growth in Illinois have all suffered.

[Continue reading.](#)

## **Fitch: Illinois Securitization Structures Not Subject to State Revenue Diversion.**

Fitch Ratings-New York-03 May 2018: Tax revenues sold to corporations such as Chicago's Sales Tax Securitization Corp. (STSC) are not at risk of diversion under the Illinois Pension Code, according to Fitch Ratings. Under a 2017 revision to the Illinois Municipal Code, home rule municipalities can sell revenues or taxes received from the state to not-for-profit corporations that serve as financing vehicles.

These entities, which include STSC (sales tax bonds rated AAA/Stable) and The Bridgeview Finance Corp. (sales tax securitized bonds rated BBB+/Stable) have no pension obligations and therefore there is no legal basis by which their revenues would be diverted by the state comptroller. In fact, under the municipal code the state pledges not to limit or alter the rights and powers vested in the state comptroller, treasurer or department of revenue that would impair any contract made by the transferring unit with the issuing entity, including contracts executed in connection with the issuance of debt. The state also pledges not to alter the basis on which the transferring unit's share or percentage of receipts transferred to the issuing entity is derived.

Recent changes to the Illinois Pension Code, made prior to the revision of the municipal code, require payments to municipal pension plans to be based on actuarial formulas. Previously, the annual required contributions were based on a percentage of payroll, unrelated to pension funding status. Provisions of the revised pension code require the state comptroller to deduct any portion of the required contribution not paid by the municipality from its allocation of state funds. The proportion that could be deducted ramped up from one-third of the amount received from the state in fiscal 2016 to 100% beginning in fiscal 2018, up to the amount of the delinquent payment. This legislation has recently become a topic of discussion, as the state comptroller diverted \$7 million in funding for the city of Harvey to the police pension fund, resulting in significant layoffs. The diversion is being litigated. Harvey has dedicated tax bonds outstanding but the city continues to own the pledged revenues.

Revenues sold through securitizations are not subject to diversion in the event the transferring unit underfunds public safety pension contributions. However, transferring units are still at risk of having other funds diverted in this case. For example, if the city of Chicago (Issuer Default Rating of BBB-/Stable) were to fail to fully fund required contributions to its police and fire pensions, the sales taxes that were sold to the STSC would not be available but the comptroller could divert funds for pension contributions from certain sources otherwise due to the city as designated in the pension code. Fitch expects the city will adhere to its plan to fully fund the pension contributions required by state law.

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## **State Ends Direct Oversight of Detroit Finances.**

- Detroit Financial Review Commission votes unanimously
- Move ends six years of state emergency intervention
- Panel served as check on mayor and City Council after bankruptcy

As David Nicholson left his family-owned PVS Chemicals Inc. headquarters Monday to head to a meeting where the City of Detroit would be released from direct state financial oversight, he saw something out of the ordinary on Detroit's east side: a street sweeper.

"I don't think I've ever seen a street sweeper," said Nicholson, CEO of PVS Chemicals' manufacturing group.

For Nicholson, it was a fitting sight on the day a state commission he serves on voted unanimously to end active oversight of Detroit's finances, less than four years after the state's largest city emerged from bankruptcy.

Mayor Mike Duggan's administration purchased eight street sweepers last year for about \$1.7 million, restoring a neighborhood-level service that had been axed in 2010 amid the city's years-long budget crises.

"I think it comes down to what every business executive looks for, and it's execution. Detroit was never short on planning. Detroit was short on execution," Nicholson told Crain's after the vote. "Over the past three years, whether it was budget process or IT or getting the police on the street or streetsweepers, (Mayor Mike Duggan's) administration has shown it can execute — and that will give businesses a lot of faith. It gives me a lot of faith."

The Detroit Financial Review Commission's vote Monday marks the end of six years of state oversight of Detroit's finances and management that began with the 2012 consent agreement then-Mayor Dave Bing and City Council agreed to, followed by Gov. Rick Snyder's appointment of an emergency manager in March 2013 and the city's bankruptcy declaration in July of that year.

"This is an important day in the history of the city of Detroit," said State Treasurer Nick Khouri, chair of the Financial Review Commission. "... I'm pleased to say this financial emergency is resolved and I look forward to the city's continued success."

For more than three years, the financial review commission has had veto power over city budgets and certain contracts, serving as a check on Mayor Mike Duggan and City Council after their powers

were restored at the end of the bankruptcy when state-appointed Emergency Manager Kevyn Orr left town.

Detroit is expected to end the 2018 fiscal year with a \$38 million surplus following three fiscal years where surpluses were deposited into a trust fund to pay for future employee pension obligations.

Under the 2014 law that created the commission, the panel will go into a period of dormancy for 10 years.

At any time during those 10 years, the commission could be reactivated should the city's municipal finances sink back into the years of deficits that prompted Gov. Rick Snyder's declaration of a financial emergency in 2012.

"I appreciate what you've done. I know you'll be at arm's length away," said City Councilwoman Janee Ayers, who chairs the council's budget and finance committee. "And I hope to not see you within that arm's length."

Duggan and City Council members endorsed the Legislature's creation of the financial commission after lawmakers agreed to give them the ability to shed state oversight if they could get auditors to certify Detroit had three consecutive balanced budgets.

The mayor and City Council President Brenda Jones also were able to get seats on the nine-member commission appointed by the governor and majority party leaders of the Legislature.

"We said clearly and unequivocally to the state Legislature: 'We support this bill if we've got a voice on the commission and we can objectively earn our way out,'" Duggan said. "And all I heard over and over was, 'We've never seen this before, this kind of unity.'"

Nicholson, who was appointed by Snyder to the commission a year ago, credits the mayor and City Council with working together collaboratively after Emergency Manager Kevyn Orr ran City Hall during the bankruptcy.

"Over the past three or four years under Mayor Duggan and this City Council, there's been a huge turnaround, and there's a real faith that you're going to be heard as a business and city services are there," Nicholson said.

CRAIN'S CHICAGO BUSINESS

By CHAD LIVENGOD

April 30, 2018

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## **[Detroit Gains Freedom to Oversee its Own Finances.](#)**

April 30 (Reuters) - Detroit emerged from post-bankruptcy oversight of its once-shaky finances on Monday after a state of Michigan board decided to end its active supervisory role.

The unanimous vote by the financial review commission, which was created as part of the city's federal court-approved bankruptcy exit plan, enables Detroit's elected officials to enact budgets and enter into contracts without first obtaining the board's approval.

"Today we really do return self-determination to the people, the city of Detroit, and to everybody who made it possible I just want to say congratulations," Detroit Mayor Mike Duggan told a news conference.

Michigan's largest city is now free of any state or federal oversight of its finances, police, water, housing and other departments for the first time since 1977, according to Duggan's office.

In December 2014, the city ended what was then the biggest-ever U.S. municipal bankruptcy after shedding about \$7 billion of its \$18 billion of debt and obligations.

Last year, city and state officials started predicting the commission would transition in 2018 to a 10-year period of passive oversight as Detroit ended consecutive fiscal years with balanced budgets.

An audit released in February showed a \$53.8 million operating surplus in the fiscal 2017 \$1.3 billion general fund budget, bringing Detroit to the required three-straight balanced budgets for active oversight to end.

James Spiotto, a municipal bankruptcy expert and managing director of Chapman Strategic Advisors, said while the city's finances have stabilized somewhat, more work needs to be done.

"It's like a diet. If you don't stay on it and if you don't do the right things to be financially sustainable, you can fall right back to where you were," he said.

He added that Detroit still faces the task of increasing its revenue base by attracting businesses and residents.

The city's population, which dropped by 25 percent to 713,777 in the decade ending in 2010, fell to 672,795 in 2016, according to the U.S. Census.

John Hill, Detroit's chief financial officer, said the city is projecting balanced budgets over the next several years as income and property tax collections have increased since the bankruptcy.

He added that city has begun to set aside money to cover higher-than-expected pension payments starting in fiscal 2024. Detroit is also taking steps to deal with an increase in bond payments beginning in fiscal 2025 with the hope of being able to one day issue general obligation bonds again to finance capital projects, according to Hill.

Some investors are cautious as Detroit's credit ratings remain solidly in the junk level.

"This is the first step in many that they will have to take to regain the confidence of investors," said Robert Amodeo, head of municipal investments at Western Asset.

Detroit's finances came under state scrutiny in 2011, eventually leading to a declaration of a fiscal emergency and the subsequent appointment of Kevyn Orr, a bankruptcy and restructuring lawyer, as the city's emergency manager in 2013.

Steven Rhodes, the now-retired U.S. judge who presided over the bankruptcy, called Monday's vote "another extraordinary milestone," while urging city officials to maintain their focus on neighborhoods, schools and pensions.

Detroit's bankruptcy, which Orr filed in July 2013, was eclipsed by last year's Puerto Rico case dealing with the U.S. territory's \$120 billion of debt.

By Karen Pierog

(Reporting by Karen Pierog in Chicago, additional reporting by Suzannah Gonzales in Chicago  
Editing by Matthew Lewis)

APRIL 30, 2018

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## **Detroit Exits State Oversight as City Mounts Fiscal Recovery.**

- **Financial Review Commission votes to end Michigan's oversight**
- **Once-bankrupt city achieved three straight years of surpluses**

Detroit exited years of state financial oversight Monday, showing the city has made strides toward reversing the long economic and fiscal decline that pushed it into a record-setting bankruptcy.

Michigan's Financial Review Commission, set up in 2014 to monitor Detroit, voted unanimously to end its oversight of a city that officials said has been under some form of outside supervision since 1975. The vote, which came after Detroit ran three years of budget surpluses, drew applause from residents and activists who attended the meeting in the city's downtown.

No one expected Detroit to move out of state supervision within three budget years, the soonest time available, according to Mayor Mike Duggan.

"I don't think anybody expected us to work together so well," Duggan said Monday before the commission's vote. "This has been a great collaborative effort."

Detroit has slowly been on the mend since it eliminated \$7 billion of debt in bankruptcy, allowing it to arrest a downward spiral that resulted from decades of population loss, declining tax revenue and the disappearance of automobile-industry jobs. With the economy improving, Detroit's income-tax collections rose 8 percent in 2017, while rising home prices this year lifted the assessed value of property for the first time in at least 17 years.

"There's much to do, but much has been accomplished over the last three and a half years," Michigan Treasurer Nick Khouri said after the commission's vote. "The progress has been nothing but amazing."

To keep the recovery going, Detroit needs to continue revitalizing neighborhoods left blighted by vacant homes after residents moved out for decades. The population fell to 673,000 in 2016, down about 6 percent from 2010, according to data from the U.S. Census bureau, and more than a third of its residents live below the poverty line.

Detroit Chief Financial Officer John Hill said in an interview ahead of the vote that the panel will still continue reviewing the city's financials because it will be required to formally waive its oversight annually for the next decade. Moreover, he has said Detroit may not return to the bond market to issue general-obligation bonds — which cities routinely sell to fund public works — until two to three years from now.

Given the losses that investors took in bankruptcy, even that may be optimistic, said Gabe Diederich, portfolio manager for Wells Fargo Asset Management, which oversees about \$40 billion of state and local bonds, including what was formerly Detroit water and sewer debt.

"The city continuing on a step ladder toward improvement, that is a very good thing for their citizens and I think investors," Diederich said.

"But the economic conditions in Detroit, while improved, still don't convey material strength," he said. "While the core has gotten better, you still are surrounded by a ring of pretty distressed areas."

A full recovery for a municipality the size of Detroit may take more than a decade, said James Spiotto, managing director at Chapman Strategic Advisors, which advises on financial restructuring. The city needs to reinvest, focus on economic development and attracting businesses and residents, he said.

"You've got to stay the course," Spiotto said. "You've got to keep fiscal responsibility as a key issue."

Sandy Baruah, president and chief executive officer of the Detroit Regional Chamber, a business group, is optimistic. He said investment has increased because the private sector is "voting with their feet" and checkbooks.

"When I moved here in 2010, downtown was pretty much dead all the time," Baruah said. "Now it's pretty much vibrant all the time. It's a pretty significant change."

While parts of Detroit are thriving, others are still economically-depressed and crime-ridden, said Luther Keith, executive director of Arise Detroit, a neighborhood community group. There's still a "significant number" of residents who feel the progress hasn't come to their block because the improvements aren't as widespread as they should be, he said.

"We have not recovered," Keith said. "We have not completed the comeback. We are coming back. There are signs of that, but we still have huge, huge issues that we are confronting, but we are moving the needle in the right direction."

## **Bloomberg**

By Elizabeth Campbell and Jeff Green

April 30, 2018

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### **[S&P: Detroit's Momentum Continues With Latest Fiscal Plan And Financial Review Commission Oversight Waiver.](#)**

CHICAGO (S&P Global Ratings) May 2, 2018—Following recent approval of Detroit's (B+/Stable ICR) latest four-year plan, the state-appointed Financial Review Commission (FRC) voted on April 30 to waive significant portions of its oversight powers. This action marks a major achievement for the city and serves as a good measuring stick for how far it has come on its long road to stability.

We consider the waiver a positive step for Detroit, although the reduced oversight in and of itself is unlikely to have a major effect on day-to-day operations, or a direct effect on the city's long-term financial trajectory. This is based on our opinion that the city's return to balanced operations is more a result of improved management and cost controls, along with reduced

fixed costs coming out of bankruptcy, as opposed to direct oversight from the FRC. Given the city's recent financial performance and the terms under which a waiver could occur, we anticipated the FRC's action. In our view, the course Detroit takes going forward will continue to depend on effective city management and disciplined spending, and likely ongoing economic growth.

The FRC's decision to scale back oversight was triggered by three consecutive years of balanced budgets along with three years of projected balanced operations (as found in the latest four-year plan), among other areas. Despite the waiver, the FRC will remain in place for at least another 10 years, though in an effectively dormant state. Should Detroit revert to deficit spending, fail to meet outlined pension contributions, or show signs of fiscal distress (among other things), the FRC would have the authority to rescind its waiver. We believe the FRC's continued presence (albeit dormant) and its ability to return to full oversight will encourage continued balanced budgets and ongoing improvement to management practices.

We note that much of Detroit's improved budgetary performance was made possible by shedding some fixed costs during bankruptcy, including debt service and retiree costs for pensions and other postemployment benefits (OPEBs). While some of those costs are gone forever, the upward slope of debt service and pension contributions could pressure operations. From now on, the city's challenge will be to manage these rising costs in relation to economic growth, and the costs the city incurs to support growth. Post-waiver, the city reports its focus will remain on its long-term plan to prepare for increasing debt and pension obligations. It also plans to improve and update policies for budget reporting and monitoring, as well as those for debt, investment, and pension funding.

#### FINANCIAL PROGRESS REMAINS ON TRACK; PROJECTIONS REMAIN CONSERVATIVE

As dictated by the Home Rule City Act, Detroit is required to conduct biannual revenue estimating conferences and to annually adopt a four-year financial plan, the first year serving as the adopted budget (these requirements remain in place, regardless of the FRC). The fiscal 2019 general fund operating budget is balanced and totals \$1.071 billion, a 4.6% increase from the \$1.024 billion fiscal 2018 budget. Projections for fiscal 2020 through 2022 are balanced, with appropriations increasing to \$1.114 billion.

Detroit's revenue forecasts remain conservative, without assuming increases from economic expansions which have been announced or are already in progress. Major components of fiscal 2019 general fund revenues include income taxes (28%), state-shared revenues (generated from Detroit's proportionate share of a statewide sales tax (19%); wagering taxes (generated from three local casinos (17%); and property taxes (12%).

The city forecasts income taxes to grow 2.5% annually through fiscal 2022, which is conservative when compared to the 3.5% average annual growth the past five years. Projections take into account modest increases in salary and wages along with improved collection methods, as the state completes its transition to processing the income tax on behalf of the city. With the ongoing employment growth in Detroit, these revenues should continue to increase.

Compared to fiscal 2018 estimates, the city budgeted each of the next three largest sources of general fund revenue to grow by only 1% or less. The projections show 0.5% annual growth in state-shared revenues. These projections are based on the state Treasury Department's most recent estimates. Growth in statewide sales taxes and moderation in the city's population decline should support steady state-shared revenues. Wagering taxes, which declined by 1.7% in fiscal 2017 before recovering for an estimated 1% increase in fiscal 2018, are projected to grow 1% annually. The city monitors gross receipts at the three casinos as part of its forecasting. Lastly, the budget includes a return to growth in property taxes, as the taxable values for fiscal 2019 collections increased for the first time in years. This is a significant indication of the ongoing development and stabilization of the tax base. It also follows the city's significant efforts to reassess properties to more accurately reflect true value.

The budget funds all debt service requirements and continues to fund the Retiree Protection Fund (RPF) as scheduled, which includes a voluntary contribution of \$20 million, up \$5 million from fiscal 2018. The RPF currently totals \$105 million, and the city estimates it will grow to \$125 million (plus interest) by the end of fiscal 2019. The city expects to continue funding the RPF at an incrementally increasing level throughout the four-year plan and thereafter, effectively setting aside dollars that will assist in phasing in a return to actuarially driven pension contributions beginning in fiscal 2024. Salaries and wages are the largest general fund cost, and are budgeted for a 6.7% increase, which reflects scheduled wage increases and additions to staff. Citywide, the total staff headcount is budgeted to increase 5% as the city works to fill vacant positions.

#### RESERVES REMAIN VERY STRONG, AMID FOCUS ON CAPITAL

The city's available reserves increased significantly in recent years following operating surpluses, and while the city anticipates balanced results to continue, these reserves are likely to decline due to targeted spending on rebuilding and revitalizing the tax base, particularly through blight removal, capital spending, and public safety.

The city projects a general fund operating surplus of \$35.8 million in fiscal 2018, and balanced operating results for fiscal 2019. These results will be offset by one-time spending, however, and likely lead to declines in the available fund balance. The city estimates spending \$50 million in accumulated general fund surplus dollars on one-time blight removal and capital spending in fiscal 2018, and another \$100 million in fiscal 2019. This follows \$68 million of one-time spending on these purposes in fiscal 2017. Additionally, in fiscal 2018, Detroit used \$54 million of fund balance for early debt redemption on a portion of its Financial Recovery Bonds issued in 2014. One of the pending budget pressures is increasing annual debt service costs, and by using fund balance to pay off this debt, the city freed up about \$10 million in annual spending. Currently, combined debt service and pension expenditures paid from the general fund account for about 10% of its expenditures, and these costs are projected to increase by \$24 million in fiscal 2020 and by another \$10 million in fiscal 2021. This amount remains manageable within the

current plan, but the increases will continue to present future challenges. Aside from using accumulated fund balance, the city's remaining capital budget is almost entirely funded through annual operating revenues. Subsequently, as annual surpluses lessen, Detroit's ability to fund one-time capital spending with these dollars may lessen.

In our view, continued maintenance of very strong reserves will be a significant credit factor for the city. We also view Detroit's reinvestment in the tax base as an important generator of its economic recovery. Continued revenue growth will be important so that the city can address looming increases in debt and pension expenditures, along with routine capital needs. A very strong reserve position will provide the city additional cushion, if needed, as costs escalate, and if there is economic stagnation.

Detroit ended fiscal 2017 with a general fund available balance of \$389 million, or about 44% of general fund operating expenditures. This balance includes \$169 million in unassigned reserves, \$62 million in the (required 5%) budget reserve, and \$158 million in other assigned reserves. Comparatively, the fiscal 2016 available balance was \$356 million (40%). Neither of these amounts include the city's RPF, which grew to \$90 million in fiscal 2017, from \$30 million in 2016. The RPF will be used solely for future pension contributions.

## FINANCIAL REVIEW COMMISSION AND OVERSIGHT

Created in 2014, the FRC was tasked with providing oversight for the city, including review and approval of budgets and the long-term financial plan; review of revenue estimates; approval of contracts and collective bargaining agreements; monitoring the issuance and payment of debt; and ensuring adherence to the POA, statutory requirements, and overall sound fiscal practices.

On April 30, 2018, the FRC commission voted to scale back most of its oversight by eliminating the requirement for it to approve the budget, long-term plan, contracts, and collective bargaining agreements, in addition to other requirements. This follows the city meeting certain conditions, including three years of deficit-free budgets, a balanced four-year plan, adherence to all statutes and provisions of the POA, and timely servicing of debt.

Under the terms of the waiver, the FRC will continue to meet monthly to review city reports, and it will annually have to vote on the oversight waiver. Ongoing reporting requirements to the FRC will include budget-to-actuals, cash flows, and debt and pension status updates. The city will need to continue to meet the requirements that led to the waiver for 10 consecutive years before the FRC can completely dissolve. We understand that an added requirement for the continued oversight waiver is that the city adhere to its planned RPF funding strategy, specifically the voluntary contributions.

The FRC may rescind the waiver at any time if any of these requirements are not met, or if it determines the city is returning to fiscal distress; if the waiver is rescinded, the FRC will resume full oversight. Should that happen,



the city would need to meet these conditions again for at least three consecutive years, after which the reduced oversight would return for 10 more years. We view the addition of the RPF funding plan to the waiver determination as a positive development, as even though the RPF funding is still not legally required, failure to adhere to the plan could trigger a return to full oversight.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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## **Illinois' \$500 mln Bond Sale Gets Boost from Yield Hunters.**

CHICAGO, April 25 (Reuters) – Investors seeking hefty yields helped Illinois' \$500 million bond sale on Wednesday result in narrower spreads over the municipal market's benchmark scale.

Yields topped out at 4.88 percent for bonds due in 2043 in the two-part general obligation bond competitive sale won by Bank of America Merrill Lynch.

"It's just a lot of money looking for yield," said John Mousseau, fixed-income director at Cumberland Advisors.

As the lowest-rated U.S. state, Illinois has had to pay a substantial penalty to sell debt to investors worried about its ongoing political and financial problems, which include a huge unfunded pension liability and chronic budget deficits.

Spreads over Municipal Market Data's benchmark triple-A yield scale narrowed roughly 3 to 15 basis points from where the state's bonds had been trading in the secondary market, according to MMD, a unit of Thomson Reuters.

Still, the 4.55 percent yield on the deal's 10-year bonds was much higher than 3.38 percent yield in the same maturity for similarly rated LaGuardia Airport bonds that were priced on Tuesday.

"It is difficult to understand why investors would be more comfortable with the 3.38 percent 10-year yield of a bond (subject to the Alternative Minimum Tax) secured by Delta Airlines over a 4.55 percent 10-year yield for Illinois general obligation bond, despite the state's significant fiscal

challenges,” said Alan Schankel, municipal strategist at Janney Montgomery Scott.

Nicholos Venditti, a portfolio manager at Thornburg Investment Management, said the Illinois bond yields should have been even higher given uncertainty over whether the nation’s sixth-largest state will pass a budget for the fiscal year that begins July 1.

An impasse between the state’s Republican governor and Democrats who control the legislature left Illinois without complete budgets for an unprecedented two fiscal years and widened the spread for 10-year bonds to 335 basis points last June. The enactment of a fiscal 2018 budget and income tax rate hikes over Governor Bruce Rauner’s vetoes in July saved the state’s credit ratings from falling into junk.

Illinois said it sold its latest debt at an overall borrowing cost of 4.72 percent.

“We are very pleased with the strong response that the state received on today’s competitive bids, particularly given the recent volatility in the municipal bond market,” Kelly Hutchinson, Illinois’ capital markets director, said in a statement.

Tax-exempt bond prices dropped on Wednesday, boosting yields 2 to 8 basis points on MMD’s scale.

*Reporting by Karen Pierog in Chicago Editing by Matthew Lewis and Dan Grebler*

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## **[RBC Capital Markets Selects Bloomberg's Evaluated Pricing Service for Municipal Bonds.](#)**

### ***RBC Capital Markets expands relationship with Bloomberg Terminal services***

NEW YORK, April 26, 2018 /PRNewswire/ — Bloomberg announced today that RBC Capital Markets has added [Bloomberg’s evaluated pricing service \(BVAL\)](#) to its list of vendors that will independently verify prices on its municipal bond holdings. This announcement marks the growth of Bloomberg’s relationship with RBC Capital Markets, whose parent company, Royal Bank of Canada, already uses a number of Bloomberg products across its enterprise.

RBC Capital Markets is a premier global investment bank providing expertise in banking, finance and capital markets to corporations, institutional investors, asset managers and governments around the world. They are one of the largest municipal markets and finance operations in the U.S., achieving and maintaining a top five national ranking as a senior manager of negotiated municipal issues. RBC Capital Markets will now use Bloomberg’s evaluated pricing, BVAL, for independent price verification. In addition, Bloomberg provides broad coverage of U.S. fixed income securities, access to in-house evaluator teams and transparency into its pricing models through Bloomberg Terminal screens.

“As a top five firm in negotiated underwritings in the U.S., RBC Capital Markets places great emphasis on accuracy and transparency in pricing,” said Keith Solomon, Managing Director and Deputy Head, Municipal Products at RBC Capital Markets. “Bloomberg’s reputation for data quality and transparency were key factors in making our decision.”

BVAL draws on real-time access to market observations from a variety of contributed sources, such as reporting facilities, trading venues and market-makers. Traders, portfolio managers and pricing professionals gain transparency into how prices were derived by accessing BVAL through the

Bloomberg Terminal service. Today, BVAL prices 2.5 million fixed income securities, including nearly 1 million municipal bonds. Prices are recalibrated three times a day using the most current and relevant trade data available.

“Bloomberg is offering innovative solutions for the municipal market that provide increased transparency and workflow efficiencies. We have integrated BVAL with the Bloomberg Barclays indices, released AAA as a market standard Muni curve and integrated yield spread analytics into sales and trading workflows,” said Varun Pawar, global head of Bloomberg’s evaluated pricing service.

BVAL prices are the result of data-driven approach and are closely monitored by a team of municipal market experts to help ensure reliability and relevance of data that reflects the market objectively. Evaluators on Bloomberg’s municipal bond valuations team have an average of 15 years of industry expertise.

BVAL is the primary pricing source for the Bloomberg Barclays bond indices which are widely recognized benchmarks for fixed income investors.

To learn more about Bloomberg’s evaluated pricing service for fixed income please visit [www.bloomberg.com/professional/product/pricing-data/](http://www.bloomberg.com/professional/product/pricing-data/)

### **About RBC Capital Markets**

RBC Capital Markets is a premier global investment bank providing expertise in banking, finance and capital markets to corporations, institutional investors, asset managers and governments around the world. We serve clients from 70 offices in 15 countries across North America, the UK, Europe and the Asia-Pacific region. Our more than 7,400 professionals deliver the experience and insights required to raise capital, access markets, mitigate risk and acquire or dispose of assets for clients worldwide. We are consistently ranked, by third-party sources, among the 10 largest and most significant investment banks globally.

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## **Advocates Push for Changes to Proposed Land Bank Ordinance.**

There is close to \$20 million earmarked for affordable housing development in the next five years, but a proposed ordinance for a new land bank corporation that could leverage those funds is the subject of a disagreement between housing justice advocates and city officials.

Over the weekend, ahead of the Charlottesville City Council meeting on Monday, organizers with the Public Housing Association of Residents called for the council to “Keep the Land Bank Clean.”

Though city officials say they want the land bank’s primary goal to be the development of affordable housing, housing justice activists are concerned that city staff wants several high-level city officials to serve as the initial members of the governing board and create bylaws, policies and procedures after the ordinance is approved.

Initially endorsed by the council last fall, the proposed ordinance would enable the creation of a corporation that could acquire and remit property for the development of affordable housing or certain public uses.

A staff report on the proposed ordinance shows city staff and members of the Housing Advisory Committee, which was tasked with working with staff to obtain community input on the proposal, came up with slightly divergent recommendations for the proposal.

In a post shared on PHAR’s Facebook page Saturday, the group asked that there be community control and transparency for the proposed land bank corporation.

Brandon Collins, an organizer with the resident association, echoed other concerns mentioned in the post.

He said he is concerned city officials could bypass the Charlottesville Redevelopment and Housing Authority and make “sweetheart deals” with private developers that will result in the creation of housing that is still unaffordable for extremely low-income households making less than 30 percent of the area median income, which is approximately \$75,000.

“The bylaws will determine the mission of the land bank,” Collins said Monday afternoon. “There’s a potential for good here, but that can be bypassed. We need more low-income representation and community control.”

The staff report for the proposed ordinance says staff thinks a city councilor, the city manager, the city finance director and the director of the office of economic development should serve as the initial members of the governing board.

Otherwise, per each recommendation, the proposed governing board would be almost identical and include a member of the Housing Advisory Committee and two people who are “participants in an assisted housing program.”

Collins said several activists and the housing advisory committee wanted several operating procedures to be established as part of the ordinance. For example, per the committee’s recommendation, the corporation will only retain property in partnership with the housing authority and solicit proposals from housing nonprofits before seeking to sell the land to another entity. The committee also recommended the land bank corporation have a contractual right to first refusal whenever the city seeks to sell off any real estate it owns.

The staff report explains why city officials declined to endorse the advisory committee's recommendations and did not want to limit the use of land acquired by the land bank corporation to affordable housing development.

"Once the Land Bank is created and set-up, it becomes a separate legal entity, Staff strongly recommends that no limitations be put on the City as to acquisition and disposition of property as this may limit the City's ability to conduct its necessary business," the report says. "Likewise, the City should not put limitations on the operating policies and procedures of the Land Bank."

Stacy Pethia, the city's housing development specialist, said city officials want to establish initial control of the board and include a private finance expert to make sure public funds are being used wisely and transparently.

According to the report, the ordinance says half of all real estate property tax collected on land conveyed from corporation shall be remitted to it.

"Because that's public money," Pethia said, "we really should have people who are accountable in city government and who can make sure that money is appropriated in the most appropriate way."

She also said the city does not want to limit what the land is used for, as some parcels may not be suitable for the affordable development of low-cost housing. She said the ordinance will require that the land have some kind of public use.

"If the parcel is located in a floodplain, it would be too expensive to fix in order to build affordable housing," Pethia said. "It would just make the provision of affordable housing financially unfeasible, but it could be used as a community park."

The agenda for Monday's council meeting included a presentation of an annual report on housing in the city.

The a scheduled discussion about the proposed land bank ordinance, the presentation of the housing report and other agenda items, such as a public hearing on a proposed renaming of Justice and Emancipation parks, an annual review of the Office of Human Rights and a \$11.7 million bond issue, had yet to begin by print deadline Monday.

According to city finance officials, the \$11.7 million bond issue would pay for several Capital Improvement Program projects from the 2017 and 2018 fiscal years.

The funds would be used to complete the track renovations at Charlottesville High School, for street and sidewalk improvements, for renovations to the Charlottesville Circuit Courthouse, for a new spray park at Tonsler Park and for improvements to the city's water, sewer and stormwater systems.

THE DAILY PROGRESS

BY CHRIS SUAREZ

Apr 16, 2018

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## **New Report Digs Into Drastically Underfunded Illinois Police, Fire Pensions.**

The city of Harvey last week made huge cuts to its police and fire departments after the state diverted more than a million dollars directly into its underfunded pension systems.

Under a law passed several years ago, the Illinois comptroller is required to divert state money directly to pension funds that have been shorted by municipal leaders, should the funds request it.

While the consequences in Harvey are dire, a new report finds that city is hardly alone. Around the state, police and fire pensions have had an average funding ratio of 60 to 67 percent for the last decade.

[Continue reading.](#)

### **Chicago Tonight**

Nick Blumberg | April 16, 2018 4:32 pm

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## **Board Approves Austerity Plans for Puerto Rico Amid Protests.**

SAN JUAN, Puerto Rico — A majority of federal control board members approved new austerity measures for Puerto Rico on Thursday, saying they would help revitalize the economy and create more jobs amid the U.S. territory's 11-year recession, while the island's governor fired off a flurry of tweets promising to defy them.

The measures contained within several fiscal plans that will serve as the island's economic blueprint for the next five years include a 10 percent average cut to a pension system facing nearly \$50 billion in liabilities.

Other measures include the closure of prisons, consolidation of dozens of state agencies and significant reductions in government subsidies to Puerto Rico's 78 municipalities and its largest public university. The board also said Puerto Rico's government should cut sick leave and vacation pay by half and eliminate a Christmas bonus.

"No one should believe these reforms are being implemented without clear and direct benefit to the people of Puerto Rico," said Natalie Jaresko, executive director of the board that was set up by Congress. "This will require tough choices and disciplined execution, but the payback is clearly worth it."

One board member, Ana Matosantos, voted against the plans, saying they cut too deeply and do not provide a realistic path to a turnaround for Puerto Rico's government.

"I cannot support too much pain for too little promise," she said. "There is simply too much risk, too much downside for the people of Puerto Rico and its future under these plans."

Gov. Ricardo Rossello disagreed via Twitter while Jaresko was still talking, saying the board doesn't have the power to implement any austerity measures.

"Our position has always been clear: issues that are not in line with my government's public policy

will not be carried out. Period,” Rossello tweeted.

The board could go to court seeking to force Rossello to enforce the measures. Just a month before Hurricane Maria struck last year, the board sued Rossello for refusing to implement proposed furloughs and pension cuts.

Board chairman Jose Carrion said he trusts the government will comply and that if it doesn’t, the board will revisit the issue. “That would include legal action,” he said.

SEE SAMPLE MANAGE EMAIL PREFERENCES PRIVACY POLICY OPT OUT OR CONTACT US ANYTIME

The board put together seven fiscal plans for Puerto Rico’s government and public agencies. The three main plans were approved Thursday, nearly a year after the U.S. territory filed for what is the largest municipal bankruptcy ever in the U.S. Four more plans remained to be voted on Friday.

Hours before the meeting began Thursday, Puerto Rico’s government announced it would try to trim its workforce by offering some workers, including in police and education departments, inducements to leave.

Gerardo Portela, executive director of the island’s financial authority, said such workers can keep receiving their salary for a certain period as they transition to the private or nonprofit sector.

The board said the government needs to consolidate its 114 agencies into 22 groups as well as consolidate police stations and replace officers performing civilian duties with “less expensive” civilian personnel.

During Thursday’s meeting, some government officials said they might consider labor reforms and other measures in the future if needed, an idea that was rejected by board members.

“At some point it has to be today that we act. It can’t always be tomorrow,” said board member Andrew Biggs.

On broader economic matters, the board wants Puerto Rico’s government to make a Christmas bonus voluntary for private employers and allow businesses to dismiss workers without first having to prove just cause. It also is calling for the minimum wage for workers 25 and older to increase by 25 cents an hour under certain conditions, and says the government should increase a labor force participation rate that stands at 42 percent, the seventh lowest in the world.

These and other labor changes would to generate some \$460 million in savings over the next five years, the board says.

By THE ASSOCIATED PRESS

APRIL 19, 2018

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## **[Fitch: California Water Capital Spending to Rise as Operating Risks Mount.](#)**

**Fitch Ratings-San Francisco-17 April 2018:** Capital spending at California water and sewer utilities is likely to increase to address water supply reliability and regulatory requirements, according to a new special report from Fitch Ratings. Capital investment is needed for infrastructure

maintenance, water supply reliability, and new supply development. In response to recent drought and state mandated conservation efforts, many utilities raised rates which have pushed some utilities close to or above Fitch's affordability threshold.

"Water utilities may face increasing pushback and decreasing rate flexibility going forward, which could impact how well utilities are able to manage their finances," said Shannon Groff, Director, Fitch Ratings.

Fitch-rated California water and sewer agencies maintain strong credit profiles overall with an average rating of 'AA', consistent with Fitch's average rating across the sector. While utilities in the state face increasing business pressures, Fitch believes that most utilities have sufficient capacity to manage through these risks and maintain credit quality. Like other water and sewer utilities across the country, California utilities benefit from a sound fundamentals rooted in their essential services, monopolistic business nature and generally local rate-setting authority that help to insulate these utilities through changing business and economic cycles.

Credit quality could come under pressure for individual utilities where there is an unwillingness to raise rates to support current and projected financial metrics, particularly in instances surrounding increased cost pressures or declining consumption. However, Fitch expects these instances to be rare given the historical willingness of California utilities to preserve their financial results despite operating challenges.

"Southern California needs the most water utility investment as it is the most exposed to supply volatility. However, utilities state-wide have demonstrated strong comprehensive long-term capital and financing planning to manage risks," added Groff.

The report, 'California Water: Strong Credits but Operating Risks Abound,' is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **[Puerto Rico Board Backs Fiscal Plan Amid Clash With Governor.](#)**

- **Bonds gain as plan projects bigger surplus before debt bills**



## • Governor rejects panel's plan for cutting retirement benefits

The federal board that oversees Puerto Rico's finances approved a multi-year fiscal plan that aims to pull the commonwealth out of a decade-long recession by cutting spending, improving tax collections and taking steps to encourage businesses to expand on the hurricane-ravaged island.

The vote for the austerity plan sets up a clash with Governor Ricardo Rossello, who opposes proposed cuts to retirees' pensions and said the board has no authority to impose them over his objections. The chairman of the U.S.-appointed panel, Jose Carrion, said it's willing to challenge Puerto Rico in court if the plan isn't implemented by the legislature and the governor.

The panel projects that the recommendations would result in a \$6.7 billion surplus over the next six years, before debt-service payments, the highest estimate since the outlook was redrawn several times to reflect the impact of Hurricane Maria.

"The new fiscal plan provides a blueprint for structural reforms and fiscal measures that if implemented in full and on a timely basis will give Puerto Ricans what they need and deserve: a growing economy with more and better jobs, a 21st century electricity grid, resilient infrastructure and an effective and efficient public sector," Natalie Jaresko, the board's executive director, said during the meeting in San Juan.

The vote comes a day after the board released the latest forecast, buttressing the optimism among investors that they stand to recover more on the bankrupt island's debt than they previously expected, despite uncertainty about how closely Rossello will implement the policies it assumes. General obligations maturing in 2035 traded Thursday at an average of 42.5 cents on the dollar, up from 41.7 cents on Wednesday, data compiled by Bloomberg show. The bonds have rebounded from a record-low of 20.75 cents on Dec. 5.

The plan, which will serve as a blueprint as the board negotiates with creditors in bankruptcy over how to restructure Puerto Rico's \$74 billion debt, drew criticism from Rossello over its calls for cutting pension benefits by an average 10 percent beginning in 2020 for some retirees. Some board members approved the plan despite their stated reservations, while one, Ana Matosantos, dissented, saying it will fall too heavily on already impoverished residents.

"I am simply not willing to support massive cuts to the safety net," she said. "I cannot support too much pain with too little promise."

But Jaresko said the step is necessary to ensure that the pension checks can be paid, given that the government retirement system is depleted.

"The board's intention is to ensure retirees get a pension despite the fact that there are no funds in the pension plan to do so while ensuring that current government employees can have more confidence in their future pensions and will have more control over them," Jaresko said.

Rossello has resisted taking such a step and on Thursday criticized the board for including measures he said it can't implement, saying it casts doubt on the financial projections. A member of his administration reiterated his views at the panel's hearing.

"It would be inhumane to impose any further freeze or reduction in benefits upon them," said Gerardo Portela, the executive director of Rossello's fiscal agency. "The board's proposed cuts arbitrarily would place the greatest burden on those retirees least able to afford it."

The plan would reduce allocations to municipalities, the University of Puerto Rico and public schools

and consolidate government departments and agencies. Labor reforms include continuing the central government's pay freeze through fiscal 2023 and eliminating Christmas bonuses for all public employees. To help spur business growth, the plan seeks to ease some regulations and speed up the island's permitting process.

"The government believes that through meaningful and significant fiscal and economic measures set forth in its new fiscal plan, Puerto Rico will be in position to achieve a sustainable level of debt and long-term economic growth and recovery without impairing pensions and Puerto Rico jobs," Portela told the board.

The board also approved multi-year fiscal plans for the Puerto Rico Electric Power Authority and the Puerto Rico Aqueduct and Sewer Authority.

## **Bloomberg Markets**

By Michelle Kaske, Yalixa Rivera, and Jonathan Levin

April 19, 2018

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### **[As Puerto Rico Creditors Eye Payout, Islanders Get Angry.](#)**

- **Estimates \$6.7 billion six-year surplus before debt payments**
- **Projection suggests more money may be free to pay creditors**

On Wednesday, the second blackout in a week hit Puerto Rico as the decrepit power system went out again. Hours later, the territory's federal oversight board said that if all goes as planned, the government should soon start seeing budget surpluses big enough to pay a sliver of its debt.

But residents like Marie Rivera were doubtful — and a little angry, too.

Blackout in Old San Juan on April 18. Photographer: Jose Jimenez/Getty Images

"It's not fair to pay the bondholders, when the Puerto Rican people are still suffering the consequences of what Hurricane Maria left us," said Rivera, a 38-year-old single mother and hotel sales manager in San Juan. "This is the type of situation that leaves you wondering if it's worth making all these sacrifices, or if it's better to just go and move to the States."

The federal board, created by the U.S. Congress, is trying to chart Puerto Rico's resurrection from a financial crisis that built over years, only to be temporarily worsened by the September storm that left its electricity system in tatters and caused thousands of residents to leave.

By cutting spending, improving tax collections and taking steps to encourage businesses, the board is projecting that Puerto Rico's central government can swing to a \$6.7 billion surplus over the next six years before accounting for debt payments. That's about \$400 million more than a previous estimate from Governor Ricardo Rossello, whose steadily more sanguine forecasts caused bond prices to rally this year, even though how much will be repaid will be hashed out in bankruptcy court.

But the numbers are based on the notion that Puerto Rico's growth prospects have actually improved since Hurricane Maria slammed into the island as a powerful Category 4, battering infrastructure and hobbling its already feeble economy. Not long before the plan was released, the

island lost power yet again, the latest in a series of episodes that show it's still a volatile place to live and do business, even seven months after the storm.

The power utility said some 75 percent of customers had power back by Thursday morning, but it remained intermittent in many areas and the incident had already caused island-wide chaos.

On Wednesday, hospitals and the main international airport temporarily ran on emergency power. A generator fire filled the streets of a trendy San Juan neighborhood with smoke, and hundreds of businesses were forced to close.

The outage was attributed to an excavator incident involving a company subcontracted to help in power restoration efforts. Another blackout that occurred last week, affecting more than 800,000 clients, was caused by a fallen tree.

The new fiscal projection marks the latest boost to the estimates for the financial recovery of the territory, which is set to receive about \$62 billion of federal aid and insurance money to help rebuild. Earlier increases in surplus estimates have sparked rallies in Puerto Rico securities, causing some prices to double since December.

General obligations with an 8 percent coupon and maturing in 2035, the island's most actively traded security, changed hands Thursday for an average 42.4 cents on the dollar, up from a record-low 20.75 cents Dec. 5, data compiled by Bloomberg show.

Desmond Lachman, a resident fellow at the American Enterprise Institute and former deputy director of the International Monetary Fund, said he's concerned that some of the billions in U.S. taxpayer aid destined for the disaster recovery may ultimately end up in the hands of bondholders.

"My concern is that they're just going to use U.S. taxpayer money to bail out the creditors, but meantime the island is going to languish," Lachman said.

The federal board plans to certify the fiscal plan Thursday in San Juan. Among other things, the plan calls for austerity measures, including cutting pension benefits by an average of 10 percent beginning in 2020 to curb spending and repair a retirement system that's out of money. Rossello has balked at reducing pensions, saying it would place an undue burden on public workers and retirees. The board maintains that there needs to be shared sacrifice, and any cuts require legislative approval.

The turnaround plan, which has the stated purpose of fixing the island's finances and reviving an economy stuck in a decade-long recession, will cut spending for schools and municipalities and try to boost growth through labor reforms and relaxing regulations. Congress created the federal board in 2016 to address Puerto Rico's debt crisis, as part of legislation that also gave the island a path to filing a form of bankruptcy.

Lachman, the former IMF official, said he questioned the logic of any plan that paints a rosy economic picture when the island is facing accelerating emigration. The island has lost about 2 percent of its population every year for the past four, without counting the massive but largely unaccounted-for exodus after Maria.

"What kind of credibility can they have if they make one projection before the island gets hit by a once in a lifetime hurricane, and then suddenly it improves the situation?" said Lachman. "It just makes no sense at all."

**Bloomberg**

By Michelle Kaske, Yalixa Rivera, and Jonathan Levin

April 19, 2018

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## **Puerto Rico Oversight Board Plan Sees Biggest Budget Surplus.**

- **Panel projects \$6.7 billion through 2023 before debt is paid**
- **Rising forecasts have fueled a rally in the island's bonds**

The turnaround plan from Puerto Rico's federal overseers projects the island will have a surplus of \$6.7 billion over the next six years before debt payments after it takes steps to cut spending and revive the economy, about \$400 million more than Governor Ricardo Rossello estimated earlier this month.

The projections mark the latest boost to the estimates for the financial recovery of the territory, which is receiving an influx of federal aid and insurance money to help rebuild from Hurricane Maria. Rossello previously raised his forecasts three times in as many months, triggering a rally in the island's debt that's caused some prices to double since December.

The panel, which was given power by Congress to impose measures on the territory's government, is set Thursday to approve the multi-year turnaround plan for the bankrupt island, Jose Carrion, the board's chairman, said in a statement. It includes an average 10 percent cut in pension benefits for certain retirees, reduces spending for schools and municipalities and takes steps to foster faster economic growth.

"We now urge the government to move decisively on implementation of these necessary reforms upon certification of the proposed new fiscal plans," Carrion said. "Only with bold structural reforms, reinvestment in the people of Puerto Rico, and necessary fiscal measures can Puerto Rico avoid ongoing deterioration of its economy and ensure the fiscal ability to provide services to the residents and businesses of the island."

The board's pension changes require legislative approval. Rossello has said reducing pension payments places an undue burden on public workers and retirees. The board maintains that there needs to be shared sacrifice, given that Puerto Rico's largest retirement system has run out of cash and relies on the government's operating budget to pay retirees.

The fiscal plan projects a surplus, before debt payments, every year through fiscal 2023 as some \$62 billion of federal aid and insurance money from Hurricane Maria help lift an economy that's shrunk in the past decade. Rossello has revised the fiscal plan four times this year to include the affects of Hurricane Maria, which struck in September, and to incorporate the board's recommendations.

Puerto Rico's estimated surplus is still short of what it needs to make payments on its \$74 billion debt. Annual shortfalls total \$8.8 billion over the next six years if the commonwealth paid principal and interest to bondholders, according to the plan. Puerto Rico hasn't been making those payments as it goes through its bankruptcy process.

But the latest figures are far more optimistic than those made soon after Hurricane Maria, when Rossello was still anticipating large shortfalls even after turnaround efforts were made. General obligations with an 8 percent coupon and maturing in 2035 traded Wednesday for an average of 41.6 cents on the dollar, up from a record-low 20.75 cents on Dec. 5, data compiled by Bloomberg show.

The board plans to meet in San Juan on Thursday to certify fiscal plans for Puerto Rico and the island's public electricity and water utilities. Another meeting is set for Friday to approve fiscal plans for the University of Puerto Rico and other government agencies.

Congress created the federal board in 2016 to address Puerto Rico's debt crisis and help the island end a history of borrowing to cover budget gaps.

## **Bloomberg Markets**

By Michelle Kaske

April 18, 2018

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### **[CDFI Case Study on the California Capital Access Programs.](#)**

[Read the Study.](#)

**Urban Institute | Apr. 19**

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### **[Three Ways P3s Can Be Used in KY Today.](#)**

For anyone who missed it this week, the Kentucky Transportation Cabinet outlined its plan to repair and rebuild roads and bridges throughout the Commonwealth over the next six years. [The plan details investments totaling more than \\$8.5 billion](#) for 1,400 projects throughout the state. It's a great start but far short of the state's needs.

Here's a notable excerpt from KYTC's news release:

This expanded list of projects, in addition to the state's recommended priority list of unfunded projects, speaks to the need for additional state-generated revenue.

"We can't count on Washington to provide more money to address these transportation challenges," (Kentucky Transportation Secretary Greg) Thomas said. "As we move into the summer construction season, we have to closely monitor our cash balance due to a significant number of projects in the pipeline, as well as substantial debt payments the Cabinet owes beginning in June. Our top priorities will be limited to projects that improve safety, repair bridges and pavement and support job growth."

[Continue reading.](#)

## **P3 Kentucky**

By Ed Green

*P3 Kentucky Editor*

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## **Denver Looks to Cannabis Industry to Help Finance Affordable Housing.**

Since selling marijuana for recreational use became legal in Colorado in 2014, the industry has recorded more than \$4.7 billion in revenues, including \$1.5 billion in 2017 and another \$230 million in the first two months of 2018 alone. Those revenues are taxed at the state and local levels, and soon, if Denver has its way, some of those dollars will be going directly to fund affordable housing in the fast growing city.

On Monday, the Denver Post reported, Denver Mayor Michael Hancock's office presented a proposal to city council that included hiking the city's local tax on marijuana sales from its current 3.5 percent to 5.5 percent, bringing the total state and local taxes on marijuana purchases in Denver to 25.25 percent. The move would generate an estimated \$8 million dollars a year that the city would dedicate to its affordable housing development programs.

"To me, it is a total game-changer, in how we're thinking about affordable housing, to have these new resources in play," Brad Segal, the president of Progressive Urban Management Associates, told the Post.

[Continue reading.](#)

NEXT CITY

BY OSCAR PERRY ABELLO | APRIL 17, 2018

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## **Akron Buys School Bonds in Deal that Quietly Settles a Multimillion-Dollar Dispute.**

On its surface, a city loan for new school administration offices seems straightforward.

Akron Public Schools agreed to borrow \$10 million from the city to buy the SummaCare building at 10 N. Main St. The new administrative building would replace the 102-year-old Sylvester Small Building (the former Bowen School) on North Broadway, where central administrators work, and the 88-year-old Conrad C. Ott Building (the former Miller School) on Steiner Avenue, used to support and train teachers and staff.

The \$10 million debt — school bonds bought by the city — would be repaid over 10 years at a 2.62 percent interest rate, or nearly a percentage point less than any bank had offered the schools. The city expects to get \$11,683,425.

The financing is a "win-win," according to city and school administrators. Superintendent David James gets a cheap loan with no closing fees for newer, more efficient office space. Mayor Dan Horrigan, facing a budget pinch this year, gets a \$1.7 million return on a pretty safe investment.

"This is another testament to the strong partnership between APS and the city and our shared commitment to making decisions that not only make financial sense but also have the greatest community benefit," said Ellen Lander-Nischt, the mayor's spokesperson.

But the financing is only half the deal.

What wasn't explained last month when the deal was announced is that the mayor's financial team is using the \$10 million loan to settle a \$6.6 million "dispute" with the school district that began under the Don Plusquellic administration.

This disputed amount, which has been settled at \$5.3 million, involves annual payments the city owed the school district. The settlement will be applied to the bond repayments, effectively wiping out the district's need to make the first five annual installments.

### **The dispute**

City Council has no obligation to review or approve any part of the complex deal. And it didn't have to sign off on the dispute settlement, which has a clause that says the agreement would "avoid the cost of prolonged litigation."

"I have not been brought into these conversations," said Mike Freeman, chair of City Council's budget and finance committee, unaware of any dispute.

The settlement requires the city to pay \$164,000 in interest on back payments owed to the school under a deal meant to compensate the district for money it initially loses when the city offers tax incentives to businesses.

The dispute stems from the city not making scheduled payments of about \$3 million annually in 2014 and 2016 to the school district. City officials declined to discuss details about the disputed payments.

Jack Pierson, who was treasurer of Akron Public Schools until 2014, had been getting the annual payments — sometimes in March and sometimes in May — since the school and city struck a "compensation agreement" in 1996. Pierson's successor, Ryan Pendleton, said he was never given a satisfactory, detailed explanation on why the city paid the schools \$1.1 million one year and \$4 million in another.

Pendleton also noticed little, if anything, coming in 2014 and 2016. So, he took a second look at the 1996 compensation agreement.

### **Time for review**

The compensation agreement, which took effect in 1997 and expires Dec. 31, 2093, allows for some businesses that move into the city school district to avoid paying property taxes in exchange for promising jobs or economic growth.

Per the agreement, the businesses instead make direct payments to county tax collectors. The county then sends the proceeds to the city. The city, in turn, keeps what it's entitled to under the compensation agreement. That includes what are called offsets, or the cost of any public works projects that the city completes to accommodate some businesses as they set up shop in or near Akron.

Whatever is left goes to the school district. It's a standard agreement that many cities and schools have entered since the late 1990s. Schools, which share in the initial loss of property tax revenue, assume economic development will ultimately result in more families (and students) and a healthier tax base (which is felt gradually as business tax breaks lasting up to 30 years expire on a rotating basis).

Pendleton and some school board members are advocating for more clarity and consistency in the

payments the school district receives under the compensation agreement with the city in the future. They're open to renegotiating the 1996 agreement, which doesn't expire for another 65 years.

"I don't know if those [2014 and 2016] payments fell through the cracks, but we never got them," said Tim Miller, who serves on the school board's subcommittee on finance.

Speaking about the broader issues raised by the "missed payments," Miller said his "interpretation of the compensation agreement is that we [the school district] don't have a seat of the table when it comes to getting details about where the money is coming from."

Future payments from the 1996 agreement will pay off the last half of the district's loan from the city.

The settlement wrapped in the bond sale also illustrates how city administrators can move money around in the budget and make multimillion-dollar transactions without notifying City Council.

The city will purchase the \$10 million in school bonds through what is referred to as the "investment fund." The mayor is allowed to use the fund, which isn't listed in budget documents, without council's approval per the city charter. The fund has assets that climbed from \$138 million to \$148 million in the first two months of this year. It's fed by other city funds and used for low-risk investments, like municipal bonds and a state-managed investment fund.

The next two-month investment report provided to City Council will likely reflect another \$10 million in bonds but no detailed accounting of whether that purchase was made by cashing in other investments or moving money into the investment fund from elsewhere in the city's budget. Lander-Nischt said that after the city makes the school district whole, basically forgiving the first five years of repayment until the city has repaid \$5.3 million for the 2014 and 2016 payments, the plan is to replenish the investment fund by the end of the 10-year loan repayment period.

By Doug Livingston

**Beacon Journal/Ohio.com**

April 17, 2018

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## **[Illinois GO, Hovering Above 'Junk' Credit, Among Prominent Deals Next Week.](#)**

NEW YORK (Reuters) - Financially beleaguered Illinois will come back to the U.S. municipal bond market with an offering rated one or two notches above "junk" grade in the most notable of more than \$8 billion in debt offerings scheduled for next week.

The two-part competitive general obligation debt sale slated for Wednesday consists of \$450 million of bonds with serial maturities in 2019 through 2043 and \$50 million of bonds due in 2019 through 2028.

As the lowest-rated state, Illinois has had to pay a hefty penalty to sell debt to investors worried



about its ongoing financial and political problems.

The state's so-called credit spread over Municipal Market Data's benchmark triple-A yield scale for 10-year bonds has widened from 177 basis points in January to 210 basis points on Thursday.

"Judging by the way the bonds are trading recently, the market is once again concerned about the state's ability to pass a budget," said Triet Nguyen, head of municipal credit at Triangle Park Capital Markets Data.

An impasse between Illinois' Republican governor and Democrats who control the legislature left the state without complete budgets for an unprecedented two fiscal years. Lawmakers enacted a fiscal 2018 budget and income tax rate hikes over Governor Bruce Rauner's vetoes in July.

Legislators have since begun work on a budget for the fiscal year that begins July 1.

The state was the fourth-biggest issuer of debt in the muni market last year, according to Thomson Reuters data. It sold \$6 billion of GO bonds in October to pay overdue bills and \$750 million of GO bonds in November to fund capital projects.

Including Illinois, there is a total of \$7.78 billion of bonds and \$262.3 million of notes scheduled to hit the market next week.

In the week's largest deal, the New York Transportation Development Corporation is set to issue \$1.4 billion in negotiated special facility revenue bonds to help finance renovations at LaGuardia Airport. The redesign project is being led by Delta Air Lines (DAL.N).

New York's bonds were given a Baa3 rating by Moody's Investors Service and a BBB rating by Fitch Ratings.

Citi Group is scheduled to price the deal on Tuesday.

U.S. municipal bond funds reported \$515.2 million of net outflows in the week ended April 18, marking a third-straight week of negative flows, according to Thomson Reuters' Lipper division.

April outflows are typically attributed to investors cashing in muni investments to pay their taxes.

*Reporting by Laila Kearney in New York and Karen Pierog in Chicago; Editing by Daniel Bases and Dan Grebler*

APRIL 20, 2018

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## **Somerville to Offer Residents the Opportunity to Purchase Minibonds.**

*Minibonds will allow residents the chance to earn tax-exempt interest while investing directly in Somerville's future*

*Proceeds from the sale of minibonds will support projects like Lincoln Park renovation, West Branch Library design, street and sidewalk improvements, and more*

The City of Somerville will soon offer residents the opportunity to invest in Somerville's future by purchasing minibonds. Minibonds not only allow purchasers to directly support the community's

collective goals by investing in the financing of some of Somerville's capital projects, they also enable residents to earn tax-exempt interest.

A minibond is similar to a traditional municipal bond in which investors loan money to a city or public agency for an agreed period of time, receive interest on the investment, and get their loan paid back when the bond matures. The City will use minibond proceeds to support some capital projects, which are projects related to city facilities and property. Examples of capital projects include City building upgrades such as sustainability and accessibility improvements, park and library renovations, fire station updates, and street and sidewalk improvements.

"Everyone who lives in Somerville has a vested interest in the range of capital projects on the City's docket, whether it's their neighborhood park or library or the streets and sidewalks that run through the city," said Mayor Joseph Curtatone. "Minibonds open up investment opportunities to a wider range of investors, providing more Somerville residents with an authentic opportunity to invest directly in their communities and support projects that will improve their neighborhoods."

The City, through broker-dealer Neighborly Securities, expects to sell up to \$500,000 in minibonds in its first ever minibond sale, which will take place during the purchase period from May 18 to May 25, 2018. Minibonds will be available for purchase by Somerville residents and will be sold in \$1,000 denominations. This is one-fifth of the lowest denomination that municipal bonds are otherwise typically sold for (\$5,000). The lower denomination is designed to allow broader participation by community member investors. Minibonds will first be allotted and filled on a first-come, first-served basis on orders of up to \$20,000. The minimum order size is \$1,000 and there is no maximum. However, for orders over \$20,000, the amount of the order above \$20,000 is subject to pro-rata allocation if the issue is oversubscribed. Pro rata allocations may be adjusted to ensure that no bonds are issued in an amount that is not divisible by the minimum denomination of \$1,000.

Residents who are interested in buying Somerville minibonds will need to create an account through Neighborly's website at [www.neighborly.com](http://www.neighborly.com).

Neighborly representatives, along with City staff, will hold two Minibond Information Sessions to answer questions about the minibonds and the ordering process. They will be held:

- Tuesday, May 15, from 6:30 to 8 p.m. in the Argenizano School Cafeteria, 290 Washington St.
- Wednesday, May 23, from 6:30 to 8 p.m. in the West Somerville Neighborhood School Cafeteria, 177 Powder House Blvd.

For questions about Somerville minibonds or setting up an account with Neighborly to purchase minibonds, please contact Neighborly at [atsupport@neighborly.com](mailto:atsupport@neighborly.com), or visit [www.neighborly.com/somerville](http://www.neighborly.com/somerville).

Minibonds will only be ordered through Neighborly Securities, member FINRA, SIPC & registered with MSRB, pursuant to a preliminary official statement to be made available during the ordering period. This information does not constitute an offer to sell or the solicitation of an offer to buy any securities. You will be responsible for making your own independent investigation and appraisal of the risks, benefits, and suitability of any securities to be ordered and neither the City of Somerville nor Neighborly Securities is making any recommendation or giving any investment advice.

Individuals with disabilities who need auxiliary aids and services for effective communication, written materials in alternative formats, or reasonable modifications in policies and procedures, in order to access the programs and activities of the City of Somerville or to attend meetings, should

contact the City's ADA Coordinator, Nancy Salamoun, at NSalamoun@somervillema.gov or 617-62-6600 ext. 2323.

.~City of Somerville

On April 21, 2018, in Latest News, by The Somerville Times

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## **Las Vegas Raiders Stadium Builders Close to Accessing Public Funds.**

After six weeks of high-intensity meetings with generous high-fiving for the delivery of a comprehensive stadium development deal for the Raiders and UNLV football, the Las Vegas Stadium Authority got down to more mundane work Thursday.

In less than a half hour, authority board members approved establishing a debt service, authorized issuing a request for qualifications for a construction monitor on the stadium and laid the groundwork to approve the agency's annual budget — a process every government entity undertakes this time of the year.

Jeremy Aguero, principal for Las Vegas-based Applied Analysis, which serves as the staff for the Stadium Authority, also gave a comprehensive review of Wednesday's [successful bond sale](#) that will help finance the 65,000-seat, \$1.8 billion indoor football stadium at Interstate 15 and Russell Road.

Construction crews have been conducting preliminary work on the stadium site since November. With access to the \$750 million public contribution to the project in the weeks ahead, Mortenson Construction and McCarthy Building crews will begin to pour foundations and prepare work on the massive tray for the natural-grass field that will slide in and out of the stadium.

Construction is due to be completed by the summer of 2020 in time for that year's NFL season.

The authority is preparing its budget for the 2019 fiscal year and has a projected ending balance of \$44.8 million for the current year. Hotel room tax collections are running 0.8 percent below projections, with collections at \$31.4 million as of February. Aguero said collections generally are in line with projections, considering the unexpected dip in visitation following the Oct. 1 shooting.

The board will meet May 23 and consider the budget in accordance with state procedures. Stadium Authority Chairman Steve Hill said he hopes to develop a schedule of meeting every other month after May unless deadline decisions have to be made on stadium work.

In another matter, board member Ken Evans said the first meeting of the committee overseeing the Raiders' community benefits agreement would occur in late April or early May.

### **Bond sale details**

Clark County financial leaders said the bond sale, conducted Wednesday by a consortium of seven banks, was completed in 90 minutes, a routine timeframe for such a sale, with par value of \$641.5 million at an interest rate of 3.94 percent and premium certificates of \$98.8 million sold at a 5 percent interest rate.

The tax also is financing a "pay-go" fund of an amount estimated at \$56.2 million — revenue that is expected to be collected in the months of March and April after the bond transaction closes. It

counts towards the public's \$750 million contribution to the project and helps reduce the total amount committed to bond payments.

In all, Applied Analysis' Jeremy Aguero said stadium funds total \$800.2 million. That's from \$750 million going to the project, \$45.1 million going to a capital reserve fund and \$5 million for the issuance cost and capitalized interest. If the capital reserve fund is never used during the twice annual payment of bond debt, it would go toward paying down debt early, probably around 27 years into the 30-year bond retirement.

## **Las Vegas Review-Journal**

By Richard N. Velotta

April 12, 2018

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### **Fitch: Kentucky Wired Dispute Puts Project, Commonwealth Ratings at Risk.**

Fitch Ratings-New York-10 April 2018: A commonwealth budget dispute regarding appropriations and additional bonding authority for the Kentucky Wired public private partnership (PPP) project puts the ratings of related project debt and the commonwealth itself at risk, and also raises questions about the viability of PPP projects in Kentucky, says Fitch Ratings. A failure by Kentucky to meet its obligations under the PPP contracts will also create some uncertainty among market participants, including contractors, infrastructure investors and lenders regarding the vitality of PPP finance for infrastructure more generally.

Political dispute around the larger budget bill, and a related tax measure, are further complicating issues. The Kentucky Wired project represents only a small portion of the roughly \$25 billion general fund budget for the commonwealth's upcoming biennium, beginning July 1, 2018. Fitch rates the Kentucky Wired project bonds 'BBB+'/Rating Watch Negative, and the commonwealth's counterparty obligation for the project 'A'/Outlook Stable. The counterparty obligation rating is notched off the commonwealth's 'AA-'/Outlook Stable Issuer Default Rating. The state undertook the PPP to build out state wide broadband access, the first such state wide effort in the country.

The funding issues come amidst a challenging overall commonwealth budget situation with the governor's executive budget recommending sizable cuts across a broad range of government agencies. On April 2, Kentucky's legislature passed a budget bill (HB 200) for the upcoming biennium (beginning July 1) that classified essentially all of the governor's proposed appropriation for availability payments for the Kentucky Wired PPP (as made to the Kentucky Communication Network Authority [KCNA]) as necessary government expenses (NGE) to be paid upon direction from the governor. NGEs are a regular budget management tool used by the commonwealth to fund items without a line-item appropriation and require certification from the commonwealth's secretary of finance, appointed by the governor. The NGE designation for KCNA in HB 200 includes the specific dollar amounts originally requested in the governor's executive budget.

On Monday, April 9, the governor announced his intention to veto both HB 200, and the related tax bill (HB 366) for various reasons including unhappiness with the tax measures in HB 366 and what he considered continued budgetary imbalance in HB 200. In his address, the governor specifically cited Kentucky Wired as a project the commonwealth was fully committed to and he criticized the legislature for designating the requested funding as NGEs, rather than providing a line item appropriation. Fitch considers the NGE designation a solid financial commitment from the

commonwealth, but recognizes that this designation does require the governor to potentially find offsetting budget actions to ensure funding is provided for KCNA. In Kentucky, veto overrides require only a majority vote of each chamber to override and both HB 200 and HB 366 had sufficient votes at passage last week to override any vetoes.

#### TENTATIVE SETTLEMENT AGREEMENT AT RISK

In a related but distinct project funding issue, KCNA is also seeking legislative authorization for bonding authority to support a tentative settlement agreement that could resolve outstanding project issues. Kentucky Wired has faced multiple delays since it began in 2015 and the commonwealth is currently engaged in negotiations over a settlement with the project company and construction subcontractor. The tentative settlement agreement requires \$88 million in additional funding from the commonwealth, beyond the appropriations request for availability payments. KCNA has requested \$110 million in bonding authority to cover costs for the tentative settlement agreement and to provide contingency for potential future project costs. The bill (SB 223) has not advanced beyond committee, but the legislature will reconvene on April 13 and 14 (Friday and Saturday) for the last days of its 2018 regular session to consider the governor's vetoes, and could pass legislation at that point.

Failure of the legislature to authorize funding for the settlement agreement through KCNA's proposed legislation or another mechanism, threatens the viability of the settlement agreement and the project itself as Fitch noted in a recent rating action commentary on the project debt ("Fitch Maintains Rating Watch Negative on Kentucky Wired Infrastructure Company's Senior Revs" dated April 10, 2018). It would also raise concerns for Fitch about Kentucky's willingness to abide by terms of the project agreement and could lead to negative rating action on the project debt, the commonwealth's counterparty obligation rating, and Kentucky's IDR. In Fitch's view, counterparty obligations under PPP project agreements extend beyond simply making availability and milestone payments to also include adherence to all terms of the agreements as well as related commitments such as those in the proposed settlement agreement.

Fitch rated the commonwealth's counterparty obligation for the Kentucky Wired PPP project using our "Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria" and notched it from Kentucky's IDR given the strength of the commonwealth's legal commitments under the project agreement. Failure by Kentucky to provide for funding necessary to sustain the project and meet its counterparty commitments would raise concerns about the commonwealth's willingness to pay other long-term financial obligations and may be reflected in a lower IDR for the commonwealth. All of Kentucky's approximately \$8 billion in outstanding debt is appropriation-supported, and the ratings on those bonds are linked to the commonwealth's IDR.

A default by the commonwealth would also signal to Fitch that PPP commitments entered into by Kentucky are subject to a higher level of political risk than previously understood. Kentucky's prior governor, a Democrat, entered into the project agreement in 2015. The current Republican governor expressed concerns about the project when he took office but his administration has since affirmed its support, including through the appropriations request for the upcoming biennium, and advocacy for the additional bonding authority. Rejection of the governor's requests by the legislature could indicate that the commonwealth's own fiscal challenges in a difficult budgetary environment take political precedence over PPP project obligations.

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### **Fitch: Chicago O'Hare Airport Inks New Airline Agreement.**

Fitch Ratings-New York-11 April 2018: The City of Chicago and the leading carriers serving O'Hare International Airport will begin to operate under a new airline use and lease agreement (AUL) starting in May 2018, which Fitch Ratings views as an essential step to allow the airport to address both the modernization and the expansion of the airport to serve long-term growth for domestic and international service, as well as hub activities for United Airlines and American Airlines.

The underlying long-term capital plan working in tandem with this airline agreement is substantial in size at \$8.5 billion and will take nearly a decade to complete. Given the limitations of external funding resources, O'Hare will likely assume a considerable addition of future borrowings, resulting in elevated leverage and airline costs for many years. Further, a capital program of this size will carry considerable cost and execution risks as the budget could evolve upward. Still, the leading domestic and foreign-flag carriers have approved the new lease, including the associated capital plan, and therefore recognize both the value and the cost implications to maintain service in a strong Chicago market.

The new AUL, which replaces a legacy 35-year agreement, will extend through December 2033 and will continue to utilize credit supportive residual rate setting mechanisms. Airport costs will be recovered primarily through the landing fees and terminal rents at a sufficient level to meet all bond indenture requirements. At this time, Fitch has not reviewed any new financial or cost forecasts associated with the new AUL and the approved capital plan. Excluding the newly approved capital plan, O'Hare's airline cost per enplanement (CPE) was already forecast to rise from the current \$15 level to over \$25 in approximately five years under Fitch's rating case scenario. The new capital plan will only exacerbate the degree of cost increases and likely place O'Hare as one of highest cost airports in the U.S. and a much higher cost level versus the city's Midway Airport. Fitch notes that a number of other international gateway airports, including those serving the New York, Los Angeles, and San Francisco regions, are facing steep increases to airport costs but have not experienced adverse demand shifts as a result given the market strength.

Key financial-related modifications covered under the new AUL include gradual increases to the minimum annual debt service coverage levels from 1.10x to 1.25x by 2021. Further, the airport will add a supplemental operating and maintenance reserve fund reaching a funding level of 25% of annual operating costs by 2025. As O'Hare's cost base rises in conjunction with potential service growth and the capital spending under the approved plan, Fitch views these revisions as a prudent

development since they collectively provide additional financial cushion in case of adverse operating developments.

Leverage related risks have been a key consideration in the 'A' rating of O'Hare airport. Even ahead of the new capital expansion plan, O'Hare already had an elevated leverage position of nearly 10x net debt to cashflow available for debt service, reflecting the approximately \$7.3 billion of existing debt. Airport debt has increased sizably over the past decade to defray the capital costs for the reconfiguration of the airfield with new and extended runways. Additional debt to fund this capital plan will likely keep overall airport leverage above the current 10x level for many years. The 'A' rating could be pressured to the extent there is a sustained upward shift in leverage.

The upcoming transition to a capital program focused on the airport terminals is a logical next step for the overall airport infrastructure. Terminal-related capacity constraints exist at O'Hare given the lack of meaningful gate expansion for some time coupled with the limitations of exclusive-use gate leasing under the prior agreement. The approved terminal area plan, with a current estimate of \$6.1 billion, will ultimately result in a dramatically reconfigured layout of the terminals, including new concourses and approximately 25% more gate capacity. The new airline agreement will lease gates to the carriers under preferential and common use terms, a more common practice at many of the other U.S. large-hub airports, which provides more control to the city to ensure higher utilization as well as to support service opportunities for new entrants.

In Fitch's view, the new terms under the updated airline agreement are fundamental to the airport's modernization plans while operating under a partnership approach with the airlines. The overall financial integrity of the airport should remain sound given the provisions to boost coverage levels and operating reserves. Effective implementation and successful delivery of a capital program of this size will be among the greatest challenges while airport leverage will be sustained at relatively high levels.

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## **[Lafayette, La., Mayor Floats Cryptocurrency Financing Plan.](#)**

***The proposal follows the lead of other cities, like Berkeley, Calif., where officials have discussed the potential for virtual currency in the public sector.***

Lafayette Mayor-President Joel Robideaux on Thursday proposed the city-parish government create its own cryptocurrency, something only a handful of local governments around the world have contemplated or tried.

Doing so would position conservative Lafayette to follow the lead of Berkeley, California, the U.S. city that has garnered the most press for doing what Robideaux wants to do.

The virtual currency proposal was the biggest reveal in Robideaux's annual address at the Heymann Center, in which he portrayed Lafayette as a technological hub, one that needs to use this advantage to diversify the local economy and improve government services.

Cryptocurrency, which uses encryption techniques and operates independently of a central bank, could potentially be a new way of financing public works, one that invites local residents to participate.

Robideaux was vague, however, in explaining why Lafayette should consider a cryptocurrency, other than the potential to "develop solutions targeting government inefficiencies, and, more importantly, alternatives for financing public infrastructure."

Cryptocurrency was pioneered by Bitcoin and has exploded as a global industry over the last year. The total market capitalization for cryptocurrencies on April 12, 2017, was \$24.4 billion, according to [www.coinmarketcap.com](http://www.coinmarketcap.com). On Thursday it was \$300.5 billion, but that mark has followed a staggering drop over the last three months from the peak market capitalization of \$813.9 billion market on Jan. 7.

"It's not just a bunch of global libertarians that want unregulated, untraceable and secure digital currency transactions," Robideaux said, referring to concerns that cryptocurrency can be used for money laundering or other nefarious purposes. "It's the recognition of global stakeholders that the world of banking, finance and payment systems is forever changed, that the world of healthcare, government and possibly every other industry is about to be disrupted."

Robideaux didn't elaborate in his speech how, exactly, his proposal for a municipal cryptocurrency might work, or what might motivate investors to sink money into Lafayette's version. Berkeley is backing its currency with municipal bonds, and the city plans to sell "crypto enabled microbonds" to raise money for affordable housing and other initiatives to help the homeless, according to Forbes.

Robideaux said he wants to use the proceeds from an "initial coin offering" to "build a living lab of blockchain researchers and developers," without explaining what such a lab might consist of, how much it would cost or where it might be located.

Robideaux challenged residents to consider what technological concepts such as augmented reality, artificial intelligence and machine learning systems could mean for local government. These terms, Robideaux said, are "just phrases and acronyms" that translate to better stormwater management, traffic lights that adjust in real time, and improved government transparency.

Coming this year, Robideaux said, is LUS Fiber's offering of 10-gigabyte internet service and continued expansion beyond Lafayette city limits, a "hub of Lafayette" mobile app to provide real-time information, 311 dial service and 911 texting.

As he often does, Robideaux said Lafayette needs to look to its culture to diversify its economy, noting steep job losses since the 2014 oil crash. To that end, he highlighted his "CREATE" initiative to brand the city-parish and to develop a way to quantify returns on investments in the cultural economy.



"Our cultural economy is the low-hanging fruit. It already exists and it can only get bigger," Robideaux said. "It will become the stabilizing force in our budget."

Turning to other matters, Robideaux used his annual speech to stump for four property tax renewals on the April 28 ballot, two of which are confined to the city of Lafayette. The city-only taxes are for recreation as well as roads and bridges, and the parishwide taxes are for libraries and juvenile detention.

Robideaux faced a crisis last year when voters initially rejected 10-year renewals for the courthouse and jail, stirring the mayor-president and other city leaders to plead with voters to approve them on the November ballot, which they did.

Robideaux took personal responsibility for failing to explain the importance of the property taxes prior to the first vote last year.

"I'm guilty of not talking about them," Robideaux said, explaining why he dedicated a portion of his speech to the upcoming renewals. "I'm not taking anything for granted."

The parish budget remains a crisis, with the general fund basically wiped out. The mayor-president did not touch on the increasing likelihood the City-Parish Council would look to a tax measure on the November ballot to raise revenue, although that's not certain and it's unclear if the measure would be a new tax or a rededication.

The council on Tuesday held a special meeting to announce it will consider such measures at its regular meeting on May 15, the latest date by which it must approve any measures for the Nov. 6 ballot. Voters will have final say over any tax measure.

Council Chairman Kevin Naquin said after Tuesday's meeting that existing property taxes are inadequate. Naquin wouldn't speculate as to what the council will consider next month, but he said some type of tax increase, along with rededications, are likely.

"I'm not going to hide around it," Naquin said. "You could probably see a combination of everything."

BY BEN MYERS, THE ADVOCATE / APRIL 13, 2018

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## **[S&P Drops Connecticut GO Debt Rating to 'A' from 'A-plus'](#)**

NEW YORK (Reuters) – S&P Global Ratings on Friday lowered Connecticut's roughly \$18.5 billion of general obligation debt outstanding to A from A-plus, citing concerns about the state's increased debt ratio.

The New England state is one of the wealthiest in the country, but its credit rating is among the lowest due to budget problems, underfunded pensions, high debt levels and a dim economic outlook.

"Under our state rating criteria, when a majority of our debt ratios exceeds certain thresholds, our criteria adds an extra one-notch downward adjustment to our overall indicative state rating score," S&P said in a statement.

The downgrade should serve to motivate the state's general assembly to swiftly bring the current-

year's budget, which is in a deficit, into balance, Connecticut Office of Policy and Management spokeswoman Meg Green said in an email.

"Governor (Dannel Malloy) proposed specific ways to do exactly this in December and February, while avoiding raids on the rainy day fund, and we hope to see swift action by the legislature to avoid further harm to our credit rating," Green said.

"It's important to note that Connecticut's budget situation and historic underfunding of long term liabilities, not this recent action, are driving the state's rating," she added.

The office of Governor Dannel Malloy was not immediately available for comment.

The so-called credit spread for 10-year Connecticut general obligation bonds over Municipal Market Data's benchmark triple-A yield scale has widened since the beginning of the year from 73 basis points to 88 basis points as of Thursday.

On the same day of the downgrade, S&P said it was upgrading the general obligation debt of Hartford, Connecticut's financially struggling capital city, several notches to A from CCC based on the municipality's recently struck deal with the state.

Hartford's city council last month approved a program to have the state pay its \$540 million of general obligation debt as part of a broader oversight plan that helped the city avoid bankruptcy.

"While we know Hartford's problems can't be solved overnight, and there is still much more work to be done to stabilize the city and state's financial futures, this is a positive sign for our capital city," Green said.

S&P also said it was assigning a BB-plus issuer rating to Hartford.

**by Laila Kearney**

Additional reporting by Karen Pierog in Chicago; Editing by Richard Chang

APRIL 13, 2018

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## **[S&P: Aging Subway System Puts Pressure On New York City And State To Find New Funding For The Metropolitan Transportation Authority.](#)**

On March 31, 2018, New York State (GO debt rating: AA+/Stable) adopted an on-time 2019 budget that includes new funding for the Metropolitan Transportation Authority (MTA; issuer credit rating A+/Negative) in the form of a 75-cent, \$2.50, and \$2.75 surcharge on, respectively, pooled-, taxi-, and ride-hailing car services...

[Continue Reading](#)

Apr. 10, 2018

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## **Climate Change Nuisance Suit to Remain in Federal Court.**

In a [February 27 2018 order](#), the US District Court for the Northern District of California denied a motion by Oakland and San Francisco to remand their climate change nuisance suit back to state court.

### **Background**

In 2017 the two municipalities had filed a suit in the California Superior Court against a group of multinational oil and gas producers. They claimed that the defendants' products caused a public nuisance, as their use would allegedly contribute to climate change and therefore result in loss of life and damage to public and private property, due to storm surge and sea level rises. The defendants removed the case to federal court and the court upheld removal, finding that the suit was "necessarily governed by federal common law".

### **Decision**

According to the court, based on the allegations, "the scope of the worldwide predicament demands the most comprehensive view available, which in our American court system means our federal courts" as opposed to a "patchwork" of state court rulings. The court allowed the cities to appeal the decision immediately. The judge also invited lawyers for both sides to conduct a four-hour tutorial on climate change science, covering the "history of scientific study of climate change", as well as the "best science now available on global warming" and other climate change effects.

*For further information on this topic please contact Samuel B Boxerman or Jim Wedeking at Sidley Austin LLP by telephone (+1 202 736 8000) or email ([sboxerman@sidley.com](mailto:sboxerman@sidley.com) or [jwedeking@sidley.com](mailto:jwedeking@sidley.com)). The Sidley Austin LLP website can be accessed at [www.sidley.com](http://www.sidley.com).*

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### **Sidley Austin LLP**

USA April 16 2018

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## **Candidates Avoid Talk About Illinois' Pension Problem.**

Lost in the standard issue political histrionics of the Illinois governor's race is serious talk of how to resolve a \$130 billion public pension shortfall that has a stranglehold over much of what can be accomplished by any state leader.

Rivals Bruce Rauner and J.B. Pritzker agree on little, yet they so far have found common purpose in tiptoeing around the pension minefield that likely will dictate the success or failure of whichever of them is sworn in next year.

And that avoidance by Republican incumbent Rauner and Democratic challenger Pritzker is in keeping with a long tradition that fed the crisis in the first place.

Dating back to the days of Prohibition, Illinois governors and lawmakers from both parties have mostly abstained from the sort of voter displeasing fiscal fortitude needed to balance retirement

obligations with other financial needs.

Now, that chronic political instinct to put off tough decisions until after the next election has ballooned the cost and narrowed pension-fixing options to either expensively painful or pie-in-the-sky.

The latest crop of ideas come not from political leaders but from think tanks and activists. They range from amending the state constitution to dialing back ironclad pension protections embedded in the state charter, to refinancing pension debt like a mortgage, to paying most of the debt off quickly by essentially taking out the mother-of-all-loans.

Each idea faces daunting obstacles, be they political, legal, financial — or all three. Layered on top of it all is deep public suspicion of the leaders in charge of fixing things.

One idea apparently not on the table may be the most straightforward though is the most politically fraught — a major tax increase that raises revenue to pay down the debt.

“It’s hard to see a solution that isn’t really dramatic,” said J. P. Aubry, director of state and local research at Boston College’s Center for Retirement Research. “This is a political thing and not a pension mechanics thing.”

The pension crisis, which has saddled Illinois with the lowest credit rating among the 50 states, is a trick box because it grew over generations of neglect. Yet to solve it requires a long-term commitment to financial discipline, and history has shown that is not part of Illinois’ political DNA.

Further complicating any solution is the pension clause inserted in the state constitution of 1970 that forbids benefits from being “diminished or impaired.” Three years ago, the Illinois Supreme Court unanimously declared those words to be a sacred trust.

In the court’s bluntly worded opinion, which struck down a 2013 law reducing benefits promised most veteran public workers, the justices also blamed pension problems on the timidity of state leaders.

“It is a crisis for which the General Assembly is largely responsible,” justices wrote.

## **Changing the law**

So if the Constitution is an obstacle to change, why not just change the Constitution? That, in essence, is the argument underpinning a recent recommendation from the Civic Federation, a budget watchdog, for an Illinois Constitutional amendment aimed at modifying the pension clause to allow “reasonable, moderate changes” to retiree benefits.

Changing the Illinois Constitution, though, is no slam-dunk, and not just because of procedural hurdles requiring extraordinary votes of first the General Assembly and then voters at large.

It is far from clear whether courts would allow the state to reduce payments to current retirees or pension promises to long-time employees whose benefits have been constitutionally protected for almost a half-century.

“You can’t retroactively change substantive rights,” said Ann Lousin, a professor of constitutional law at John Marshall Law School who was a research assistant at the 1970 constitutional convention.

“This is another one of those kick-the-can things. We basically are unable to fund the pensions

properly, even though lawmakers know what they could do to fix things,” said Lousin, referring to tax increases that could be enacted.

Neither Pritzker nor Rauner make mention of pension reform plans on their campaign websites. As the sitting governor, however, Rauner reaffirmed his support in early April for a constitutionally questionable bill that would give employees the choice between keeping annual cost-of-living increases or having future pay increases factored into their pensions, but not both.

The governor has also proposed shifting some of the cost of funding pensions for teachers and college educators away from the state and on to local schools and state universities. Both ideas have met stiff resistance from Democrats and Republicans.

## **Refinancing the debt**

History convinces Ralph Martire, executive director of the Center for Tax and Budget Accountability, a nonpartisan think tank, that raising taxes to meet the obligations will never happen. As he sees it, the only way out of the crisis is to refinance the outstanding debt.

“It’s like refinancing your home mortgage if you’ve got a big balloon payment coming. Do you get rid of your home? No,” said Martire.

The catch to that idea, however, is that refinancing isn’t free. Martire estimates such a scheme would require the state to float an additional \$11.25 billion in bonds that would add to pension costs in the short-run but over future decades would save \$67 billion.

“There’s not a downside, compared to what we have. We already have a credit rating that’s in the tank,” Martire said.

Experts in the credit markets doubt Martire’s plan will be greeted with enthusiasm. That’s partly because the folks with the purse-strings have memories of being fooled by previous Illinois efforts to retool the pension debt.

“This has to be tied to some ironclad protections that things will get better,” said Richard Cicarrone, president and CEO of Merritt Research Services LLC, which focuses on credit information related to municipal bonds. “There have been a lot of empty promises and games before.”

Indeed, the Chicago-based Government Finance Officers Association argues against state and local governments issuing bonds to cover pension obligations.

Each of those variables raises even bigger questions about yet a different pension-related borrowing plan that makes the scope of Martire’s proposal look like chump change. The State Universities Annuitants Association, an advocacy group for college workers and retirees, is asking the General Assembly to authorize a whopping \$109 billion bond sale to get the pension funds in solid financial condition by 2045 and save the state \$100 billion in the interim.

## **A tough sell**

When Detroit, Stockton, California and other municipalities got into financial trouble, a bankruptcy judge handled outstanding pension debts by ordering benefit cuts among other savings. States like Illinois are barred from seeking bankruptcy protection, so there could be no supervisory oversight on the horizon.

The state has the power to get itself out of this mess by raising taxes or trying to convince unions to

agree to money-saving concessions. But lawmakers are politically loath to do it, let alone talk about it with any specificity.

Illinois' financial crisis isn't confined to pensions. The backlog of unpaid bills in 2017 at one point soared to nearly \$16.7 billion, though it has since been halved. The stiffing of vendors has helped further a credibility crisis that hinders whatever the state decides to do with pensions.

"The people of Illinois are so unhappy with government that they don't trust them," said David Yepsen, the former director of the Paul Simon Public Policy Institute at Southern Illinois University.

Even if there were some grand and lasting bargain to stabilize state finances, the pension funds would effectively stand in line with all the other interests with their hands out, looking for their share and hoping for a long-awaited fix.

"There's no other solution to right the ship with cuts around the edges," Aubry said. "There's going to have to be a moment when everyone sits down at the table and says, 'Obviously the status quo can't persist.' The question is when and how that comes."

### **Better Government Association**

By Tim Jones

Apr 13, 2018

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### **[Fitch: Chicago O'Hare Airport Inks New Airline Agreement.](#)**

**Fitch Ratings-New York-11 April 2018:** The City of Chicago and the leading carriers serving O'Hare International Airport will begin to operate under a new airline use and lease agreement (AUL) starting in May 2018, which Fitch Ratings views as an essential step to allow the airport to address both the modernization and the expansion of the airport to serve long-term growth for domestic and international service, as well as hub activities for United Airlines and American Airlines.

The underlying long-term capital plan working in tandem with this airline agreement is substantial in size at \$8.5 billion and will take nearly a decade to complete. Given the limitations of external funding resources, O'Hare will likely assume a considerable addition of future borrowings, resulting in elevated leverage and airline costs for many years. Further, a capital program of this size will carry considerable cost and execution risks as the budget could evolve upward. Still, the leading domestic and foreign-flag carriers have approved the new lease, including the associated capital plan, and therefore recognize both the value and the cost implications to maintain service in a strong Chicago market.

The new AUL, which replaces a legacy 35-year agreement, will extend through December 2033 and will continue to utilize credit supportive residual rate setting mechanisms. Airport costs will be recovered primarily through the landing fees and terminal rents at a sufficient level to meet all bond indenture requirements. At this time, Fitch has not reviewed any new financial or cost forecasts associated with the new AUL and the approved capital plan. Excluding the newly approved capital plan, O'Hare's airline cost per enplanement (CPE) was already forecast to rise from the current \$15 level to over \$25 in approximately five years under Fitch's rating case scenario. The new capital plan will only exacerbate the degree of cost increases and likely place O'Hare as one of highest cost

airports in the U.S. and a much higher cost level versus the city's Midway Airport. Fitch notes that a number of other international gateway airports, including those serving the New York, Los Angeles, and San Francisco regions, are facing steep increases to airport costs but have not experienced adverse demand shifts as a result given the market strength.

Key financial-related modifications covered under the new AUL include gradual increases to the minimum annual debt service coverage levels from 1.10x to 1.25x by 2021. Further, the airport will add a supplemental operating and maintenance reserve fund reaching a funding level of 25% of annual operating costs by 2025. As O'Hare's cost base rises in conjunction with potential service growth and the capital spending under the approved plan, Fitch views these revisions as a prudent development since they collectively provide additional financial cushion in case of adverse operating developments.

Leverage related risks have been a key consideration in the 'A' rating of O'Hare airport. Even ahead of the new capital expansion plan, O'Hare already had an elevated leverage position of nearly 10x net debt to cashflow available for debt service, reflecting the approximately \$7.3 billion of existing debt. Airport debt has increased sizably over the past decade to defray the capital costs for the reconfiguration of the airfield with new and extended runways. Additional debt to fund this capital plan will likely keep overall airport leverage above the current 10x level for many years. The 'A' rating could be pressured to the extent there is a sustained upward shift in leverage.

The upcoming transition to a capital program focused on the airport terminals is a logical next step for the overall airport infrastructure. Terminal-related capacity constraints exist at O'Hare given the lack of meaningful gate expansion for some time coupled with the limitations of exclusive-use gate leasing under the prior agreement. The approved terminal area plan, with a current estimate of \$6.1 billion, will ultimately result in a dramatically reconfigured layout of the terminals, including new concourses and approximately 25% more gate capacity. The new airline agreement will lease gates to the carriers under preferential and common use terms, a more common practice at many of the other U.S. large-hub airports, which provides more control to the city to ensure higher utilization as well as to support service opportunities for new entrants.

In Fitch's view, the new terms under the updated airline agreement are fundamental to the airport's modernization plans while operating under a partnership approach with the airlines. The overall financial integrity of the airport should remain sound given the provisions to boost coverage levels and operating reserves. Effective implementation and successful delivery of a capital program of this size will be among the greatest challenges while airport leverage will be sustained at relatively high levels.

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## **Fitch Places Two CO Charter School Ratings on Watch Positive with Criteria Change.**

Fitch Ratings-New York-04 April 2018: Following the April 3rd release of Fitch Ratings' updated U.S. Public Finance Tax-Supported Rating Criteria, Fitch has placed the ratings on the following bonds issued by the Colorado Educational and Cultural Facilities Authority on Rating Watch Positive:

- Approximately \$6.8 million series 2009 charter school revenue bonds issued on behalf of Crown Pointe Academy (CPA) rated 'BBB';
- Approximately \$11.3 million series 2010 bonds (Pinnacle Charter School, Inc. High School Project) issued on behalf of Pinnacle Charter School rated 'BBB-'.

### **SECURITY**

Each series of bonds is payable from annual lease payments made by the respective school, subject to annual appropriation, and secured by a first mortgage over its financed facilities. Cash-funded debt service reserve funds (DSRF) equal to transaction maximum annual debt service for each series provide additional bondholder protection. Both schools are included in the state of Colorado's charter school moral obligation program (the program), which provides a mechanism for the state to restore draws on the DSRF.

### **KEY RATING DRIVERS**

Change in Criteria: Under the revised U.S. Public Finance Tax-Supported Rating Criteria, all moral obligation ratings will be notched down from the credit quality of the moral obligation provider. Formerly, the moral obligation enhancement was recognized based either on this top-down approach or by notching up from the underlying security rating, depending on the nature of the transaction. The ratings on the bonds issued on behalf of CPA and Pinnacle were previously notched up from the credit quality of the individual schools.

State Credit Quality: The state features a diverse and robust economy, with some concentration in natural resources, an above-average socioeconomic profile, and a modest liability position. Additionally, state financial operations are well maintained, though the state constitution's Taxpayers Bill of Rights requirements and an active voter initiative process impede flexibility.

Notching to be Evaluated: Most moral obligation debt will be rated three notches below the general credit quality of the provider, in this case the state of Colorado. Ratings can be two notches below the provider's credit quality under certain circumstances, as outlined in the criteria. Further analysis is required to make this determination for these ratings. Fitch expects to resolve the Rating Watch within the next 60 days.

### **RATING SENSITIVITIES**

Program Evaluation: Fitch expects to evaluate the provisions of Colorado's charter school moral obligation program in light of the revised criteria the near term to determine the appropriate level of notching from Colorado's general credit quality for the two charter school ratings.



## OTHER MORAL OBLIGATION RATINGS

Fitch rates several other moral obligation bonds whose ratings are not expected to change, so are not on Rating Watch. These are either already rated using a top down approach or are rated using a bottom-up approach that results in a rating no more than three notches below the provider's IDR.

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### **[Las Vegas Sets Bond Sale for the New Raiders' Stadium.](#)**

- **Facility scheduled to open in time for 2020 football season**
- **Tax-exemption for stadium finance barely survived tax reform**

Remember how Congress was going to outlaw using tax-exempt finance for professional sports stadiums last year?

It didn't happen. And now welcome what will undoubtedly be the new emblem of the genre, Clark County, Nevada's \$647.95 million general obligation stadium improvement bonds.

The debt is being sold to help pay for the county's share of the new \$1.8 billion, 65,000-seat football stadium being built south of the Las Vegas Strip for the National Football League's Raiders, who current play in Oakland, California. The Raiders and the NFL are kicking in the rest. The team agreed to a 30-year lease.

The stadium, now piles of dirt being pushed around by big equipment, is scheduled to open in time for the 2020 season.

Sale of the bonds was approved by the county on Tuesday, and the preliminary official statement

was posted shortly thereafter.

Many stadium deals represent a big roll of the dice by municipalities on a single, somewhat speculative project designed to boost economic development with the help of their taxpayers. There's usually a pathetically optimistic feasibility study attached outlining hopeful game-day attendance and ticket prices. This is not that.

For one thing, these bonds, while technically general obligations, are also secured by hotel-room taxes. So you are paying for this stadium if you visit Las Vegas. And many, many people do.

Las Vegas is basically the King Kong of municipalities in the tourism and entertainment business. Almost every page of the bond-offering document is a testament to the city's awesome financial puissance.

Let's take just one example. On page 29, there's a table showing hotel room inventory: 148,896, which is sort of insane. Occupancy rate: 88.6 percent in 2017. Nationally, in 2017, that rate was 65.9 percent.

So, in other words, don't expect fancy yields on these stadium bonds. They are rated Aa1 by Moody's and AA+ by S&P Global Ratings, both of whose reports prominently mention words like "solid," "strong" and "very strong."

And that these are tax-exempt is going to drive the people in Congress who hate the municipal market into a frenzy.

## **Bloomberg**

By Joe Mysak

April 5, 2018, 6:18 AM PDT

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### **[It's So Bad in Illinois Its Bonds Pay Like a Reviled Jersey Mall.](#)**

- **American Dream yields only slightly above worst-rated state**
- **State remains a better buy than the mall: AllianceBernstein**

Illinois's finances are so troubled that investors can make nearly as much money betting on the worst-rated U.S. state as they can on the American Dream mall project, perhaps the most despised structure in New Jersey.

An unfinished, multicolored hulk in the Meadowlands beside the Turnpike, former Governor Chris Christie called it "the ugliest damn building in New Jersey, and maybe America." Yet bondholders are asking to get paid nearly as much to own Illinois's debt as they are demanding in return for holding the long-delayed mall's unrated revenue bonds — a consequence of the state's perennial budget distress that's left it teetering near junk grade.

The yield on Illinois general-obligation bonds that mature in 2028 averaged 4.5 percent in March, compared to an average of 4.99 percent on unrated bonds due in 2050 sold for the American Dream mall project, the shopping and entertainment center that's years behind schedule, according to data compiled by Bloomberg.

Despite the close yields, the state's debt is still the better bet, according to AllianceBernstein LP, which oversees about \$41 billion of municipal fixed income securities. No state has defaulted since the Great Depression, after all, while the shopping mall industry is being challenged by the growth of Internet retailing.

"Fundamentally, when you look longer-term, you would take a state over any single project," said Guy Davidson, director of municipal investments at AllianceBernstein. "The hard part is the noise in between. Right now, a single project could be on budget and has the money set aside to pay debt service along the way, you don't expect any noise, and right now given the politics in Illinois, you're going to have noise."

Illinois has \$8 billion of unpaid bills, chronic budget deficits and \$129 billion of unfunded retirement liabilities. Little progress has been made on its pension crisis amid fighting between Republican Governor Bruce Rauner, who is up for re-election this year, and the Democrat-led legislature.

Partisan gridlock led to an unprecedented budget impasse last year. In July, Illinois narrowly avoided becoming the first junk-rated state after lawmakers overrode Rauner's veto of an income tax-hike to enact a spending plan.

Still, investors should have room to buy if Illinois yields rise further, relative to top-rated debt, especially since it doesn't seem like the news will improve, according to Davidson. Illinois holdings make up about 2 percent of AllianceBernstein's municipal bond portfolio.

The gap between Illinois's yields and the benchmark has widened this year as the sixth-most populous state faces uncertainty around its deteriorating finances, and spreads will likely widen further, said Neene Jenkins, a vice president and municipal credit analyst at AllianceBernstein. Illinois is already rated Baa3 by Moody's Investors Service, with a negative outlook, and BBB- by S&P Global Ratings with a stable outlook. For both companies, that's the lowest level of investment-grade.

"If we don't have a budget that's been passed on time, there's a good chance one of the rating agencies could lose patience," Jenkins said.

## **Bloomberg**

By Elizabeth Campbell

April 3, 2018, 11:26 AM PDT

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### **[Stunned Investors Reap 95% Gains on Defaulted Puerto Rico Bonds.](#)**

- **Debt once worth 21 cents on the dollar now trades for 41 cents**
- **Some have doubts: 'The numbers are still pretty ugly.'**

Of all the wild, head-scratching moves in financial markets this year, there are few that have surprised investors quite as much as the rally in defaulted Puerto Rico bonds. "It just blows my mind," says Matt Dalton, chief executive officer of Belle Haven Investments.

Since sinking to a mere 20.8 cents on the dollar in December, prices on the island's most frequently traded securities have climbed steadily and reached a high of 45 cents last week before paring gains

during the past few days. Not only are Puerto Rico's bonds the top performer in the \$3.9 trillion municipal market, they've gained more than any other dollar-denominated debt in the world, according to data compiled by Bloomberg.

The rally started inconspicuously enough back in late December, with a penny gain here and there that analysts chalked up to bottom fishing after prices collapsed in the aftermath of Hurricane Maria.

But then the increases started coming in bigger chunks as word spread that the island may emerge from the devastation with more money on hand than anticipated, a development that creditors bet would translate into better debt-restructuring terms.

The bonds soared by more than 8 cents over two days late last month after Governor Ricardo Rossello released a revised fiscal plan that projects a \$6 billion surplus before debt payment through 2023, the second upward revision in as many months.

Many investors question the rally's staying power. Puerto Rico has a long history of botching its projections, they point out. And the federal oversight board that was empowered by Congress to enforce fiscal discipline on the territory and chart a financial turnaround doesn't appear to be nearly as sanguine as the bond market. On March 28, it demanded additional austerity measures that Rossello is resisting.

"We're miles away from having a resolution and concrete determination on where we're going to be," said Dalton, whose firm invests some of the \$7 billion it manages in insured Puerto Rico debt.

Municipal bankruptcies are so rare that trying to forecast how much investors will recover is little more than a guessing game. And there's never been a workout as big or as complicated as the one under way for Puerto Rico, which has sold some \$74 billion of debt with varying — and sometimes rival — claims to the government's tax revenue.

The outlook for investors looked even bleaker after the September storm when President Donald Trump suggested that Puerto Rico's debt would need to be erased to help it recover. But an influx of \$70 billion of federal funds and insurance money to rebuild is expected to give it a needed boost. Rossello's plan forecasts that the island's long-sputtering economy will grow by 7.3 percent next year and continue to expand — albeit at a slower pace — for the next four years.

That would mark a sharp break for the island, whose debt crisis arose from years of borrowing to paper over budget shortfalls as the economy contracted year after year and residents continued to leave for jobs on the U.S. mainland. Puerto Rico is now counting on them largely sticking around: the plan relies on the population loss holding around one percent a year starting in fiscal 2019.

"I'm surprised by the amount that the bonds have rallied because there's still a lot of questions to be asked," said Mark Paris, senior portfolio manager at Invesco Advisers Inc. which oversees \$27.2 billion in municipal assets. "They need to do a lot for the people on the island before they start really worrying about bondholders. So I don't know how you calculate the recovery."

Rossello's fiscal plan calculates the island could pay as much as \$19.1 billion of principal over 30 years if the debt were restructured with an interest rate of 4.5 percent — enough to cover about half the outstanding principal the central government owes. But that's only a projection. The recoveries will ultimately be determined in bankruptcy court as the federal board and creditors negotiate on a deal.

"Many of the recoveries will be determined through negotiation essentially and it's unclear to me

that the current fiscal plan that's been put on the table will have a great deal of influence on this process," said Ted Hampton, an analyst at Moody's Investors Service in New York.

Even with federal funds for rebuilding after the storm, Puerto Rico's faces challenges. More than 45 percent of residents live in poverty, workforce participation is about 40 percent and the fiscal plan projects the population will still shrink.

"The numbers are still pretty ugly," said Joe Rosenblum, director of municipal credit at AllianceBernstein LP, which oversees \$41 billion of municipal debt. "For now, I think the optimism has played out."

## **Bloomberg Markets**

By Michelle Kaske

April 3, 2018, 5:07 AM PDT

— *With assistance by Ye Xie*

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### **Scandal-Plagued Chicago Suburb Sues Over Pension Crisis.**

CHICAGO (CN) - The Chicago suburb of Harvey claims it will be unable to make payroll or fund essential city services by mid-April unless the Illinois comptroller releases \$1 million currently being held to satisfy the debt the city owes to its police pension fund.

In 2015, a Cook County judge found that the city of Harvey, a south Chicago suburb, owes more than \$7.3 million to its police pension fund after failing to make payments for nearly a decade.

To satisfy this judgment, Illinois Comptroller Susana Mendoza is currently withholding more than \$1 million in revenues due to the city.

Harvey sued to recoup the withheld funds in lawsuit filed Thursday afternoon in Cook County Circuit Court, claiming it will be unable to pay for essential government services unless the comptroller immediately releases the money.

"Unless the city is granted its relief, the city will not be able to pay for approximately 200 employees, including but not limited to, police and fire protection, water and sanitation, and its governmental employees," the complaint states.

The city, represented by Ken Hurst with Roth Fioretti, owes payroll of \$400,000 due on April 13 as well as an additional \$300,000 for its employees' health insurance, but currently holds less than \$200,000 in its general fund, according to the suit.

Harvey argues Mendoza is illegally withholding the city's revenues when the city has complied with the requirements of the Illinois Police Pension Code.

"The Illinois Police Pension Code requires the city to levy an annual requirement and to transmit those amounts to the police pension fund," the lawsuit states. "The city has levied the annual actual requirement under the Pension Code and has transmitted those amounts to the police pension fund. Therefore, there are no delinquent funds that the Illinois Comptroller may legally withhold from the

city.”

Harvey is currently in serious debt, with a deficit of \$5.9 million, and its collection rate on real estate taxes is just 58 percent.

After reviewing the city’s finances, the Civic Federation told Fox News in 2016 that the city is “worse than broke,” and key records to determine where the money went are missing.

The court ruling creating the city’s current fiscal crisis is just one in a series of scandals over Harvey’s misuse of public funds.

In 2015, Harvey reached an \$18.5 million settlement with Chicago to pay back the money it owes for water taken from the city without paying and resold to other suburbs.

The year before, the Securities and Exchange Commission obtained an emergency court order after claiming the city issued a fraudulent bond offering related to a scheme that tricked investors into lending millions for a hotel development deal that diverted \$800,000 to then-top mayoral aide Joseph Letke.

Mayor Eric Kellogg paid a \$10,000 fine, admitting no wrongdoing, and was barred from ever participating in the issuance of municipal bonds. Letke was found dead in September 2016 in an apparent suicide.

Kellogg, who has been mayor of Harvey since 2003, has been accused by city aldermen of rampant corruption. In 2016, Illinois stepped in to block his attempt to unilaterally remove four aldermen who opposed him.

Harvey seeks an injunction prohibiting the comptroller from withholding city funds in the future and an order compelling her to release the \$1 million currently in her possession.

The comptroller’s office declined to comment.

COURTHOUSE NEWS SERVICE

by LORRAINE BAILEY

April 5, 2018

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## **Puerto Rico Lawsuit Opens Door to Fiscal Plan Talks - Bond Insurers**

Bond insurers have urged the judge overseeing Puerto Rico’s restructuring to review a recent ruling from a local court they believe could help them get an order allowing them to investigate what was discussed during talks that led to plans for the island’s finances, including any cuts to debt service payments.

Assured Guaranty Corp, Assured Guaranty Municipal Corp and National Public Finance Guarantee Corporation in court papers filed on Monday pressed U.S. District Court Judge Laura Taylor Swain to look at the March 16 decision by Judge Lauracelis Roques-Arroyo of Puerto Rico’s Court of First Instance in a lawsuit over a draft of the territory’s budget.

To read the full story on Westlaw Practitioner Insights, [click here](#).

MARCH 27, 2018

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## **Puerto Rico Forecasts \$6 Billion Surplus As Bonds Soar.**

NEW YORK (Reuters) – Puerto Rico's benchmark bond surged to a 25-week high on Monday, its busiest trading day since October, after the bankrupt U.S. territory nearly doubled its projected five-year surplus to \$6 billion as it recovers from Hurricane Maria.

While the price rise is being taken as a sign the market is beginning to see a recovery path for the storm-ravaged island, analysts remained wary, taking the spike with a grain of salt.

General obligation bonds maturing in 2035 changed hands more than 100 times on Monday and traded as high as 45 cents on the dollar, the bond's highest level since Oct. 3. 74514LE86=MSRB

While still down sharply from the 60-cent range the bonds had occupied before Maria struck on Sept. 20, prices are continuing a steady, month-long climb as the island's recovery prospects improve.

Senior bonds backed by sales tax revenue, so-called COFINA debt, have fared even better, reaching 63.51 cents in light trading on Monday, higher than they were in the weeks before the storm. 74529JAR6=MSRB Bonds issued by the bankrupt Puerto Rico Electric Power Authority (PREPA) also gained ground.

The latest bounce came on the heels of a revised financial outlook – released without fanfare by Puerto Rico's government on Friday – that projected the U.S. territory to accumulate a \$6 billion surplus over the next five years.

An earlier version of the so-called fiscal turnaround plan, released in February, had forecast the surplus at \$3.4 billion.

"Puerto Rico GO bond prices have more than doubled since their lows earlier in the year and other issues, including COFINAs, PREPAs and even National- and AMBAC-insured bonds, have all participated in this broad rally," Daniel DiBono, manager of municipal high yield evaluations at Thomson Reuters Pricing Service (TRPS), said, noting the revised surplus projections.

Share prices for insurers of Puerto Rican bonds also rose. MBIA (MBI.N), the parent company of National Public Finance Guarantee Corp, was up 4.4 percent on Monday, while shares of AMBAC Financial Group (AMBC.O) gained 6.56 percent.

The fiscal turnaround plan will serve as a basis for creditor restructuring talks in Puerto Rico's bankruptcy, which, with \$120 billion of combined bond and pension debt, was already the largest in U.S. government history before Maria trashed the island's infrastructure and killed dozens.

The plan needs approval by a federal board tasked with managing the island's finances. The board was expected to approve the February version of the plan at a meeting on Monday, but postponed the meeting after Friday's revision.

Observers cast a skeptical eye on the rosier projections, unsure the board would go along with them.

Puerto Rico Governor Ricardo Rossello and the board have butted heads for months over what the plan should include.

The new plan creates \$3 billion more in cost savings than the February version, including an extra \$1.34 billion in tax measures like changing minimum tax rates and reducing incentives.

"While these headlines appear positive, we continue to think there will be a lot of noise before there is any significant resolution in Puerto Rico," analysts at KBW Research said in a Monday note.

Chris Ryon, a portfolio manager at Thornburg Investment Management in Santa Fe, which does not own Puerto Rican bonds, said he was scratching his head over the spike.

"I guess hope springs eternal," Ryon said. "I don't see the numbers working out in that way, that favorably. You have been losing population, saying the recovery is going to really juice their economy. I don't see that happening."

Such reservations underscore an ongoing credibility gap for Puerto Rico in the eyes of creditors and lawmakers, spanning multiple gubernatorial administrations.

The island has not published audited financial statements in three fiscal years, and absorbed routine accusations from stakeholders and legislators that it is overstating its crisis.

by Nick Brown

Reporting by Nick Brown; Additional reporting by Daniel Bases; Editing by Daniel Bases and James Dalglish

MARCH 26, 2018

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## **[Connecticut Reduces Size of Bond Deal by 15 Percent to \\$526 Million.](#)**

NEW YORK (Reuters) – Connecticut, one of the lowest rated U.S. states, cut the size of its general obligation bond deal this week by 15 percent to \$526.4 million, according to final pricing information on Thursday.

The Connecticut Treasurer's office did not immediately reply to a request for comment on why the deal shrank from \$620 million.

Typically, a deal can be reduced because investors wanted more yield than the issuer could pay, or because demand for the bonds was lower than expected.

Final prices on the deal did not change from preliminary levels. The state's spread over top-rated municipal bonds widened since it last issued similar debt a year ago.

That means that the state, which has budget problems and high debt levels despite being one of the wealthiest in the country, had to pay more to borrow in part because of its credit woes.

by Hilary Russ

Reporting by Hilary Russ; editing by Diane Craft



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**Fitch: N.J. Exec Budget; New Revenue & Spending; Legacy Costs Remain Driver.**

Fitch Ratings-New York-22 March 2018: The New Jersey governor's executive budget delivers on policy goals outlined during his campaign; however, numerous new program and tax credit initiatives, combined with proposed extensive tax policy actions, cannot in the near term materially change the persistent underfunding of retiree liabilities and the elevated long-term liability burden that are the key drivers of the state's below-average 'A' Issuer Default Rating (IDR), according to Fitch Ratings.

The \$2 billion, or 5.7%, proposed revenue growth from fiscal 2018 includes \$1.5 billion from tax increases, supporting 4.2% growth in state appropriations. These increased revenues would go to new spending and leave the state with still slim reserves and reduced flexibility to respond to future economic downturns through revenue raising. Fitch notes that the state has significant spending pressures not only due to the demands of underfunded retiree benefit liabilities but also because natural revenue increases resulting from modest economic growth in recent years have gone primarily towards the phased-in growth in annual pension contributions. This dynamic has led to underfunding of other state needs.

**GRADUAL PENSION RAMP UP CONTINUES**

If implemented, the budget would continue the state on the path of a gradual 1/10th annual phase-in to the full actuarially determined contribution (ADC) for pensions in fiscal 2023. Despite the \$691 million increase to the pension contribution, Fitch would expect further deterioration in the funded condition of the plans over the near term as the contribution remains well below the ADC. The \$3.2 billion total pension contribution (9% of the budget) is a 28% increase from fiscal 2018 that accounts for 39% of proposed budget growth and funds 60% of the ADC. The contribution meets Fitch's rating expectations given the state's policies in recent years and hews the governor to the same path as his predecessor.

Employee and retiree medical expenses also continue to loom large, representing \$3.4 billion (9%) of the governor's budget. As in most states, OPEB contributions remain well below actuarial recommendations, growing the accrued liability. Escalating pension and OPEB liabilities are expected to remain negative rating factors absent further policy action that reduces the liabilities, forestalling improvement in the state's IDR.

**FISCALLY PRUDENT PROPOSALS**

The governor's proposals for increased funding to New Jersey Transit (NJT), greater adherence to full education formula funding, reduced one-time budget balancing actions and an addition to state cash balances to provide greater financial cushion would either address critical state needs or support more sustainable financial operations, in Fitch's view. Further, the suggested return of the state sales tax rate to 7%, lowered as part of the transportation funding agreement in 2016, would provide \$581 million in additional revenue. This is a positive step. At the time of that agreement, which lowered the sales tax rate in exchange for an increase in the gas tax, Fitch noted that the state had replaced a growing revenue source with one with more limited growth prospects and added to the pressure on operating funds.

## NEW PROGRAM INITIATIVES

Excluding the operating budget's increased pension contribution, recommended program expense grows by a net \$918 million. Significant increases include \$933 million in additional K-12 education funding, including \$283 million in added formula aid, \$242 million in additional state subsidies for NJT, \$120 million for state and teacher employee and retiree health benefits, \$100 million for opioid addiction programs and \$50 million for assistance to community college students. Medicaid grows by \$244 million, boosting this program's draw on the operating budget to 12% of proposed expenditures although remaining far below the 46% of the budget dedicated to education (including higher education). Offsetting these increases are reductions to various line items, \$46 million in expected state-wide salary and operational savings, and reductions in certain state aid categories and capital construction. In addition to programmatic adjustments, the governor has proposed tax policy changes that reduce revenue to the state, including increases in the earned-income tax credit (\$27 million) and the state property tax deduction cap (\$80 million).

## EXTENSIVE NEW REVENUE MEASURES

To fund these initiatives, the governor has proposed a milestone 10.75% personal income tax (PIT) rate for taxpayers earning more than \$1 million, which would provide an estimated \$765 million in fiscal 2019, as well as numerous business tax changes for an additional \$110 million; both in addition to the proposed sales tax changes. The governor's budget also includes the legalization and taxation of marijuana which is estimated to deliver \$80 million in tax revenue. Fitch believes there is uncertain legislative interest in the PIT proposal, particularly given recent passage of federal tax changes in December 2017 that capped the deduction for state and local taxes (SALT) and is expected to increase residents' effective state tax burden. Should the measures fail to be approved, other revenue solutions or expenditure reductions will need to be identified to balance the fiscal 2019 budget.

The state's revenue forecast is premised on 2.4% growth in the sales tax base; 4% and 4.2% growth in personal income in 2018 and 2019, respectively; 4% growth in gross state product in both 2018 and 2019; and 1% and 0.8% growth in nonfarm employment in 2018 and 2019, respectively. Fitch believes these forecasts to be reasonable based on recent quarterly experience but somewhat robust when considering the state's recent annualized growth, while noting that future economic growth is expected to remain below that of the nation.

## BALANCED FISCAL 2018 OPERATIONS

Updates to the state's fiscal 2018 financial operations are included in the executive budget and point to anticipated budgetary balance this fiscal year. Current forecast revenue is a 2.2% improvement over the forecast used to enact the budget; however, the improvement largely incorporates a shift of sales tax revenue from non-operating funds to operating funds in addition to expected PIT revenue that is above forecast, offset by shortfalls in other revenue sources. Over 40% of the increase in the PIT is attributable to \$253 million in one-time revenue related to the repatriation of overseas hedge fund profits, a direct effect of Section 457A of the federal Internal Revenue Code passed in 2008. Unexpected growth in the PIT excludes \$200 million collected in December from taxpayers seeking to take advantage of the higher SALT deduction as the state believes this revenue would have been collected in April 2018.

Final, estimated appropriations increase by \$1.2 billion (3.6%) from the enacted budget, partly incorporating appropriations linked to the moved sales tax revenue. The state's estimated year-end budgetary fund balance, which the state views as its budgetary cushion, is projected to be \$738 million (2% of operating fund appropriations) largely incorporating a larger beginning fund balance

than anticipated when the budget was enacted.

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## **Puerto Rico Bondholders Finally See a Big Win.**

- **New plan sees six-year surplus of \$6 billion before debt**
- **Most-traded bond jumps by more than 20 percent Monday**

Puerto Rico and its creditors finally caught a break, at least for one day.

Bonds of the bankrupt U.S. territory soared more than 20 percent Monday after the government surprised investors by projecting that a flood of disaster-relief funds will do what officials for years couldn't: revive the moribund economy enough to replace chronic deficits with increasing surpluses, before any debt payments are made.

There's still a big question mark over whether Puerto Rico can actually deliver, given its history of fiscal folly and an exodus of residents. But the bond rally signals optimism that investors may not lose quite as much as initially feared from what has been the largest municipal bankruptcy in U.S. history, even as residents brace for a new era of fiscal austerity.

The government's latest financial turnaround plan marks the second time in as many months that it's offered a more sanguine outlook for its recovery. It projects that Puerto Rico will have a surplus, excluding bond payments, of \$6 billion over the next six years after implementing plans to steady its finances. That's up from \$3.4 billion projected last month. In January, while still gauging the toll of the storm, it estimated that it would have essentially no money for debts because of the devastation.

"The move is bigger than expected, but it is in reaction to the fiscal plan which has come out more positively than previous ones," said Daniel Solender, head of municipal investments at Lord Abbett & Co., which holds Puerto Rico securities among its \$20 billion of state and local debt. "There still is a long way to go, but there is growing optimism that things have moved better than worst-case scenarios."

Puerto Rico general obligations were the most actively traded municipal bonds Monday. The price of

those due in 2035 rose by 7 cents on the dollar to an average 43.8 cents, the highest since early October, after climbing to as much as 45 cents, according to data compiled by Bloomberg. The prices of the territory's sales-tax, electric-company and building-authority bonds also jumped in heavy volume.

The rally wiped out much of the losses that Puerto Rico bondholders suffered after the September hurricane. The bonds due in 2035 — which were sold to hedge funds and other investors for 93 cents on the dollar four years ago — had slipped to around 58 cents before the storm. They then tumbled to as little as 21 cents in December.

Governor Ricardo Rossello's administration's latest plan still needs approval from the federal board that's been installed to oversee the turnaround and requires him to implement steps to wrest savings from the government and increase revenue. The question of how much investors will recover will also be determined in court, where creditors with sometimes competing claims are fighting over the the island's cash — making the outcome highly uncertain.

The improved outlook in the latest road map reflects the federal aid and insurance claims that are coming into the island, promising to boost an economy that had been mired in a recession for years as residents left for jobs on the U.S. mainland. The stagnation culminated in Puerto Rico's fiscal collapse.

As a result of the storm, Puerto Rico is counting on \$21 billion of insurance money and about \$49.1 billion of federal aid, enough to have a major impact on growth. While the economy is projected to shrink about 10.6 percent in the current fiscal year, the government anticipates it will expand 7.3 percent next year and grow for the following four years. A year ago, the island was projecting continued contraction.

The latest plan was set to be considered by Puerto Rico's federal oversight board Monday until the meeting was delayed. If approved, it will be a blueprint for the board, Rossello's administration and creditors during negotiations over how much of the island's \$74 billion of debt it can repay.

## **Bloomberg Markets**

By Danielle Moran

March 26, 2018, 12:47 PM PDT

— *With assistance by Jonathan Levin, and Tatiana Darie*

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## **[New Jersey to Refund Junk Tobacco Bonds for \\$3.2 billion of High-Grade Paper.](#)**

NEW YORK (Reuters) – New Jersey will sell \$3.2 billion of tobacco refunding bonds on April 4 in a deal that effectively strips the debt of its junk rating and elevates it to investment grade.

The deal, the largest of next week's \$8 billion of U.S. municipal bond and note sales, will refinance what remains of \$3.6 billion of bonds issued in 2007 by the state's Tobacco Settlement Financing Corporation.

S&P Global Ratings currently rates those bonds a B, in speculative territory. But the credit agency

expects to assign various investment-grade ratings to the new bonds – from BBB to A depending on the seniority and maturity, according to bond documents.

In 1998, big tobacco companies agreed to make annual payments to most U.S. states to cover medical costs for sick smokers.

Many states opted to securitize that stream of money by selling municipal bonds backed by the expected payments from tobacco companies.

However, the payments are tied to smoking rates. Fewer shipments of cigarettes means less money to back the bonds, and smoking rates have been falling.

The New Jersey deal is part of a new generation of refinanced tobacco bonds and takes into account that more smokers are quitting, according to Alan Schankel, managing director at Janney Montgomery Scott.

Like most other tobacco bonds of an earlier era, New Jersey's 2007 bonds "were based on assumptions that cigarette smoking declines would not exceed 4 percent annually."

The new bonds being issued next week are designed around different expectations – that consumption will continue to decline as much as 8.72 percent by the time the 2046 senior term bonds mature.

The deal is "reflective of lower smoking rates and more realistic assumptions," Schankel said.

The state expects to save \$250 million immediately on the refinancing.

Ahead of New Jersey's offering, debt from Ohio's Buckeye Tobacco Settlement Financing Authority traded higher at \$98.75, according to analyzed price data from Markit.

There were more than \$30 million of trades this week in the 2046 maturity of Ohio's 2007 tobacco bonds with a 5.875 percent coupon, according to trade data from the Municipal Securities Rulemaking Board.

Also in New Jersey next week, the fiscally stressed seaside resort Atlantic City plans to price \$49.37 million of taxable bonds rated 'BBB+' through sole manager Morgan Stanley & Co. Inc.

Proceeds from the bonds, which are backed by a state program, will be used to pay pension and healthcare contribution with interest that the city deferred in 2015.

Reporting by Hilary Russ; Editing by James Dalglish

MARCH 29, 2018

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## **[Ratings Downgrade: New York's MTA Debt is Getting Riskier.](#)**

**New York's Metropolitan Transportation Authority (MTA) is the largest public transport authority in the United States, but its budget deficit and lack of liquidity have become a growing crisis for the organization, state and local government and the city's residents.**

High leverage and poor operating results have translated to projections that MTA is \$38 billion in

debt and may be at risk of further downgrades – thus, bondholders should think twice before buying.

In this article, we will look at the MTA's current situation, what happened to its credit rating and what these factors mean for municipal bond investors.

[Continue reading.](#)

**municipalbonds.com**

by Justin Kuepper

Mar 29, 2018

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## **Connecticut Borrows at Higher Price as Credit Woes Weigh.**

NEW YORK (Reuters) – Connecticut paid a price for its credit woes on Wednesday as it borrowed \$620 million at wider spreads than when it last issued similar debt a year ago, despite strong overall demand in the U.S. municipal bond market.

Connecticut's 10-year bonds priced at 3.39 percent – a spread of 93 basis points over top-rated paper, according to a preliminary pricing sheet.

The New England state is one of the wealthiest in the country. But its credit rating is among the very lowest because of budget problems, underfunded pensions, high debt levels and a dim economic outlook.

When the state last sold similar general obligation debt on March 29, 2017, its 10-year bonds with 5 percent coupons priced at 3.00 percent.

At the time, that level was 77 basis points above general market bonds carrying the highest rating of triple-A, according to Municipal Market Data, a Thomson Reuters company.

Since then, however, state lawmakers and Governor Dannel Malloy hit a budget impasse amid a huge revenue slump that led all three major credit rating agencies to downgrade Connecticut in May.

S&P Global Ratings rates the state A-plus with a negative outlook, leaving Connecticut tied with Kentucky as the third-worst rated state.

Connecticut's spread widened by 16 basis points in the last year, indicating that buyers demanded more yield to take on a slightly riskier investment.

The negotiated deal, led by Loop Capital Markets, consisted of \$250 million in new money bonds with serial maturities from 2019 through 2038, and \$367 million in refunding bonds maturing from 2019 through 2028.

Home to hedge fund billionaires alongside cities mired in poverty, Connecticut's debt load is the highest in the nation by several different measures.

It also has about \$37 billion of unfunded liabilities spread across its teacher and state employee pension funds, with funded ratios of just 52 percent and 32 percent respectively, according to bond

documents.

Connecticut has actually borrowed more recently but did so via a private placement. That deal, with just days left in its last fiscal year, came amid a budget stalemate that dragged on for nearly four months.

In late June, the state borrowed \$300 million of new money variable-rate 7-year bonds through a direct placement with Barclays Capital Inc, with another \$135 million of refunding bonds sold privately to JP Morgan Chase & Co.

by Hilary Russ, Reade Levinson

Reporting by Reade Levinson and Hilary Russ; Editing by Daniel Bases and Cynthia Osterman

MARCH 28, 2018

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## **Puerto Rico Bondholders Finally See a Big Win.**

- **New plan sees six-year surplus of \$6 billion before debt**
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There's still a big question mark over whether Puerto Rico can actually deliver, given its history of fiscal folly and an exodus of residents. But the bond rally signals optimism that investors may not lose quite as much as initially feared from what has been the largest municipal bankruptcy in U.S. history, even as residents brace for a new era of fiscal austerity.

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## **Bloomberg Markets**

By Danielle Moran

March 26, 2018, 12:47 PM PDT

— *With assistance by Jonathan Levin, and Tatiana Darie*

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## **[Illinois Candidates Vie to Lead State With Nation's Worst Credit Rating.](#)**

- **Gubernatorial primary comes amid budget deficit, unpaid bills**
- **Investors want winner to resolve growing pension crisis**

Up for grabs in Illinois's gubernatorial primary on Tuesday: A chance to compete in a general election that will decide who will lead the worst-rated state — one whose massive financial problems aren't going away anytime soon.

Illinois is contending with \$9 billion of unpaid bills, chronic budget deficits and \$129 billion of unfunded pension liabilities. Its credit rating is only one level above junk, making its borrowing costs the highest of any U.S. state as bond buyers punish Illinois for its fiscal woes. Plus the Land of Lincoln is losing population, dropping to the sixth-most-populous state last year from number 5, U.S. Census data show.

"This is a pivotal election for Illinois, which has been struggling for almost a decade to stabilize its



finances,” said Laurence Msall, president of the non-partisan Civic Federation, which tracks the state’s finances. “With only one notch separating Illinois from non-investment grade credit, the stakes are enormously high for whoever wins the primary and election to identify the financial path forward for the state.”

Republican Governor Bruce Rauner, who has repeatedly clashed with the Democrat-controlled legislature during his first term, is seeking re-election, though he’s facing a primary challenger, conservative Illinois House Representative Jeanne Ives.

Billionaire J.B. Pritzker, an heir to the Hyatt hotel empire, has invested at least \$69.5 million of his own money so far to take a lead in the Democratic race. State Senator Daniel Biss and Chris Kennedy, son of late liberal icon Robert F. Kennedy, are also vying for the chance to defeat Rauner in November.

If Rauner, a former private-equity executive who’s already put \$50 million of his own fortune into his campaign, and Pritzker win their respective primaries as expected, the Illinois general election could be the most expensive governor’s race in the nation’s history.

Bondholders are closely watching the race. The yields on the state’s 30-year general-obligation bonds have widened to the most over benchmark debt since July. Illinois yields are the highest among all 20 states tracked by Bloomberg. The spread is widening amid concerns that the financial problems facing Illinois, especially the growth in unfunded pension liabilities, won’t go away, no matter who is elected, according to Richard Ciccarone, president of Chicago-based Merritt Research Services.

“There’s anxiety that we’re not going to accomplish much by just having an election here,” said Ciccarone of Merritt, which analyzes muni finance. “The market really wants to see action and they want to see progress.”

Little headway has been made in addressing what investors agree is the state’s biggest challenge: unfunded pension liabilities. After years of skipping payments or not putting enough into the funds, the retirement system is only about 40 percent funded even as more and more of the state’s dollars get eaten up by this expense. Pension costs are expected to make up about 22.9 percent of all general-fund spending in the current fiscal year, up from 6.8 percent a decade ago, according to the Civic Federation.

The election comes eight months after the end of an unprecedented two-year budget impasse that drove the state’s rating to the edge of junk because of a showdown between Rauner, the first Republican to lead the state since 2003, and the Democrat-controlled legislature. Illinois avoided becoming the first U.S. state to lose its investment-grade rating after lawmakers on both sides overrode Rauner’s veto of an income-tax hike in July, enacting a budget and easing the immediate financial threat.

Despite the end of the standoff, whoever wins the governorship will still have to contend with a precarious credit rating. All three rating companies consider Illinois to be in the lowest tier of investment-grade ratings. Moody’s Investors Service and Fitch Ratings have a negative outlook on the state, signaling another downgrade is possible, while S&P has a stable view because of the budget passed in July.

“Any drop in their rating would have a big impact on their financing costs,” said Dan Solender, head of municipal investments at Lord Abbett & Co., which manages \$20 billion of state and local debt, including Illinois. He pointed out that the state’s yields are already trading at a lower rating.

“Already the number of buyers is more limited but it would shrink further.”

No matter the outcome, municipal investors will be monitoring the election results Tuesday.

“The municipal investor increasingly needs to watch elections because there are ramifications as an investor,” said Gabe Diederich, portfolio manager for Wells Fargo Asset Management, which oversees about \$40 billion of state and local debt. “Politics, not necessarily whether a person votes Republican or Democrat, but how different parties working together and those policies are going to impact finances.”

By Elizabeth Campbell

March 20, 2018, 8:14 AM PDT

## **Bloomberg Politics**

— *With assistance by John McCormick*

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### **[Baltimore to Use New Form of Financing for Green Infrastructure Projects to fight water pollution.](#)**

Baltimore officials will announce a plan Monday to use a new form of financing to help pay for \$10 million in green infrastructure projects designed to reduce water pollution from stormwater runoff.

The Department of Public Works plans to take out \$6 million in environmental impact bonds to pay for the projects, which use trees, plants and other forms of greenery to absorb rainwater so it doesn't flow into streams and eventually into the Chesapeake Bay, collecting pollutants along the way.

The rest of the money will come from state funds and fees the city charges on water bills.

The public works department already promotes green infrastructure projects, such as rain gardens and green roofs, but was seeking ways to pay for more to meet federal guidelines to decrease stormwater runoff.

“We are always looking for funding options, but also wanted to get a social and economic benefit for it,” said Troy Brogden, the department's chief financial officer. “We like to think outside of the box and go with nontraditional funding mechanisms, and this is one that is good for the city of Baltimore and our citizens.”

The bonds are different from typical municipal bonds because investors will pay money back to the city if the infrastructure projects do not meet certain metrics. For instance, they could measure if the Chesapeake Bay water is cleaner because of the projects.

Environmental bonds are meant to give cities more incentive to try new innovations by putting some of the risk on investors.

These types of bonds were issued for the first time for green infrastructure projects last year in the District of Columbia. Under the five-year agreement there, stormwater runoff reduction will be measured twice. If runoff flow is reduced, the city will pay full principal to investors at maturity. If

runoff is reduced more than expected, DC Water will pay investors a bonus, and if reduction is less than expected, investors will give the city a risk-sharing payment.

Baltimore public works officials have gotten approval from the city finance department to use the funding mechanism, Brogden said, but will still have to get individual contracts approved by the finance board.

The city is working with the Chesapeake Bay Foundation, which has hired the investment firm Quantified Ventures to structure the deals and help find investors for the projects. Quantified Ventures also worked on the financing on the environmental impact bonds in Washington.

"There are investors who care about environmental and social issues," said Eric Letsinger, CEO of Quantified Ventures. "They want to make money. But they want to invest in things that make us better."

Municipalities are looking at ways to curb stormwater and sewage runoff to meet federal standards. The old methods of water drainage, including concrete gutters and drains, have led to more pollutants pouring into the water systems. Green infrastructure absorbs the water, but municipalities have been reluctant to invest because it is new and some perceive the results as uncertain.

"They have to do this stormwater work and it is expensive to do," said Lee Epstein, lands program director and special counsel for the Chesapeake Bay Foundation. "You have to lift up pavement and the nature projects have to be engineered. Now along comes this new idea, this new financing mechanism, that might be beneficial to these local governments."

Epstein believes the financing could be used in other areas of the Chesapeake Bay region as well.

Bethesda-based Calvert Impact Capital was one of the investors in the Washington project. Beth Bafford, the company's vice president of syndications and strategy, said they would be interested in investing in environmental impact bonds in Baltimore, but they don't know details about how the city plans to have its bonds structured.

"All the investments we make have some kind of social-environmental impact as well as a financial incentive," Bafford said. "We are hardwired to like this kind of investment."

Bafford said the company will know in 2021 if the Washington investment pays a good return, but said it seems to be on the right track.

The city plans green infrastructure initiatives in neighborhoods throughout the city, including Sandtown-Winchester, Dickeyville, Pigtown, Belair-Edison, Cedonia, Westport and Mt. Winans. Workers are scheduled to plant greenery in the 1200 block of Edmondson Ave. Monday.

by Andrea K. McDaniels

**The Baltimore Sun**

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**[Fitch: Florida Underscores State Commitment to Toll Projects.](#)**

**Fitch Ratings-New York-19 March 2018:** A bill which would have authorized the Florida

Department of Transportation (FDOT) to acquire Garcon Point Bridge (the bridge) did not pass the Florida senate, says Fitch Ratings. The bill would have provided the FDOT with the authorization to purchase the bridge, repay itself for operations and maintenance (O&M) and capital costs previously expended and to purchase the authority's \$135 million in defaulted bonds at a discounted price. Such proposed reimbursement of O&M and capital costs would have been inconsistent with the terms of the original transaction. The lease purchase agreement (LPA) between FDOT and the authority along with the bond resolution had structurally subordinated reimbursements of these costs to payments to senior bondholders, prior to and following any payment default.

The legislature's failure to advance the proposed bill indicates continued institutional support for the arrangement, which is a material rating factor for projects which have LPAs with FDOT (including Mid-Bay Bridge Authority and Florida Turnpike Enterprise, described in detail below).

The authority's revenue bonds, series 1996 (the bonds) are supported by a gross pledge of system toll revenues, entitling bondholders to be paid full principal and interest prior to satisfaction of any other claims on revenues. Pursuant to the LPA with the authority, FDOT is obligated to and has paid bridge O&M and major maintenance costs since inception. To date, FDOT has always stood by its commitment to fund O&M and capital costs, and such support along with the toll facilities' revolving trust fund loans have served as a significant credit enhancement for debt issued by a number of tolling authorities in the state.

While the LPA calls for annual reimbursement of such costs on a subordinated basis to senior debt service, in the case of the Santa Rosa Bay Bridge Authority toll revenues have been insufficient to pay debt service on the bonds, resulting in payment defaults since July 2011. Consequently, there also have been no funds available to reimburse FDOT for O&M expenses paid. The authority's liability to FDOT has accumulated to approximately \$25 million since opening in 1999 for operating and maintaining the bridge. The authority also owes the state nearly \$8 million from non-interest-bearing subordinate toll facility revolving trust fund loans for initial bridge design costs. The proposed legislation would have authorized the state to deduct from the discounted purchase price the sum of all subordinate loans (\$33 million) effectively making the state obligations senior to bondholders. The net payment to bondholders would have been 50% of \$102 million, or \$51 million. The bill was inconsistent with the feasibility report produced by FDOT and Division of Bond Finance suggesting a solution for the defaulted bonds through the issuance of Florida turnpike revenue bonds to acquire the bridge at a negotiated price.

A point to note is that while the proposed legislation sought to provide authority to FDOT, it would have been up to bondholders to agree to the terms put forward. It is Fitch's view that law strictly limits the ability of a state to amend the legal structure and related contracts legislatively and extinguish bondholder claims without consent of each bondholder. If the bill is reintroduced, ultimately, Fitch expects the purchase price would have to be agreed upon through a negotiation with the bondholders. A non-consensual outcome would raise substantial questions about bondholder rights more generally and would need to be considered even in the context of performing transactions.

Practically, this would be most relevant to Fitch-rated projects with similar lease purchase agreements such as the Mid-Bay Bridge Authority (senior/junior liens rated BBB+/BBB/Stable). The current ratings of other facilities with a gross revenue pledge, like Florida Turnpike Enterprise (rated AA/Stable), which is a division of FDOT and a large and mature enterprise with considerable positive cash flow available for reinvestment, are less driven by the state support. However, in a crisis that support will remain a material credit factor boosting credit quality.

FDOT's commitment over many decades has helped toll agencies achieve and maintain investment-

grade ratings, as the gross revenue pledge provides for an additional level of protection particularly during early operating periods, economic downturns and heavy investment cycles.

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## **Fitch: N.J. Exec Budget; New Revenue & Spending; Legacy Costs Remain Driver.**

Fitch Ratings-New York-22 March 2018: The New Jersey governor's executive budget delivers on policy goals outlined during his campaign; however, numerous new program and tax credit initiatives, combined with proposed extensive tax policy actions, cannot in the near term materially change the persistent underfunding of retiree liabilities and the elevated long-term liability burden that are the key drivers of the state's below-average 'A' Issuer Default Rating (IDR), according to Fitch Ratings.

The \$2 billion, or 5.7%, proposed revenue growth from fiscal 2018 includes \$1.5 billion from tax increases, supporting 4.2% growth in state appropriations. These increased revenues would go to new spending and leave the state with still slim reserves and reduced flexibility to respond to future economic downturns through revenue raising. Fitch notes that the state has significant spending pressures not only due to the demands of underfunded retiree benefit liabilities but also because natural revenue increases resulting from modest economic growth in recent years have gone primarily towards the phased-in growth in annual pension contributions. This dynamic has led to underfunding of other state needs.

### **GRADUAL PENSION RAMP UP CONTINUES**

If implemented, the budget would continue the state on the path of a gradual 1/10th annual phase-in to the full actuarially determined contribution (ADC) for pensions in fiscal 2023. Despite the \$691 million increase to the pension contribution, Fitch would expect further deterioration in the funded condition of the plans over the near term as the contribution remains well below the ADC. The \$3.2 billion total pension contribution (9% of the budget) is a 28% increase from fiscal 2018 that accounts for 39% of proposed budget growth and funds 60% of the ADC. The contribution meets Fitch's rating expectations given the state's policies in recent years and hews the governor to the same path as his predecessor.

Employee and retiree medical expenses also continue to loom large, representing \$3.4 billion (9%) of the governor's budget. As in most states, OPEB contributions remain well below actuarial recommendations, growing the accrued liability. Escalating pension and OPEB liabilities are expected to remain negative rating factors absent further policy action that reduces the liabilities, forestalling improvement in the state's IDR.

## FISCALLY PRUDENT PROPOSALS

The governor's proposals for increased funding to New Jersey Transit (NJT), greater adherence to full education formula funding, reduced one-time budget balancing actions and an addition to state cash balances to provide greater financial cushion would either address critical state needs or support more sustainable financial operations, in Fitch's view. Further, the suggested return of the state sales tax rate to 7%, lowered as part of the transportation funding agreement in 2016, would provide \$581 million in additional revenue. This is a positive step. At the time of that agreement, which lowered the sales tax rate in exchange for an increase in the gas tax, Fitch noted that the state had replaced a growing revenue source with one with more limited growth prospects and added to the pressure on operating funds.

## NEW PROGRAM INITIATIVES

Excluding the operating budget's increased pension contribution, recommended program expense grows by a net \$918 million. Significant increases include \$933 million in additional K-12 education funding, including \$283 million in added formula aid, \$242 million in additional state subsidies for NJT, \$120 million for state and teacher employee and retiree health benefits, \$100 million for opioid addiction programs and \$50 million for assistance to community college students. Medicaid grows by \$244 million, boosting this program's draw on the operating budget to 12% of proposed expenditures although remaining far below the 46% of the budget dedicated to education (including higher education). Offsetting these increases are reductions to various line items, \$46 million in expected state-wide salary and operational savings, and reductions in certain state aid categories and capital construction. In addition to programmatic adjustments, the governor has proposed tax policy changes that reduce revenue to the state, including increases in the earned-income tax credit (\$27 million) and the state property tax deduction cap (\$80 million).

## EXTENSIVE NEW REVENUE MEASURES

To fund these initiatives, the governor has proposed a milestone 10.75% personal income tax (PIT) rate for taxpayers earning more than \$1 million, which would provide an estimated \$765 million in fiscal 2019, as well as numerous business tax changes for an additional \$110 million; both in addition to the proposed sales tax changes. The governor's budget also includes the legalization and taxation of marijuana which is estimated to deliver \$80 million in tax revenue. Fitch believes there is uncertain legislative interest in the PIT proposal, particularly given recent passage of federal tax changes in December 2017 that capped the deduction for state and local taxes (SALT) and is expected to increase residents' effective state tax burden. Should the measures fail to be approved, other revenue solutions or expenditure reductions will need to be identified to balance the fiscal 2019 budget.

The state's revenue forecast is premised on 2.4% growth in the sales tax base; 4% and 4.2% growth in personal income in 2018 and 2019, respectively; 4% growth in gross state product in both 2018 and 2019; and 1% and 0.8% growth in nonfarm employment in 2018 and 2019, respectively. Fitch believes these forecasts to be reasonable based on recent quarterly experience but somewhat robust when considering the state's recent annualized growth, while noting that future economic growth is expected to remain below that of the nation.

## BALANCED FISCAL 2018 OPERATIONS

Updates to the state's fiscal 2018 financial operations are included in the executive budget and point to anticipated budgetary balance this fiscal year. Current forecast revenue is a 2.2% improvement over the forecast used to enact the budget; however, the improvement largely incorporates a shift of sales tax revenue from non-operating funds to operating funds in addition to expected PIT revenue that is above forecast, offset by shortfalls in other revenue sources. Over 40% of the increase in the PIT is attributable to \$253 million in one-time revenue related to the repatriation of overseas hedge fund profits, a direct effect of Section 457A of the federal Internal Revenue Code passed in 2008. Unexpected growth in the PIT excludes \$200 million collected in December from taxpayers seeking to take advantage of the higher SALT deduction as the state believes this revenue would have been collected in April 2018.

Final, estimated appropriations increase by \$1.2 billion (3.6%) from the enacted budget, partly incorporating appropriations linked to the moved sales tax revenue. The state's estimated year-end budgetary fund balance, which the state views as its budgetary cushion, is projected to be \$738 million (2% of operating fund appropriations) largely incorporating a larger beginning fund balance than anticipated when the budget was enacted.

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### **[New School in Brandon to be Built Using Public Funds, Not P3 model.](#)**

The Manitoba government will not build a new school in Brandon using the public-private partnership model and will instead use public funds to see the long-awaited project come to fruition.

During its 2018 budget announcement on Monday, the government announced it would set aside more than \$100 million to see five schools built—one more than was previously announced—through the Public Schools Finance Board.

By combining certain phases from each project, such as their design and build, the province says it will be able to build multiple schools at once, reduce duplication, accelerate the process and save at least \$18 million.

"At the end of the day, we're taking an evidence-based approach and we're saying we care about the evidence," Finance Minister Cameron Friesen told reporters via teleconference.

"In this case, the evidence points us to a conventional build."

Last year, the government said it would explore the possibility of building four new schools, including one in Brandon, using the P3 model, a system where the private sector works with government to build and manage projects.

KPMG was commissioned back in August to develop a business case and Friesen said the firm recommended that government pursue other opportunities.

"We did a study on the P3 methodology, we learned valuable lessons from that investment, we took away new thinking about how to approach the projects, but I assure you, the decision to proceed with this enhanced conventional school construction model is our own," Friesen said.

While the P3 model is still a "good option," Friesen said the approach taken by government was thought to be the best in this case.

With tendering set to begin by the end of the year, he said the schools could take form within a year.

"What we told Manitobans is we were not ideological about the methodology, what we were interested to know if savings could be gotten at."

The announcement was well received by Brandon School Division chair Linda Ross, who, while against the idea of a P3 school, said she gave the government "kudos" for looking at the data and listening to what people had to say.

"This is a very, very welcome announcement today, so we're just thrilled by it."

The BSD was not consulted by KPMG and Ross said she hopes the board will get to see a copy of the report.

A provincial spokesperson said the KPMG report will be released at the conclusion of the tendering process in order to avoid any potential effect on competitive bids.

Ross applauded the government for not being stuck in an "ideological mode" and said if the school can be built more efficiently, that is a good thing.

"We've got 400 kids who would like to go to school in their own neighbourhood," she said.

The P3 model was heavily criticized by CUPE Local 737, which pointed to cost overruns and poor planning in other provinces that have used the approach for their schools.

The union even put up a billboard on 18th Street to express its opposition to the idea.

"I think the taxpayers of Brandon are lucky the government has changed their mind and going in the right direction," said CUPE Local 737 president Jamie Rose.

Brandon Teachers' Association president Peter Buehler said all things considered, the government's approach looks like a better one than a P3 school.

"Well our first thought is that P3 projects elsewhere have been fraught with difficulty and unexpected expense, or unreported expense," he said, "and if the government hasn't come up with a



P3 proposal yet that anybody can look at, then this looks like a better decision.”

The school in Brandon will be a K-8 building, located in the southeast corner of the city at Ninth Street and Maryland Avenue, with a capacity for 450 students — 675 upon future expansion — and 74 child-care spaces.

The other projects include a K-5 school in Precinct E of the Seven Oaks School Division, a K-8 school in Waterford Green within the Winnipeg School Division, and both a K-8 and 9-12 school in Waverley West in the Pembina Trails School Division.

Brandon has been in need of a new school for years due to its growing student population as a result of more families moving to the city for work at Maple Leaf Foods.

The former NDP government promised to build a new school in November 2015, but little was heard about the project following the provincial election in 2016.

## **The Brandon Sun**

By: Michael Lee

Posted: 03/13/2018 3:00 AM

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### **[Fitch: Florida Ballot Measure to Limit Tax Increases Could Reduce Future Flexibility.](#)**

**Fitch Ratings-New York-16 March 2018:** A proposed amendment to the Florida Constitution that would raise legislative voting requirements to increase state taxes and fees could reduce the state’s flexibility to address future economic volatility, says Fitch Ratings. The amendment, which has been approved by both the state Senate and House in joint resolution HJR 7001, would require future legislatures to reach a two-thirds vote to increase state taxes and fees. There is currently a simple majority requirement for such increases. The amendment would apply to broad based taxes such as the sales tax as well as to the various fees and charges by the state for services, including highway user fees and university tuition and fees. Voters will decide the question on Nov. 6, 2018, with a 60% vote necessary to amend the state constitution.

This amendment would not have an immediate impact on state credit quality (Florida’s Issuer Default Rating [IDR] is AAA), although over time, the more stringent requirement for raising revenues could lead to erosion in the state’s financial resilience. Fitch assesses the state’s revenue framework at the ‘aa’ level, reflecting in part the economic sensitivity of its largest revenue source, the sales tax. Fitch expects Florida’s revenues to grow on a real basis with continued economic expansion, but notes that revenues are likely to exhibit greater weakness during economic downturns. The rating also incorporates the virtually unlimited legal ability the state maintains to raise revenues, despite constitutional restrictions on levying a personal income tax or a state-wide property tax.

The addition of a super-majority requirement to raise taxes would not in and of itself imply a weakened legal ability to raise taxes since the power to do so would remain within the legislature. However, the higher bar for raising taxes would make it more difficult to utilize one of the key tools that states have to manage financial operations during periods of economic and revenue weakness, potentially lowering the state’s resiliency through the economic cycle. Fitch’s expectations related to

financial resilience through a moderate downturn is a key rating driver, one that has been a credit strength for Florida. While the state has typically first turned to expenditure reductions when faced with budget gaps, it did ultimately raise various fees during the Great Recession when other measures proved insufficient to maintain fiscal balance.

Other states have seen financial operations narrow and credit quality decline at least in part because super-majority voting requirements limited the practical use of revenue-raising as a budget balancing tool. For example, the state of Oklahoma, which has a 75% voting requirement, has struggled to close recent structural budget gaps, relying on deep spending cuts, one-time actions and reserve draws. While it is Fitch's expectation that Florida will continue to exhibit the strong financial management that is one of the underpinnings of its 'AAA' IDR, we will assess the extent to which obstacles to revenue raising affect longer term fiscal balance for the state and the various entities that rely on legislative control over revenues to support credit quality. This would include, for example, transportation infrastructure projects that are supported by gas taxes and tuition and fees charged by public universities. Any impact on fiscal operations would likely only become apparent over time, potentially as the state addresses a future downturn.

The language of the amendment indicates that the super-majority voting requirement would apply to new taxes and fees, as well as to raising existing taxes and fees, but only when there is a requirement for a vote of the legislature. Increases that are incorporated into existing legislation would not be subject to further vote. For example, emergency assessments that can be levied by the Florida Hurricane Catastrophe Fund and Florida Citizens Property Insurance Corp. are incorporated in existing legislation and would not require an additional vote. Further, the amendment specifically does not apply to any tax or fee imposed by a county, municipality, school board or special district.

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## **[Fitch: West Virginia Employee Wage Dispute Highlights Fiscal Pressures.](#)**

**Fitch Ratings-New York-09 March 2018:** Fitch Ratings believes the recent wage dispute in West Virginia, which ended with approved salary increases for the state's teachers, service personnel and state employees, is further evidence of the fiscal pressures that underpin our Negative Outlook on the state's 'AA' Issuer Default Rating (IDR).

The state's financial challenges, which have increased with the need to fund the higher salaries, are likely to continue despite recent revenue improvement. The multi-year weakness in the state's key state revenue sources has reflected its struggle with a long-term decline in coal production and related economic turmoil, despite some improvement in fiscal 2018.

The salary increases provide for a fixed-dollar-amount, average 5% raise for all employees effective July 1, 2018. The increases have a \$100 million impact on the \$4.8 billion (General Revenue, Lottery and Excess Lottery) executive budget for fiscal 2019; \$80 million above the 1% average salary increase initially proposed by the governor. The state expects to adjust the governor's recommended budget and apply cash balances in its Medicaid program in fiscal 2019 to accommodate the increases. Fitch believes this additional cost may prove challenging to accommodate in future budgets given vacillating severance, income and sales taxes; prior use of reserves to fund operations; and the cuts the state has already made through a period of revenue weakness. As in most states, education and health and human services spending are the state's largest operating expenses, and the strong employee push for wage increases and health care plan improvement speak to the challenges of cost control efforts in these areas.

Revenues in fiscal 2018 are meeting expectations through February 2018, and the governor has identified an additional \$58 million in resources to fund the fiscal 2019 budget beyond what was incorporated into his budget proposal. The legislative budget that is currently moving through both the House and the Senate does not apply the additional forecast revenue to funding the fiscal 2019 budget.

Revenue growth is forecast in personal income and sales taxes as the state anticipates economic momentum from road construction projects, increased consumer spending related to federal tax cuts and stability in the energy sector. Given fiscal performance prior to 2018, Fitch remains cautious that the state will achieve these targets. Additional resources do not include any direct windfall revenue from the federal Tax Cuts and Jobs Act as the state subsequently decoupled its personal income tax exemption policies from those of the federal government, relinquishing \$140 million in estimated potential tax benefit in fiscal 2019.

The state's 'AA' IDR incorporates the state's economic concentration in natural resource development, strong ability to control revenue and spending policy, and commitment to addressing its liability profile. The rating is supported by a still sizable level of reserves at the state's disposal, and the governor's budget proposal does not appropriate from the rainy day fund for operations. The Negative Outlook reflects the risks associated with the state's cyclical natural resource markets, particularly the longer term decline in coal production, and Fitch's concern that the state will be challenged in providing a durable response to its long-term economic and financial challenges.

For more information on the state, see "Fitch Rates West Virginia's \$44MM School Building Bonds 'AA-'; Outlook Remains Negative" dated Sept. 7, 2017 and available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Michigan Reveals Post-Detroit Pension Woes.**

- **Over 110 of the 490 reporting so far have underfunded plans**
- **Reports required by new state law aimed at bolstering pensions**

Five years after Detroit became the biggest U.S. city to go bankrupt, leading to cuts in the pension benefits of its retirees, Michigan is learning that the retirement promises made by dozens of other municipalities are far from secure.

Under a new state law, cities, towns and authorities were required this year to submit financial details on the status of their pension and health care plans. The results, so far, are grim: the Michigan Treasury Department found that over 110 — or more than one fifth — have underfunded pension or retiree health-care plans.

The figures underscore the financial pressures facing governments in Michigan, a labor union stronghold that was hit hard by the loss of manufacturing jobs.

A pension was deemed underfunded if it had less than 60 percent of what's needed to cover the benefits that have been promised and the government's annual required contribution consumed more than 10 percent of its revenues. Collectively, the nearly 500 local governments that have reported so far had a \$6.4 billion shortfall in their pensions, the data show.

Flint, a financially distressed city known for cost-cutting decisions that left residents without access to safe drinking water, reported a \$345.7 million unfunded liability and said required payments totaled 20 percent of revenue. Highland Park, a Wayne County city, reported that the retirement benefits of its general employees were just 2.1 percent funded.

Those with pensions or health care plans identified as underfunded can apply for a waiver that shows the problem has been addressed, state Treasury spokesman Ron Leix said in an email. If the locality isn't given a waiver, it must complete a "corrective action plan" with ideas for addressing the debt. Those plans — which could include changes like reducing benefits granted in the future — will be reviewed by a newly-created state board.

Jordan Stanchina, city manager of Iron Mountain, Michigan, said it's hard to trace the pension shortfall to just one cause, but cited under-performing investments as a factor.

The city owes \$7.7 million to the Municipal Employees' Retirement System of Michigan, making its liability just 38 percent funded, according to the treasury department data. He said it is hard for the city to devote more revenue to pensions thanks to state restrictions on property tax hikes.

"There's not any excess funds to do anything with," he said.

**Bloomberg**

By Amanda Albright

March 14, 2018, 6:31 AM PDT

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## **Connecticut Won't Default on Pension Bonds, Budget Director Says.**

- **Treasurer warned governor's plan would cause technical default**
- **Governor's aide says he won't back plan that would affect debt**

Connecticut bondholders, rest easy.

Whatever plan Governor Dannel P. Malloy proposes to avoid skyrocketing payments to the state's teachers pension, it won't trigger a technical default on Connecticut's pension bonds, his budget director said in an interview.

"We're looking at a whole series of options right now, but none that we pick, unless they carry me out feet first, are going to involve the state defaulting or not honoring its bond covenants," said Benjamin Barnes, Secretary of the Office of Policy and Management.

Connecticut Treasurer Denise Nappier warned that Malloy's proposal to stretch out payments on the teachers' pension's unfunded liability beyond 2032 to sidestep a potential \$5 billion payment increase would trigger a technical default. Municipal Market Analytics, an independent research firm, said last week that such a breach would be a "clear credit negative" and investors should demand higher yields on Connecticut bonds to compensate for the risk.

A covenant in a \$2.1 billion pension bond issue from 2008 requires the state to appropriate the full annual contribution to the pension and amortize its unfunded liability through 2032, the year the bonds mature.

The governor's office has said the legislature can authorize the board overseeing the teachers' pension to change the assumed rate of return and extend the amortization period, meaning the state would continue to make full annual contributions, just over a longer period. But he's also considering alternative proposals.

"We would be better off with a longer amortization period and lower investment return assumption," Barnes said. "We would like to get there, if there's a way to do so, without defaulting on the covenant."

A series of proposals to shore up the teachers' pensions could be released as soon as Wednesday. "I'm certain bondholders won't be harmed by what we're proposing," Barnes said.

The governor, who is set to leave office in 2019 and isn't seeking re-election, is acting because Connecticut's annual contribution to the teachers' pension is estimated to rise to \$6 billion in 2032 from \$1 billion in 2014 if investments return an annualized 5.5 percent, according to a Nov. 2015 study by the Center for Retirement Research at Boston College commissioned by the state. The teachers' pension had 10-year annualized returns of 5.3 percent as of June 30, 2016.

To make the required payments to the pension, Connecticut's governor has said residents would have to choose between deep cuts to local aid or large tax increases if investment returns didn't meet their benchmark.

Nappier argues that Malloy's "doomsday scenario" won't happen because it was calculated using "inconsistent and inflammatory assumptions."

Last year, the state extended the amortization period for the state employee pension to 2046. The deal, which also reduced the assumed return on the pensions' investments to 6.9 percent from 8 percent, avoided an increase of annual payments to the pension ranging from \$4 billion to \$6 billion annually. Connecticut's general fund budget is currently about \$19 billion.

The move reduced the risk that the pension would consume a growing share of the budget, Barnes said.

"We would like to do the same thing for the teachers' system," he said. "Nobody had done any of this work for 30 to 40 years before us. We're trying to finish this up and put these funds in good order during our tenure."

## **Bloomberg Markets**

By Martin Z Braun

March 13, 2018, 10:50 AM PDT

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### **[Kansas Lawmakers Giving STAR Bonds, Economic Incentives, A Hard Look.](#)**

Kansas lawmakers, increasingly skeptical that tax breaks deliver economic wins, looked closely this week at economic incentive programs.

Senators on the Commerce Committee spent several days discussing bills that would add new requirements to sales tax revenue bonds, known as STAR bonds.

STAR bonds allow local governments to borrow money for a building project, and tax collections created by the development are diverted to pay off the loans.

The Topeka Capital-Journal reported last year that more than \$500 million in tax revenue had been used to pay back the bonds since 2001.

One bill would create a panel to study the proposals, including the state's return on the investment, before approving the projects.

The secretary of commerce currently approves STAR bonds. Republican Sen. Julia Lynn, who heads the Senate Commerce Committee, wants more oversight.

"To make a decision on whether to use millions of dollars in taxpayer funds to go to a development project," Lynn said, "there's just nothing in place."

Another bill before senators would restrict the types of projects eligible for STAR bonds. It would allow tourist attractions but put new restrictions on retail developments. Some lawmakers have said shopping centers should be financed by private developers, not state incentives.

Olathe City Manager Michael Wilkes urged lawmakers not to block retail developments.

"From a practical application, (that) really kills your project," he said. "Those kind of things are the

only things that generate enough revenue that really make the project worthwhile.”

He said large stores such as Cabela’s or Nebraska Furniture Mart in Wyandotte County can be critical to an overall development package that works.

Johnson County resident Clint Anderson is a financial advisor with experience in commercial banking and real estate. He told senators that he’s opposed to projects, including a soccer stadium and training facility in Kansas City, Kansas, being subsidized with public bonds.

He said there’s no shortage of private funding available.

“If there’s a good idea that’s operationally and economically feasible, there’s capital for it,” Anderson said. “It shouldn’t be paid for by the taxpayers.”

Trey Cocking, deputy director of the Kansas League of Municipalities, said that won’t always be the case. He used the example of a project being developed in Atchison that would include an aviation museum and updates to the city farmer’s market.

“These aren’t projects that the private market’s going to do, because there are public components to these projects,” he said. “There are public goods to these projects.”

Amanda Stanley, general counsel for the municipal league, said it’s easy to look back at successful STAR bond projects and assume they would have attracted private investment. Bu she said that’s not a guarantee.

“At what point would it have developed? How long is the state willing to wait?” she asked. “There are sometimes projects that just need that push start.”

House members also dove into the issue of state tax incentives, advancing a bill Thursday that would make more information publicly available on local and state incentives, including STAR bonds.

It would require state officials to compile and publish information about tax incentives and whether each of the incentive programs is producing a positive return on investment.

Democratic Rep. John Carmichael said the bill will help lawmakers next session as they evaluate whether incentive programs need to be modified.

“We need to know how much these tax benefits are costing the state of Kansas,” he said. “Our constituents not only need to know it, they want to know it.”

KCUR.ORG

By STEPHEN KORANDA • MAR 8, 2018

*Stephen Koranda is Statehouse reporter for Kansas Public Radio, a partner in the Kansas News Service. Follow him on Twitter @kprkoranda. Kansas News Service stories and photos may be republished at no cost with proper attribution and a link back to the original post.*

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**[Long-Awaited Decision Sets New Jersey Methodology for Municipal Affordable](#)**



## **Housing Obligations.**

On March 8, Judge Mary Jacobson issued her long-awaited affordable housing decision in Mercer County on the methodology for calculating statewide and municipal affordable housing obligations. The decision also set the numbers for the Mercer County towns that did not settle their litigation, Princeton and West Windsor (Municipalities). The 217-page decision meticulously went through the various (approximately two dozen) components of calculating affordable housing need and the expert testimony on each component on behalf of the Municipalities, Fair Share Housing Center (FSHC), the New Jersey Builders Association (NJBA) and the court-appointed special master, Richard Reading. In general, the decision is a positive result for developers that are intervenor-defendants or interested parties in other affordable housing litigation throughout the state. However, it will take some time to analyze this decision and its application to other towns in calculating municipal affordable housing obligations.

If nothing else, the decision is positive, as it should shake loose the affordable housing litigation in other counties that have stalled while towns, special masters and the courts waited for the Mercer County decision. With respect to the substance of the decision, the court determined that the overall statewide affordable housing need is 159,630 units. That is more than double the number the Municipalities projected (63,070 units) and about half of what FSHC projected (339,673 units). The court's statewide need projection is also higher than the approximately 115,000 units projected by Reading, the special master. As anticipated on this polarizing issue, neither side "won," and the court found a happy medium. As for Princeton and West Windsor, the court determined their new-construction affordable housing obligation to be 753 units and 1,500 units, respectively. This includes the obligation from the "gap period" (1999 to 2015) and prospective need obligation. Though not referenced in the decision, the below chart compares the court's municipal projection with the projections made by the Municipalities and FSHC in prior reports submitted to the court.

[Continue reading.](#)

by Craig M. Gianetti

March 13, 2018

**Day Pitney, LLP**

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## **New Jersey in Trouble: Is Phil Murphy Their Savior.**

Whether it was political scandals like 'Bridgegate' under Gov. Chris Christie or the near financial insolvency of Atlantic City due to sharp decline in revenues, New Jersey has had its fair share of financial and political turmoil in recent years.

The newly elected Democratic 56th Governor of New Jersey, Phil Murphy, has had a long career with Goldman Sachs before bringing himself into government and eventually running for governor. During his campaign, Mr. Murphy had made some great promises to the citizens of New Jersey to fix the balance sheet and take the financial strain off with newly revived revenues by introducing new income tax measures for the wealthiest. Retrospectively, under the previous administration of Chris Christie, the state faced over ten credit downgrades, and pension costs have been at higher than normal levels. It is projected that in the next five years the state's pension liabilities will almost double.



In this article, we will take a closer look at the state of New Jersey's financial picture and whether Phil Murphy's guidance and policies will help create a brighter financial outlook for the state.

[Continue reading.](#)

by Jayden Sangha

Mar 15, 2018

**municipalbonds.com**

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## **[Commentary: How Pension Costs Clobbered One Small California City.](#)**

When Santa Cruz, a picturesque and funky coastal city, first started to feel the pinch of rising retirement costs for city workers, it took several steps to limit the fiscal pain.

As recommended by the League of Cities and other authorities, Santa Cruz issued a bond to pay down its rising pension liabilities, set aside funds to cover increasing demands from the California Public Employees Retirement System (CalPERS), shifted some employees into lower-benefit pension plans and made sure that its workers paid significant portions of pension costs.

Nevertheless, the impact on the small city's budget continued to grow, leading City Manager Martin Bernal to tell the city council in his 2016 budget message that "our biggest challenge is the skyrocketing increases in health and retirement costs. These costs have gone from 28 percent of general fund salary in 2004 to 43 percent of salary in 2015, to an anticipated 58 percent of salary in 2020."

With operating costs, particularly for pensions, continuing to outpace revenues, even during a generally upbeat economy, city officials projected budget deficits growing to more than \$20 million a year by 2021.

Santa Cruz is not alone. Throughout California, city governments are facing budget shortfalls as CalPERS cranks up mandatory contributions in a somewhat desperate effort to make the gigantic trust fund healthy enough to cover pension promises to millions of state and local government workers.

It has only about 70 percent of the money it says is needed to cover pension obligations - and that assumes that its investments will return profits that many experts believe are unrealistic. CalPERS lost about \$100 billion during the Great Recession a decade ago and has not fully recovered, while payouts to retirees grow due to demographic factors.

City officials have repeatedly appeared before the CalPERS board to seek relief, contending that some cities will be driven to insolvency. But for the most part, CalPERS officials have taken the attitude that making the fund actuarially healthy is their highest priority.

In February, the Santa Cruz City Council unanimously declared a fiscal emergency, preparatory to placing a quarter-cent sales tax increase on the June ballot.

Santa Cruz isn't alone on that approach either. Throughout California, cities have taken, or are planning, sales tax increases.

However, cities rarely cite pension costs as the specific reason for the tax increases, because doing so might generate more opposition. Typically, they just say the money is needed for “police and fire services,” which is a half-truth since police and fire pensions are the biggest drivers of rising retirement costs.

Also, a general sales tax increase ballot measure requires only a simple majority vote, while one dedicated to a specific purpose, such as pension costs, would require a two-thirds vote.

“We’re in a brave new world of public finance and our community values its municipal services and we do want to be able to fulfill those expectations,” Santa Cruz Councilwoman Cynthia Mathews said as the state of fiscal emergency was declared.

Whether those expectations can, in fact, be fulfilled is questionable even if Santa Cruz’s voters endorse the sales tax hike.

The \$3 million a year it would generate is just a fraction of the extra \$9-11 million that the city calculates it’s paying to cover CalPERS shortfalls and even a smaller slice of the \$20 million annual deficit city officials are projecting.

California’s municipal finance crisis is likely to get worse before it gets better – if it ever does.

**calmatters.org**

By Dan Walters | March 18, 2018

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## **[How Santa Cruz is Going Under, Like Many California Cities.](#)**

***In February, the Santa Cruz City Council unanimously declared a fiscal emergency, preparatory to placing a quarter-cent sales tax increase on the June ballot.***

When Santa Cruz, a picturesque and funky coastal city, first started to feel the pinch of rising retirement costs for city workers, it took several steps to limit the fiscal pain.

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[Continue reading.](#)

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## **[Murphy’s Promises Meet Budget Reality as New Jersey Pension Hole Looms.](#)**

- **Democratic lawmakers who would be allies stick to own script**
- **Eagerness to undo Christie agenda, and little money to do so**

Governor Phil Murphy's campaign pledges are about to collide with New Jersey politics, Wall Street skeptics and a massive budget deficit.

Since his term started in January, Murphy has pleased his progressive base with moves on women's wages, health care, climate change, immigration and offshore drilling. On tough fiscal matters, though, he and fellow Democrats who control the legislature — all eager to undo Republican Chris Christie's policies — are following their own agendas.

Murphy's first state spending plan, which he'll introduce Tuesday, will include a millionaire's tax to help generate \$1.3 billion for New Jersey's underfunded schools, transportation and pension systems. That initiative lacks support from Senate President Stephen Sweeney, who says residents are being penalized enough by President Donald Trump's U.S. tax changes, which limit deductions for individuals' state and local taxes.

[Continue reading.](#)

by Elise Young and Michelle Kaske

March 12, 2018

**Bloomberg Politics**

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### **S&P: Pension Assumption Delay Makes Near-Term New Jersey Budgets More Manageable, But Doesn't Address Long-Term Pension Issue.**

NEW YORK (S&P Global Ratings) March 5, 2018—S&P Global Ratings today said that it believes a delay in implementing changes to pension return assumptions, recently announced by New Jersey's acting treasurer, should allow the state more near-term budget flexibility, but does not address the state's long-term pension problems.

[Continue Reading](#)

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### **Puerto Rico Could Cut Spending to the Bone - and Still Never Recover.**

- **Federal oversight board to consider governor's ideas March 30**
- **A hurricane, a recession and then a regimen of deep cuts**

Puerto Rico's hard times are about to get harder.

Almost six months after Hurricane Maria, Governor Ricardo Rossello is proposing what, for many, might seem unthinkable after a decade of recession: austerity.

His plan to consolidate government departments and reduce municipal and university aid underscores just how bad things have gotten since the September storm. The sober reality: The government was kept afloat by borrowed money for years, and now the spigot is shut off. The U.S.

territory is bankrupt, running a deficit and creditors are fighting in bankruptcy court for the \$74 billion they're owed.

If the federal panel that oversees Puerto Rico's finances approves the governor's plan by March 30, self-imposed discipline is bound to increase the pain, much as it did in Greece. For bondholders and the 3.3 million residents, the question is whether the move will do more harm than good, or help Puerto Rico overhaul its economic engine and repay more of its debt.

"It's not like things will magically get better," said Jason Bram, a New York Fed research economist. "Hard decisions are made. People are upset."

## **Enfeebled Island**

Investors, bond-insurance companies, the oversight board and island officials have been discussing how to write down the burden through mediation that's part of the island's bankruptcy. Rossello's fiscal plan estimates the central government may be able to repay almost half the \$41 billion of principal it owes, an amount that has left creditors unsatisfied.

But Puerto Rico's economy has been feeble for years despite the rich diet of debt that, absent vigorous private investment, maintained the island in a recessionary torpor. The bankruptcy and storm brought it to a crisis, but Rossello's cure is no sure thing.

Greece's economy shrank by a quarter after the government slashed spending in 2010, reformed pensions and hiked taxes after the financial crisis. That wasn't enough to prevent the biggest sovereign debt restructuring in history in 2012 — as well as two further bailouts. The last came after Prime Minister Alexis Tsipras swept to power on an anti-austerity wave in 2015, only to agree to more cuts.

## **Civic Unrest**

There were protests and riots as unemployment rose as high as 27 percent in 2013, and more than one in five workers remain jobless. In Puerto Rico, unemployment in January was 10.9 percent, but about a quarter of the commonwealth's workers are employed by governments and agencies that stand to be slashed.

Rossello believes his plan will inspire businesses to invest. It aims to cut and simplify tax rates and structure, and speed sluggish permitting and registration. The governor also wants to lower electricity costs and build a more reliable power grid through private investment.

"It's transformational, based on structural reforms that we're proposing," Rossello said in an interview.

## **Unspeakable Word**

Rossello may not like to call it austerity — "Austerity will never get us out of this situation," he said — but his plan also imposes deep spending cuts.

The goal is to whittle 118 executive-branch departments to 35 and 35 school districts to seven. The central government plans to reduce allocations to municipalities and the University of Puerto Rico by \$1.4 billion through 2023. In all, there would be \$3.4 billion of savings by fiscal 2023, according to the plan.

"It would make sense if they could get back on their feet in the wake of the hurricane and then

engage in the necessary steps to address their fiscal problems,” said Mark Zandi, chief economist at Moody’s Analytics Inc.

Rossello’s proposed savings are more than 3 percent of the projected gross national product, which could create an economic drag of more than 4 percent, according to Brad Setser, a former Treasury Department official who worked on a Puerto Rico rescue law enacted in 2016.

“The fiscal plan doesn’t just assume a near-term rebound, it assumes a sort of almost permanent change in Puerto Rico’s growth trajectory, which seems overly optimistic,” said Setser, a senior fellow at the Council on Foreign Relations.

## **Driven Away**

Puerto Rico stopped repaying bondholders in 2016 to free cash for other operating expenses. Rossello’s plan doesn’t include principal and interest payments until 2020. In the past few years, the commonwealth has consolidated schools, boosted the retirement age, increased workers’ pension contributions and raised taxes.

“There have been cuts in health care and education, in all kinds of social services,” said Mark Weisbrot, co-director of the liberal Center for Economic and Policy Research in Washington, and an austerity opponent. “They lost a lot, and that’s why so many people have left the island as well.”

“The recession and the hurricane together have destroyed a great deal of the economy’s productive capacity, so the priority has to be actually returning to growth first,” Weisbrot said.

The commonwealth’s economy has been a shambles for years. It fell into recession in 2007 after federal tax breaks for pharmaceutical and other manufacturers ended, prompting companies to leave or reduce operations. It’s posted only one year of growth since. More than 400,000 residents left even before Hurricane Maria struck on Sept. 20, and the exodus has only grown.

While Puerto Rico needs to stop spending money it doesn’t have, reducing that sharply now will hurt, Zandi said. “It will be a negative for the economy, at least when the cuts are taking effect,” he said.

## **Half Measure**

But Rossello’s plans may not go far enough, said Natalie Jaresko, executive director of the federal oversight board. The board will seek a 10 percent cut in pension costs by reducing payments in the face of a \$49 billion unfunded liability, she said. The panel also wants Puerto Rico to transfer teachers and judicial workers into a 401(k)-like retirement plan.

The system, she said, must be “affordable, but predictable and transparent.” It also could mean less support for the economy at large.

Puerto Rico has requested \$94.4 billion of federal assistance that would restore homes, rebuild infrastructure, provide services — and help offset Rossello’s cuts. Washington has approved about \$50 billion, although Congress doles out the relief in portions and the U.S. Treasury has yet to extend disaster loans.

“Without help, it’s hard to see Puerto Rico finding a bottom at least anytime soon without just tremendous pain and without the island’s population being hollowed out,” Zandi said.

Jaresko said pain strengthens. With the right plan, the commonwealth will emerge “with a different

ground for businesses to operate in, with a different set of conditions. If we do not do the structure reforms, you can't come out of this."

## **Bloomberg**

By Michelle Kaske

March 15, 2018, 5:00 AM PDT

— *With assistance by Marcus Bensasson, and Yalixa Rivera*

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### **[Why Puerto Rico Is Proving to Be 2018's Top Bond Investment.](#)**

#### ***Rally prompted by data showing earlier estimates of hurricane's financial impact were too pessimistic***

Debt from Puerto Rico is the top-performing bond investment of 2018, reflecting an unexpected improvement in the island's economy and budding hopes for a settlement with creditors to resolve its continuing bankruptcy.

Most U.S. bonds have lost value this year because of rising interest rates, but an index of Puerto Rico municipal bonds has returned 14% year to date, the top performer out of 323 bond indexes maintained by S&P Dow Jones Indices. Prices of certain Puerto Rico bonds have more than doubled since the end of December.

The rally began in January, when Puerto Rico's government revealed economic data showing previous estimates of the financial impact of Hurricane Maria were overly pessimistic. More recently, investors have been buying bonds in anticipation of substantive talks with bondholders to reach a consensual restructuring, bondholders and people involved in the negotiations said.

Despite signs of progress, living conditions remain difficult in Puerto Rico. The U.S. territory was contending with economic decay, government mismanagement and excessive debt even before two hurricanes struck the island last year. About 60% of children on the island lived below the poverty line in 2015, according to data from the Pew Research Center.

The bond rebound this year rewards fund managers who stuck with Puerto Rico even when prices fell as much as 60% after the September storms damaged much of the island's infrastructure and real estate.

With roughly \$70 billion of debt outstanding, Puerto Rico is one of only a few large trades available to hedge funds seeking investments that don't move in lockstep with the broader markets.

GoldenTree Asset Management owns nearly \$600 million in face amount of Puerto Rico's subordinated bonds backed by sales-tax receipts, some of which jumped about 133% in value this year, according to data from the Municipal Securities Rulemaking Board.

That windfall comes as Treasury bonds have lost 1.8% since Jan. 1 and the below-investment-grade loans GoldenTree specializes in have returned about 1.3%, according to S&P Dow Jones Indices.

Not all Puerto Rico bondholders benefited equally from the reversal. Some bond prices rose more than others as traders bet that the island's various debt categories would recover different amounts

in the restructuring. Senior bonds backed by Puerto Rico's sales-tax collections rose by about 63% this year to 57 cents on the dollar, while bonds issued through the commonwealth's general account climbed about 40% to around 31 cents on the dollar.

Hedge funds Baupost Group LLC, GoldenTree and Tilden Park Capital Management LP own about \$3 billion in face value of the sales-tax bonds and are arguing in bankruptcy court that their bond documents give them repayment priority in the restructuring. Hedge funds Autonomy Capital, Aurelius Capital Management LP and Fundamental Advisors own about \$2 billion of the general obligation debt combined and are suing to establish their own primacy. A crucial hearing in these factions' legal battle is scheduled for April 10.

The recovery in Puerto Rico bonds contrasts with an even sharper decline last fall, when Hurricane Maria struck and President Donald Trump suggested the island's debts should be wiped out to help it rebuild. Baupost's owner, Seth Klarman, publicly opposed Mr. Trump's idea, drawing criticism from nonprofit groups that support debt forgiveness for Puerto Rico and have pushed Baupost clients to divest from the firm.

Investor sentiment started to improve in late December, when Puerto Rico announced \$6.8 billion in previously undisclosed government bank accounts. Sentiment strengthened further as economic activity recovered more quickly than expected and Congress in February approved \$12.8 billion in federal rescue funds. In February, the island's government revised its maximum debt capacity forecast to \$27 billion from about \$14.5 billion.

"The construction boom after the hurricane is fueling an increase in bond prices, but that's going to be short lived," said Eric LeCompte, executive director of Jubilee USA Network, one of the activist groups seeking debt forgiveness for Puerto Rico. "We should be focused on long-term economic growth for Puerto Rico and that includes debt relief."

Bondholders say Puerto Rico is still being too conservative in its economic forecasts in order to maximize debt forgiveness in upcoming restructuring talks.

"The reality diverged greatly from the cataclysmic economic contraction that was being projected by the commonwealth," said Hector Negroni, co-founder of Fundamental Advisors.

A spokesperson for the Puerto Rico Fiscal Agency and Financial Advisory Authority didn't immediately return a call seeking comment.

Puerto Rico and the federal oversight board supervising it held mediation talks with creditors in New York this month, people involved in the process said. Formal restructuring negotiations are expected to start in April after the board certifies the Commonwealth's long-awaited fiscal plan for the next five years, the people said. A crucial hearing is also scheduled to start April 10 in the lawsuit between general obligation bondholders and sales-tax bondholders, possibly spurring the parties toward settlement. The oversight board hopes to reach a restructuring plan in less than a year, one of the people said.

Some remain pessimistic about the likelihood of a rapidly negotiated resolution, in part because of the many different types of bonds Puerto Rico must reach deals on, ranging from highway and electric utility-related debt to the sales-tax and general obligation bonds.

"We think the litigation will go on and on," says Joe Rosenblum, head of municipal bond research at AllianceBernstein Holding LP.

**The Wall Street Journal**

By Matt Wirz

March 15, 2018 8:00 a.m. ET

Write to Matt Wirz at [matthieu.wirz@wsj.com](mailto:matthieu.wirz@wsj.com)

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## **U.S. Stands Ready to Extend Loans to Puerto Rico, Mnuchin Says.**

- **Treasury Dept. will ‘make sure they have the necessary funds’**
- **Puerto Rico governor has criticized disaster loan delays**

The U.S. Treasury Secretary Steven Mnuchin said the federal government is prepared to extend Puerto Rico the loans approved by Congress to help it recover from Hurricane Maria, disputing assertions from island officials that the funds have been needlessly delayed.

“We have a team that stands ready to help them,” Mnuchin told lawmakers during a hearing convened by a House of Representatives subcommittee. “We are ready to lend and we are monitoring their cash flows to make sure they have the necessary funds.”

The comments came after Puerto Rico Governor Ricardo Rossello said the Treasury was acting “recklessly” by delaying the territory’s access to a share of a \$4.9 billion loan package that Congress passed in October. The storm exaggerated the financial crisis that had already tipped the territory into a record-setting bankruptcy after a decade of economic decline, population loss and years of borrowing to keep the government afloat.

Puerto Rico, an island of 3.4 million American citizens without a vote in Congress, in November said it will need \$94.4 billion from the federal government to deal with the storm damage.

The community disaster loans are aimed at covering only a small share of the toll by helping Puerto Rico make up for tax and utility revenue lost since the storm. Treasury has estimated that amount at about \$2 billion for the 180 days after the hurricane.

In January, the Treasury told Puerto Rico it has too much cash to qualify for a loan, given the amounts that the island government had in various bank accounts. The Treasury has said that a loan will be quickly available if Puerto Rico’s cash balance drops below \$800 million. Puerto Rico had \$1.7 billion of available funds in mid February and has since extended a loan to the Puerto Rico electric company to keep it running.

Mnuchin has said little about Puerto Rico, except when prodded during Congressional testimony. Treasury and the White House’s budget office declined to name who in the respective agencies is in charge of the Puerto Rico issue, and the January letter to Puerto Rico was signed by deputy assistant secretary for public finance Gary Grippio, a career staffer, instead of one of the top political appointees.

Mnuchin said there’s been no decision on whether Puerto Rico’s loans will be forgiven, as is common for those extended after natural disasters.

“We’re not making any decisions today on whether they will be forgiven or not,” Mnuchin said.

**Bloomberg Politics**



By Saleha Mohsin and Michelle Kaske

March 6, 2018, 8:51 AM PST

— *With assistance by Yalixa Rivera*

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## **Fitch: West Virginia Employee Wage Dispute Highlights Fiscal Pressures.**

Fitch Ratings-New York-09 March 2018: Fitch Ratings believes the recent wage dispute in West Virginia, which ended with approved salary increases for the state's teachers, service personnel and state employees, is further evidence of the fiscal pressures that underpin our Negative Outlook on the state's 'AA' Issuer Default Rating (IDR).

The state's financial challenges, which have increased with the need to fund the higher salaries, are likely to continue despite recent revenue improvement. The multi-year weakness in the state's key state revenue sources has reflected its struggle with a long-term decline in coal production and related economic turmoil, despite some improvement in fiscal 2018.

The salary increases provide for a fixed-dollar-amount, average 5% raise for all employees effective July 1, 2018. The increases have a \$100 million impact on the \$4.8 billion (General Revenue, Lottery and Excess Lottery) executive budget for fiscal 2019; \$80 million above the 1% average salary increase initially proposed by the governor. The state expects to adjust the governor's recommended budget and apply cash balances in its Medicaid program in fiscal 2019 to accommodate the increases. Fitch believes this additional cost may prove challenging to accommodate in future budgets given vacillating severance, income and sales taxes; prior use of reserves to fund operations; and the cuts the state has already made through a period of revenue weakness. As in most states, education and health and human services spending are the state's largest operating expenses, and the strong employee push for wage increases and health care plan improvement speak to the challenges of cost control efforts in these areas.

Revenues in fiscal 2018 are meeting expectations through February 2018, and the governor has identified an additional \$58 million in resources to fund the fiscal 2019 budget beyond what was incorporated into his budget proposal. The legislative budget that is currently moving through both the House and the Senate does not apply the additional forecast revenue to funding the fiscal 2019 budget.

Revenue growth is forecast in personal income and sales taxes as the state anticipates economic momentum from road construction projects, increased consumer spending related to federal tax cuts and stability in the energy sector. Given fiscal performance prior to 2018, Fitch remains cautious that the state will achieve these targets. Additional resources do not include any direct windfall revenue from the federal Tax Cuts and Jobs Act as the state subsequently decoupled its personal income tax exemption policies from those of the federal government, relinquishing \$140 million in estimated potential tax benefit in fiscal 2019.

The state's 'AA' IDR incorporates the state's economic concentration in natural resource development, strong ability to control revenue and spending policy, and commitment to addressing its liability profile. The rating is supported by a still sizable level of reserves at the state's disposal, and the governor's budget proposal does not appropriate from the rainy day fund for operations. The Negative Outlook reflects the risks associated with the state's cyclical natural resource markets, particularly the longer term decline in coal production, and Fitch's concern that the state will be

challenged in providing a durable response to its long-term economic and financial challenges.

For more information on the state, see “Fitch Rates West Virginia’s \$44MM School Building Bonds ‘AA-’; Outlook Remains Negative” dated Sept. 7, 2017 and available at [www.fitchratings.com](http://www.fitchratings.com).

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### **Fitch: Los Angeles' FY 2018 Operational Deficit Remains Solvable, But Challenges Continue.**

Fitch Ratings-San Francisco-09 March 2018: Los Angeles (Issuer Default Rating AA-/Stable) recently issued its midyear financial status report for fiscal 2018, highlighting the city’s ongoing operational deficit. Based on recent years’ experience, Fitch Ratings expects that the majority of the small projected general fund shortfall of \$35 million (less than 1% of fiscal 2018’s budgeted \$5.83 billion in revenues) will likely be solved during the course of the year. Despite numerous past projected deficits that have varied widely in size, the city added to its unrestricted general fund balance every year between fiscal years 2011 and 2016. This was achieved in the face of increasing expenditures. However, ongoing expenditure pressures did result in an unrestricted general fund balance drawdown in fiscal 2017.

The city’s recently released fiscal 2017 audit results show that general fund expenditures increased by almost 6% year-over-year, largely driven by increased employee remuneration and contractual service costs. Such ongoing expenditure pressures are anticipated by Fitch’s ‘a’ expenditure framework assessment. By contrast, general fund revenues increased by just over 2%, largely due to increased receipts for most taxes given ongoing economic growth. Fitch’s ‘aa’ revenue framework assessment incorporates the city’s ability to capture revenues from across its wide range of economic activity.

In fiscal 2017, large transfers out of the general fund to support debt service obligations, capital costs, and non-general fund departmental operations, as well as a decrease in the reserve for inventories, resulted in a \$142 million total general fund balance drawdown. Nevertheless, fiscal 2017 ended with a still strong total general fund balance of \$886 million (16% of spending), down from \$1.03 billion (20%) the prior year. The unrestricted general fund balance declined to a still healthy \$841 million (15%) in fiscal 2017, from \$903 million (19%) in fiscal 2016.

The city lists various revenue and expenditure concerns for fiscal 2018, most of which had previously been cited in fiscal 2017. These include local and federal funding uncertainties, a HUD settlement payment, and potential unbudgeted expenditures for liability claims. The city's multiyear projections (last published in June 2017 and due to be updated in April) indicate that structural balance could be achieved by fiscal 2022. However, this assumes that the city will solve each year's deficit with ongoing solutions, rather than general fund reserve drawdowns. This will likely be challenging given rising employee costs (particularly related to retirement benefits) and service expansion pressures.

The city measures reserves in terms of its emergency, contingency, and budget stabilization reserves, plus its unappropriated general fund balance. Currently, the city estimates these cumulative reserves at just under 8%, a slight drop since the last financial status report due to recommended expenditures from the unappropriated general fund balance to offset citywide shortfalls, unbudgeted expenses, and proposed loans. Cumulative reserves remain below the fiscal 2016 peak of 10%. Fitch measures reserves in terms of unrestricted general fund balance, which remain healthy at 15% of spending in fiscal 2017. Fitch would be concerned if the city continued to draw down its reserves to meet operational expenses, particularly during this period when the city's economy is performing well. Lower reserves could constrain the city's financial flexibility when it needs it most during a future economic downturn.

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### **[Fitch: WV Strike Shows Janus May Have Little Impact on US Locals.](#)**

Fitch Ratings-New York-05 March 2018: The ongoing work stoppage by teachers in West Virginia indicates that local governments may not gain much expenditure flexibility should the U.S. Supreme Court make a decision that would loosen collective bargaining requirements in the case of Janus v. American Federation of State, County and Municipal Employees, Fitch Ratings says. At issue in the Janus case is whether public-sector workers should be able to opt out of required fees related to negotiating and enforcing union contracts, effectively conferring right-to-work status on all states.

Salaries and benefits comprise the majority of spending for most local governments, making the ability to adjust these costs, if needed, an important element of Fitch's evaluation of expenditure flexibility. We include a workforce evaluation in all local government rating analyses that considers

both the formal bargaining relationship between labor and management and the practical ability to adjust spending. The inflexibility of pension contributions, which can be a sizable component of labor spending, makes the ability to adjust headcount, salaries and current benefits the primary focus of the analysis.

Currently, 28 states have right-to-work laws, which prohibit compulsory union dues by non-union members. Federal law prohibits compulsory union membership. Right-to-work laws do not control union membership or union negotiation and enforcement of labor contracts.

West Virginia adopted a right-to-work law in 2016 but it was stalled by litigation and did not go into effect until late 2017. A work stoppage by teachers and other West Virginia school employees is in its second week. Governor Jim Justice's proposal for a 5% pay raise beginning in July, instead of the previously-proposed 2%, was passed by the House of Delegates on Feb. 28. The senate approved a smaller 4% increase on March 3 that was not adopted by the House. Even if the raise were approved, issues regarding health care insurance costs remain unresolved. News reports indicate that teachers in Oklahoma, another right-to-work state, are considering a work stoppage.

The West Virginia state Attorney General has asserted that the work stoppage was unlawful, but did not indicate that any action will be taken against striking employees. This demonstrates that the legal framework governing the labor-management relationship is not the only indicator of labor-related spending pressure. An outcome of the Janus case that loosens collective bargaining requirements would therefore not yield an automatic improvement in local governments' levels of expenditure flexibility, a key consideration in Fitch's rating criteria.

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## **[S&P: Pension Assumption Delay Makes Near-Term New Jersey Budgets More Manageable, But Doesn't Address Long-Term Pension Issue.](#)**

NEW YORK (S&P Global Ratings) March 5, 2018-S&P Global Ratings today said that it believes a delay in implementing changes to pension return assumptions, recently announced by New Jersey's acting treasurer, should allow the state more near-term budget flexibility, but does not address the state's long-term pension problems.

[Continue Reading](#)

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## **Michigan's Oversight of Troubled Cities Waning.**

(Reuters) - Michigan's list of financially distressed cities subject to state oversight shrank on Friday with the release of Hamtramck, which is surrounded by Detroit, from receivership.

The move leaves just Detroit and Flint on the list, with Detroit aiming to end active supervision of its finances as soon as this spring.

Michigan Treasurer Nick Khouri dissolved Hamtramck's Receivership Transition Advisory Board, giving city officials full control of operations and finances.

Khouri cited improved financial management, policies and practices that allowed Hamtramck to produce an on-time fiscal 2017 audit that showed a budget balance of \$6.5 million.

The city of 21,750 was declared to be in a financial emergency by Governor Rick Snyder in 2013 and was run by a state-appointed emergency manager from July 2013 to December 2014. With the fiscal emergency resolved, the advisory board was created to transition the city back to local control.

Michigan ended oversight of eight cities, one township and Wayne County in recent years. Four school districts continue to have some form of state supervision, according to the Michigan Treasury Department website.

With Detroit ending three straight fiscal years with balanced budgets, Mayor Mike Duggan has said the city's financial review commission should soon be able to go dormant. The state commission was created as part of Detroit's court-approved plan to exit in 2014 what was then the biggest U.S. municipal bankruptcy.

Michigan's largest city was able to shed about \$7 billion of its \$18 billion of debt and obligations in federal bankruptcy court.

In January, Michigan's treasurer diminished the role of Flint's oversight board, giving the mayor and city council more responsibility for operations and finances.

Flint's financial emergency, which began in 2011, became controversial when its state-appointed emergency manager in 2014 changed the city's water source, which caused lead to leach from pipes. The water crisis prompted dozens of lawsuits and criminal charges against former government officials.

By REUTERS

MARCH 2, 2018, 1:06 P.M. E.S.T.

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

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## **Fitch Affirms Chicago, IL IDR and GO Bonds at 'BBB-'; Outlook Stable.**

Fitch Ratings-New York-28 February 2018: Fitch Ratings has affirmed the following Chicago, Illinois ratings:

- Approximately \$8.8 billion outstanding unlimited tax general obligation bonds at 'BBB-';
- Long-term Issuer Default Rating (IDR) at 'BBB-'.

The Rating Outlook is Stable.

## SECURITY

The bonds are payable from the city's full faith and credit and its ad valorem tax, without limitation as to rate or amount.

## ANALYTICAL CONCLUSION

The 'BBB-' IDR and GO ratings and Stable Outlook recognize the city's role as an economic hub for the Midwestern region of the United States, supporting solid revenue growth prospects, as well as the city's unlimited independent legal authority to raise revenues. The ratings also consider the city's high and growing long-term liability burden, constrained expenditure flexibility and improving financial profile. The city's reserve cushion provides solid capacity to address cyclical downturns, given expected revenue volatility.

### Economic Resource Base

Chicago serves as the economic and cultural center for the Midwestern region of the United States. The city's population totaled 2.7 million in 2016 up 0.3% from the 2010 census, and accounts for 21% of the state's population. Socioeconomic indicators are mixed with elevated individual poverty rates but above average per capita income levels and strong educational attainment levels.

## KEY RATING DRIVERS

### Revenue Framework: 'aa'

Fitch expects slow, steady economic recovery to lead to continued solid revenue growth, excluding the effect of new or raised taxes and fees. The city's home rule status affords it access to a wide variety of revenue-raising options, many of which are legally unlimited.

### Expenditure Framework: 'bb'

Carrying costs for debt service and retiree benefits equal a substantial portion of operating resources. Public safety, which is fairly inflexible as a practical matter, comprises a majority of general fund spending, further constraining expenditure flexibility. Rising pension costs will continue to drive expenditures to grow at a much faster natural pace than revenues, likely necessitating ongoing revenue-raising measures and careful expenditure control.

### Long-Term Liability Burden: 'bbb'

The long-term liability burden is high relative to the resource base at 41% of personal income, and expected to rise as the city phases into actuarial funding of pension contributions.

### Operating Performance: 'a'

The city's ability to close recessionary revenue gaps is strong. This is a function of the city's strong revenue raising flexibility and long-term reserves available to offset the expected level of revenue volatility in a downturn.

## RATING SENSITIVITIES

Continued Pension Pressure: The 'BBB-' rating recognizes the improved pension funding framework the city recently implemented as well as the continued challenges associated with stabilizing or decreasing adjusted net pension liabilities. Upward rating momentum is unlikely until annual contributions are sufficient to accomplish this stabilization, but failure to show progress according to the city's plan could put negative pressure on the rating.

Structural Balance: The Stable Outlook incorporates Fitch's expectation that the city will continue to make progress toward structural balance according to its announced plan and maintain reserves commensurate with the rating throughout the economic cycle. A reversal of this trend could lead to negative rating action.

## CREDIT PROFILE

Chicago acts as the economic engine for the Midwestern region of the United States and offers abundant and diverse employment opportunities. The city also benefits from an extensive infrastructure network, including a vast rail system, which supports continued economic growth. The employment base is represented by all major sectors including wholesale trade, professional and business services and financial sectors, with no one sector dominating. Socioeconomic indicators are mixed as is typical for an urbanized area, with above-average per capita income and educational levels but also elevated individual poverty rates.

### Revenue Framework

Operating revenues are diverse, with the largest source, state and local sales tax, comprising 18% of general fund revenues. Other large sources include the transaction tax, utility tax, and income tax which account for 13%, 12%, and 11% respectively. Notably, property taxes do not fund general fund operations, but are directed to other funds in support of debt service, pensions and a small amount of library contributions.

Growth prospects for revenue are solid. Fitch believes that natural revenue growth, without taking into account planned rate increases, will continue to exceed the rate of inflation, but fall short of national GDP. After a long period without major revenue-raising policy action, the city has raised a variety of taxes and fees to provide funding for dramatically increased pension funding.

The city is a home-rule unit of government, and as such, enjoys the ability to raise or impose a wide variety of taxes and fees, many of which are legally unlimited.

### Expenditure Framework

The city devotes 63% of the general fund budget to public safety and 29% for general government.

Fitch expects the natural pace of spending growth to be well above that of revenues, requiring careful budget management. The fastest growing expenditure item will be pension contributions as the city ramps up from statutory to actuarially-based contributions over the next several years. The city has identified revenue sources for much of these in the near-term, and intends to continue raising revenues to offset these rising costs in the out years.

Expenditure flexibility is constrained, given the large proportion of the budget devoted to public safety, which may be difficult to cut as a practical matter, and very high fixed carrying costs. The carrying costs for debt service, actuarially-required pension contributions and other post-employment benefit (OPEB) actual payments, account for 46% of governmental fund spending, or approximately 43% when taking into account enterprise fund support. That percentage may decline somewhat in the near term, as overall spending rises due to ramped up pension payments that are closer to the actuarially determined contribution, but will still comprise an outsized proportion of the budget for the foreseeable future.

The city contributes to four single employee plans covering municipal employees, laborers, police and firefighters. Annual funding contributions had reflected calculations pursuant to state statute, leading to severe underfunding and further raising the actuarial contributions necessary to prefund the plans. Contribution levels have been rising given recent policy changes that are devoting various

new revenue streams toward contributions for each of the four plans. As of 2016 the city paid only \$590 million in pension contributions, compared to \$2.2 billion in actuarially-determined contributions (ADC). Even if the city meets its target contributions for all four plans, which is expected in 2022, they will still fall short of the ADC, reaching an amount sufficient to provide a 90% funding ratio, rather than full prefunding. This ratio is expected to be achieved in 2055 for the police and fire plans and 2057 for the municipal and labor plans.

Actuarial assumptions include a 30-year open amortization, among other factors that are likely to produce little funding progress absent the plans' consistently exceeding their 7.25% to 7.5% investment return targets, which Fitch views as unlikely. Fitch calculates that the annual cost to amortize the Fitch-adjusted NPLs over 20 years with a 5% interest rate would equal \$3.7 billion, or 1.7x the ADC.

#### Long-Term Liability Burden

The long-term liability burden for total debt (direct and overlapping) and adjusted net pension liability (NPL) is high, at 41% of personal income. Sixty-three percent of the liability relates to net pension liability; Fitch leaves the NPL of three of the city's four single-employer plans unadjusted given their use of blended discount rates below Fitch's 6% target for measuring liabilities; all four plans report depletion dates. The 2016 total adjusted NPL measures \$38 billion, and assets covered a scant 20% of adjusted liabilities, which had raised the real risk of plan depletion before the recent contribution increases.

For the city's public safety plans, a 2016 state law requires a five-year ramp up to an actuarial contribution, by 2020. The city council passed a multi-year property tax increase to accommodate the resulting steep increase in contributions. For the laborers' plan, a 911 cell phone fee will support increased contributions, while the municipal employees' plan will receive revenue from a tax on water and sewer charges. Together, pension contributions for the four plans are slated to increase from approximately \$1.2 billion in 2018 to \$2.2 billion in 2022.

Amortization of GO, motor fuel and Sales Tax Securitization Corporation (STSC) debt is slow with about 30% scheduled for retirement in 10 years. STSC, a separate legal entity, has issued bonds to refund the city's outstanding sales tax bonds as well as some city GO debt. While these refundings extend maturities in some cases, the overall amortization rate is relatively unchanged.

#### Operating Performance

Reserve levels have stabilized over the last several years, standing at 24% of spending in fiscal 2016. The city relies on a variety of revenue sources to fund operations, some of which are economically sensitive. During a normal downturn Fitch estimates revenues are at risk of a slightly elevated rate of decline, leaving the city with a fairly substantial shortfall to address. This would present a challenge to the city's financial operations in a downturn but financial flexibility would likely be recovered as conditions improve. Recent extensive revenue-raising measures make it unlikely the city would rely solely on its revenue-raising authority to close such a recessionary gap. Similarly, the constrained expenditure flexibility makes it unlikely that the city could make meaningful spending cuts to address the gap. As such, Fitch believes that while the city may take some revenue- or expenditure-side policy action to address a revenue decline, reserve levels would bear the brunt of the shortfall but would remain at levels consistent with the rating throughout the economic cycle.

Chicago's budget management at times of economic recovery has improved markedly in recent years, although full structural balance remains a challenge even well into the economic recovery. Management has made significant progress toward matching ongoing revenues with annual expenditures. Fitch considers sustainable, affordable, actuarially-based pension funding a critical component of structural balance. Successful execution of the city's plan toward financially sustainable practices would be considered a positive rating factor over time. Remaining plan



elements include the elimination of scoop-and-toss refundings by 2019, elimination of the use of current funds to pay routine legal settlements or judgments, and growth of the 'rainy day fund.'

The 2017 general fund budget was balanced with a reduced but still significant amount of one-time measures, including scoop-and-toss refunding and a small amount of appropriated reserves (\$53 million) and also included funding for 1,000 new police officers. The \$3.6 billion general fund budget closed the previously identified budget gap of \$137.6 million through a variety of recurring and one-time measures and no appropriation of general fund balance. The year ended with a \$54.4 million net general fund operating surplus (1.5%).

The 2018 general fund budget is balanced with reliance upon approximately \$120 million of tax increment surplus and debt service savings from refunding (including principal deferrals), \$50 million in expected growth in revenues, \$39 million in revenue adjustments, \$20 million in spending cuts, \$11 million in improved enforcement and debt collection, and \$37 million (less than 1% of spending) of appropriated unassigned general fund balance. As it has in recent years, the budget includes a \$5 million deposit into its rainy day fund.

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## **[Fitch: New York State PIT Bonds Unlikely to be Affected by Proposed State Tax Changes.](#)**

Fitch Ratings-New York-27 February 2018: Fitch Ratings expects that Governor Cuomo's proposed changes to New York State's personal income tax (PIT) are unlikely to affect the credit quality of the

state's PIT revenue bonds, the state's largest source of bond financing for capital projects.

Fitch currently rates New York State's PIT revenue bonds 'AA+' /Stable, on par with the state's Issuer Default Rating (IDR) based on bond provisions that link them to the general credit quality of the state. As a result, any rating impact from the tax law changes would be to the state's 'AA+' IDR. Assuming that any enacted state tax code changes succeed in their goal of leaving state revenue collections near current baseline expectations, the changes would have little impact on the state's revenue growth prospects or overall credit quality.

The proposed changes, which were released as part of the 30-day amendments to the fiscal 2019 executive budget, are intended to mitigate the expected negative impact on New York State taxpayers of the federal Tax Cut and Jobs Act (TCJA), passed in December 2017. Among multiple provisions, the state legislation would decouple the state tax code from the federal code to preserve individual and business filers' state deductions and prevent a state revenue windfall in the absence of offsetting changes in state law. This windfall is estimated by the state's comptroller to total a net \$1.1 billion.

Additionally, the legislation would establish an optional, phased-in payroll tax (the employer compensation expense tax, or ECET) on taxable income over \$40,000 for employers that choose to participate, which would be accompanied by an offsetting tax credit for their employees' wages. The ECET would be intended to leave unchanged both individual filers' take home pay and state tax revenues, while taking advantage of the continued federal deductibility of payroll taxes paid by businesses. The legislation also would establish two charitable public funds to receive taxpayer donations on behalf of state education and healthcare-related services, with such donations offset by a partial tax credit on individual filers' New York State taxable income.

The legislation appears to be crafted to address any potential negative impact on PIT bondholders. It would raise the set aside of estimated available PIT receipts to 50%, from 25%, and supplement the pledge with 50% of future ECET receipts. Combined PIT and ECET tax receipts are intended to match collections under the existing PIT, and the higher set aside is also intended to address the potential impact of charitable contributions on PIT receipts.

New York State has \$34.8 billion in outstanding PIT revenue bonds as of January 2018, issued by five state agencies. Although PIT bonds benefit from the dedication of a portion of the state's largest tax revenue source, Fitch limits the credit quality of the PIT bonds to the state's 'AA+' IDR because an appropriation is required for debt service. The PIT bonds are rated on par with the state's IDR, rather than one notch below as is standard for appropriation-supported debt, because the incentive for appropriation is significantly enhanced by requirements under the bond indenture that trap pledged receipts in the revenue bond tax fund (RBTF) in the event of non-appropriation. The bond documents also require the state comptroller to transfer resources to the RBTF from the general fund without appropriation if pledged receipts are insufficient.

Beyond the implications of the proposal on New York State's PIT bonds, Fitch cautions that implementing tax law changes to a major state revenue source like the PIT always carries the risk of unforeseen consequences. With the exception of the decoupling provisions, the governor's proposal seeks to leave total state revenues largely unchanged. Other provisions, such as the optional nature of the ECET and its three-year phase-in, are intended to minimize disruptions to employers, such as those with multiyear labor contracts.

Nonetheless, other important unknowns must be considered by the legislature, such as how any change would affect cross-border commuters, whether the changes would extend to the local PIT levied by New York City and Yonkers, and how any changes to New York City's PIT would affect the

future tax secured bonds issued by the New York City Transitional Finance Authority (TFA). The TFA's future tax secured bonds are payable from revenues derived from city PIT and sales and use taxes, as authorized by New York State, and are rated 'AAA'/Stable by Fitch. Fitch will monitor the legislature's actions on the governor's proposal and any other tax law changes that emerge over the coming months.

Outside of the tax proposal, the governor's executive budget for fiscal 2019 (which begins on April 1) hews closely to the state's policy direction in recent years. Consistent with the recent experience of many states, revenues in New York State are forecast to rise, albeit at a slower pace than in recent prior forecasts. State actions to absorb slower revenue growth and the resulting forecast budget gaps have included holding budgeted state operating funds spending growth at no higher than 2% annually, curbing Medicaid spending growth at the current 3.2% statutory growth cap, and making targeted fund and timing shifts. As with last year's budget, the executive budget proposes a mechanism to adjust state spending in the event that federal budget cuts exceed \$850 million for either state Medicaid or other program areas.

New York State's 'AA+' IDR reflects its considerable economic resources, solid economic performance and growth prospects, strong ability to control its budget and responsive budget management. Due to budget management improvements in the last decade, the state is in a materially improved position to address future economic and revenue cyclicity relative to past experience, in Fitch's view. Liabilities and related carrying costs are just below the median for states and remain a manageable burden on resources.

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## **[Houston, Los Angeles Set to Sell Airport Bonds Next Week.](#)**

CHICAGO, Feb 23 (Reuters) - Debt sales for airports in Houston and Los Angeles are part of \$5.43 billion in bonds and notes set to hit the U.S. municipal market next week, according to Thomson Reuters estimates on Friday.

Houston's new and refunding subordinate lien deal includes about \$135 million of bonds subject to the alternative minimum tax (AMT) with serial maturities from 2019 through 2041 and a term bond due in 2043, according to the preliminary official statement. Another \$300 million of non-AMT bonds

carry serial maturities from 2019 through 2038 and term maturities in 2043 and 2048.

Bank of America Merrill Lynch is scheduled to price the bonds on Thursday.

Los Angeles will sell nearly \$376 million of subordinate revenue bonds subject to the AMT for its international airport through Barclays Capital on Wednesday.

The airport is “one of the stronger U.S. airport credits with solid enplanement growth and diversified airline exposure,” Janney Investment Strategy Group said in a Friday report. It added that the airport has a high debt burden at \$5 billion and a \$4.4 billion capital funding plan through 2023.

Goldman Sachs & Co will price about \$650 million of gas prepayment revenue bonds for Alabama-based Black Belt Energy.

The New York State Thruway Authority has a \$600 million general revenue refunding bond issue structured with serial maturities from 2019 through 2037. RBC Capital Markets will hold a retail order period for the bonds on Wednesday ahead of formal pricing on Thursday.

Topping the week’s calendar of competitively bid deals is a nearly \$287 million Wisconsin general obligation bond issue selling on Wednesday.

The bonds have maturities from 2019 through 2036.

Municipal bond fund flows reversed course and turned positive in the latest week, according to Lipper. Net inflows totaled \$347.4 million for the week ended Feb. 21 versus \$443.4 million of net outflows in the previous week. (Reporting by Karen Pierog; Editing by Jeffrey Benkoe)

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## **City Of Cambridge Sells Over \$800,000 In Mini-Bonds In One Day.**

CAMBRIDGE (CBS) — Looking to invest in your city and your bank account? One way to do that if you live in Cambridge is to buy the city’s mini-bonds.

Lawrence Ferrara lives in Cambridge. He says, “I think it’s a good idea to offer them. A lot of people in the city that maybe would like to invest.”

Many already have. Since the City of Cambridge started offering mini-bonds Tuesday, they’ve sold more than \$800,000.

Last year during the pilot program, the city raised \$2 million in less than a week.

Budget Director for the City of Cambridge Sarah Stanton says, “It’s allowing community members to see what the city is investing in and invest in it themselves.”

Invested money is spread across the city from solar panels at the public library to a new roof at Fletcher-Maynard Academy, and general construction at King Open School.

A mini-bond is like a municipal bond, just more affordable.

Stanton explains, “The smallest increment you can buy a bond is 1,000 dollars, whereas usually, it’s a 5,000 increment.”

A single investor can buy as much as \$25,000 worth of bonds.

The bonds interest rate is fixed at 2% and will be paid out in five years.

The last day to invest is Monday, February 26th or when the city raises \$2,500,000.

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## **CITIGROUP Drove Puerto Rico Into Debt. Now it Will Profit From Privatization on the Island.**

One of the same banks that drove the Puerto Rico Electric Power Authority, or PREPA, into the red will now be paid to help auction it off to the highest bidder.

Citigroup Global Markets Inc., or Citi, will be the main investment bank consultant in the restructuring and privatization of PREPA, the Washington-appointed Fiscal Control Board — the body now overseeing Puerto Rico's finances — announced recently. Puerto Rico Gov. Ricardo Rosselló first announced the move toward privatization last month.

"Citi will advise the Board on PREPA's privatization," the Fiscal Control Board wrote in a statement, "as well as the restructuring of PREPA's debt pursuant to Title III proceedings in federal bankruptcy court. Citi will take the lead in identifying private sector solutions that fulfill the vision laid out by Governor Rosselló."

[Continue reading.](#)

### **The Intercept**

by Kate Aronoff

February 21 2018

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## **Best's Briefing: Worst-Case Scenario on Puerto Rico Power Utility Debt Likely Still Within Insurers' Risk Appetites.**

OLDWICK, N.J.-(BUSINESS WIRE)-The proposed restructuring of the bankrupt Puerto Rico Electric Power Authority (PREPA) would not significantly impact A.M. Best-rated insurers as the vast majority have minimal exposure to their capital and surplus from PREPA bonds, according to a new A.M. Best briefing.

The Best's Briefing, "PREPA: Worst-Case Scenario May Still Be Within Insurers' Risk Appetite," states that the insurance industry has reported a fairly dramatic decline in PREPA holdings' book adjusted/carrying value over the last five years, dropping 62% since 2012 to \$147.1 billion. The decline has been a combination of devaluation as well as unloading the bonds, as the number of holdings has dropped by half among insurers since 2012 to roughly 750 in 2016. PREPA bonds have fared a little better than Puerto Rico municipal bonds, which declined 68% since 2012.

The plan to privatize parts of the bankrupt PREPA over the next 18 months comes after Puerto Rico's legislature passed an emergency funding measure in late January 2018 to ensure the

struggling utility can maintain operations. The insurance industry holds just 2% of PREPA's \$8.2 billion in public debt outstanding.

[Continue reading.](#)

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## **Detroit Mayor Proposes 'Last' Budget Under State Oversight.**

(Reuters) – Detroit Mayor Mike Duggan unveiled a \$2 billion fiscal 2019 budget on Friday that he said could mark the last spending plan while the city's finances are controlled by a state oversight board.

Michigan's largest city is expecting its post-bankruptcy financial review commission to go dormant this spring after audits showed balanced budgets in fiscal years 2015, 2016 and 2017.

"Once we get this budget passed we have the opportunity to get out from active state oversight," the mayor told the city council.

He added that while the commission would continue to review Detroit's finances, the city's budget, contracts, and other matters would not be subject to the board's approval as long as spending plans remain balanced.

Detroit ended what was then the biggest-ever U.S. municipal bankruptcy in December 2014 after shedding about \$7 billion of its \$18 billion of debt and obligations. One element of the city's federal court-approved bankruptcy exit plan was the creation of a state oversight board.

The budget for the fiscal year that begins on July 1 is projected to end with a \$62.3 million balance, while money is being set aside to deal with higher-than-expected pension payments starting in 2024, city officials told council members, who are scheduled to vote on the spending plan in March.

"The general fund budget continues to do well largely because our income tax revenues continue to grow ahead of what anyone would have projected in the bankruptcy," Duggan said.

Detroit Chief Financial Officer John Hill said a plan approved this week by the oversight commission to use up to \$55 million in surplus cash to retire some debt issued in 2014 could result in \$9 million in annual debt service savings. He added that with unlimited tax general obligation bonds maturing in the next decade, Detroit could start selling new debt in the U.S. municipal market to fund capital projects.

Detroit's credit ratings, while still junk, were upgraded last year. Moody's Investors Service in October raised the rating to B1 with a positive outlook from B2. S&P Global Ratings boosted Detroit to B-plus from B in December.

The ratings fell deep into junk after the city defaulted on some of its debt and filed for Chapter 9 municipal bankruptcy in July 2013.

By REUTERS

FEB. 23, 2018

*(Reporting by Karen Pierog in Chicago. Editing by Matthew Lewis)*

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## **Missouri Hospital Becomes Second Municipal Bankruptcy of 2018.**

A hospital district in Pilot Knob, Missouri, filed for protection from its creditors Wednesday, marking the second municipal bankruptcy of the year.

The Iron County Hospital District, which owns a local hospital, listed liabilities between \$10 and \$50 million and assets between \$1 million and \$10 million.

The district has about \$6.5 million in bonds outstanding, said Daniel Doyle, a lawyer at Lashly & Baer who is representing the district.

The district marks the second municipal bankruptcy filing this year after the Surprise Valley Health Care District in Cedarville, California.

### **Bloomberg Markets**

By Amanda Albright

February 21, 2018, 2:06 PM PST

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## **S&P: Pension Pressures Are Likely To Weigh On Illinois Municipal Credit Quality.**

While there's been a lot of attention nationally on the unfunded pension liabilities of the state of Illinois and city of Chicago, many downstate Illinois and suburban Chicago municipalities face formidable funding gaps of their own in their public safety pension plans.

[Continue Reading](#)

Feb. 22, 2018

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## **Berkeley's Plan to Make Its Own Cryptocurrency Raises Eyebrows.**

Facing a homelessness crisis and funding gaps from recent tax cuts, the city of Berkeley is considering something revolutionary: making its own bitcoin-like cryptocurrency.

"Acts of resistance require creating resources," said Councilman Ben Bartlett, one of the people behind the plan. He's working with Mayor Jesse Arreguín, and teaming up with the startup Neighborly and UC Berkeley's Blockchain Lab on proposals to turn municipal bonds into digital currency, with the goal of raising additional funds for specific projects.

Bartlett and Arreguín came up with the idea over dinner when they were brainstorming about the affordable housing crisis with constituents, some of whom work with digital currencies.

"This is largely driven by Berkeley residents," Bartlett said. "Their nickname for Berkeley is Crypto City."

Some of cryptocurrency's harshest critics have characterized them as Ponzi schemes, even as others anticipate that they will revolutionize payment systems. A few early backers of cryptocurrencies are now billionaires on paper, thanks to the run-up in prices. Startups have sought to use the issuance of new digital currencies, called initial coin offerings, to fund development of software tools and marketplaces instead of raising venture capital.

Berkeley has no plan to buy bitcoin, ether or other similar currencies with city funds. Instead, the idea is to break up municipal bonds, allowing people to buy them in smaller quantities as digital tokens, similar to how other cryptocurrencies are traded. The currency will use blockchain technology, as most cryptocurrencies do, that creates a decentralized ledger of transactions designed to increase people's trust in cyber money. But the micro-bonds recorded on the blockchain will be tied to an asset — the underlying bond. Bartlett argues that this makes it less risky than other cryptocurrencies, which have seen wide price swings in the past year.

The councilman said he expects the plan to be embraced by residents and regulators. But John Reed Stark, a lawyer and professor who was formerly head of the Securities and Exchange Commission's Office of Internet Enforcement, is dubious.

"I truly cannot believe this," he said of Berkeley's plan. He says cryptocurrency offerings resemble "the drivers-ed film of securities violations. They trigger every single kind of security violation."

"The notion that a municipality is somehow encouraging the use of pseudo-anonymous currency strikes me as incredibly irresponsible," Stark said. "There are tremendous security ramifications, and they should expect an unbelievable amount of regulatory scrutiny. Whatever they do will be under the microscope of the SEC."

More than a dozen companies have shelved plans to raise money from investors after SEC officials called them up. Robert Cohen, head of the SEC's cyber enforcement unit, said Friday. The SEC scrutiny prompted firms to realize that their offerings may have violated federal securities laws, he said at a conference in Washington.

Lynnette Kelly, president and executive director of the Municipal Securities Rulemaking Board said it's too early to say whether there would be concerns about security or stability in Berkeley's case.

"There are rules in place and all of those rules need to be followed," she said. "I think having a currency backed by a municipal bond is different, and I know the SEC and the (Commodity Futures Trading Commission) have talked at length about cryptocurrencies and issues surrounding these coins."

"We'll continue to investigate and monitor, and get smarter about this and any other new technique in the market, but that doesn't mean it necessarily raises red flags," Kelly said.

A spokesman for the SEC declined to comment.

Marc Lifsher, a spokesman for the State Treasurer's Office, said the office has no position and views it as a local issue.

"The State Treasurer's Office has not talked to Neighborly or Berkeley about cryptocurrency," he said.

Jase Wilson, CEO of San Francisco's Neighborly, shrugged off questions about instability.

"The volatility looks more like a municipal bond," Wilson said. "Berkeley is an extremely strong and



fiscally disciplined borrower.”

The downside of a relatively stable security is that it’s unlikely to attract the get-rich-quick speculators and arbitrageurs who have caused gyrations in the prices of cryptocurrencies but also created relatively liquid markets in them.

The Berkeley project’s goal is to streamline the process for buying and selling municipal bonds, cut transaction costs and allow people to invest in projects of their choosing at low levels.

“For a normal person to invest in a bond is like \$5,000, but under a micro-bond enabled by the blockchain it could be like \$25 or \$50,” Bartlett said. Someone could theoretically invest in the creation of a new park — or even just the purchase of a swing set.

While Bartlett’s long-term goal is to fund big projects like affordable housing, he wants to start small. Some ideas so far, which Bartlett said came from residents: planting a row of trees, buying another ambulance for a fire station and engaging a group of artists to create a series of rotating public art pieces.

The city and its partners are planning what backers like to call “an initial community offering” for May.

Bartlett said that either the City Council would have to approve the plan, or its backers could pursue it with a private company without the council’s OK.

They want to move quickly, he said: The technology promises “direct community engagement, and the need is more pressing than ever.”

## **San Francisco Chronicle**

By Sophie Haigney

February 23, 2018

*Bloomberg News contributed to this report.*

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## **[S&P: Illinois Embarks On A Fiscal High-Wire Act In New Budget Proposal.](#)**

SAN FRANCISCO (S&P Global Ratings) Feb. 15, 2018—On Feb. 14, 2018, Illinois Governor Bruce Rauner presented his fiscal 2019 budget proposal to the General Assembly. The budget foresees a small general funds surplus materializing in fiscal year 2019. S&P Global Ratings views the modest projected surplus (0.9% of spending) and the concurrent stemming of growth in the state’s backlog of unpaid bills

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