Broke Chicago Schools Seek Court Help as Pension Bill Looms.

- **District leaders say schools may close early without state aid**
- **Judge deals setback to lawsuit in Friday ruling, paper reports**

Chicago's debt-ridden schools are running out of options.

The nation's third-largest school district — whose credit rating has tumbled well into junk — must make a $721 million pension payment by June 30 and officials are scrambling to find the funds. Ending the year early, canceling summer school, and slashing classroom spending are all possible, the Chicago Board of Education said in connection with a lawsuit that's seeking to wrest more cash from Illinois.

"They're trying any way they can to try to make the state provide more funding," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages about $19 billion of debt.

A local judge Friday dealt a blow to the schools' lawsuit against Governor Bruce Rauner and the state board of education, which challenges funding practices that have made the district the only one in Illinois that pays most of its pension costs. Cook County Judge Franklin Valderrama rejected the board's assertion that the funding system is discriminatory to the heavily minority-student district, though he gave Chicago until May 26 to file an amended complaint, the Chicago Sun-Times reported.

Escalating pension bills are the crux of the financial squeeze that's threatening the solvency of the school system. For years it has been draining reserves, shortchanging its pensions and borrowing to pay bills. Its retirement system is short by $9.6 billion, and this year's required payment will eat up 13 percent of the district's operating budget.

Chicago covers a far greater share of its teachers' pension contributions than the rest of Illinois's schools, which receive more state aid. For the year that started July 1, Chicago's will spend about $1,891 per student on teacher pensions, while other districts only spend about $86, according to Chicago officials. Illinois kicks in about $32 per Chicago student, while other districts get $2,437, the district said in court documents.

The "disparate pension-funding obligations imposed by the state severely undercut CPS's ability to educate CPS students," according to court filings by the school board.

The lawsuit came after Rauner vetoed $215 million of aid for Chicago's schools in December, though it wouldn't have received the money unless the state enacted pension reforms –something it's been unable to do. Illinois has more than $129 billion of unfunded retirement liabilities and lawmakers haven't even been able to agree on a full-year budget in almost two years.

To get by, the district has had to "borrow massive amounts of money at crushing rates of interest," the board said in court documents. Given its fiscal woes, the school board probably couldn't borrow in a big public offering right now, said Paul Mansour, head of municipal research at Conning, which oversees $10 billion of state and local debt, including some Chicago school securities.

"They could probably do a private transaction or a direct placement of debt, but to try to issue debt in this environment where there's so much uncertainty, the risk factors would scare most investors away," Mansour said. "Who's going to buy this?"

Bloomberg

by Elizabeth Campbell

April 28, 2017, 2:00 AM PDT April 28, 2017, 1:59 PM PDT

Puerto Rico Government Development Bank Opts to Liquidate.

The territory's industrial development bank owes about $4.5 billion to creditors

Puerto Rico's industrial development bank has decided to liquidate, proposing a fiscal plan to federal officials that calls for winding down its operations over 10 years.

The Government Development Bank for Puerto Rico, which for decades acted as the U.S. territory's fiscal agent and government lender of last resort, can't repay its obligations to bondholders and should wind down, Puerto Rico officials said Friday at a meeting in New York with federal oversight officials.

The federal board overseeing Puerto Rico's financial restructuring swiftly approved the liquidation proposal, details of which weren't made public prior to the board's decision. The bank will continue collecting on its outstanding loans to Puerto Rico agencies, and make disbursements to bondholders and depositors, board members said.

The development bank owes roughly $4.5 billion to bondholders, including hedge funds that have argued in court that they must be paid out on an equal basis with the bank's depositors.

GDB's debt pile is only a fraction of Puerto Rico's $70 billion debt load, accumulated through years of borrowing to finance budget deficits against a diminishing tax base.

The board has already approved a fiscal plan for the central government to serve as the basis for negotiations with creditors that allocates less than $800 million a year for debt service. That represents less than a quarter of the roughly $3.5 billion a year creditors are owed under existing contracts.

Creditors are up against a deadline to reach consensual settlements by Monday, when a legal shield protecting Puerto Rico from debt-related lawsuits is scheduled to expire. Next week, the board can continue to keep the courthouse doors closed to creditors by placing Puerto Rico under bankruptcy protection. Creditors could then be forced to accept unfavorable repayment terms under this court-supervised process, known as Title III, that was created by Congress last year.

Oversight board chairman Jose Carrion said that the board could petition for Title III without a public hearing and declined to comment further on the board's strategy for the impending deadline. Filing the bankruptcy petition requires votes from five of the board's seven members.

“We reserve the right to pass judgment on these issues in executive session,” Mr. Carrion said.

Puerto Rico’s advisers have proposed that creditors enter into standstill agreements to forestall litigation while private talks continue. But it remains unclear if creditors are willing to continue negotiating under forbearance agreements or if the board would agree to delay invoking Title III.

The board also approved fiscal plans for other Puerto Rico government agencies that call for creditor concessions to close multiyear fiscal gaps. Puerto Rico’s highway authority, its sewer company and its public power monopoly, all of which owe billions of dollars in municipal bond debt, secured approval of fiscal plans predicated on reductions in their debt service outlays. The University of Puerto Rico hasn’t yet coordinated with the territorial government to develop its plan, Mr. Carrion said.

Only the Puerto Rico Electric Power Authority, known as Prepa, has hammered out a deal with its creditors, a $9 billion agreement dating to 2015 that Gov. Ricardo Rossello recently renegotiated to include additional debt concessions.

The board certified fiscal plan adds requirements for Prepa to evaluate selling off assets and privatizing aspects of its power-generation capabilities.

The Puerto Rico Aqueduct and Sewer Authority is considered by investors to be in better fiscal shape than other instrumentalities and was the last Puerto Rico issuer to attempt to tap the bond markets, floating an abortive $750 million offering in late 2015. Now Prasa will seek holidays on principal repayments or reductions in interest rates to help close a $3.5 billion funding gap, according to its presentation to the board.

Water and sewer customers meanwhile would pay higher utility rates toward deferred capital expenditures. The less money the utilities need to set aside for their bondholders, the less they need to seek politically unpopular rate hikes on Puerto Rico residents and businesses.

“If we don’t have competitive rates in Prepa and Prasa, we will never be able to compete in our region,” said Elias Sanchez, the governor’s representative on the board. “We have to build a competitive scheme in our rates.”

Mr. Carrion said the board didn’t have enough time to release public copies of the plan before their approval.

“Simply it was a decision of time constraints,” he said. “We had a lot on our plate and it all just came together today.”

The Wall Street Journal

By Andrew Scurria

Updated April 28, 2017 12:55 p.m. ET

Write to Andrew Scurria at Andrew.Scurria@wsj.com

Puerto Rico Emerges as Sticking Point in Government Funding Showdown.

President Trump's tweets on the U.S. territory fan GOP divisions as bankruptcy looms

President Donald Trump's criticism of a "bailout" for Puerto Rico is disrupting a bipartisan consensus on Capitol Hill to send the struggling U.S. territory more federal Medicaid dollars, according to people familiar with the matter.

The president has criticized efforts to funnel additional Medicaid dollars to Puerto Rico, saying in a Wednesday evening Twitter post that congressional Democrats "are trying to bail out insurance companies from disastrous #Obamacare, and Puerto Rico with your tax dollars."

Securing additional Medicaid dollars from Washington has been a priority for Puerto Rico as it sits on the verge of an unprecedented court-supervised bankruptcy. Mr. Trump weighed in after Democratic and GOP leadership reached an agreement to provide incremental assistance to Puerto Rico ahead of an impending health-care funding cliff on the island, according to people familiar with the matter.

Puerto Rico is projected to exhaust a $6.4 billion Medicaid grant before the end of the year and has been struggling without replacement funding in place to complete annual renewals of its contracts with managed-care organizations, according to the Department of Health and Human Services. Almost half of Puerto Rico residents are covered by its Medicaid program, which Washington funds on a different formula than U.S. states.

Congress meanwhile is up against a Friday deadline to pass spending legislation to keep the U.S. government funded, and GOP leadership intends to buy another week for negotiations by passing a one-week extension known as a continuing resolution. A subsequent omnibus spending package would provide Puerto Rico with an incremental Medicaid grant, the size of which is still in flux, these people said.

House Democrats are now requiring such assistance as a condition for supporting the continuing resolution, and GOP leadership agrees it should be included, Puerto Rico Sen. Eduardo Bhatia said in an interview. But Mr. Trump's apparent skepticism aligns him with conservative House Republicans inclined to view its request as a bailout, leaving the deal a narrow path to passage in Congress.

Mr. Trump doubled down on his earlier remarks Thursday morning, tweeting that Democrats "want to shut government if we don't bail out Puerto Rico… NO!"

A representative for Speaker Paul Ryan (R., Wis.) couldn't immediately be reached for comment.

HHS this week estimated that Puerto Rico needs $900 million to fund its Medicaid program through mid-2018. But Gov. Ricardo Rossello's lobbying for federal subsidies on Capitol Hill has drawn the ire of Puerto Rico creditors who are being asked in debt restructuring negotiations to take large write-downs on $70 billion in municipal bonds.

While Congress negotiates the continuing resolution and omnibus spending package behind closed doors, Puerto Rico's creditors are up against their own deadline. A legal shield protecting the territory from lawsuits over debt defaults is set to expire on Monday, and key creditor groups haven't yet signed forbearance agreements to postpone litigation so confidential talks can continue, according to people familiar with the matter.

Without standstill agreements in place, the federal board overseeing Puerto Rico's finances has the authority starting Tuesday to invoke a quasi-bankruptcy proceeding known as Title III. That process includes mechanisms to bind creditors to unfavorable repayment terms.

Dissatisfaction with the board has grown among Republican lawmakers, several of whom have questioned its 10-year fiscal blueprint, which earmarks $800 million a year to pay creditors, or roughly a quarter of what they are owed under existing debt contracts.

With Monday's bankruptcy deadline looming and the board slated to meet on Friday in New York, Mr. Bhatia said creditors are making a last-ditch lobbying push to delay or restrict the board's power to invoke Title III as a condition of the Medicaid assistance.

One idea gaining traction with conservative House lawmakers is to require Government Accountability Office approval for any bankruptcy petition, according to people familiar with the matter. Backers of Title III say it was carefully negotiated when Congress passed a federal rescue law for Puerto Rico last year and shouldn't be revised now.

"The governor should come out strongly and say, no way," Mr. Bhatia said. "I'm making sure that whoever is behind this, we expose them."

The Wall Street Journal

By Andrew Scurria

Updated April 27, 2017 6:28 p.m. ET

Puerto Rico Bondholders Reject Island's Restructuring Offer.

- **GOs would receive as much as 77 cents on the dollar in plan**
- **Sales-tax bonds would get as much as 58 cents on the dollar**

Puerto Rico bondholders rejected Governor Ricardo Rossello's debt-restructuring proposal days before a May 1 deadline to craft a deal or face a potential wave of creditor lawsuits.

The Caribbean island is offering holders of its general-obligation bonds as much as 77 cents on the dollar while proposing as much as 58 cents on the dollar for its sales-tax debt, according to the commonwealth's latest creditor proposal, dated April 24 and posted at midnight Saturday on the Municipal Securities Rulemaking Board's website, called EMMA.

The cash-strapped commonwealth is negotiating with its investors and has until Monday night to reach a restructuring accord, otherwise a legal stay that shields the island from creditor lawsuits expires. Absent a restructuring deal or an agreement to suspend legal claims, Puerto Rico may face potentially adverse rulings on cases already filed, as well as new legal challenges.

Puerto Rico is seeking to reduce its $70 billion debt load after years of economic decline and overspending. It would be the largest restructuring in the $3.8 trillion municipal-bond market. The island is operating under a federal oversight board that has the ability to seek creditor losses through a bankruptcy-like process called Title III.

Title III

Groups holding general-obligation bonds and senior sales-tax debt, which get the first claim on that revenue, rejected the offer. The senior sales-tax group now wants Puerto Rico to seek Title III, which Congress approved last year. The commonwealth's plan doesn't offer a better recovery to senior sales-tax bonds compared with the subordinate lien, a feature the investor pool disagrees with, Matt

Rodrigue, managing director at Miller Buckfire & Co., financial adviser to the senior sales-tax group, said in a telephone interview.

“The right next step is a Title III filing to provide a forum in which creditors’ rights will be respected and it also will provide a continuance of the stay, which will protect the people of Puerto Rico,” Rodrigue said.

The senior group has declined Puerto Rico’s request for a 60-day forbearance, Rodrigue said.

While general obligation bondholders are looking to avoid Title III, they say Puerto Rico’s plan isn’t a credible starting point for negotiations. The offer is based on the commonwealth’s fiscal plan, which creditors say doesn’t allocate enough money for principal and interest payments.

‘Consensual Solution’

“We urge Puerto Rico’s elected leadership to work with creditors to construct a consensual solution that is based on a credible financial forecast and that avoids the free fall Title III that the Oversight Board seems intent on imposing,” Andrew Rosenberg, a partner at Paul Weiss Rifkind Wharton & Garrison, who advises the group of GO bondholders, said in an email Saturday.

The governor on Saturday reiterated his believe that the parties can reach a deal and that talks may continue beyond Monday. He didn’t rule out using Title III.

“I believe that there is a possibility that all parties could reach an agreement,” Rossello told reporters in San Juan. “One of the powers I have is Title III and if I have to use it I will.”

The commonwealth’s proposal illustrates the gap between the parties. Senior Cofinas, as the sales-tax bonds are called, want to receive 95 cents on the dollar, with the subordinate lien getting 60 cents, Rodrigue said.

Puerto Rico is committed to reaching a consensual resolution with its creditors, Gerardo Portela Franco, executive director of the island’s Fiscal Agency and Financial Advisory Authority, said in a statement Saturday.

“This proposal is intended to maximize returns to its creditors in a manner consistent with Puerto Rico’s goals for economic growth equitably,” Portela Franco said. “The government anticipates the discussions to continue over the coming weeks.”

Puerto Rico general obligations are trading below the best-case scenario recoveries in the commonwealth’s plan. General obligations with an 8 percent coupon and maturing in 2035, the most actively traded GOs, changed hands Thursday at an average of 64.6 cents, below the 77-cent offer, according to data compiled by Bloomberg.

Senior sales-tax bonds with a 6.05 percent coupon and maturing in 2036 traded Thursday at an average of 60.7 cents, above the 58-cent proposal, the data show.

Recovery Range

Puerto Rico is offering to repay general-obligation bondholders as much as $10.25 billion of the $13.2 billion it owes, according to the proposal. The island also would repay as much as $10.2 billion of $17.6 billion of sales tax bonds.

Investors would exchange their existing securities for two different types of debt: tax-exempt senior bonds with a constitutional priority maturing in 30 years, and cash-flow bonds that would be repaid after the senior securities, depending on the commonwealth's liquidity.

That structure gives general-obligation bondholders a recovery range of as little as 52 percent — if Puerto Rico only repays the senior bonds — and as much as 77 percent if it repays both the senior debt and the cash-flow securities. The recovery range for sales-tax securities is 39 percent to 58 percent.

Bloomberg Markets

by Michelle Kaske

April 28, 2017, 10:47 PM PDT April 29, 2017, 1:32 PM PDT

[Puerto Rico Board Moves to Consider Bankruptcy-Like Process.]

- **Oversight board gives itself right to hold session on topic**
- **Decision comes as island faces creditor lawsuits as stay ends**

Puerto Rico's federal overseers took an initial step toward considering the use of bankruptcy-like proceedings to allow the island to escape from $70 billion of debt and approved a plan that calls for extracting concessions from owners of water agency bonds.

The territory's oversight board, which was created to help resolve the fiscal crisis, unanimously approved a measure that allows it to hold executive sessions to consider petitioning a court to cut Puerto Rico's obligations. That process, known as Title III, was created under a rescue law enacted last year. The vote also allowed the board to consider a negotiated settlement with creditors should one be reached.

"We're trying to do our best and trying to do the right thing by all the stakeholders and the people of Puerto Rico," Jose Carrion, chairman of the board, told reporters after the meeting. "It's a very difficult situation. These folks have lent Puerto Rico money and we are where we are and it's not a situation where we don't understand."

The decision comes just days before the expiration of a legal stay that has sheltered Puerto Rico from lawsuits filed by bondholders after an escalating series of defaults. The government has also struggled to make headway in negotiations with creditors, leading analysts to speculate that the issue is likely to be resolved in court.

The board approved increasing water rates as part of a plan to steady the Puerto Rico Aqueduct and Sewer Authority, the island's main water utility. Prasa, as the agency's known, will seek to cut its $4 billion of debt by negotiating with bondholders to accept less than what they're owed, according to the plan. Prasa says it needs to reduce debt service costs by 35 percent and that it would be able to cover $2.13 billion of the $3.26 billion of payments due during the next decade — a shortfall of $1.1 billion.

Separately, the board approved winding down Puerto Rico's government development bank, which financed public works on the island until it defaulted during the crisis.

"This will provide a viable path for an orderly process for the Government Development Bank with the least impact for stakeholders involved," said Elias Sanchez, Governor Ricardo Rossello's representative on the federal board.

Puerto Rico's debt restructuring, however it's ultimately done, will be the largest ever in the $3.8 trillion municipal-bond market, with the commonwealth's debt issued by more than a dozen agencies and backed by sometimes competing repayment pledges. It promises to impose steep losses on investors, with Rossello's fiscal recovery plan covering less than a quarter of the debt payments that are due over the next decade, even after he takes steps to cut spending and raise revenue.

Bloomberg

by Michelle Kaske

April 28, 2017, 6:56 AM PDT April 28, 2017, 10:50 AM PDT

Hedge Funds That Flocked to Puerto Rico Bonds Face Long Road Out.

- **Debt restructuring likely to wind up in court, analysts say**
- **Bonds trade below recovery rates suggested by Moody's ratings**

Hedge funds first starting buying Puerto Rico debt in the summer of 2013 because they liked what they saw: A government that was paying high, tax-free yields that couldn't go bankrupt.

Nearly four years later, the Caribbean island has defaulted on most of its bonds and Governor Ricardo Rossello, who took office in January, says it can pay less than a quarter of what's owed over the next decade, assuming he can slash the budget and increase the island's revenue. Some of the securities are trading near record lows. And, thanks to the U.S. Congress, Puerto Rico and its federal overseers can use bankruptcy-like proceedings to have some of its $70 billion debt written off in court, something investors once assumed it couldn't ever do.

"It's been a really long trade," said David Tawil, president and co-founder of Maglan Capital LP, who bought Puerto Rico bonds in 2013 but has since sold them. "I don't think when they first got into this they bargained for this type of length of trade. There's been a lot more twists and turns and not to any substantial progress point between then and now."

Puerto Rico investors holding general-obligation bonds and sales-tax debt and insurance companies are negotiating through mediation on a restructuring deal, the largest ever in the $3.8 trillion municipal-bond market. There isn't much time: The commonwealth faces a fresh hurdle on May 1, when a temporary hold that's sheltered it from the impact of creditor lawsuits is set to expire. If Puerto Rico fails to strike a deal with its creditors or gets bogged down in a legal morass, it can seek to reduce its obligations through a court — an avenue that analysts say looks increasingly likely.

"We're at the very beginning of a process that will likely take years," said Matt Fabian, partner at Concord, Massachusetts-based Municipal Market Analytics Inc.

Hedge funds, which hold about one-third of Puerto Rico's debt, started buying in 2013, after the island's long-running recession and unremitting budget shortfalls caused other investors to flee. The distressed-debt buyers scooped up the bonds as traditional municipal-bond investors dumped their holdings and prices fell. An index of Puerto Rico bonds plunged nearly 10 percent in August 2013, the biggest monthly decline since the index's inception in 1999.

The size of Puerto Rico's outstanding debt made it easy to take large positions and the discounted value left open the chance of a price rebound — dangling an opportunity for speculative gains rarely seen in the municipal market, where few borrowers default. Distressed debt was scarce at that time and the island's bonds were one of the few places to buy cheap securities, Tawil said.

"This was the first real distressed opportunity in U.S. municipals," Tawil said. "It's a gigantic capital structure so all of the big distressed guys can go ahead and look at this and say 'I could put a couple hundred million to work here, no problem."'

Hedge funds wagered that investors would ultimately allow the island to push out maturities if the commonwealth did its part to cut the government's spending, Tawil said. Instead, by 2015, Puerto Rico started defaulting on bonds to avoid potentially devastating budget cuts.

"There's just not enough money," Fabian said. "We have a basic problem of where do municipal-bond payments fit as far as the priority of payment? GO and Cofina believe that they're at the top and the board believes they're at the bottom."

While Puerto Rico's debts include a web of obligations sold by different government entities with various repayment pledges, investors are now fighting over an average $787 million that Rossello says he has each year to pay principal and interest over the next decade. One key issue is what will receive a better recovery — the $12.5 billion of general obligations or the $17.3 billion of sales-tax bonds.

Puerto Rico's constitution states the island's general obligations are to be paid before other expenses, while sales-tax bonds have a claim on that revenue before the commonwealth can use it for other expenses. The government hasn't missed payments on its sales-tax bonds.

Moody's Investors Service estimates the general obligations and senior Cofinas, which get first claim on the sales-tax receipts, will receive 65 cents to 80 cents on the dollar in a restructuring deal. MMA's Fabian doubts the recovery rates will be that high because Puerto Rico's outcome is unpredictable. Securities with even weaker repayment pledges may receive less than 10 cents on the dollar, he said.

Some bonds are trading below the projected recovery rates. General obligations with an 8 percent coupon and maturing in 2035, the island's most-actively traded, fell to as little as an average 61.8 cents on the dollar on March 30, the lowest since they were first sold in 2014 at 93 cents, data compiled by Bloomberg show. The debt traded at an average 63.1 cents on Friday.

Cofinas with 6.05 percent coupon and maturing in 2036 traded at an average 60.8 cents Friday after falling to 58.7 cents on April 12, the lowest in nearly a year, Bloomberg data show.

Analysts say Puerto Rico's debt crisis will ultimately be resolved in court, given the long odds of convincing creditors — some of whom have already taken opposing sides in lawsuits — to voluntarily accept steep losses, despite whatever legal claims they have on the government's cash.

"It's hard to see how mediation could succeed theoretically," Fabian said. "There are fundamental points like the constitutional prioritization of GOs and the purported segregation of Cofina that need a court to decide their staying power."

Bloomberg

by Michelle Kaske

April 24, 2017, 2:00 AM PDT

Tax Increment Financing Pays Off for Racine.

RACINE — State law gives municipalities the tool of tax increment financing to develop or redevelop defined areas, and since 1980 the City of Racine has used it to boost its tax base by a net $181-plus million and counting.

Tax incremental financing allows a municipality to pay for improvements in a defined area, or tax increment district, with the future taxes generated as development occurs there.

With the city in the process of forming its 20th TIF district — for the Regency Mall area — The Journal Times assessed information from the Wisconsin Department of Revenue and City of Racine to see how previous TIF districts have performed.

In general, Racine's TIF districts have been a proven way to manifest new development and thereby build the city's tax base in particular areas.

"I would say on the whole, they have done well," said City Finance Director David Brown, who was not with the city when it established its first TIF district to upgrade the infrastructure for a portion of Downtown. "They have done what the city had hoped for."

As examples, the city laid the groundwork for Young Industrial Park, off Mount Pleasant Street on the north side, and Olsen Industrial Park, on the far south side, with TIDs created in 1983 and 1985, respectively. Together, those two areas contribute more than $23 million in city tax base and have likely employed thousands of people over the years.

Successful TIF districts

One of Racine's most successful active TIF districts is No. 9, the Johnson Building at 555 Main St., which was formed in 2000. From its base value of $877,600, its assessed value has mushroomed to well over $29 million.

Like any TID, the additional property tax revenue collected on the tax base increase, or "increment," from the Johnson Building TIF district is used only to repay the city for its investment in creating it, until the TID's termination.

A TIF district is terminated either by reaching the end of its preset life or by paying off the municipality's initial investment earlier. Then all other taxing jurisdictions can begin sharing in the additional property taxes flowing from the greater tax base that was created.

(Brown said Racine's TID No. 2 remains active at 34 years old by special legislation passed for that purpose.)

Racine's most successful TIF district ever, which closed in 2013, was Gaslight Pointe, a project done by Wispark, the development arm of Wisconsin Energy Corp. Gaslight put about $41.5 million worth of property on the tax rolls to benefit the city, county, Racine Unified School District, Gateway Technical College and State of Wisconsin.

Assessing negative numbers

Brown pointed out that some of the city’s active TIF districts don’t have large amounts of tax base increment, and a few are negative. But he said in general, the city doesn’t have much of an investment in them.

An example is No. 14, the former Walker Manufacturing and Pugh Marina, now called Harborside District. That area at one time was to have become an enormous project by developer Scott Fergus, called Pointe Blue. The TIF district was set up for that purpose, “But the city doesn’t really have any investment there,” Brown said.

“Should a developer come in and want to do a development there,” he said, “the TIF is in place to take care of that.”

TIF district No. 15, the former Homeward Bound block on the near north side, is a similar example, Brown said. “We haven’t put any money into the infrastructure.”

No. 17, the former Porters of Racine site, was formed to support a planned redevelopment of the furniture store into retail and apartments, by property owner Micah Waters. But he eventually abandoned the project and had the sprawling Porters building removed.

“When the TIF was created, those buildings were there, and now they’re gone,” Brown said. “So the assessment has decreased. But the city hasn’t spent money on it. The city’s expenses, for all practical purposes, are nothing.”

Help for mall’s owners

Hull Property Group, recent buyers of Regency Mall, appreciate that the city is forming a TIF district to help them try to reverse the fortunes of that troubled property.

“Hull Property Group views the TID as an inducement to invest heavily into Regency Mall,” said Hull Vice President of Government Relations John Mulherin. “The TID creates a financial framework which provides some clarity as to what future operating costs may be, which in turn, provides some comfort in making a significant investment to the property.”

“Stabilizing the Regency Mall property will eventually attract additional retail and restaurants to the area,” Mulherin said. “The TID is critically important to help ‘jump-start’ this process. We commend the community leadership who had the vision to begin the work to help revitalize this critically important retail node.”

THE JOURNAL TIMES

MICHAEL BURKE mburke@journaltimes.com Apr 2, 2017

Atlanta's Controversial 'Cityhood' Movement.

Recent border battles have once again redrawn the lines of the metro area.

On the Saturday before Election Day last November, Jason Lary, a former insurance executive, crouched on a rough patch of grass at the center of a busy intersection 20 miles outside of Atlanta in DeKalb County. Lary was holding a hammer, and he tapped carefully on the thin wire base of a campaign sign. “My hand is like Fred Flintstone’s right now because I banged my hand in the night,” he said, noting his latest sign-related injury. This hazard, though, was worthwhile: “If you don’t start [the sign] with your hand, it will bend. It takes longer—guys are 10 times faster than I am. But my sign’s still gonna be up.”

This was a non-trivial advantage for Lary, who for the past month had begun most mornings with a kind of ground-game whack-a-mole. He would put up signs under the cover of night, only to have his opponents dislodge them by hand or, when that failed, run over them with their cars. Nevertheless, Lary was feeling good. “My opposition? Worn down,” he told me. “They don’t even have any more signs. And I kept a stash, knowing this time was coming. This is not my first picnic with nonsense.”

Continue reading.

THE ATLANTIC

SAM ROSEN APR 26, 2017

Senators McCain and Flake Introduce Western Area Power Administration Transparency Act.

Senators John McCain (R) and Jeff Flake (R) on April 25 introduced S.930, the Western Area Power Administration Transparency Act, to require the Western Area Power Administration (WAPA) to establish a website containing detailed information about customer rates and agency expenditures. The bill would also require WAPA to produce an annual summary of rate and expenditure information, as well as a detailed accounting of its current and projected unobligated balances.

Here is a joint press release from Senators McCain and Flake.

Click here to view the text of the bill.

Illinois Morass Fuels Speculation It'll Be First Junk-Bond State.

- **Gridlocked state headed to third year without a budget**
- **Rating companies warn of further downgrades without a solution**

What’s worse than the worst? Illinois may find out.

The lowest-rated U.S. state is headed toward its third year of an unprecedented budget impasse as Republican Governor Bruce Rauner and the Democrat-led legislature repeatedly fail to agree on how to plug chronic deficits and halt the growing backlog of unpaid bills.

Both Moody’s Investors Service and S&P Global Ratings have warned that Illinois could be downgraded again, while investors are already demanding higher yields on its bonds than they do from borrowers that are on the cusp of junk, according to data compiled by Bloomberg.

“It’s getting harder and harder to find a reason to be optimistic for a budget,” said Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments LLC, which holds some Illinois debt among its $22 billion of municipal holdings. “That being said, this is politics — you can’t predict. Two years ago, we were debating whether or not Illinois falls into BBB. Today, we’re debating whether it falls to junk status. If the status quo persists, what are we going to be debating in two years?"

The standoff has wreaked havoc on the fifth-most-populous state's finances and sunk its credit rating. Unpaid bills have soared to a record $13 billion, and entities that rely on state aid, including public universities, have had to furlough workers and cut services. A stopgap budget expired in December and a bipartisan package of tax increases and spending cuts aimed at ending the standoff fizzled in March. Illinois's leaders are at a "critical juncture," according to Moody's.

"Governor Rauner is optimistic that a balanced budget will be passed soon that will contain reforms to protect taxpayers and recruit new businesses that will boost the economy and create jobs across Illinois," Eleni Demertzis, a spokeswoman for Rauner, said in an e-mailed statement.

If an agreement isn't reached by the end of May, when the regular legislative session ends, a three-fifths majority will be required to pass anything, making a compromise even harder to reach.

Both Moody's and S&P have warned of further credit deterioration if Illinois enters a third year without a spending plan. Both companies rank Illinois only two steps above junk with negative outlooks, signaling the rating could fall again. No U.S. state general-obligation bonds have ever been rated below investment-grade, according to data going back to at least 1970.

Investors have to be prepared for the possibility, said Matt Fabian, a partner with Municipal Market Analytics Inc.

Illinois is "being managed as if it were a speculative credit," Fabian said. "It's hard to get on board and say that Illinois is a buy for anyone besides speculative investors."

Investors already demand higher yields to hold debt issued by Illinois. The state's 10-year yields have climbed to 4.3 percent, or about 2.2 percentage points more than benchmark tax-exempt debt, according to Bloomberg's indexes. That's the most of all 20 states tracked by Bloomberg and more than investors recently demanded on debt issued by borrowers with the lowest investment-grade ratings.

"Barring a comprehensive solution and a budget in place and some real concession on both sides, I think there's always room for spreads to widen," said Adam Buchanan, senior vice president of sales and trading at Ziegler, a broker-dealer in Chicago. "There is certainly room for more deterioration in their levels."

No U.S. state has defaulted on its debt since the Great Depression, and no one is expecting that from Illinois anytime soon. Illinois has been making monthly deposits to its debt service funds for its general-obligation and sales tax-backed bonds, despite the lack of a budget, according to Moody's. But without a compromise by the end of May, there's a risk of "creditor-adverse actions" like borrowing from debt-service funds, or "eventually, prioritizing core operating needs over debt service," according to Moody's.

Losing its investment-grade rating would make borrowing more expensive and limit the pool of buyers for Illinois debt, further complicating efforts to ease the liquidity crisis. The compromise that lost traction in March included a plan to issue as much as $7 billion of bonds to pay overdue bills.

The state has time to stabilize its finances. The next fiscal year begins July 1. If the two sides are able to come together operating liquidity can get restored quickly, according to Moody's. The state has the capacity to raise taxes. Its income tax rate is 3.75 percent, after a temporary hike to 5 percent expired in January 2015.

Rauner and Democrats can't agree on how to fill the hole from that lost revenue even as the state continues to spend money through a combination of continuing appropriation bills, court orders and consent decrees. Rauner, who took office in January 2015 as the first Republican to lead the state since 2003, wants any spending plan to be linked to parts of his agenda, like property-tax limits or changes in workers-compensation laws, which Democrats have resisted.

"They still have the ability to make changes should they desire to do so," said Eric Friedland, director of municipal research in Jersey City, New Jersey, for Lord Abbett, which manages about $20 billion of municipal debt, including some Illinois holdings. "But the longer this goes, the more difficult it is for them to put themselves on a good course."

Bloomberg Markets

by Elizabeth Campbell

April 21, 2017, 2:00 AM PDT

Trump Can't Stop California Bullet Train Paid With Bond Sale.

- **State offers $1.25 billion in taxable debt for construction**
- **Court could prevent state from using proceeds for rail line**

California isn't letting litigation or Donald Trump stand in the way of one of the most expensive and controversial projects in the U.S.

The state on Thursday sold $1.25 billion in taxable bonds to finance a $64 billion high-speed rail system, the first debt issue for construction since voters approved it nearly a decade ago. The offering marks a show of faith from officials that the project will proceed despite a lawsuit from a county and farmer opposed to it and roadblocks from the Trump administration, which has delayed a grant that would have benefited the bullet train running from San Francisco to the Los Angeles area.

The general-obligation debt, backed by California's full faith and credit, isn't dependent on the success of the project, the first publicly financed U.S. high-speed rail line. Lack of federal support would push more of the burden on Californians to finance the project, which Democratic Governor Jerry Brown says will transform the traffic-choked state by increasing access to affordable housing and boosting local economies.

"California can well afford it, and it will make our state a much better place," he said in February in a recorded news conference to which his press office referred in response to questions. "I know we're going up against a very red tide here of opposition. This thing is a long-term project, and one way or another we're going to get it."

It's a good time for California to borrow, with its bond ratings their highest since the turn of the century and after it turned a spate of deficits into surpluses. The state's 10-year tax-exempt securities yield about 2.3 percent, or 0.24 percentage point more than benchmark debt, less than half the premium it paid three years ago, data compiled by Bloomberg show. Yields on the newly issued fixed-rate taxable bonds ranged from 1.25 percent for securities due in 2018 to 2.37 percent for those due in 2022, according to the state treasurer's office.

After years of delay, due partly to legal challenges, construction is underway on 119 miles of track in the Central Valley. By 2029, if work goes as planned, passengers will be able to travel at speeds of more than 200 miles an hour between San Francisco and Anaheim, south of Los Angeles, according to the California High-Speed Rail Authority.

Voters in 2008 approved almost $10 billion of general obligations for the project, and of that, about $1 billion has been sold to finance costs such as design and environmental reviews, according to the state treasurer's office. So far, work has cost about $3 billion, with about $2.35 billion coming from the federal government.

On April 26, opponents of the project will ask a Sacramento County Superior Court to block the state from using proceeds from the bond sale for it. A victory for the opponents could lead federal officials to demand that the state pay back money it has so far received, according to bond documents circulated to investors.

Another risk: future federal grants may not roll in. The high-speed rail authority's most recent business plan in May 2016 said it plans to seek additional funds from Washington, without specifying the amounts.

Already, a $647 million federal grant slated for the electrification of another commuter rail line, which is also needed for the high-speed system, was suspended by Trump's administration after California's House Republicans asked for it to be withheld.

One of them was U.S. Representative Jeff Denham, from the Central Valley, who said he doubts the project will get additional federal dollars until there's a full explanation of all funding sources and costs.

"If you're going to continue to obligate state dollars that you do not have, then you're in jeopardy of at some point the federal government calling for those notes to be due, which could then put public safety dollars at risk, other transportation dollars at risk or education dollars at risk," said Denham, who sits on the transportation and infrastructure committee.

Under the measure approved by voters, California's department of finance must review the funding plan for each segment of the rail before permitting the use of bond funds. It did so in March, saying that for the $7.8 billion Central Valley portion, the risks "are more limited because the bulk of funding is nearly in hand, and much work has already been completed."

A study previously commissioned by the U.S Treasury Department under then-President Barack Obama listed the project as among 40 with major economic significance that were at risk of not coming to fruition. Under an assumption that the costs totaled $59 billion, it pegged the net economic benefits at at least $130 billion.

"There are a lot of federal questions," said Howard Cure, head of municipal research in New York at Evercore Wealth Management. "When you don't have the Republican contingent from your state pushing for it, it is potentially a big problem."

Bloomberg Markets

by Romy Varghese

April 20, 2017, 2:00 AM PDT April 20, 2017, 4:40 PM PDT

S&P: Negative Rating Actions Taken On Illinois Public Universities Amid State Budget Impasse.

After recent rating reviews driven by the state of Illinois' continued budget impasse, S&P Global Ratings lowered the debt ratings on six of its seven rated public universities–some by multiple notches–and placed the ratings on all seven universities on CreditWatch with negative implications on April 20, 2017.

Continue reading.

Puerto Rico: Is It Doing Enough To Regain Capital Market Access?

Kroll Bond Rating Agency (KBRA) has released a public finance research report entitled "Puerto Rico: Is It Doing Enough To Regain Capital Market Access?"

The report notes that the fiscal plan certified by the oversight board established under PROMESA presents a troubling outlook for bondholders over its 10-year time frame. While the fiscal reform and debt restructuring envisioned by PROMESA is still at an early stage, responsible debtor behavior by the commonwealth through the unfolding process will be essential in determining whether efficient access to the capital markets can be regained.

Please click here to access the full report.

In Sanctuary-City Crackdown, Justice Department Threatens to Withhold Grants From 9 Jurisdictions.

WASHINGTON — The Justice Department escalated its fight with big cities and other jurisdictions over immigration on Friday, suggesting that illegal immigration is increasing urban crime and threatening to pull grant funding from uncooperative jurisdictions.

New York City, which reported record-low crime rates last year, responded angrily, as did the state of California.

The specific issue at hand is fairly small: whether jurisdictions are complying with federal rules that block them from preventing their officials from communicating with federal agencies about immigration. The Justice Department sent letters to nine jurisdictions on Friday threatening to withhold grant funding if they don't affirm they are in compliance with that law.

The bigger issue is the Trump administration's effort to crack down on "sanctuary cities," or jurisdictions that to varying degrees decline to assist federal officials in their efforts to identify and potentially deport people living in the U.S. illegally.

Many liberal jurisdictions maintain that they are under no obligation to assist the Trump administration as it works to ramp up deportations of people in the U.S. illegally.

A Justice Department statement accompanying the letters said the jurisdictions had agreed, as a condition of receiving department grants, to provide documentation they are adhering to the federal rule. “The Department of Justice expects each of these jurisdictions to comply with this grant condition,” the statement said.

The department’s tone wasn’t well-received by some of the jurisdictions. “Fear-mongering and falsehoods will not intimidate our state into compromising our values,” said California Attorney General Xavier Becerra. “Federal threats to take away resources from law enforcement or our people in an attempt to bully states and localities into carrying out the new administration’s unsound deportation plan are reckless and jeopardize public safety.”

Friday’s letters follow up on an announcement last month from Attorney General Jeff Sessions threatening to pull the grant money. They were sent to officials in Chicago, New Orleans, Philadelphia, Las Vegas, Miami, Milwaukee and New York City, as well as the state of California and Cook County, Ill.

Those jurisdictions were identified in a Justice Department inspector general’s report last year as potentially out of compliance with the requirement that they do nothing to hinder communication between their own officials and federal authorities regarding immigration.

Friday’s letter asks the cities to send documentation that they are in compliance by the end of June. In California, the Board of State and Community Corrections, which received the letter, said it was under review and that the board complies with the statute at issue.

In the statement accompanying the letters, the Justice Department said many of the cities it is targeting are “crumbling under the weight of illegal immigration and violent crime.”

New York Police Commissioner James O’Neill said he was angered by the characterization. “I like to think of myself as a pretty calm and measured person, and I think most of time I present myself that way, but when I read that statement by the DOJ this afternoon, my blood began to boil,” Mr. O’Neill said. “To say we’re soft on crime is absolutely ludicrous.” He added that the comment was insulting to the NYPD officers who have been killed in the line of duty this year.

The city reported 335 murders last year, down from 352 in 2015 and significantly below the 673 murders reported in 2000.

Later in the day, the Justice Department issued a second statement clarifying that it was criticizing the city’s policies, not its police. “Unfortunately, the Mayor’s policies are hamstringing the brave NYPD officers that protect the city,” it said.

In its initial statement, the department also said the number of murders in Chicago had “skyrocketed” since 2015. Figures show the city is enduring a surge in violent crime.

The letters came as the Trump administration approaches the end of its first 100 days in office. Sending the letter is an action officials can point to as an example of the administration working to implement President Donald Trump’s campaign promises.

Some experts said it wouldn’t be difficult for most cities to show they are in compliance with the provision of law at issue, because it simply requires that local officials do nothing to impede communication with federal officials.

A more serious threat to cities would be if the administration follows through on threats to withhold funding from jurisdictions that don’t comply with requests to hold people in jail in order to give immigration officers time to come and arrest them.

Sanctuary city policies vary widely, but they all limit cooperation with federal immigration enforcement to some extent. Some municipal officials say their sanctuary policies are increasingly important given this administration's more aggressive deportation policies, which focus on criminal offenders but aren't limited to that group.

The Wall Street Journal

By Laura Meckler and Beth Reinhard

Updated April 21, 2017 7:09 p.m. ET

—Zolan Kanno-Youngs contributed to this article.

Write to Laura Meckler at laura.meckler@wsj.com and Beth Reinhard at beth.reinhard@wsj.com

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California Court Upholds San Diego's Pension Reform Plan.

SAN FRANCISCO — A California appellate district court ruled unanimously on Tuesday to dismiss a lawsuit brought against the city of San Diego by the state's Public Employees Relations Board.

The decision upholds Proposition B passed by San Diego voters in 2012 that replaced defined benefit pension plans for newly hired public employees, except police officers, with 401(k)-style defined contribution plans.

San Diego Mayor Kevin Faulconer tweeted on Tuesday that the court had "protected the clear will of voters and upheld pension reform."

Public workers in California and across the nation typically receive a "defined benefit" pension plan, that leaves the city or other governing municipality on the hook to pay the retirement benefit if invested contributions do not grow to the defined benefit amount.

A 401(k)-style plan, on the other hand, is called "defined contribution" plan and does not guarantee a particular benefit amount, leaving the city with no risk.

The appellate court's ruling potentially saves San Diego millions of dollars that it could have been forced to spend creating pensions for roughly 2,000 workers hired since 2012.

Michael Sweet, partner at Fox Rothschild, said this legal fight is ending with a whimper.

"Certainly if the court had gone the other way, it might have taken some of the wind out of the sail of pension reform efforts," said Sweet. "But it isn't a grand ruling on the questions that are still out there: Under what circumstances, if any, can changes be made to pension plans of existing public employees?"

California has long been a battleground for the fight over public pension reform. The largest debt for most California cities and counties is pension liability. Pensions were also a significant factor in the recent municipal bankruptcies of Vallejo, Stockton and San Bernardino, but pensions were not cut in those cases.

By REUTERS

APRIL 11, 2017, 6:57 P.M. E.D.T.

(Reporting by Robin Respaut; Editing by James Dalgleish)

Fitch Upgrades California Tax Allocation Bonds.

Fitch Ratings-New York-13 April 2017: Fitch Ratings has upgraded nearly all its ratings on tax allocation bonds (TABs) issued by California Redevelopment Agencies (RDAs). The upgrades follow a review of the portfolio under Fitch's revised U.S. tax-supported rating criteria (released April 18, 2016).

The revised criteria introduced consistent scenario analysis to support the evaluation of the financial resilience of dedicated tax bonds. They also emphasize the structure's resilience to declines in pledged revenue relative to historical economic cyclicality. In addition, positive credit events since the dissolution of the RDAs in December 2011, including the prohibition on issuing additional debt, have led Fitch to conclude that pledged revenues supporting most TABs can withstand more significant stress while still providing sound debt service coverage than was assumed in the prior ratings.

DISSOLUTION PROCESS PASSES FIVE-YEAR MARK
Legislation dissolving the RDAs (AB 1x 26) was upheld by the California Supreme Court in December 2011. The ensuing dissolution process included state-required procedures to insure that pledged incremental tax revenues were properly allocated and remitted to make timely TAB debt service payments. Early in the process, market participants including Fitch had significant concerns that these somewhat complicated and untested procedures might result in missed payments. It has since become clear that the procedures set forth by the state to insure timely bond repayment have become institutionalized.

REAL ESTATE MARKET RECOVERY
At the time of the RDA dissolution, there was uncertainty as to the pace and durability of the real estate market recovery. Statewide assessed valuation (AV) was flat in fiscal 2012 but had declined by 4% from its peak in fiscal 2009. Some RDA project areas suffered much greater declines. Uncertainty regarding the future direction of AV was heightened by the lag in timing between changes in market conditions and tax collections and the non-linear impact of changes in market values on property assessments created by Proposition 13. The amount of 'Prop 13 cushion,' or the difference between assessed and market value, varies based on a property's age or the date of its most recent resale.

Since fiscal 2012, the real estate market recovery has been strong in most parts of the state. Statewide AV was up 20% as of fiscal 2016, although a few project areas have not fully recovered. The Prop 13 cushion, which helped keep AV from falling more during the housing downturn, is being rebuilt.

STRONG RESILIENCE HIGHLIGHTED BY NEW CRITERIA
The combination of prior concerns about the sufficiency of state procedures and the direction of the real estate market led Fitch to be cautious in changing ratings for RDAs. Ratings have been stable to rising since dissolution but at a modest rate.

Fitch's review of dedicated tax bond structures under its revised criteria includes analysis of the dedicated revenue stream's vulnerability to cyclical decline. Fitch considers the revenue stream's sensitivity to a 1% decline in national GDP as well as the largest aggregate decline in pledged revenues over the period covered by the revenue sensitivity analysis. The review period extends as far back as fiscal 1999. The analysis focuses on the cushion between pledged revenues and maximum annual debt service (MADS), taking both revenue sensitivity measures into account.

This analysis highlights the resilience of California TAB structures given generally sound debt service coverage, the inability to issue additional parity debt, and mostly moderate historical revenue declines. For a few, resilience to downturns is still a concern, but for most the high coverage cushions lead Fitch to believe the bonds would be well insulated even in a reprise of the Great Recession, which Fitch does not expect. The recovery has led to a rebuilding of the Prop 13 cushion between AV and market values, which should again provide a buffer in the event of another drop in real estate prices.

Tax base concentration continues to weigh on ratings, though many have become more diversified as AV has grown. The increased diversification further reduces Fitch's concerns about the ability of the project areas to generate sufficient revenue to repay the bonds.

SUCCESSOR ENTITIES REMAIN DISTINCT ENTITIES
Pursuant to the California Health and Safety Code, successor agencies are separate and distinct public entities and are therefore not exposed to the operating risks of the governments that have assumed responsibility for their operations. Given the limited scope of successor agency operations, Fitch does not assign them Issuer Default Ratings.

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Puerto Rico Seen Sliding Toward Bankruptcy as Deadline Nears.

NEW YORK — Bankruptcy for Puerto Rico is looking ever more likely as the clock ticks down toward a May 1 deadline to restructure $70 billion in debt, ramping up uncertainty for anyone betting on returns from the island's widely held U.S. municipal bonds.

When U.S. Congress last year passed the Puerto Rico rescue law dubbed PROMESA, it froze creditor lawsuits against the island so its federally appointed oversight board and creditors could negotiate out of court on the biggest debt restructuring in U.S. municipal history.

The freeze expires on May 1, however, and an extension by Congress is “not going to happen,” said a Republican aide to the House Committee on Natural Resources, which is in charge of territory matters.

A round of mediated talks is scheduled to begin on Thursday. But absent an agreement soon, a growing number of analysts say Puerto Rico will seek protection from creditors under PROMESA’s court-sanctioned restructuring process, akin to U.S. bankruptcy.

Forbearance deals could let negotiations continue past May 1, but a source directly involved in the talks said avoiding an eventual bankruptcy is “impossible.”

The source, who declined to be named because the talks are private, said parties have grown further apart since Governor Ricardo Rossello took office in January.

The negotiating tactics of Rossello and the board have jarred investors who expected more creditor-friendly approaches from both. The board is pushing debt repayment cuts more than double those proposed by former Governor Alejandro Garcia Padilla, a populist whose policies had already alienated creditors.

Disparate stakeholders have united to question the legality of a fiscal turnaround blueprint approved by the board, and to resist mediation efforts.

Hector Negroni, whose Fundamental Credit Opportunities fund holds Puerto Rico debt, said he recalled “constructive comments” from Rossello and board members “about protecting the priorities of creditors” during the board’s early days. “But their words are not being followed up by their actions,” Negroni said.

Bankruptcy is now “the most likely outcome,” said Height Securities analyst Ed Groshans, who increased loss projections for bond insurers like MBIA Inc and Assured Guaranty Ltd in an April 3 note.

Elias Sanchez, Rossello’s liaison to the board, said the government holds out hope for at least partial compromise. “We feel very confident we can strike some deals by May 1, maybe not all of them,” Sanchez said.

The oversight board is committed to pursuing agreements out of court, its spokesman, Francisco Cimadevilla, said. “A transaction is always better than a lawsuit,” he said.

But with myriad creditor classes competing for priority, compromise over Puerto Rico – once a rising star of U.S. high-yield muni funds – could be tough.

“The more creditors insist that part of their position is that no one fare better than they do, the more difficult that is to effectuate outside of bankruptcy,” said restructuring expert Melissa Jacoby, a professor at the University of North Carolina School of Law.

Puerto Rico is trying to escape a crisis marked by a 45 percent poverty rate and rampant emigration.

Since bankruptcy gives debtors the ability to impose payment cuts over creditor objections, it is seen as a negative for bond markets, Jacoby said.

Trading prices of Puerto Rico’s benchmark 2035 general obligation bonds have reflected that concern, falling precipitously in recent weeks.

But risk cuts both ways and Sanchez said the government wants to avoid bankruptcy as much as creditors.

Putting Puerto Rico's fate in the unpredictable hands of a judge "could go really bad for the government too," he said.

By REUTERS

APRIL 12, 2017, 3:03 A.M. E.D.T.

(Reporting by Nick Brown; Editing by Tom Brown)

Deficit in Dallas: How One of the Fastest-Growing U.S. Cities Ended Up With Billions in Debt

The city has created a huge problem for itself — one so big that bankruptcy isn't off the table.

Dallas has enjoyed enormous success in recent years. Texas' third-largest city has seen the fastest job growth of any major metropolitan area in the country, as well as the second-fastest population growth. But despite its good fortune, Dallas has created a huge problem for itself — one so big that even bankruptcy isn't off the table.

The problem is the city's pension funding, particularly the cost of its commitments to public safety workers. The public safety pension fund has a shortfall somewhere in the neighborhood of $8 billion. The pension board would like the city to pitch in more than $1 billion — an amount almost equal to the city's entire general fund. Meanwhile, Dallas is facing a lawsuit over back pay for police and firefighters that could cost the city up to $4 billion.

The pension mess came about through a familiar set of circumstances. Back in the early 1990s, workers were offered generous benefits that included a guaranteed return rate of 8.5 percent on individual savings accounts. In order to pay for such benefits, the board engaged in some risky investments. "They had some investments in real estate that unfortunately turned out to be disastrous," says James Spiotto, managing director of Chapman Strategic Advisors. "They promised a high return. They earned far less than that."

Not surprisingly, problems this big have triggered a good deal of acrimony. Mayor Mike Rawlings has been unable to convince public safety workers that they'll ultimately have to give up a lot of what they've been promised. The mayor accuses the Dallas Police and Fire Pension Board of committing a "grave breach of trust," and has called in the crime-fighting Texas Rangers to investigate the board's administration. The board is separate from the city, although it includes several members of the city council. It's also made up of police and fire workers and retirees.

In the meantime, Rawlings has gone to court to try to block any of the city's retirees from taking money out of their deferred retirement funds. A group of workers also has sued, blocking a vote on potential voluntary benefit reductions.

Given pension rules in the state, the legislature is going to have to sign off on any plan to address the problem. Lawmakers are confronting a similar-sized hole in Houston, but a crisis seems to have been averted there because the city and its employees have agreed to a deal. Dallas, by contrast, has been unable to bring state legislators an overhaul that has the blessing of both the city and its pension board. One proposal legislators are talking about would convert individual accounts of Dallas workers into annuities. That might save some money, but Texas lawmakers need to consider how they can reshape pension oversight to avoid similar problems in the future.

The quasi-independent nature of pension boards in Texas may be one reason why its plans keep running into trouble. Seven Texas municipalities have filed for bankruptcy protection over the last 35 years, notes Frank Shafroth, a government finance expert at George Mason University and a Governing columist. "The state of Texas needs to really think through what kind of structure they have that enables municipalities to avoid accountability," Shafroth says.

GOVERNING.COM

BY ALAN GREENBLATT | APRIL 2017

Stifel's Public Finance Group Ranks No. 1 in 2016 Municipal Negotiated Issues.

ST. LOUIS, MO–(Marketwired – April 04, 2017) – Stifel Financial Corp. (NYSE: SF) today announced that its Public Finance group led the nation in number of municipal negotiated issues in 2016, serving as sole or senior manager for 801 transactions with a total par value of more than $16.9 billion, according to data from Thomson Reuters SDC. It is the firm's third consecutive No. 1 ranking and its sixth consecutive top ten ranking (including acquired firms).

In addition, Stifel ranked No.1 nationally in par value and number of issues in the following categories:

- K-12 Financing: 409 issues totaling nearly $8 billion
- Tax Increment Financing: 118 issues totaling $2.9 billion
- Negotiated Deals Below $25 Million: 574 issues totaling $5.1 billion

Stifel ranked No. 1 nationally in number of issues in the following category:

- Bank Qualified Bonds: 221 issues totaling $1.3 billion

In the individual state rankings, Stifel was No. 1 in par value in Michigan and Missouri.

"Our success is a testament to the quality of our public finance team nationwide," said Ken Williams, Director, Municipal Finance Group. "We've continued to enhance our capabilities with the addition of several experienced bankers in the past couple of years. These professionals have added depth to our group, which allows us to provide even greater service to our clients. Our public finance team, along with our dedicated municipal sales group, our broader fixed income capital markets sales group, and our retail network, enables us to deliver superior results for our issuer clients."

Stifel Public Finance Information

A leader in public finance, Stifel's areas of expertise include state and local governments, tax increment/development districts, K-12 school districts, utilities, transportation agencies, higher education institutions, and pension. With 150 public finance associates in 30 offices, Stifel has one of the largest municipal finance practices in the country.

Stifel Company Information

Stifel Financial Corp. (NYSE: SF) is a financial services holding company headquartered in St. Louis, Missouri, that conducts its banking, securities, and financial services business through several wholly owned subsidiaries. Stifel's broker-dealer clients are served in the United States through Stifel, Nicolaus & Company, Incorporated; Keefe Bruyette & Woods, Inc.; Miller Buckfire & Co., LLC; Century Securities Associates, Inc.; and Eaton Partners, LLC, and in the United Kingdom and Europe through Stifel Nicolaus Europe Limited. The Company's broker-dealer affiliates provide securities brokerage, investment banking, trading, investment advisory, and related financial services to individual investors, professional money managers, businesses, and municipalities. Stifel Bank & Trust offers a full range of consumer and commercial lending solutions. Stifel Trust Company, N.A. and Stifel Trust Company Delaware, N.A. offer trust and related services. To learn more about Stifel, please visit the Company's web site at www.stifel.com.

Has the Movement to Raise the Minimum Wage Reached Its Limit?

Politicians who had supported an increase have reversed course

BALTIMORE—Cities and counties from Portland, Maine, to Los Angeles have successfully passed local minimum-wage increases, but recent resistance in seemingly friendly territory suggests a momentum shift.

The newly elected Baltimore mayor last month vetoed an increase of the local wage floor to $15 an hour by 2022, despite favoring the policy as a candidate. Earlier this year, the top elected official in Montgomery County, Md., outside Washington blocked a similar measure despite the county previously being at the forefront of local minimum-wage increases.

Continue Reading.

THE WALL STREET JOURNAL

By SCOTT CALVERT and ERIC MORATH

April 6, 2017 10:36 a.m. ET

Puerto Rico Reaches Power Utility Debt Deal.

Creditors would take the same haircut as in previous agreement while delaying principal repayment for longer, backstopping a potential new-money loan

Creditors of Puerto Rico's public power monopoly agreed to revise a $9 billion restructuring accord, providing additional debt relief to mitigate politically unpopular rate increases for consumers.

The U.S. territory on Thursday announced a new restructuring agreement covering the public utility known as Prepa ahead of a May 1 deadline to reach consensual settlements with creditors. The new framework modifies a debt-cutting agreement dating to 2015 that Gov. Ricardo Rossello sought to renegotiate after his January inauguration.

The governor, with the support of federal officials overseeing Puerto Rico's finances, reopened negotiations last month to ask for additional concessions from holders of Prepa's power revenue bonds and insurance companies that guarantee more than $2 billion of Prepa's approximately $9 billion debt load.

The original deal called for Prepa bondholders to exchange their bonds for new securities at a 15% discount. Under the framework announced Thursday, creditors would take the same haircut while delaying principal repayment for longer and backstopping a potential new-money loan, according to a person familiar with the matter.

Thursday, a group of bondholders said the revised restructuring terms represent a "fair solution" and are "in the best interest of Puerto Rico, its people and the future of Prepa as a sustainable utility."

Mr. Rossello's decision to wrest negotiations from Prepa's independent board rankled creditors and U.S. lawmakers who argued that he should honor the pre-existing agreement. But creditors ultimately proved willing to deal rather than risk potentially larger losses in a court-supervised proceeding, according to a person familiar with the matter.

Puerto Rico is scheduled to begin mediated talks next week with creditors holding billions of dollars of other government bonds. Under discussion will be how to divvy up $800 million a year earmarked for debt service, according to a person familiar with the matter. But Puerto Rico has little time to reach voluntary agreements, with less than four weeks remaining before the expiration of a legal shield freezing creditor lawsuits.

Puerto Rico is negotiating based on a fiscal plan approved by federal authorities with more bearish economic assumptions than investors expected, sparking a selloff last month in benchmark Puerto Rico securities. The U.S. territory owes creditors roughly four times what they will collect over the next decade under the fiscal plan. Puerto Rico owes roughly $70 billion in overall municipal debt, including the approximately $9 billion attributable to Prepa.

After May 1, when the legal stay expires, federal oversight officials have authority to invoke a quasi-bankruptcy process and potentially force creditors to accept unfavorable terms. The threat wasn't available when Prepa negotiated its original restructuring agreement under Mr. Rossello's predecessor.

THE WALL STREET JOURNAL

By ANDREW SCURRIA

Updated April 6, 2017 2:18 p.m. ET

Dallas, Houston Pension Bills on Track for House Vote: Lawmaker

(Reuters) – Legislation addressing public pension problems in the two biggest cities in Texas are on track for a House vote this month, a key state lawmaker said on Wednesday.

A bill for Houston's retirement system passed the Texas House Pensions Committee on Wednesday and State Representative Dan Flynn, the committee's Republican chairman, said a Dallas measure should follow suit by next week.

“I believe both bills will make it to the House floor in the next couple of weeks,” he said in an interview, noting the legislation is the culmination of 18 months of work to find fixes for the financially ailing pension systems.

With the Dallas police and fire pension system projected to become insolvent within 10 years, legislation would cut the nearly $3.7 billion unfunded liability to $2.18 billion and boost the funded ratio to nearly 50 percent from the current 36.8 percent, according to a bill analysis. To accomplish that, the measure would increase retirement ages, hike worker and city contributions, limit cost-o--living (COLA) increases for retirees, and restructure governance.

During a hearing on the bill this week, Dallas Mayor Mike Rawlings pushed for city control of the pension board and against “a taxpayer bailout.”

Flynn dismissed the mayor’s opposition.

“There’s probably a little heartburn for everybody, which makes it a pretty good bill because if only one side was happy we’d still have problems,” he said.

The Houston bill, supported by Mayor Sylvester Turner, would reduce the unfunded liability in the city’s municipal, police, and firefighter funds to about $5.5 billion from $8.1 billion by boosting retirement ages, suspending and reducing COLAs, and increasing employee contributions. For its part, Houston would have to make actuarially required annual payments to the funds, which would lower their projected investment return rates to 7 percent, and sell $1 billion of pension bonds.

Potentially complicating matters for Houston is another bill, which passed the Senate last week, requiring voter approval for the issuance of pension bonds by local governments.

“We do not believe in taking a tool away from municipalities solving pension problems, especially in a higher interest cost environment,” said Darian Ward, the mayor’s spokeswoman.

Flynn said his committee became involved because pension problems contributed to credit rating downgrades for both cities.

“If the two largest cities in Texas start getting downgraded, well, it could actually affect our Texas bond ratings,” he said, referring to the state’s triple-A credit standing.

By REUTERS

APRIL 5, 2017, 5:36 P.M. E.D.T.

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

Puerto Rico's Fight on Utility Deal Raises Risk for Bond Insurers.

- MBIA, Assured Guaranty shares fall amid push for concessions
- Conflict marks prelude to restructuring of entire debt load

When Puerto Rico struck a deal more than a year ago to cut the government electric company’s $9 billion debt, one group was spared the hit: bond insurers, whose guarantees the island needed to win back the faith of investors.

That agreement and the precedent it set are now at risk as Governor Ricardo Rossello threatens to use the bankruptcy-like powers the U.S. has since given the territory to seek additional concessions from MBIA Inc. and Assured Guaranty Ltd. That's triggered a decline in bond insurers' shares over speculation about the scale of the losses they face as Puerto Rico moves toward the bigger effort to slash its entire $70 billion debt.

"For an outsider coming in, like the governor, it probably doesn't seem to him like the people of Puerto Rico got the best deal here," said Chas Tyson, an analyst with Keefe, Bruyette & Woods.

The push to reopen the Puerto Rico Electric Power Authority's December 2015 agreement — the only one the island has reached — marks an opening salvo in Rossello's effort to pull the government out of a crisis that's promising to impose deep losses on bondholders, who snapped up the territory's high-yielding debt for years even as the economy contracted. Puerto Rico has already defaulted on a major swath of its debt and the fiscal recovery plan approved this month by U.S. financial overseers would cover less than a quarter of what it owes between 2018 and 2026, assuming the government can accomplish its goals of cutting spending and raising revenue.

Analysts say bond insurers have enough cash to weather their exposure to Puerto Rico and that's reflected in the price of guaranteed commonwealth bonds, some of which trade for over 100 cents on the dollar.

But insurers' shares have slid amid speculation the resolution will be more costly than previously anticipated. Since the end of January, MBIA has fallen 18 percent and Assured 5 percent, while Ambac Financial Group Inc., which also insures Puerto Rico debt, has declined 11 percent. The S&P 500 Index has gained nearly 4 percent over the same time.

The companies that insured the debt of the utility, known as Prepa, were set to avoid paying out claims under the deal. Owners of uninsured bonds, including Franklin Advisers Inc. and OppenheimerFunds Inc., agreed to accept 85 cents on the dollar by exchanging their securities for new debt backed by a share of residents' electricity bills.

Instead of covering payments on the other debt they guaranteed, the insurers agreed to fund a $462 million surety bond that would backstop the securities — providing investors with protection against a default. Assured and MBIA also purchased bonds from Prepa to provide the utility with cash needed to cover debt payments.

Prepa's uninsured debt is trading around 60 cents, indicating creditors got a good deal relative to the market, said Tyson. "Every dollar that you don't spend on debt service can be passed on to utility customers in the form of lower prices," he said.

Rossello's push has riled insurers and bondholders, who said it cast doubt on his ability to negotiate with other creditors and jeopardizes the government's ability to return to the capital markets. If his administration can't strike an agreement, Puerto Rico and the federal oversight board may turn to the courts to reduce what is owed, thanks to a provision included in a U.S. law passed last year to give the island tools to deal with its debt.

Puerto Rico is facing a deadline to reach out-of-court settlements with creditors by May 1, when a legal stay that's sheltered it from the consequences of most lawsuits is set to lapse. The Prepa deal could also expire on Friday if it's not extended, as insurers and bondholders have previously agreed to do.

The gulf between Rossello and Prepa's creditors was on public display at a March 22 congressional hearing in Washington, where Adam Bergonzi, chief risk officer of MBIA's National Public Finance Guarantee unit, said the governor has done little to reach out to creditors. An adviser to Franklin and Oppenheimer also questioned Rossello's failure to close the deal. On Tuesday, U.S. Representative Doug LaMalfa, who heads the House panel that held the hearing, urged Rossello to complete the Prepa agreement by Friday's deadline.

MBIA's National insures $8.6 billion of principal and interest payments, including $1.8 billion of Prepa debt, and had $4.6 billion of claims-paying resources at the end of 2016, according to the company's disclosures. Assured guarantees $8.1 billion of principal and interest payments, including $1.1 billion from the utility, and had $11.7 billion to meet claims as of Dec. 31.

Syncora Guarantee Inc., which is also a party to the Prepa deal, had only about $461 million of exposure to Puerto Rico as of Sept. 30. Ambac insures $9.7 billion of principal and interest, $7.3 billion of which comes due from 2047 to 2054, according to a filing. The company reported $8.8 billion of claims-paying resources as of Dec. 31. It doesn't guarantee Prepa securities.

MBIA spokesman Greg Diamond, Assured Guaranty spokeswoman Ashweeta Durani and Syncora spokeswoman R. Sharon Smith declined to comment. An e-mail and phone message seeking comment from Ambac weren't returned.

Puerto Rico's move to extract concessions from the insurance companies may be short-sighted, said Mark Palmer, managing director at BTIG LLC. He said the island may need the companies to guarantee its bonds whenever it wants to resume borrowing for public works, given that investors may be worried that it would default again if the economy doesn't turn around.

"It makes sense to use insurance where the investors are really taking risks on the insurer and not the municipality," he said.

The conflict between Puerto Rico and the utility creditors is unlikely to be resolved outside a broad agreement to restructure all of the island's debts, said Tyson, the analyst with Keefe, Bruyette.

"There's a pretty wide distance between the governor, the oversight board and the major creditors of Prepa," he said.

Bloomberg Markets

by Martin Z Braun and Jordyn Holman

March 30, 2017, 2:00 AM PDT March 30, 2017, 11:19 AM PDT

State Funding Squeeze Could Mean "Ultimate Financial Disaster" for Michigan Communities.

Michigan cities and towns are hurting for cash. Many have had to cut services like street and sidewalk repair. Some have had to reduce the size of their police and fire departments.

The usual suspects of municipal finance woes—weak property tax revenues and rising employee retirement costs—share much of the blame.

But today there is another culprit: the state of Michigan itself.

For years, the state Legislature has been claiming a bigger share of revenue from the statewide 6% sales tax. Facing their own budget problems, decision makers in Lansing have shifted the financial stress to the local level.

According to the Michigan Municipal League, municipalities lost out on more than $6 billion because of reductions in revenue sharing from 2001 to 2014.

Marcus Peccia is city manager of Cadillac, Michigan. Peccia said his city of around 10,000 people has lost more than $4.5 million in revenue from the state since 2001.

In a city with an annual general fund of just $6.5 million, that has had a huge effect.

“We’re down to essentially one operational crew from our public works department year-round,” Peccia said. “And so, especially in the winter, with winter conditions, it makes it more difficult for us to provide the same level of services that we want to provide and that our citizens expect.”

Peccia said that it can take up to five days to clear snow off the streets after a snowstorm, far longer than in past years. In the snowy northwest of the Lower Peninsula, that can mean the streets aren’t even fully plowed before the next snowfall arrives.

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Hamtramck, a city of 20,000 located in the Detroit metro area, has also felt the funding squeeze.

“From 2003 to 2014, we lost about $13.3 million,” said Hamtramck Mayor Karen Majewski. “That’s almost the equivalent of a full year’s general fund budget for us.”

Hamtramck’s budget issues lead to the city being taken over by a state-appointed emergency manager in 2013.

While the city’s finances are in better shape since coming out of emergency management in 2014, the situation remains far from ideal. Some local residents have even taken charge of filling the city’s potholes themselves.

Both Majewski and Peccia reported that their local representatives in Lansing are aware of the municipal funding problems. But the message does not seem to have reached the entire Legislature.

In recent months, there have been several proposals to cut state income taxes, in some cases to zero. At the same time, the governor hopes to increase the size of the rainy-day fund, which already holds more than $500 million.

The purpose of the fund is to avoid budgetary crises in the future. But for local leaders like Peccia and Majewski, who have been battling shrinking budgets for years, such proposals seem counterproductive at best.

“To have a rainy day fund at that magnitude that’s being proposed and being talked about, in combination with also reducing the income tax levy, I think that could potentially be a combination or a mixture for ultimate financial disaster and ruin for many more communities across this state,” Peccia said.

By STATESIDE STAFF & NICK WALLACE • MAR 29, 2017

Score NFL Raiders' Departure to Vegas a Touchdown for Oakland.

- Football team exit means less expenses for regional agency
- Cost of new arena to keep Raiders may have outweighed benefit

The Oakland Raiders' slogan is "Just Win, Baby." For the San Francisco area community that hosts the National Football League team, it may as well be "Just Leave, Baby."

The team's departure will help narrow the annual losses for the municipal agency running the stadium by eliminating its game-day expenses and the risk the city of Oakland and surrounding Alameda County could incur more debt and bills to keep the franchise.

"It's never better to lose an NFL team," said Scott McKibben, executive director of the Oakland-Alameda County Coliseum Authority, which owns the sports complex. "But in terms of pure dollars and cents, operationally, it's to our benefit."

The Raiders, a franchise famed for its dedicated fans, have decamped from Oakland before, playing in Los Angeles from 1982 until returning in 1995. This time the team is headed to Las Vegas, lured by a new arena financed with the largest public subsidy in pro-football history.

Across the country, the cost of hosting professional sports has strained municipal finances, from spring-training facilities in Glendale, Arizona, to the NFL stadium in Indianapolis. While some governments such as Nevada continue to woo teams through public resources for new venues, others have curbed their enthusiasm.

San Diego has seen its credit improve after its professional football team announced its departure for Los Angeles following voters' rejection of increased taxes to fund a replacement arena.

Indeed, a municipal bond issued by the Oakland coliseum authority is priced at the same spread over benchmark debt as seen on Jan. 19, the day the team officially filed to move to Las Vegas. The agency sold $198 million of debt in 1995 to lure the Raiders back to Oakland with a renovated complex. The securities were refinanced in 2012.

The Raiders were never obligated to pay any of the debt service, which totaled about $13 million in the last fiscal year. Adding to the strain on the authority's finances, the team doesn't pay for game-day expenses, such as security officers, said McKibben.

He expects the gap between the cost of hosting Raiders games and the revenue from rent, beer sales and parking fees to saddle the authority with at least a $1 million loss for the coming season. The shortfall may grow as the Raiders, which may leave after 2018 when the new venue in Las Vegas is complete, lose fans and fewer attend games, he said.

The city and county each commit to paying half of the authority's costs and debt service. Last fiscal year, their contributions totaled $22 million. The $83 million in outstanding bonds for the Raiders' stadium, which mature in 2025, remains their obligation no matter the team's location.

Local officials did vie to keep the Raiders, with Oakland Mayor Libby Schaaf pledging land and $200 million in municipal bonds backed by tax revenue generated by a new arena. The fact the team spurned it in favor of a more expensive and bigger facility in Las Vegas takes away a risk to the city, said Jenny Poree, senior director at S&P Global Ratings.

"We think the economic impact to the city is pretty minimal relative to what the additional debt and potential additional costs would have been," she said.

Las Vegas and its surrounding Clark County won't see a significant financial hit based on how that deal is structured, she said. An increase in hotel taxes provides the public subsidy, and although Clark County is pledging its general-obligation credit as a backstop, its strong financial characteristics would leave its rating unaffected.

Oakland's loss of the Raiders may not translate to a windfall for Las Vegas and Clark County either, said Eric Hoffmann, senior vice president at Moody's Investors Service.

"There's really very little evidence that professional sports teams have a material economic effect on either a local economy or municipal government," he said.

Bloomberg Markets

by Romy Varghese

March 31, 2017, 2:00 AM PDT

Government Data Startup ClearGov Gets a Boost with New Funding.

ClearGov, a startup company that uses data to make sense of municipal finance for taxpayers and public officials, said this week it has raised its largest venture-funding round yet: $1.2 million from Boston-based Kepha Partners and quasi-public venture capital firm MassVentures.

The Hopkinton-based tech startup was founded in late 2015 by Chris Bullock, a data analytics expert who previously had founded a legal-focused startup after working at the Nasdaq Stock Market. Bullock said he was inspired to build the company, which has a total of 10 employees, after he found himself looking for information related to a vote to build a new elementary school in his town. When he went to understand the finances of the town, he discovered the town's website was not helpful: He found a sizable, downloadable PDF document outlining the town's finances, but not much else.

"Most importantly, there was no context to the data," said Bullock. "I can see the town spends $55 million on education. That's just a big, amorphous, meaningless number."

So he began to form the company, which focuses on benchmarking and comparing municipal financial data for residents — all of this data giving taxpayers a transparent, customizable view into their town's finances.

"We go out and gather data from state, local and national entities and scrub and clean and normalize it," he said. Then that data is transformed into infographics, so that taxpayers will be able to see "where the money is coming from and where it's going."

ClearGov makes money by charging towns or cities an annual subscription fee. So far, there are about 100 municipalities in five states paying for the service on its website (Brookline is one of the company's paying customers). But ClearGov has more than 20,000 cities and towns displayed out of 89,000 municipal entities across the United States. Municipalities can communicate to residents on the site about budget details and the towns can also access data about its own finances.

“Most people don’t trust what they don’t understand,” said Bullock, who declined to disclose revenue. “There’s a lot of misperceptions out there. When I started meeting with local government officials, one thing that struck me is these are normal people who want to do the right thing. They want to battle waste. They’re doing that, but they don’t have a great way to communicate that.”

Bullock will use the new funding to build up ClearGov’s sales and marketing team “and expand our data reach and also develop new technologies,” he said. He hopes to double the startup’s headcount in the next year.

Boston Business Journal

Mar 30, 2017, 7:16pm EDT

David Harris oversees the Boston Business Journal’s digital content.

[Illinois Governor Vetoes Chicago Pension Fix, Angers City's Mayor.]

CHICAGO — Illinois Governor Bruce Rauner on Friday vetoed a legislative fix favored by Chicago Mayor Rahm Emanuel for two of the city’s struggling pension funds and castigated it as a “kick-th--can approach.”

The financial footing and credit ratings for the nation’s third-largest city have slipped precipitously as its unfunded pension liabilities grew to $33.8 billion for Chicago’s four retirement systems in the most recent accounting.

The plan that passed the Illinois Senate unanimously in January and cleared the House overwhelmingly last December would have granted the state’s blessing to alter the city’s pension repayment schedule for its municipal and laborers’ retirement systems.

The systems are projected to run out of money in the coming decade and were depending on legislative sign-off of the city’s enactment of a water and sewer usage tax and telephone surcharge designed to help get them 90 percent funded in 40 years.

City officials have acknowledged that more money will be needed starting in 2023 when payments will reach actuarially required levels.

But Rauner rejected the package, saying it created a payment schedule that eventually would necessitate a tax increase for Chicago. He said it needed to be part of a broader, statewide pension funding strategy to address Illinois’ $129.8 billion unfunded pension liability.

“This is another kick-the-can approach to pension funding that landed Chicago in fiscal crisis in the first place,” Rauner said in a prepared statement. “This bill will create an unsustainable funding schedule that will lead to tax increases without solving the real problem.”

A spokesman for the Democratic mayor slammed the Republican governor’s action as an “irresponsible and irrational decision.”

“Instead of helping secure the future of our taxpayers and middle-class retirees, the governor chose to hold them hostage – just as he has done to social service providers, schoolchildren and universities across the state,” Emanuel spokesman Adam Collins said in a statement, referring to

Rauner's inability to broker a state budget deal for 21 months.

Rauner's action left Democrats with no ability to block his veto because the pension bailout passed in the previous session of the state General Assembly, which ended in mid-January, and the governor's only options were to approve or reject the measure.

But the city is pinning its hopes on an identical piece of legislation that passed the newly seated state Senate in late January and is awaiting action in the House, Collins said.

By REUTERS

MARCH 24, 2017, 6:18 P.M. E.D.T.

(Editing by Matthew Lewis)

Gov. Rauner Vetoes Overhaul of Chicago City Pension System.

SPRINGFIELD, Ill. — Illinois Gov. Bruce Rauner vetoed legislation Friday that Chicago officials hoped would bolster the city's sagging pension systems.

The Republican criticized the plan as too limited and argued the state should tackle the state's onerous pension debt while shoring up municipal retirement accounts.

"It's like trying to fix a drought with a drop of rain," Rauner said in his veto message. "We see pension funding challenges throughout the state. 'One-off,' short-sighted approaches won't really fix the problem."

Rauner forecast the action in January, when he announced disapproval of the plan after it sailed out of the state Senate unanimously.

It was intended to deal with laborers' and municipal workers' pension accounts. Fire and police systems are separate.

The plan would have required new employees pay 11.5 percent of their paychecks toward retirement, up from 8.5 percent. The city would have tripled its contributions to the programs in part with increases on water and sewer services.

"The governor continues to make one irresponsible and irrational decision after another," Adam Collins, spokesman for Chicago Mayor Rahm Emanuel, said in a statement. He said lawmakers overwhelmingly approved the legislation "because it improves our fiscal stability for taxpayers and shores up pensions for thousands of retirees who earned them."

Collins noted that financial rating agencies revised the city's credit outlook last fall, pinning hopes on the plan. Without it, the accounts go broke as early as 2025.

Rauner indicated Friday he wants to combine Chicago pension fix with a long-awaited overhaul of the state's five employee pension programs, which are a combined $130 billion short of what they need to cover all obligations.

He has been urging the Senate to separate its pension plan from the compromise budget deal known as the grand bargain so that a funding fix can get underway sooner. That legislation includes extra money for Chicago Public Schools to get the system through the school year.

By THE ASSOCIATED PRESS

MARCH 24, 2017, 6:57 P.M. E.D.T.

Michigan Senate OKs $5M Sinkhole Loan, Allots Flint Funds.

LANSING, Mich. — The Michigan Senate on Wednesday approved a $5 million interest-free state loan to help repair a large sinkhole in suburban Detroit, narrowly rejecting a call to stick with a House plan that would instead give Macomb County a $3 million infrastructure grant.

The midyear budget bill , which also would formally allot $100 million in federal aid toward Flint's water crisis, cleared the Republican-controlled chamber 36-1. Democrats and some Republicans from Macomb County and elsewhere unsuccessfully tried to reinstate the proposed grant, which had been overwhelmingly endorsed by the GOP-led House last week.

"It's their problem to solve," Republican Senate Majority Leader Arlan Meekhof said of Macomb County. "I'm happy to give them a no-interest loan, which we did. But I'm not interested in having the line out my door go forever for people that want to get in line for free money for their infrastructure."

A broken sewer line caused the football field-sized sinkhole on Christmas Eve in Fraser. Three houses had to be condemned and a major road has been closed.

Macomb County Public Works Commissioner Candice Miller, a former Republican congresswoman, called Meekhof "pompous and arrogant" and accused him of standing in the way of a project designed to keep raw sewage out of 150,000 basements and the Great Lakes.

"He has the wrong job title. He's not a leader," she said in a statement that also credited the House and the governor's office. "Term limits can't come fast enough for some people. … If I had $5 million to pay him back, I wouldn't need the money in the first place."

Meekhof spokeswoman Amber McCann countered that Miller "spent too much time in Washington" and "doesn't get to dictate the terms" of the assistance.

"The majority leader and 35 other senators voted to help fix the problem," she said.

Sen. Steve Bieda, a Warren Democrat, voted against the legislation after his amendment to issue a grant rather than a loan failed 17-20. He said the sinkhole has had a broad impact because millions of gallons of sewage were discharged into a river.

"This is an issue that affects everybody, as it stands to negatively impact the Great Lakes," Bieda said. "And it's one that needs to be fixed in the near future as the rains that are anticipated in April will only exacerbate the problem."

The $3 million grant would offset the cost of a $12 million-plus pipe system that was installed to divert sewage around the collapsed sewer interceptor, according to Macomb officials. A local drainage district will sell municipal bonds to finance the cost of emergency work on the damaged pipe, Miller said.

The bill also would allocate $100 million in Flint aid that Congress and former President Barack Obama enacted into law in December. And it includes $1 million for capital improvements to the Michigan Capitol building.

Sen. Tory Rocca, a Sterling Heights Republican, was angered by the GOP majority's decision to authorize a loan instead of a grant.

"Year after year you come to my county for money. And now when we need a little bit of help and a tiny bit of our money back, people are pretty hostile to that. It doesn't seem right," he said.

It is unclear how the House will respond. It is expected to vote Thursday, before the Legislature's two-week spring break.

By THE ASSOCIATED PRESS

MARCH 29, 2017, 6:33 P.M. E.D.T.

Illinois Risks Rating Downgrade Without Budget Deal: Moody's.

CHICAGO — Illinois' already low credit rating could be downgraded if the state does not end its record-breaking budget impasse over the next two months, Moody's Investors Service said on Thursday.

The credit rating agency said the state is at a "critical juncture," and failure to reach a budget consensus by the May 31 end of the legislative session would "signal deepening political paralysis, heightening the risk of creditor-adverse actions."

"This is sort of a do-or-die moment here with respect to the leaders in state government," Moody's analyst Ted Hampton said.

Moody's rates Illinois Baa2, which is just two steps above the junk level and is the lowest rating among the 50 states. Illinois also pays a bigger penalty than other states in the U.S. municipal bond market after six credit downgrades since 2015 by the three major rating agencies.

A 21-month standoff between Illinois' Republican governor and Democrats who control the legislature has left the state operating on continuing appropriations and court-ordered spending.

As a result, the state's pile of unpaid bills, a barometer of its deep financial woes, has tripled since 2015, hitting a record-high $13 billion last week.

If Illinois begins a third straight fiscal year without a complete budget, money set aside for payments on its $26 billion of outstanding general obligation bonds could be at risk of being borrowed to cover operational expenses, Moody's said in a report.

Another possibility could be that core operational needs would be prioritized over debt service, it added.

With a budget deal, Illinois would be able to stabilize its financial position, the report said, noting that political gridlock, not fundamental economic factors, are largely driving the state's financial pressures.

Asked about Moody's report by a reporter in the state capitol, Governor Bruce Rauner said he continues to push for a budget that includes structural changes to spur economic growth.

Moody's said a bipartisan bill package that surfaced in the Senate in January but has since stalled could improve the state's financial prospects.

The package includes legislation to complete the fiscal 2017 budget, which expired on Dec. 31, as well as to hike taxes, cut pension costs by about $1 billion annually, authorize borrowing to pay down the bill pile, expand casino gaming and freeze local property taxes.

"We continue to work toward compromise but aren't there yet," said John Patterson, a spokesman for Democratic Senate President John Cullerton.

Illinois' fiscal year begins July 1.

By REUTERS

MARCH 30, 2017, 4:18 P.M. E.D.T.

(Reporting by Karen Pierog; Editing by W Simon and Matthew Lewis)

Nebraska County Faces Bankruptcy After $28.1 Million Judgment.

Gage County, Neb. faces bankruptcy after $28.1 million judgement following exoneration of 6 defendants

A small rural county in Nebraska, Gage County, is facing bankruptcy after a jury awarded $28.1 million to six people who sued the county. They were exonerated by DNA evidence after being wrongly imprisoned for a crime that took place there in 1985. Collectively, they spent 75 years in prison.

While Gage County waits to see if the verdict gets tossed out on appeal, county supervisors are weighing their options. Two bankruptcy attorneys hired by the county "are working on giving us information on how that [bankruptcy] would proceed and how that would affect the county," Gage County Board Chair Myron Dorn said.

With a population of a little more than 20,000, the county has an annual budget of $27 million and collects about $8 million in taxes per year. Legal fees totaling more than $3 million have already sucked funds from the county's operational budget over the past seven years.

Nebraska limits the amount counties can collect from property taxes; the county could increase their property taxes to raise another $4 million annually, before it hit that ceiling, Dorn said. County residents could also vote to raise their own taxes even more, but "we've had that discussion," he said "and our Board agrees that that wouldn't pass."

The county could also look to the state legislature to pass a generic bill at a future session that would provide funding for the county, he said.

Exonerated by DNA evidence

The specter of bankruptcy is the result of the decades-old crime case that dates to Feb. 6, 1985, when a 68-year-old grandmother was found raped and murdered in her home in Beatrice, the county seat.

The people who served time for the crime, three men and three women, became known as the "Beatrice Six." They were exonerated by DNA evidence in 2008. By then, they had collectively served 75 years in prison.

Jury awards $28.1 million

The Beatrice Six filed a federal lawsuit against Gage County, as well as a former sheriff's deputy and reserve deputy, claiming that investigators worked to close the case despite contradictory evidence. Last summer, a federal jury awarded the Beatrice Six $28.1 million, plus additional money for legal fees.

Unless the verdict is tossed out on appeal, the county will need to pay the $28.1 million plus lawyer fees.

"Everything is still on the table until the Eighth Circuit makes a ruling," Dorn said. In January, Gage County asked the Eighth Circuit to overturn the federal jury ruling or set a new trial. They expect oral arguments to take place this spring before a three-judge panel of the Eighth Circuit.

Nebraska Intergovernmental Risk Management Association (NIRMA), Nebraska Association of County Officials and the Nebraska Sheriffs' Association filed friend of the court briefs. The groups did not side with either Gage County or the Beatrice Six, but wanted to weigh in because the outcome could have significant effects upon the state's counties, law enforcement and all Nebraska residents, Dorn noted.

Insurance claims denied

In 2009, Gage County filed claims with both the risk-sharing pool and a private insurer, Dorn said. The county used the private insurer when the Beatrice Six were arrested and convicted. Both insurers denied the county's claims.

The county hired two lawyers to dig into the county's insurance history to leave no stone unturned in hopes of finding something that would help the county pay the judgement, Dorn said.

"They have filed in court on behalf of the county," Dorn said. "One suit was filed against our current insurance company since about 1997. The other was against the insurance company the county had before 1997. Both lawsuits are challenging the companies' claims of 'no' liability or insurance coverage. "If we don't pursue it, we won't know if we will get anything [from them]," Dorn said.

"We [the Gage County Board of Supervisors] meet every two weeks and we have closed sessions just about every meeting about this," he said.

"It has taken on its own personality; it has a life of its own. Whatever the verdict, it will have a profound impact on the county."

One of the kickers to the story: A DNA test in 1989 that could have cleared things up in the cold case was deemed too expensive. Cost? $350, the Associated Press reported.

DNA evidence has exonerated hundreds

Of the 349 people exonerated with DNA evidence nationwide, 254 have been awarded compensation though state statutes, civil suits or private bills, according to the Innocence Project. These 254 people have been awarded a total of $657 million.

Some 144 people have been awarded compensation though state statutes, 119 through civil suits and 26 through private bills, the Innocence Project said.

Pretrial settlement limits damages

In a somewhat similar case, New York resident Jeffrey Deskovic served nearly 16 years in prison after he was wrongfully convicted in Westchester County, N.Y., but got separate awards from the City of Peekskill, the county of Westchester, the state of New York and the New York State Police.

A federal jury in 2014 awarded him $40 million after finding ex-Putnam Sheriff's Investigator Daniel Stephens fabricated evidence and coerced Deskovic's false confession in the 1989 murder of a Peekskill High classmate, USA Today reported.

Lawyers told the newspaper they believed it was the largest jury award in a wrongful conviction case. Putnam County was expected to pay less than the $40 million — $10 million — because of a pretrial settlement that limited damages.

Going bankrupt

Other jurisdictions that have faced bankruptcy include Jefferson County, Ala., as well as several cities. The Alabama county's debt escalated after bond issuance deals for upgrading the county's sewer system soured, Reuters reported. The county filed a $4.23 billion bankruptcy in 2011, the largest ever for a jurisdiction until Detroit's $18 billion case two years later.

The City of Dallas is facing financial hardships due to unfunded public safety pensions for retired police officers and firefighters and back pay liabilities, and is reported to be $5 billion in the red, The New York Times recently reported.

The Times reports that officials are considering raising property taxes, borrowing money for the pension fund, delaying long-awaited public works or even taking back money from retirees.

COUNTY NEWS

By MARY ANN BARTON Mar. 20, 2017

San Francisco Boosts Deficit Forecast, Anticipating Higher Costs.

- Expenses will outpace revenue by about three to one, plan says
- Uncertainty on state and federal funding weighs on outlook

San Francisco's budget deficit is projected to hit $907 million by 2022, up from a previous estimate of $848 million, as costs such as retirement expenses outpace revenue.

Accounting for higher inflation drove the increase in the forecast, which was released Thursday in the city's five-year financial plan, updated from a previous report in December. Over the period, San Francisco's expenses are seen rising 30 percent, about three times as much as collections. The city is required to balance its budgets.

The outlook underscores the challenge fixed obligations such as pensions can impose on cities even as wealthy as San Francisco. The forecast doesn't consider the loss of any state or federal dollars, which comprise 20 percent of municipal revenue. The federal administration has pledged to withhold aid to cities such as San Francisco over its handling of undocumented residents.

That threat comes amid expectations that while property collections will remain strong, revenue sources sensitive to the economy, such as sales and hotel taxes, will slow or even decline, according to the city's report.

"This shift, coupled with great uncertainty from the state and federal budgets, results in real downside risk to the city's financial outlook," the analysis said.

Bloomberg Markets

by Romy Varghese

March 24, 2017, 6:14 AM PDT

[S&P: Preliminary Federal Budget Proposal Indicates Potential Tax Base Declines For Maryland And Virginia.]

The fiscal 2018 budget put forward by the Trump Administration, if enacted as proposed, would have a disproportionate effect on the D.C. regional economy and Maryland and Virginia finances in particular, S&P Global Ratings believes.

[Continue reading.]

Mar. 21, 2017

[Puerto Rico's Defaulted Debt at Record Low as Recovery Rate, Legal Battle Weigh.]

NEW YORK (Reuters) – Puerto Rico's benchmark government bond slumped to an all-time low on Monday after competing groups of bondholders stepped up their legal battle over who should be paid first out of a smaller-than-expected pool of cash.

Benchmark Puerto Rico general obligation (GO) debt maturing in 2035 and carrying an 8 percent coupon, fell 5.15 points in price to 61.35 on Monday, according to Thomson Reuters data.

The U.S. commonwealth is in the midst of trying to pull itself out of a financial quagmire that leaves it with $70 billion in debt it cannot pay without a massive restructuring.

It is also fighting a 45 percent poverty rate and islanders fleeing for the mainland in search of a better life.

The debt, which has been in default since last year when the U.S. Congress passed a rescue law known as PROMESA that suspended debt payments, has dropped 11.4 points in price since a new fiscal rescue plan was accepted on March 13. Defaulted debt trades more like an equity and is not typically quoted with a yield.

Investor sentiment turned more negative when so-called COFINA bondholders, whose debt is backed by sales tax revenue, asked a federal judge in San Juan on Sunday to deny the GO bondholder group's effort to stop the island's government from making payments on COFINA debt.

GO debt traditionally is considered senior to all other debt obligations as it is backed by the good faith and credit of a municipality. A larger amount of COFINA debt is held on the island than GO debt, which is held widely in U.S. municipal bond portfolios.

The Financial Oversight and Management Board for Puerto Rico, established by the PROMESA law, certified a revised fiscal turnaround plan on March 13 that set aside less money for servicing debt payments than originally planned.

A lower-than-expected amount of money set aside to service debt under the new plan, $800 million per year versus $1.2 billion a year over a 10-year period, puts the recovery rate for bondholders, in aggregate, around 30 cents on the dollar, according to analysts.

"The most liquid bond prices have dropped after the acceptance of the fiscal plan by the PROMESA board and the recovery rate being on the low side," said Joe Rosenblum, director of municipal credit research at AllianceBernstein in New York. "I'm not making a comment on whether it is correct or final, but at least sets up from Puerto Rico's side a much lower recovery rate."

"That is carrying forward and over the weekend the COFINA creditors committee went hard against the GO bondholders. We knew all along that was going to be a tough battle," he added.

Municipal analysts at Barclays Capital estimated that even if 100 percent of the additional revenue and expense measures are met, "the debt stack would need to be reduced to about 31 percent in order to achieve a stable debt-to-GNP ratio."

"We assume exit yields of $4.9 percent post restructuring, consistent with where 10 year single-B high yield municipal bonds trade," Barclays said in a March 15th research note.

Reuters

By Daniel Bases

March 20, 2017

(Editing by Bernadette Baum and Chizu Nomiyama)

Moody's Lauds Detroit's Move to Set Aside Cash for Pensions.

(Reuters) – The Detroit City Council's approval this month of a special fund to cover pension payments is a positive credit move, although concerns remain over the availability of money to cover retirement benefits, Moody's Investors Service said on Monday.

The council on March 10 approved Mayor Mike Duggan's proposal to deposit $377 million into a trust fund by the end of fiscal 2023 to help Detroit cover higher-than-expected pension payments starting in fiscal 2024.

"This credit positive action will improve the city's capacity to meet the upcoming pension contribution hike," Moody's said in a report.

Detroit, which has a junk rating of B2 from Moody's, exited the biggest-ever municipal bankruptcy in December 2014 with the assistance of money from a so-called grand bargain that included donations from foundations and others to help cover pension costs.

Moody's said Detroit could become financially stressed once money from the trust fund and from the grand bargain is depleted in the 2030s. The credit rating agency also said planned deposits into the pension trust fund could be hampered by lower-than-expected revenue growth.

"Because future (trust fund) deposits are not legally mandated, they could be an attractive cost-cutting target to close potential budget gaps," Moody's added.

Detroit's court-approved bankruptcy exit plan had projected city pension payments to spike to $111 million beginning in fiscal 2024 after years of minimal or no payments by the city. But a subsequent actuarial analysis pegged the payment spike at $200 million or more.

The bankruptcy allowed the city to shed about $7 billion of its $18 billion of debt and obligations. Since its bankruptcy exit, Detroit's finances have been subject to a state oversight commission.

By REUTERS

MARCH 20, 2017, 12:09 P.M. E.D.T.

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

CA Citizen Panels Overseeing School Bonds Need Help, Statewide Panel Says.

FAIRFIELD — Oversight of school construction bonds – proposed by creating citizen committees in California – is not taking place for the most part, the Little Hoover Commission said in a study.

Independent training is needed for citizens bond oversight committees created in 2000 when the threshold to pass school bond measures in California was reduced from two-thirds to 55 percent, said the study released late last month.

"Bond oversight committees in many communities act simply as cheerleaders for the district, often because members simply do not understand their roles or know what actions they can take," states the study, "Borrowed Money: Opportunities for Stronger Bond Oversight."

Little Hoover Commission recommendations include requiring school districts in the state to provide a minimal budget for oversight committees, with money to hire independent counsel with municipal bond expertise.

Bonds proposed to voters should list projects the money will pay for, the commission also recommends.

Sharon Bacinett, vice chairwoman of the Citizens Bond Oversight Committee for the Measure C bond in the Fairfield-Suisun School District, said Monday she has not yet seen the Little Hoover Commission report but that hiring an attorney would be a waste of time and money.

The school district has attorneys and any questions the oversight committee had were answered, Bacinett said.

Every project Measure C paid for was on time and under budget, she said.

Bacinett said that Kim Van Gundy, assistant director of facilities and operations, goes to school construction sites to see about change orders requested on projects.

“Kim Van Gundy is right on top of it,” Bacinett said. “As long as we’ve got Kim Van Gundy we’re going to be fine.”

Voters passed the $100 million Measure C bond in 2002. The district leveraged that money to get about $108 million more to complete various facilities projects. Voters in the district passed the $249 million Measure J school facilities bond in June 2016.

Lyman Dennis, chairman of the Citizens Bond Oversight Committee for Measure Q at Solano Community College, said he has not read the commission report but that allowing oversight committees to hire attorneys “would be good.”

“There’s room for improvement,” Dennis said of the citizen panel’s work.

Voters passed the $348 million Measure Q bond in 2012.

Ivette Ricco, who served from 2010 to 2016 on the citizens bond committee for the West Contra Costa County School District, said in a letter to the Little Hoover Commission that school districts completely control the oversight committees.

Dennis Clay, in an August statement to the commission, said that he works at the West Contra Costa school district as a whistle-blower.

“West Contra Costa likes to claim transparency, but for the most part it has actively worked against it,” Clay wrote. “People in West Contra Costa, and maybe in government in general, are not hired based on competence,” he said, but as a school district official said, “on cultural fit.”

Matthew Duffy, superintendent of the West Contra Costa district, said of the school district’s practices on bonds over the past 15 years, in a Sept. 22 letter to the Little Hoover Commission, “We knew and understand the concerns expressed by many members of our community.”

Several changes have improved the district’s practices, Duffy wrote He concluded his letter by stating, “We look forward to the continued conversation around our school construction program.”

Richard Michael of the California School Bond Clearinghouse Project testified before the commission Sept. 6 about “oversight in the era of government by what it can get away with it.”

“There is no oversight of district bond expenditures in California,” Michael said.

A few private firms working hand-in-hand to sell bonds to school districts control the industry, he said. Deals happen on a very local level and avoid scrutiny, he said.

“The industry has had the advantage of operating in plain sight,” Michael said, “but in the dark with respect to the voters in the districts that comprise its clientele.”

Bonds typically include broad categories of vague projects, Michael told the commission.

School districts with previous bond measures trumpet the fact the oversight committee has “approved” its “good stewardship of public funds,” he said. No empirical evidence supports such conclusions, Michael said, and the school district has captured the bond committee.

Committees look good on paper but fall apart in practice, he said before the commission.

Public knowledge about bonds is limited, Michael said, and celebrity news often dominates the media.

“To most of the people in the state, even the tens of millions with bond programs already in place, it doesn’t even appear on their news stream. The Kardashians, yes. Bonds, no,” Michael said.

The firms of Piper Jaffray and RBC Capital Markets LLC contributed to the Solano College district’s Measure Q bond campaign for the November 2012 election and then after the measure passed, served as the bond underwriters. Piper Jaffray was the leading contributor to the campaign, providing $25,000, according to campaign records; and RBC Capital Markets was the third-highest contributor, providing $18,000, campaign records show.

The services of the bond underwriters were already under contract with Solano College prior to the election, Yulian I. Ligioso, the college’s vice president of finance and administration, has said. Those agreements were approved by the college’s governing board in August 2011, Ligioso has said.

The Sacramento-based Little Hoover Commission describes itself as “an independent state oversight agency.”

Daily Republic

By Ryan McCarthy | March 15, 2017

Reach Ryan McCarthy at 427-6935 or rmccarthy@dailyrepublic.net.

Emanuel's Short-Term Budget Solutions Will Cost $1 Billion In Interest.

For years, Chicago has patched up budget deficits with long-term borrowing — an expensive habit that Mayor Rahm Emanuel inherited, perpetuated and has vowed to break.

But a Tribune analysis of the city’s latest bond sale, a $1.2 billion offering earlier this year, shows that the mayor will continue to run the city with borrowed money, at great long-term expense, through the rest of his term in 2019.

Among the findings of that analysis:

•The majority of the money will be used for budget relief and come at a very high cost. Almost all of the additional costs, however, do not kick in until after the end of Emanuel’s current four-year term. By paying only interest for the first several years of the loan, Emanuel can use the funds borrowed this year to smooth out budgets through 2019 at minimal expense.

•Some of the money will be used to refinance previous borrowing but at a higher interest rate. The main advantage for the city is that it kicks the costs further into the future. In all, taxpayers are on the hook for $1.1 billion in interest on the loan, which will cost $2.3 billion to repay over 20 years.

•The city will continue to rely on borrowed money to pay legal settlements, turning to a new stockpiling strategy rather than trying to pay these costs out of its regular operating revenues as many municipalities do. Borrowing this way adds $120 million in interest costs to the $225 million set aside for settlements.

The city portrays the new $1.2 billion in borrowing as a turning point, saying it will no longer restructure old debt to push costs into the future at greater expense. That tactic, known as “scoop and toss,” has been widely criticized as a desperation move during the terms of Emanuel and his predecessor, Mayor Richard M. Daley.

City Budget Director Alexandra Holt told the Tribune: “It is the last time we are borrowing for scoop and toss. It is the last time we are borrowing for routine settlements and judgments.”

The Tribune detailed Daley’s reliance on debt in its 2013 investigative series “Broken Bonds,” which showed how the mayor built his political legacy through spending then left taxpayers with a huge debt to pay. The city’s massive liabilities, which also include unpaid pension obligations, have driven down the city’s credit rating and made it much more expensive to borrow money. Chicago’s general obligation bond ratings fell below investment grade in 2015 and remain at junk status.

Carole Brown, the city’s chief financial officer, said January’s bond sale is intended to show investors and municipal market analysts action on Emanuel’s financial reform agenda. The mayor recently urged Moody’s Investors Service to reconsider its low opinion of Chicago’s creditworthiness or withdraw its public ratings of the city, arguing in a December letter that the city is on a path to financial stability.

But experts say that, given Chicago’s history of borrowing, pension burden and continued struggles to balance its budgets, there can be no certainty the city can make good on promises to end its bad habits.

Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics, said he is not convinced that the city has its budget problems solved and that it won’t need to scoop and toss old bonds or borrow for judgments and settlements in the future to make ends meet.

“That is the promise from the mayor, and you can’t fully dismiss that promise, but as an investor you have to assume they will do this again.” Fabian said.

“We all know that the city does not have any extra money, so it makes sense that they would finance what they are going to do,” Fabian added, “but this is a cost of the city not having liquid resources elsewhere. This is an example of in America why poor people fall farther behind, because they are forced to finance things that other people would just pay for.”

By using bond funds to close its budget gaps, the city can spare residents from further tax increases and avoid more painful cuts to city services in the short term, said Jason Horwitz, the Chicago-based director of public policy and economic analysis for Anderson Economic Group.

But Horwitz said the tactic comes at a high price and essentially guarantees future budget deficits or tax increases, as debt payments pile up for years to come.

“Borrowing more and accumulating more debt has been an expensive choice,” he said. “I think the fact the city has drawn out its fiscal problems has made it much more difficult to find remedies.”

Of the $1.2 billion the city borrowed, $687 million will go to help close its budget gaps through 2019, including debt payments that are coming due and anticipated legal claims. Just $365 million will go to municipal bonds' more traditional uses — city maintenance, construction and equipment.

Payments on the massive deal are limited to just over $130 million through the next mayoral election. In a particularly complicated move known as "capitalized interest," the city is using $77 million of the borrowed money to pay interest costs on the loan through 2019. That strategy lowers debt costs for several years but increases the amount that must be repaid, adding more than $87 million in interest.

Since Emanuel took office in 2011, the city's general obligation bond liabilities have increased dramatically. The city now owes $18.1 billion in payments on $9.8 billion in debt, up from $13.2 billion on $7.2 billion in 2011.

Debt service on all of Chicago's outstanding general obligation bonds totals $500 million this year, but in 2020 — after the mayoral election — it will grow to more than $900 million. Payments then do not decline significantly until after 2036.

Asked how the city will balance its budgets in those years, budget office spokeswoman Molly Poppe said officials will continue to cut costs through spending reforms and find other available revenues.

Holt said the size and structure of the borrowing was necessary because the city would not be returning to the bond market for several years and needed to be prepared for a variety of costs.

"We need to be prepared to pay for expenses, whether they are fixing bridges or repairing the lakefront or fixing the roofs on buildings or paying judgments and settlements or buying a new fire engine — all of that stuff needs to be paid for, and we do our planning ahead of time," she said.

In a 2015 speech to civic leaders, Emanuel promised that Chicago would begin to pay for more of the city's routine judgments and settlements with operating funds, preserving its long-term debt for the other more common uses of municipal bonds mentioned by Holt.

Indeed, the city plans to use operating funds to pay for all of its 2016 judgments and settlements, which are expected to total roughly $110 million, according to the budget director. That would be the first time since Emanuel took office that no debt would be issued to pay for legal liabilities. According to the city's online financial records, since 2006 the city borrowed to pay a portion of its legal claims every year through 2015.

But this year's bond deal also includes $225 million set aside for future liabilities. In other words, although this could be the last time Chicago borrows money to make these payments, it expects to use borrowed money for that purpose for some years to come — a strategy that adds huge interest costs to each legal claim.

For instance, if the city uses the stockpiled funds to pay $1.8 million in new legal settlements that the City Council approved last month, interest costs would boost the total outlay to $2.8 million, according to the Tribune's analysis.

Including the new bonds, the city has borrowed just under $1 billion for legal costs since 2006, of which $664 million came under Emanuel's watch.

According to Fabian, using some of the borrowed money to stockpile funds to pay for unidentified future liabilities was an expensive and risky budget gimmick that may suggest city leaders fear they may have trouble selling more debt in the future. Brown told the Tribune that the city is not concerned about losing access to the municipal bond market.

Richard Ciccarone, president of the municipal bond research company Merritt Research Services, said the city was being closely watched for progress on the mayor's debt reform agenda, and he was surprised that plan had evolved to borrowing in advance for legal liabilities.

"I think we assumed they would pay off legal liabilities known to them at this time and begin to pay them off going forward with current funds as a pay-as-you-go," Ciccarone said. "The stockpiling for the future might not be the spirit of the way this was understood by many analysts or investors.

"On the positive side, it does provide a contingency for unexpected difficulties that may occur, especially some very highly visible and contentious situations in Chicago both on the law enforcement side as well as the issues involving labor," he said.

The size and scope of Chicago's repeated borrowing to pay for legal claims is extraordinary, according to Ciccarone, who said most cities borrow only occasionally for that purpose — such as when the cost comes unexpectedly or is too large to be paid from available resources.

Ald. Scott Waguespack, 32nd, who sits on the City Council's Finance Committee, said paying more than $100 million in interest to borrow for the city's future judgments and settlements was more than he expected. But specifics about the deal — why the city was borrowing for legal claims, how much it would cost — were hard to obtain from the mayor's finance team, he said.

"They kind of argue that this is what we are going to do, and that is all there is to it," Waguespack said. The bond sale was approved without opposition by the City Council in October.

Brown and Holt said that they spent extensive time briefing the council on the bond issuance and that aldermen were aware of the high cost of the borrowing and how the funds would be used.

Another pledge Emanuel made in his 2015 speech was that the city would end "scoop and toss" refunding by 2019. However, the Tribune found that the latest deal includes refinancing of bonds that would have come due between 2020 and 2022, for a total of just under $50 million in old debt. All of the restructured bonds have higher interest rates and the majority have longer maturities — the hallmarks of scoop-and-toss deals.

Most of that debt — $33 million — would have been paid in 2020. Poppe said the restructuring of those bonds meets the mayor's 2019 deadline because these bonds would have been accounted for in the 2019 budget, despite maturing in 2020.

As for the remaining bonds, she said the debt coming due in 2021 and 2022 is being refinanced using new bonds that will be repaid in the same year as the old bonds, so it is not a scoop and toss. However, the new bonds have a higher interest rate, 7.0 percent compared with 5.6 percent, leading to a small increase in cost.

The Chicago Tribune

by Peter Matuszak

March 21, 2017

pmatuszak@chicagotribune.com

[S&P: South Carolina's Proposed Pension Reform Provides Path To Improve Funding, But Challenges Remain.]

As governments across the country grapple with rising pension and other postemployment benefit costs, some are reconsidering pension reforms in addition to those they adopted following the Great Recession of 2007 to 2009. South Carolina is one such state.

Continue reading.

Mar. 14, 2017

S&P: California Pension Giants Lower Their Discount Rates To Preserve Long-Term Plan Sustainability.

The two largest public pension systems in the U.S. — California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) — both have committed to lowering their discount rates without changing their funds' asset allocations.

Continue reading.

Mar. 15, 2017

S&P: Long-Term Structural Balance Still Elusive In New Jersey's Proposed Fiscal 2018 Budget.

S&P Global Ratings today said that New Jersey Gov. Chris Christie's fiscal 2018 budget proposal might look fine in the near term, but long-term structural balance remains elusive thanks to the state's continued deferral of full funding for future retirement obligations.

Continue reading.

Mar. 16, 2017

How Long Can Illinois Hold Onto Investment Grade Ratings?

CHICAGO – Illinois' sovereign powers over spending and revenues and its sturdy general obligation repayment statute are being tested as its budget gridlock inches toward the two-year mark.

The two factors have propped up the state's credit profile but as the state's budget deficit, bill backlog, and unfunded pension obligations climb to record levels, some market participants and politicians are questioning how long Illinois can preserve investment-grade status.

They see risk in the state's failure to overcome political gridlock and use its sovereign powers to fix its budget problems, and the threat that liquidity strains could overwhelm the GO repayment provisions.

"Nothing is off the table here," S&P Global Ratings analyst Gabriel Petek, a senior director in the state governments group, said when asked how long the state could hold on to an investment-grade rating while continuing on its current course.

Illinois is the lowest rated state, now at the Baa2/BBB level across the board, only two notches away from speculative grade territory where no state has gone in recent memory

"It's something that we are watching. It's unprecedented for a state to go this long without a budget," Petek said during a panel discussion at the rating agency's state and local government credit forum in Chicago Thursday.

Moody's Investors Service and S&P assign Illinois a negative outlook and Fitch Ratings has the credit on negative watch.

The market already trades Illinois paper at junk level. The state's 10-year GO is trading at a 215 basis point spread to the Municipal Market Data's top-rated benchmark. That's up from a 12-month average of 191 bp and up from 170 bp a year ago.

MMD's BBB in the 10-year range trades at a 97 basis point spread.

"Illinois has a much higher spread than this level," said Thomson Reuters MMD's Daniel Berger. "The market does not consider Illinois GOs as an investment grade."

Spreads hit a peak of 238 basis points at the end of 2016. "Illinois is paying a steep price for going two years without a budget," Triet Nguyen, head of public finance credit at NewOak Fundamental Credit, wrote in a March 6 report looking at Illinois and New Jersey trading levels. "This is an unheard-of spread for a state GO credit and we can only infer that the market is already viewing the Prairie State as below investment grade."

S&P's negative outlook suggests there's at least a one-third probability that the state will see a downgrade over a one- to two-year timeframe. Petek said when looking at the state's $12 billion backlog of unpaid bills and a pension system funded ratio of just 39.2%, "the trend is not good."

About 90% of state government spending continues based on continuing appropriations and court orders, while higher education and social services, have received just piecemeal appropriations.

A downgrade looms if the state begins fiscal 2018 on July 1 without progress, S&P warned in a report earlier this month after negotiations stalled on a bipartisan Senate budget deal known as the "Grand Bargain."

Entering a third fiscal year without a comprehensive budget "could indicate to us an erosion in political will that renders its credit quality and fundamental fiscal conditions as inconsistent with the state's current rating," the report said.

Fitch also issued a pointed warning in connection with its Feb. 1 downgrade.

"If the state continues on the current path, a further downgrade would be warranted," its analysts wrote.

"We have ample liquidity to make debt service payments and are committed to make all bond payments in full and on time," Gov. Bruce Rauner's administration said in a statement. "Monthly general funds revenue on average are more than 12 times monthly general revenue fund general obligation debt service transfer requirements."

GOBRI AND SOVEREIGN POWERS

The sovereign powers that provide broad authority to manage expenses and taxation are highlighted in all Illinois rating reports as a key rating strength, along with its GO statutory protections and its diverse economy.

At some point, however, "you lose the natural protections" afforded by your sovereign powers, said Richard Ciccarone, president at Merritt Research Services LLC.

"Illinois still has the economic capacity to turn it around," Ciccarone said. "That's a big distinction; we have a political stalemate that puts the state in a credit condition that's not consistent with the economic capacity of the state."

A core strength of the state GO – highlighted in state investor presentations and recognized by market participants as one of the strongest among states – is the irrevocable and continuing appropriation for debt service payment.

Statutes direct the state treasurer and comptroller to make all necessary transfers monthly from any and all revenues and funds of the state to cover 1/12 of principal and 1/6 of interest for payments due in the next 12 months. They flow into the General Obligation Bond Retirement and Interest fund known as GOBRI.

"These features remain integral to the state's investment grade ratings," a recent S&P report said.

Analysts worry that such a prioritization over other state stakeholders starved for their aid or vendor payments is not "sustainable."

"Sometimes those protections can fall away," Petek said, citing challenges posed to debt structures in Detroit, Puerto Rico, and Stockton. Calif. At the end of the day, he said, flow of funds and security features don't make up "for what is fundamental insolvency."

Illinois is nearing a point of "service level insolvency," and "it's problematic," he said.

He's not the only analyst with such concerns.

If basic functions of a state cannot be implemented or carried out or vendors or organizations in dire need take the state to court, "that could force the state to reprioritize" its use of revenues, said Howard Cure, director of municipal research at Evercore Wealth Management LLC.

As the state's bill backlog and other liabilities mount so that liquidity is stretched, "layers of protection that cushion you between default and on time payment are diminished," Ciccarone said.

INVESTMENT GRADE

While it's unheard of for a state to fall to speculative grade status, "it's also unheard of to go two years without a budget," Cure said.

"I think the market is still willing to give them a benefit of the doubt" that leaders can reach a compromise, because it's not an economic issue but political paralysis, Cure said.

A one-notch downgrade would send Illinois' appropriation-backed and moral obligation debt, which is one notch below the GO rating, down to junk.

At risk is the Metropolitan Pier and Exposition Authority's $2.6 billion of convention center bonds, $431 million of Illinois Sports Facilities Authority sports facilities bonds and $267.8 million of Chicago motor fuel tax revenue bonds.

Illinois has $26 billion of GO debt and $2.5 billion of sales tax-backed Build Illinois bonds. Moody's links the two ratings. Fitch and S&P assign high-grade ratings to sales tax paper.

No state in recent memory has been rated in speculative territory, according to the three rating agencies.

All three major rating agencies had California in triple-B territory in 2003 and 2004, and Fitch and Moody's also sent California there in 2009 and 2010.

Moody's in 2009, when it rated California Baa1, notched some regional center debt three rating levels off the state credit, which put them at junk.

Market participants are pondering the rating agencies' next steps and the impact on trading values.

NewOak in its report said it sees Illinois as a better relative value than New Jersey because it's already trading at junk levels.

A downside for buyers is the prospect that the "Grand Bargain" dies and no new fix surfaces and the rating agencies junk the rating, Nguyen wrote.

"There might be a short-term market over-reaction, which we would view as a buying opportunity," he wrote. "A more likely scenario would call for other rating agencies to downgrade the state to the lowest investment grade status and just stop there."

Nguyen believes it "will still take a lot" for rating agencies to drop the rating below investment grade.

As the budget gridlock drags on, concerns mount that a resolution might not come before the 2018 election, when Democrats hope to win back the governor's office. Rauner, a Republican, is expected to seek re-election.

Nguyen raises the specter that the state will limp along until the next election. That would result "in short-term market volatility, but investors should be well compensated for that risk at a spread of 240 [bp] or wider."

The impasse has been driven by Rauner's refusal to approve a budget with any tax hikes unless lawmakers also pass his policy and governance reforms, which are opposed by the legislature's Democratic majorities.

Senate President John Cullerton, D-Chicago, a co-author of the "Grand Bargain," warned against such a position in a recent speech.

"By then, we'll have been downgraded to junk status and no one will lend us money. The new governor will have that hung around his or her neck," he said.

"The governor is very concerned about the state's finances and does not expect the state to be rated below investment grade," the administration said in a statement. "He is seeking a balanced budget and structural changes to grow the economy and improve the state's fiscal health."

The Bond Buyer

By Yvette Shields

March 14, 2017

P3 Plan Revs Up Stalled Oklahoma Highway.

DALLAS - Oklahoma plans to complete an unfunded Tulsa highway project that's been on the books for 50 years with a seven-way partnership that would include an expected $100 million investment from the one private sector partner.

The private partner would recoup its investment by collecting tolls on the five-mile, four-lane segment, including a bridge over the Arkansas River, that would complete the Gilcrease Expressway highway loop around Tulsa.

Oklahoma transportation secretary Gary Ridley said the project is expected to cost $240 million, but the total amount of funding from all seven partners, including money already spent on the extension, will be closer to $300 million.

Six of the partners are public and the private partner probably will contribute about $100 million to the project, he said.

"From the public sector, we're putting in somewhere around $190 million," Ridley said. "The private sector puts in whatever the balance is. Then the tolls or a portion of the tolls go to pay that off."

The private partner will be selected in six months to a year, Ridley said. Once the funding is in place, construction will take about two-and-a-half years.

Public sector participants in the Gilcrease extension include the Oklahoma Department of Transportation, the city of Tulsa, Tulsa County, the Indian Nations Council of Governments, Oklahoma Turnpike Authority, and the Federal Highway Administration.

Planning for the Gilcrease Expressway loop began in the 1950s but stalled at the Arkansas River crossing needed to complete the road around Tulsa.

A study by the turnpike authority in 2010 determined that traffic on the bridge would not generate the toll revenue needed to finance it. Cost of the final 6.7 miles of the project was estimated at $373 million in the study.

Available funding for the project in recent years has included $6.5 million per year from the FHWA and $1 million per year from the city, but at that rate the project would not have been fully funded until 2050.

That would be almost 100 years after the project was envisioned, Ridley said.

"Thank you all for your patience for 50 years," Ridley said at Friday's announcement of the P3 proposal. "You've got about three more years of patience we're going to need from you before we open this up, but it will come and it will happen."

Tulsa Mayor G.T. Bynum said his 90-year-old grandfather attempted to find a funding solution for the expressway project as a city official in the 1960s.

"It's surreal for me as the mayor to be talking today about the plan to finish something that he was working on as street commissioner in 1964," he said.

Partnering with the state and a private investor on the highway project will remove much of the city's financial burden, Bynum said. The route for the road was determined in 1961, with the expectation that Tulsa would build it.

"The city of Tulsa was trying to do this by ourselves when building expressways is not the city of Tulsa's area of expertise," he said. "We do streets."

The turnpike authority has a better ability to access capital markets for the expressway extension, said Deputy Mayor Michael Junk.

"Roads aren't free," Junk said. "There are many times that we have seen the need for infrastructure improvements, but we haven't had the capital to do so. A toll way is another means to accomplish that goal."

The Gilcrease project was included in Gov. Mary Fallin's Driving Forward program, an $892 million turnpike package that she proposed in October 2015.

Fallin used her State of the State address in February to push for an increase in Oklahoma's gasoline and diesel taxes and a $350 million infrastructure bond program.

Fallin's tax proposal includes a 10 cent per gallon increase in the state's gasoline tax of 17 cents per gallon and an increase of 7 cents per gallon in the diesel tax of 14 cents.

The Bond Buyer

By Jim Watts

March 14, 2017

Trump May Not Want Refugees, but Rust Belt Mayors Do.

- In St. Louis, Bosnians revitalize a depleted neighborhood
- Post-industrial cities are hungry for newcomers from abroad

In 1997, refugee Alem Boric and a partner started Europa Market, 600 square feet of Bosnia in St. Louis.

Today, what began as a corner store in the city's Bevo Mill neighborhood is a 96,000-square-foot (8,900-square-meter) juggernaut that distributes smoked meats, cheeses, cakes and Croatian jams from the former Yugoslavia, Germany, Italy and Greece to 28 U.S. states. The company, now up to 45 employees, has seen its revenue double annually for the past several years.

Bevo Mill windmill-shaped restaurantPhotographer: Eric Englert/Bloomberg

In the suburbs and countryside of Rust Belt swing states, President Donald Trump's anti-immigrant message may have carried the day, but in St. Louis and the rest of the region's dilapidated, post-industrial cities, it's anathema. Immigrants represent rebirth: They've stabilized neighborhoods, cushioned city coffers and, in the process, supported credit ratings and bond sales. Mayors from Detroit to Cleveland — as well as northeastern cities like Albany, New York, and Lowell, Massachusetts — see financial salvation in these newest Americans and are dismayed by Trump's drive to tighten the borders.

St. Louis Mayor Francis Slay raves about the booming Bosnian immigrant community in his city.

"We were losing population and people more than almost any city in America before the Bosnians came," said Slay, a Democrat. "They've helped us revitalize this city."

Much of the Rust Belt's pain comes from the excruciating transition it's making to a service-sector economy from one predicated on manufacturing. In its cities, the share of the nation's employment dropped to 27 percent in 2000 from 43 percent in 1950, according to one study. Sustaining population has been a struggle: More than half of 23 municipalities, including Detroit, Syracuse, and Toledo, saw losses from 2000 to 2014, according to census data.

Haven Found

Many Bosnians in St. Louis fled Yugoslavia's brutal civil war in the 1990s and are largely Muslim. That carries particular resonance as the Trump administration tries to block refugees in the name of stopping Islamist terrorism during a conflict that's forced almost 5 million people from Syria.

The U.S. Conference of Mayors has decried Trump's measures, pointing to a tradition of providing "safe haven, freedom and opportunity." Leaders of cities including Los Angeles, Dallas, Seattle, Louisville, Phoenix and Boston spoke out separately, many saying immigrants were key to prosperity.

"Cities see immigrants and refugees filing into the labor market where native-born Americans aren't," said Christina Pope, a regional manager at Welcoming America, a Decatur, Georgia, nonprofit that boosts immigrant entrepreneurship and economic integration.

Voters who propelled Trump to the White House acted in the face of such judgments by people they saw as "global elites," said John Mauldin, Dallas-based president of Millennium Wave Advisors, an investment advisory firm.

"The data — you can make it say almost anything that you want it to say," said Mauldin, who says the U.S. has admitted too many refugees without valuable skills. "It really boils down to people's impressions, what do they feel, their political bias."

Suburbs are Trump country: While St. Louis went 79 percent for Hillary Clinton, the encircling towns voted for Trump at shares exceeding 60 and 70 percent.

"I am in total support of Trump. I don't want St. Louis to be a sanctuary city," said Rene Artman, a Republican activist from suburban Fenton. "My mother-in-law was an immigrant. She came in the right way. We are a country of immigrants. Come in the right way and everyone is welcome."

St. Louis can use whomever it can get.

Withering City

The population withered to about 316,000 from 347,000 in 2000. U.S.-born residents decreased by about 10 percent while the smaller crop of foreign-born rose by a similar magnitude.

“Population growth is very important for healthy communities and economies — usually it’s a telltale sign,” said Dan Heckman, a Kansas City-based fixed-income strategist at U.S. Bank Wealth Management.

The overall decline contributed to a bleaker outlook for the city’s debt, according to Heckman. A St. Louis bond that matures in 2033 traded March 15 for an average yield of 3.6 percent, about 1.2 percentage points more than top-rated debt, according to data compiled by Bloomberg.

So St. Louis is doubling down on its welcome. The city needs personal-care aides, food workers and customer-service representatives, according to a St. Louis Community College report last year. Immigrants make an outsize impact in those roles.

Refugees are helped by the International Institute of St. Louis, which provides short-term help with employment and housing. From 1979 through 2016, the group sponsored about 23,000 refugees, about 30 percent Bosnians, said Chief Executive Officer Anna Crosslin.

Immigrant spending power in the metropolitan area amounted to about $3 billion in 2014, when they contributed about $1.1 billion in taxes to local coffers, according to New American Economy, co-founded by former New York Mayor Michael Bloomberg. (Bloomberg is founder and majority owner of Bloomberg News parent Bloomberg LP.) The newcomers are about 29 percent more likely to be entrepreneurs than native-born St. Louisans, the data show.

Meet the Residents

Ibrahim Vajzovic

Ibrahim Vajzovic, a former civil engineer, landed in Bevo Mill in 1994 and took an entry-level job. He said Bosnians “cleaned up the area,” named for a windmill-shaped restaurant and populated by successive waves of immigrants. Now, he runs a multifaceted business providing real estate, travel and insurance services, but spends most of his time teaching business courses for Fontbonne University.

Sadik Kukic arrived in 1993 with about $58 and no English. Two decades later, he’s the owner of Taft Street Restaurant and Bar and president of the Bosnian Chamber of Commerce.

The chamber was a leading voice in establishing a community improvement district in Bevo Mill. A special assessment for building owners and a fresh 1 percent sales tax for residents will fund the project, which will raise about $750,000 by 2021. More than a third will go toward public safety, with another 20 percent for infrastructure.

Residents are enjoying brighter housing prospects even as the city overall has been slow to recover since the housing crisis. Among 84 zip codes with at least 100 sales in the metro area, several in and around Bevo Mill were among the top 15 for greatest price appreciation over the past five years, according to Daren Blomquist, vice president at ATTOM Data Solutions in Irvine, California. The old Bevo Mill is slated to become a biergarten.

Boric said the city helped him and Europa Market thrive, as did previous immigrants and their descendants.

“A lot of the folks in the neighborhood, those Germans, appreciated us, as they saw themselves in us," he said. "Bosnians were well-received. The city and the mayor appreciated us."

Bloomberg Markets

by Michelle Jamrisko and Eric Englert

March 17, 2017, 2:00 AM PDT

Ohio Taxpayers on the Hook as Venture Fund Can't Pay Bondholders.

- Waiting for startups to produce cash, it couldn't meet debts
- Venture-capital fund's returns have lagged benchmark

The venture-capital fund created by Ohio to cultivate local startups is going on public assistance.

Still waiting for its young companies to morph into the next Snap Inc. or Facebook Inc., the Ohio Capital Fund, which was financed through the sale of municipal bonds, didn't generate enough money from its investments to pay $9.8 million on February 15, when the first principal payments on its debt started coming due, according to a securities filing. To avoid a default, it had to draw on $7.5 million from the state, the only time the fund has turned to that taxpayer lifeline in its 11-year history.

Ohio is among at least a dozen states, including New York, North Carolina and Pennsylvania, that have established funds to foster nascent tech companies. The Ohio fund, founded in 2005, was created by the state legislature to transform an economy upended by the decades-long loss of manufacturing jobs.

To encourage investors to buy the fund's bonds, Ohio agreed to extend as much as $20 million of tax credits per year over the thirty-year life of the program — insuring it can cover the debt even while waiting for investments to pay off. This allowed securities issued for the program to carry a AA-rating, just two levels below Ohio's general-obligation debt.

"Anyone you talk to would prefer a scenario where you don't use tax credits," said Mark Williams, chairman of the Ohio Venture Capital Authority, which oversees the fund. "I think when this was built and designed it was understood that was very possible."

The Ohio fund, managed by an affiliate of Cincinnati-based Fort Washington Investment Advisors, has only delivered an annualized return of 7.2 percent, compared with 8.9 percent for the median venture capital fund, according to the Ohio Venture Capital Authority. When factoring in debt costs, expenses and the $15 million in management fees paid to Fort Washington-affiliate Buckeye Venture Partners since 2005, though, that swings to a 6.5 percent yearly loss.

"Due to the geographic constraints and the limited universe of funds in which OCF could invest, we feel that the underlying fund performance is in line with expectations," said Stephen Baker, Fort Washington's head of private equity. The legislation creating the fund didn't set a performance objective.

The regional effort marked a push to jumpstart the economy by breaking the near monopoly that America's coasts have on the venture-capital industry. Just 22 percent of such investments went to companies outside San Francisco, New York, Boston and Los Angeles in 2015, according to the

Center for Regional Economic Competitiveness and Brentwood, Tennessee-based Cromwell Schmisseur LLC, which designs state venture programs. The consulting firm didn't work with Ohio.

"Because of the extreme geographic concentration of venture capital, it is much harder for good deals to get financing where they're at," said Eric Cromwell, founding member of Cromwell Schmisseur. "When well-designed, programs like this encourage private investment in high-growth potential businesses between the coasts."

Greatest Hits

The fund has committed capital to 30 venture funds, which are required to put at least half of the money in state-based startups. Those funds have invested $284 million in 88 Ohio companies, helping to spur the creation of about 1,100 jobs, according to a Nov. 16, 2016 program summary.

It has scored some hits. Among them is CardioInsight, a Cleveland-based medical device company that's developed a new approach to improve the mapping of electrical disorders of the heart and was purchased by Medtronic Plc for $93 million in June 2015. Simbionix, another Cleveland company that creates virtual reality surgical simulation and training, was sold in 2014 for $120 million.

The Ohio fund has received $82 million from its investments so far. Its holdings were valued at $96.6 million as of June 30.

Until February, it only had to pay semi-annual interest on almost $160 million of debt. Then principal payments kicked in, increasing debt-service costs from about $7 million to $19.5 million a year. The fund is scheduled to make $195 million in debt payments between Feb. 2018 and August 2027, according to the state.

Its next payment is due Aug. 15 and it's possible the state may need to cut another check if distributions from the underlying funds don't materialize, Williams said.

Ohio Governor John Kasich opposes issuing more debt for the fund and wants the cash it earns to pay off debt first, instead of being reinvested, said Lyn Tolan, a spokeswoman for the Ohio Development Services Agency, which advises the fund.

Ohio moved into venture capital to nudge the economy more than to make a profit, given that steadier returns can be found elsewhere. Returns after fees for the median venture capital fund that began making investments between 2005 and 2014, ranged from 0.77 percent in 2014 to 19.4 percent in 2010, according to data compiled by Cambridge Associates.

"Overall, returns are disappointing and fall short of expectations," said Diane Mulcahy, an adjunct lecturer at Babson College's division of entrepreneurship and a Senior Fellow at the Ewing Marion Kauffman Foundation, where she manages the foundation's private equity, venture capital and real assets investments. "If the state's true intent was to create jobs, is borrowing to invest in a venture capital fund the best way?"

Bloomberg Markets

by Martin Z Braun

March 17, 2017, 2:00 AM PDT

Puerto Rico Bonds Decline After Recovery Plan Leaves Less for Paying Debts.

- Prices of most-active securities fall after board backs plan
- Final proposal suggests need for bigger bondholder concessions

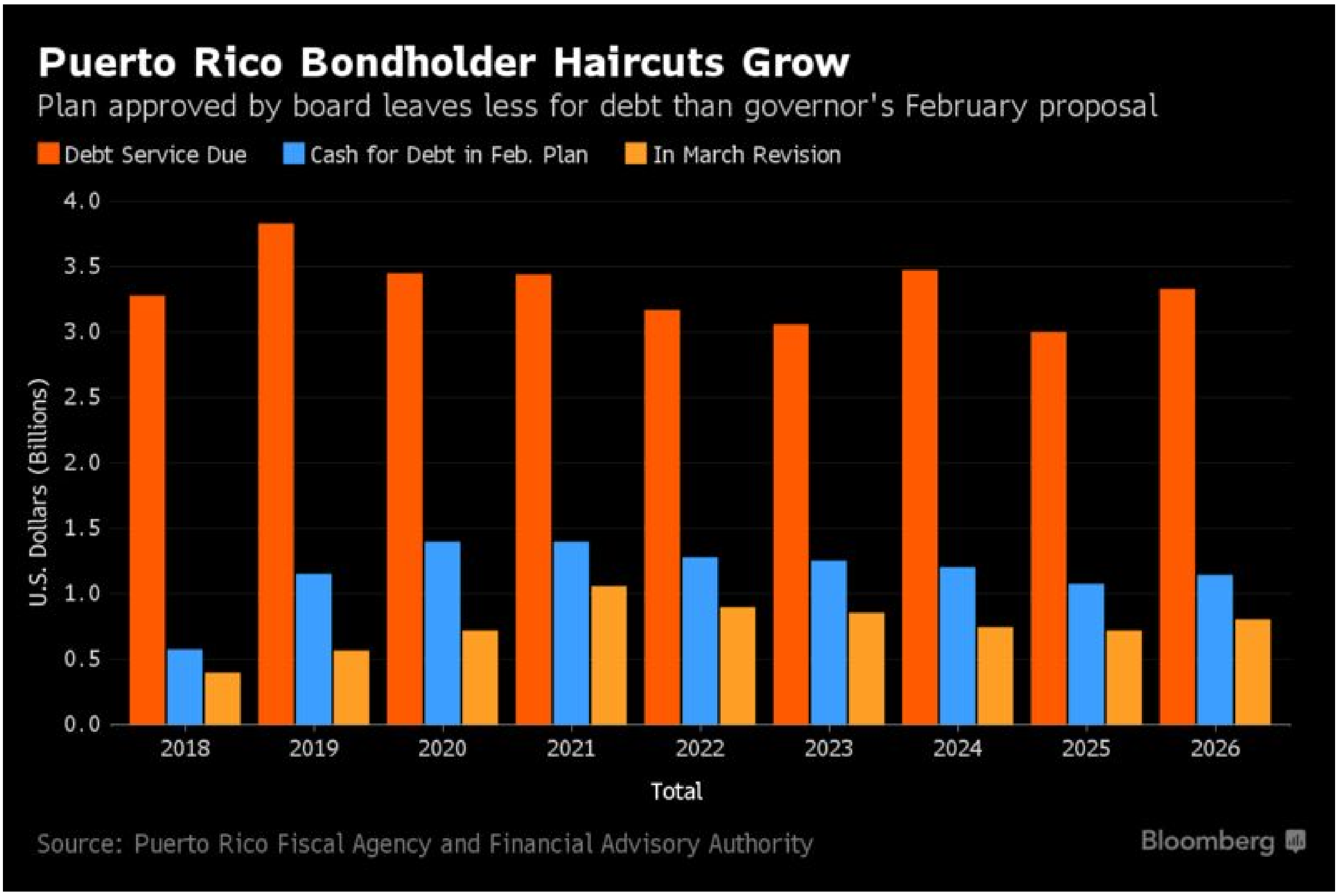
Puerto Rico general-obligation bonds fell after the federal oversight board approved a financial recovery plan that will cover less than a quarter of the debt payments coming due, underscoring the deep concessions the island plans to seek from investors.

The price of securities due in 2035, among the most actively traded, dropped 5 percent to an average of 67.5 cents on the dollar Tuesday to the lowest in two months, according to data compiled by Bloomberg. Those maturing in 2039 slipped to 60.2 cents from 63.8 cents Monday.

The decline followed the panel's approval of a revised proposal from Governor Ricardo Rossello on Monday that lays out a path for closing the territory's chronic budget deficits. The blueprint leaves an average of less than $800 million annually for debt service over the next decade, a fraction of the more than $3 billion owed each year from 2018 through 2027. The latest figures marked a reduction from what the governor initially proposed to repay.

The plan will serve as benchmark as the island begins discussions with creditors over how deeply to reduce its debts.

"The sentiment definitely turned negative on some of these numbers, but we still don't know what the final restructuring will be," Daniel Solender, head of municipals at Lord Abbett & Co., said in a telephone interview. "If this news triggered someone to sell, it's a thin market so it would have driven the markets down further."



In an interview Monday, Rossello said that he was pursuing talks with creditors “aggressively” after the panel approved his proposal. “Right now, having a certified plan allows us to sit down with the different bondholders at different levels,” he said.

In a follow up interview on Bloomberg Television Tuesday the governor added they would “see if we can find a best alternative, best solutions for both bondholders and of course the people of Puerto Rico.”

Bloomberg Markets

by Rebecca Spalding

March 14, 2017, 11:24 AM PDT March 14, 2017, 1:01 PM PDT

Puerto Rico Board Approves Fiscal Road Map.

Plan lays groundwork for debt negotiations as May 1 deadline looms

The federal board overseeing Puerto Rico’s finances approved a fiscal plan for the island Monday after marathon talks over the weekend with advisers of Gov. Ricardo Rosselló. The deal clears the way for the governor to start negotiations with creditors over the U.S. territory’s $70 billion debt load.

Puerto Rico is racing to meet a May 1 deadline to reach a settlement with bondholders under legislation passed by the U.S. Congress in June that permitted the commonwealth to restructure its debts. Obtaining board approval for the fiscal plan required newly elected Mr. Rosselló to agree to potentially painful spending cuts while leaving less money to repay bondholders, but the deal allows for more expenditures if the island’s economy improves.

“We were limited by what we could do with creditors before having a plan certified,” Mr. Rosselló said in an interview. The governor said he would be personally involved in talks with bondholders in coming days.

The federal oversight and management board approved the plan at a meeting Monday in New York, modifying a proposal last week by the governor that would have paid bondholders $1.2 billion a year over a decade, or roughly a third of what they are owed under existing contracts.

The approved plan forecasts that a roughly $800 million primary surplus will be available annually to service debt over the next 10 years. The reduction reflects the oversight board’s more conservative forecasts of economic contraction and budget deficits in Puerto Rico.

The board rejected the governor’s proposal last week, saying it relied on overly optimistic revenue assumptions and didn’t include enough government spending cuts to close a yawning fiscal gap. The board’s modifications opened the door to austerity measures the governor had resisted, including possible employee furloughs, pension spending reductions and the elimination of Christmas bonuses.

Mr. Rossello’s administration agreed with the board’s required expenditure cuts on health-care and public-sector payroll: by $650 million in 2018, by $1.2 billion in 2019 and by $2.05 billion in 2021, Elias Sanchez, the governor’s representative on the board, said in an interview.

The plan also assumes that Congress won't extend health-care funding for Puerto Rico under the Affordable Care Act, or ACA, that is scheduled to lapse in December, something Mr. Rosselló is lobbying to prevent.

"The elephant in the room is the assumption that there will be no federal funding for health care," Mr. Rosselló said. "If we do get federal funding at the same level it means we'll have $1.5 billion more in fiscal 2019 and forward."

Despite Republican efforts to repeal the ACA, Puerto Rico could get its current funding extended when Congress passes in coming weeks a new continuing resolution, a bill that keeps the government funded in the absence of a full-year spending bill, Mr. Rosselló said.

The plan could be amended if Congress sends Puerto Rico additional federal health-care dollars but that won't necessarily boost money paid to bondholders, said David Skeel, a law professor and oversight board member.

Puerto Rico bond prices held steady Monday as investors bet that the island would ultimately generate more cash to pay its debts than projected under the fiscal plan. The island's benchmark $3.5 billion bond due 2035 dipped slightly to about 72 cents on the dollar, according to Electronic Municipal Market Access

The debt-relief law that Congress passed last summer protects Puerto Rico from creditor lawsuits until May 1, when a stay on litigation is scheduled to expire. The governor has called for an extension of the stay to pursue consensual deals with creditors, but any extension must be approved by Congress.

Mr. Skeel said he "would not bet" on an extension of the May 1 deadline. After that date, Puerto Rico can switch to a quasi-bankruptcy process that can bind creditors to unfavorable repayment terms.

THE WALL STREET JOURNAL

By ANDREW SCURRIA and MATT WIRZ

Updated March 13, 2017 5:39 p.m. ET

Write to Andrew Scurria at Andrew.Scurria@wsj.com and Matt Wirz at matthieu.wirz@wsj.com

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Puerto Rico Fiscal Plan Triggers Bond Rout.

Economic estimates stoke fears that creditors will be asked to take large losses

Investors in Puerto Rico debt are contending with the fallout from a tough fiscal plan approved Monday by the federal oversight board managing the island's financial overhaul.

The price of Puerto Rico's $3.5 billion general-obligation bond due in 2035 has fallen about 10% since Monday to 66 cents on the dollar, according to data from Electronic Municipal Market Access.

The economic estimates baked into the 10-year plan are far more bearish than analysts and fund managers expected, stoking fears that creditors will be asked to recognize large losses as part of an expected restructuring.

The larger the losses, or “haircuts,” Puerto Rico tries to impose on the hedge-fund and mutual-fund managers who own much of its $70 billion in debt, the harder it will be to negotiate settlements with them. The most likely alternative is lengthy and expensive litigation between the island and its creditors, investors have said.

Bondholders were particularly surprised by the pressure the oversight board exerted over Puerto Rico’s Gov. Ricardo Rossello to replace earlier estimates with more conservative figures, leaving less money for bond payments, said Andrew Gadlin, an analyst at Odeon Capital Group LLC, a broker specializing in distressed debt.

“We’re dealing with a board that was thought to be creditor friendly that now looks to be pretty unfriendly,” Mr. Gadlin said. “It’s similar to what you saw in Detroit.” Detroit filed in 2013 for the biggest-ever U.S. municipal bankruptcy.

Negotiations between Puerto Rico and bondholders had been on hold until Mr. Rossello’s administration delivered a fiscal plan that the board approved. The governor initially proposed earmarking about $1.2 billion a year for debt repayment over the next decade, but the board forced him to revise his economic forecasts downward, leaving about $800 million for annual debt service.

When the oversight board publicized its conservative forecasts last week, Puerto Rico’s two largest bondholders, Franklin Advisers Inc. and Oppenheimer Funds Inc., sent board members a letter asking that they postpone its March 15 deadline for plan certification to allow further review. Instead, the board approved the plan two days before the deadline.

The new plan gives Puerto Rico a concrete set of figures from which to launch restructuring talks with bondholders, but the commonwealth has little time to negotiate a deal. The commonwealth received a stay on creditor litigation as part of a debt-relief law passed by Congress in June, but that moratorium expires May 1.

Puerto Rico and its financial adviser, Rothschild & Co., now have less money with which to broker settlements among several factions of bondholders, some of which have already filed lawsuits demanding repayment.

Holders of Puerto Rico’s $13 billion in general-obligation bonds have formed a committee. So have owners of $17 billion in bonds backed by sales tax and investors in about $9 billion of bonds issued by the Puerto Rico Electric Power Authority. Prices of sales-tax-backed bonds due in 2041 have dropped this week about 5.5% to 59.50 cents on the dollar.

The conservative assumptions enforced by the oversight board have a silver lining, said Daniel Solender, a municipal-bond portfolio manager at Lord Abbett, which owns about $100 million of Puerto Rico bonds across various funds. By basing its fiscal model on pessimistic forecasts, Puerto Rico is unlikely to repeat a longstanding pattern of overpromising economic performance and then underdelivering, he said.

Disappointing as the plan may be to some, it finally opens the door to real negotiations between Puerto Rico and its creditors, Mr. Solender said.

THE WALL STREET JOURNAL

By MATT WIRZ

Updated March 16, 2017 12:19 a.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com

Puerto Rico Oversight Board Backs Governor's Turnaround Plan.

- Federal panel, governor resolve disagreement over blueprint
- Amendment would furlough workers to resolve cash shortages

Puerto Rico's federal oversight board approved Governor Ricardo Rossello's plan for pulling the island out of a fiscal crisis, a step that will allow the territory to start negotiating with bondholders to reduce its $70 billion debt.

The decision, made at a public meeting in New York Monday after the governor rolled back forecasts that the panel said were overly optimistic, marks an early move to steady Puerto Rico after a series of bond defaults. If the board and Rossello remained at loggerheads, the federal appointees could have imposed their own measures under sweeping powers extended by Congress last year.

The plan proposed by Rossello, who took office in January, relied heavily on increasing revenues through tax overhauls and wresting cost-savings from the government operations, stopping short of the bigger reductions to spending on health care and other programs suggested by the U.S. overseers. As a condition of its approval, the board demanded furloughs for government employees, deeper pension-spending cuts and the potential elimination of Christmas bonuses to shore up needed cash.

"Puerto Rico is about to capsize — the island is overwhelmed by debt," said David Skeel, a member of the board. The proposal "calls for everyone to sacrifice."

The governor relied on a less sanguine outlook for Puerto Rico's current trajectory when revising his proposal and increased spending reductions to $25.7 billion over ten years from $19.8 billion initially floated last month, according to copies released by the board. It would also extract larger concessions from bondholders: There would be less than $800 million annually left over for debt service over the next decade, just a fraction of the more than $3 billion it owes each year.

Having the fiscal outline in place will allow Puerto Rico to begin talks on what will be the biggest debt restructuring ever in the U.S. municipal bond market, a haven where few borrowers default. Puerto Rico's general obligations due in 2035, one of its most active securities, dropped to an average of 71.6 cents on the dollar Monday from 72.8 cents Friday.

The approval comes after the board last week advised Rossello that it would reject his initial plan unless it was revised, saying it relied on overly optimistic assumptions and failed to go far enough to stabilize the government's finances.

Rossello has sought to avoid deep cutbacks to government programs that would worsen the economic contraction or fall heavily on the low-income residents of an island where nearly half live below the poverty line. His predecessor began defaulting on debt in 2015 to conserve cash for services after years of borrowing to cover bills.

"I'm very pleased that our plan got certified and approved," Rossello said in an interview. "We were able to maintain our principles to have a plan that would safeguard the most vulnerable."

Puerto Rico is under pressure to begin negotiating with bondholders because a temporary hold on creditor lawsuits is set to lapse in May, leaving it potentially exposed to rulings requiring it to make good on past-due payments. Rossello has requested that the stay be extended to give him more time.

"The fiscal plan recognizes that there are no simple, easy, painless solutions to the problems that built up over 20 years," Jose Gonzalez, a member of the oversight board, said during the meeting. "It's barely the end of the beginning of a long process to get Puerto Rico on the road to economic growth again."

Bloomberg Markets

by Rebecca Spalding

March 13, 2017, 8:30 AM

Bloomberg's Mysak: Illinois Revenues Experiencing a 'Freefall'

Bloomberg Markets AM with Pimm Fox and Lisa Abramowicz.

GUEST: MUNIS IN FOCUS: Joe Mysak, Editor for Bloomberg Brief: Municipal Market, on Illinois's revenue experiencing a "February freefall."

Running time 08:00

Play Episode

Bloomberg News

March 10, 2017 — 8:54 AM PST

Californians Hit as Bad Debts Lead to Government Pension Cuts.

- Calpers may slash benefits from defunct agency that didn't pay
- More workers could suffer as retirement costs mount for cities

Maureen Lynch, 66, retired when the California government job-training agency where she worked was shuttered in 2014, assuming she could count on a $1,705 monthly pension for the rest of her life.

But her former employer, East San Gabriel Valley Human Services Consortium, left a $406,027 unpaid bill to the California Public Employees' Retirement System, which manages benefits for 3,000 local governments and districts. As Calpers, the nation's largest public pension, deals with a growing gap between what's been promised and what's been set aside, it may slash the checks of Lynch and 190 other workers by 63 percent — the rate by which the agency has fallen short.

"We were always told that it was set in stone. Now to find out that's not true — is the sky blue? Is water wet?" Lynch, who lives in a 1994 motor home, said of her pension. "We've paid 100 percent of our responsibility into it. I just don't understand how they can come along and cut so much out."

The East San Gabriel agency would be the first to see benefits reduced by Calpers since November's action against the tiny city of Loyalton, illustrating what can happen to promises once viewed as sacrosanct when money runs out. Two other small California agencies may also face cutbacks, affecting five people, as Calpers pushes back against derelict governments.

"We end up being the bad person because if the payments aren't coming in, we're left with the obligation to reduce the benefit, as we did in Loyalton," Richard Costigan, chairman of Calpers's finance and administration committee, said in an interview. "Otherwise the rest of the people in the system who have paid their bills would be paying for that responsibility."

Across the country, states and local governments have about $2 trillion less than what they need to cover retirement benefits — the result of investment losses, inadequate contributions and perks granted in boom times. In Puerto Rico, where the retirement system is nearly out of cash, pensioners may take a hit, while employees in cities including Dallas and Chicago are also under pressure to give back some benefits to prevent their plans from collapsing.

Calpers has been paying benefits at a faster pace than it brings money in. In December, the system moved to ensure its long-term sustainability by reducing the assumed return on its investments to 7 percent from 7.5 percent. That will trigger higher annual contributions from governments, since it can't count as much on financial-market gains to cover the obligations.

"Unless something is done to stem the mounting costs or to find ways to fund those mounting costs for employees, then the only recourse, beyond reducing service levels to unsustainable levels, is going to be to cut benefits for retirees," said Michael Coleman, fiscal policy adviser for the League of California Cities.

Calpers, which holds some $311 billion of assets, says it's following its fiduciary responsibility. It doesn't set benefits but manages them on behalf of local governments, most of which are fulfilling their obligations. Permitting monthly checks to flow to retirees whose former employers haven't paid their bills undermines a system that has just two-thirds of what it needs to cover liabilities due in the years ahead.

Both the Independent Cities Association, a nonprofit with one retiree, and Niland Sanitary District, which has four workers in the system, may also see benefit reductions. The board of the cities' group, which promotes municipal issues, hopes to resolve the matter, its attorney Arnold Alvarez-Glasman said in an interview. Debbie Salas, a Niland board representative, didn't reply with detail to emails or return phone messages.

The action against Loyalton was believed to be the first time, at least in recent decades, that Calpers reduced employee benefits.

The case of the former East San Gabriel agency would be felt more broadly. Known locally as LA Works, the service at its height had about 140 employees and an annual budget, funded mainly through government grants, of about $13 million, said Tom Mauk, a consultant hired to help wind down its books. It went out of business after Los Angeles County severed its relationship, citing overbilling by the agency.

Calpers had asked the cities that formed the entity — Azusa, Covina, Glendora, and West Covina — to pay the debt to the retirement plan because, as staffers said during a February board meeting, of their ethical responsibility.

"What's unacceptable is the fact you have a number of employees who were promised a benefit, nobody is paying to meet that liability and people are walking away from their responsibility," Costigan said in an interview.

Municipal officials said they have no legal obligation. Any payment could be considered an illegal use of public funds, said Chris Freeland, West Covina City Manager.

"Personally, I think it's a way to deflect from their handling of pensions for the last several years," said Glendora City Manager Chris Jeffers of Calpers's request.

Retirees feel abandoned. Sandra Meza, who spent nearly three decades at the job-training service and receives about $3,300 a month, said she plans to attend a March 15 meeting of the agency to appeal for help. The 62-year-old Chino resident views the cities and Calpers as equally responsible.

"When it comes to money and business, sometimes moral and ethics don't mean anything to those people," she said.

Bloomberg Markets

by Romy Varghese

March 1, 2017, 2:00 AM PST

[Kansas City Isn't Waiting for Trump's Infrastructure Plan.]

- $800 million in new debt on tap for voter approval April 4
- Would add on to $1.7 billion existing debt over 20-year period

Kansas City mayor Sly James isn't waiting for Donald Trump.

While Trump has promised a plan to pump some $1 trillion into America's infrastructure, he provided no details in his first speech to Congress this week — and officials in Missouri's most populous city, like those around the nation, are acting on their own.

Sly JamesPhotographer: Rich Sugg/The Kansas City Star via AP Photos
On April 4, Kansas City voters will decide whether to authorize $800 million in borrowing over 20 years to fund repairs to potholed streets, sewers and an animal shelter in such poor condition it may be condemned, among other projects. If approved, the city will join a growing trend of states and local governments selling debt for public works.

"We've been waiting for federal help on infrastructure for a long time. It hasn't shown up," James said in a telephone interview. "Where's the plan when that's going to happen? You and I both know that we can't count on anything coming out of D.C."

In November, U.S. municipalities won voter approval to sell at least $55 billion of bonds, promising to add to the borrowing increase that pushed municipal-debt sales to a record last year.

About two-thirds of Kansas City's roads are in substandard condition, according to the city's annual report for the fiscal year that ended April 30, 2016. Its 550 bridges are in better shape, with just about 4 percent in poor condition. During fiscal year 2016 spending to preserve and maintain city roads and bridges was 11 percent and 5 percent of the estimated amount needed, respectively, according to the report.

The general obligation bond package is divided into three separate ballot measures: $600 million for streets, bridges and sidewalks; $150 million for flood control projects, which could leverage $500 million in federal funds; and $50 million for a new animal shelter and to make public buildings comply with the Americans with Disabilities Act.

If approved by voters, the new obligations will add to Kansas City's "elevated" $1.7 billion debt, equal to 5.6 percent of the city's $30.3 billion property value, according to Moody's Investors Service.

City finances are also weighed down by unfunded pension liabilities that have grown to an estimated $812 million, more than 80 percent of its annual revenue. The gap grew 51 percent in two years as investment returns lagged and officials' failed to make the full annually required contribution from 2010 through 2014, following the Great Recession.

"The fixed cost burden is really out-pacing their revenues," said Kenneth Surgenor, a Moody's analyst. Moody's revised its outlook on the city's general-obligation bonds to negative on Feb. 15, citing growth in pension and debt costs.

The city's Aa2 credit rating, the third-highest, will weaken if the city continues to leverage the tax base or the deficit in its pension fund widens, according to Moody's. The rating company's outlook assumed the bond measure will pass and the city will issue debt at a pace of $40 million per year.

To support the new $800 million debt, property taxes for the owner of an average $140,000 home and a $15,000 car would increase about $8 per year over 20 years, officials said. Missouri residents pay a personal property tax on cars.

Kansas City's tax base grew about 5 percent in fiscal 2016 after stagnating for almost half a decade. Residential and commercial builders are constructing condos, hotels and office buildings in downtown's artsy Crossroads neighborhood and the Power and Light entertainment district.

Kansas City's new $100 million streetcar, which runs through those two quarters, won plaudits from residents and business people for boosting commerce in the downtown area. Residents financed the streetcar, which opened last May, by voting to approve a one percent sales tax and special property assessments downtown.

Bloomberg Markets

by Martin Z Braun

March 2, 2017, 2:00 AM PST

S&P: Illinois' Grand Bargain Negotiations Falter In State Senate.

SAN FRANCISCO (S&P Global Ratings) March 2, 2017–In a recent commentary, "For Illinois, Having A Plan Beats No Plan," S&P Global Ratings said that Illinois may look back on a failure to pass the so-called grand bargain as a missed opportunity. In our view, legislation providing appropriations for the remainder of fiscal 2017 and tax increases to generate additional revenue would help stabilize the state's fiscal trajectory. While negotiations in the state senate over the legislative package appear to have broken down, we understand they could be rekindled, though this may require a public endorsement of the bills by the governor.

Throughout the nearly two-year budget impasse, Illinois' debt service has been paid on a priority basis and without interruption because of continuing appropriations associated with its bonds. These features remain integral to the state's investment grade ratings (GO rating: BBB/Negative). The prioritization of revenues to fund debt is accomplished by deferring payments to many other stakeholders which we do not view as sustainable. Consequently, we believe it's important for the state's credit quality that a budget plan be enacted by the end of the fiscal year. Politically, approval of the bills will become more difficult beginning June 1, when state law will require a three-fifths majority vote of the legislature to approve a budget. U.S. states benefit from a range of inherent advantages starting with constitutionally protected sovereignty over their own fiscal structures. But for a state to enter a third fiscal year without enacting a comprehensive budget could indicate to us an erosion in political will that renders its credit quality and fundamental fiscal conditions as inconsistent with the state's current rating.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

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Puerto Rico Governor Spurns Federal Oversight Board's Deepest Austerity Suggestions.

Puerto Rico's governor unveiled a fiscal plan that calls for paying the U.S. territory's creditors roughly a third of what they are owed for the next decade while rejecting austerity measures prescribed by its federal oversight board.

Gov. Ricardo Rossello's fiscal plan, released Tuesday, outlines a combination of spending cuts and revenue enhancements that he says will fix Puerto Rico's 10-year, $55 billion funding shortfall while reducing the size of its government and spurring private investment.

The governor will also ask Congress to extend a legal stay that has blocked creditors from suing over bond defaults, according to the plan. A spokesman for investment funds holding general obligation bonds said the request "undercuts its professed commitment to a consensual process and, if granted, would allow [the administration] to delay negotiating with creditors."

The stay expires May 1, and hopes among creditors are dimming that Puerto Rico can lock in consensual debt deals before then.

Mr. Rossello's plan says that much of the burden of balancing the government ledger should fall on creditors holding roughly $70 billion in municipal bonds. It projects that Puerto Rico can pay $10.5 billion in principal and interest on its bonds between the 2018 and 2026 fiscal years, approximately a third of the $30 billion owed under existing debt contracts.

Market reaction to the document was muted as the benchmark general obligation bond changed hands at 74 cents on the dollar Tuesday, in line with recent prices, according to Electronic Municipal Market Access. Sales-tax bonds were also virtually unchanged.

The governor's blueprint breaks with certain recommendations of Puerto Rico's oversight board, which in January recommended sharper reductions in government payroll, pension benefits and health-care spending, as well as deeper reductions in debt payments.

The oversight board, which is supervising the territory's debt restructuring process, has veto power over the fiscal plan under the federal rescue law passed for Puerto Rico last year. The board is currently reviewing the plan, a spokesman said Wednesday.

How much money is available for creditors is highly dependent on whether Congress extends health-care funding mandates for Puerto Rico under the Affordable Care Act that are currently scheduled to lapse in December. The future of the law itself is in doubt as Republican leaders in Washington are drawing up plans for repealing the ACA and confronting internal divisions over how to replace it.

Mr. Rossello's representative on the board, Elias Sanchez, on Wednesday told The Wall Street Journal he was confident GOP lawmakers would allocate more federal health-care dollars to Puerto Rico, freeing up additional funds for creditors beyond the plan's baseline projections. The fiscal plan said that full ACA funding would more than double the moneys available for debt repayment.

The board can approve Mr. Rossello's plan or adopt its own, but an approved plan must be in place before it can initiate a bankruptcy-like process in which creditors could be forced to accept unfavorable restructuring terms. The Puerto Rico Oversight, Management, and Economic Stability Act, or Promesa, provides for a period of voluntary debt negotiations. That window is currently set to end on May 1, although Mr. Sanchez said the governor would ask Congress to extend that deadline.

The fiscal plan calls for Puerto Rico to cut its annual health care spending by roughly $300 million starting with 2019 fiscal year. The proposed health-care cuts would still leave the territory spending $700 million more a year than the board previously recommended.

The plan, which the governor discussed Tuesday in a gubernatorial address and released publicly via Twitter, cuts roughly $60 million in annual pension costs, less than the $200 million in annual retirement savings sought by the board.

Those austerity measures are based on misguided comparisons to other sovereign borrowers like Panama, Jamaica and Spain that cut government spending in the midst of financial crises, Mr. Sanchez said. Puerto Ricans are already leaving for the U.S. mainland at record rates, and an austerity regime would accelerate the out-migration, he said.

The fiscal plan addresses roughly $50 billion in debt owed by the territory but doesn't encompass its government water and power utilities, which owe a combined $13.5 billion and will develop their own plans. Mr. Rossello in January wrested control of negotiations over the only debt restructuring accord Puerto Rico has reached thus far, a $9 billion deal struck in 2015 covering the electric utility known as Prepa.

His plan also gave no indication about how the available dollars should be divvied up among competing creditor groups, though creditors holding sales-tax bonds are clashing with general obligation holders in court over who should be repaid more. Last month a federal judge refused to freeze the litigation while negotiations play out, and so far the governor hasn't taken sides with either investor group.

"We'll eventually most likely take a position," Mr. Sanchez said.

THE WALL STREET JOURNAL

By ANDREW SCURRIA

Updated March 1, 2017 5:36 p.m. ET

—Matt Wirz contributed to this article.

Write to Andrew Scurria at Andrew.Scurria@wsj.com

S&P: Ratings On California Local Government Entities Unaffected By Lake Oroville Spillway Damage.

While damage from natural disasters has been extremely visible in the public sector, the disasters themselves historically haven't materially impacted the credit quality of associated local government ratings.

Continue reading.

Feb. 21, 2017

Santa Clarita Water Receives GFOA Distinguished Budget Presentation Award.

Santa Clarita Water (SCWD), a division of Castaic Lake Water Agency (CLWA), received the Distinguished Budget Presentation Award presented by the Government Finance Officers Association (GFOA) of the United States and Canada and the California Society of Municipal Finance Officers (CSMFO) Operating Budget Excellence Award for its FY 2016/17 Budget. "Accountability to the public, our ratepayers, starts with a clear annual budget document and related financial reporting. I commend our budget team for their excellent efforts with the FY 2016/17 budget", said Matt Stone, CLWA General Manager.

To receive the GFOA Distinguished Budget Presentation Award, the budget document must be rated “proficient” in all four categories that demonstrate how well the budget serves as a (1) policy document, (2) financial plan, (3) operations guide and (4) communications device. The award reflects the commitment of the governing body and staff to meet the highest principles of governmental budgeting. This is the sixth consecutive year in which SCWD has received this award.

Elizabeth Ooms-Graziano, Retail Administrative Officer for Santa Clarita Water Division, received a Certificate of Recognition for Budget Presentation for being primarily responsible for preparing the award-winning budget.

The FY 2016/17 Budget has been judged by an impartial panel to meet the high standards of the program. Award recipients have pioneered efforts to improve the quality of budgeting and provide an excellent example for other governments throughout North America. The GFOA’s Distinguished Budget Presentation Awards Program is the only national awards program in governmental budgeting.

The GFOA is a major professional association servicing the needs of more than 19,000 appointed and elected local, state, and provincial-level government officials and other finance practitioners. It provides top quality publications, training programs, services, and products designed to enhance the skills and performance of those responsible for government finance policy and management. The association is headquartered in Chicago, Illinois and has an office in Washington, D.C.

The CSMFO Budget Awards Program is designed to recognize those agencies that have prepared a budget document that meets standards that include (1) a minimum score of 50 points (out of 80) in the Excellence in Budgeting section and (2) a score of 20 out of 20 for the Meritorious Budget section. SCWD’s FY 2016/17 Budget has been judged by impartial review to meet the high standards of the CSMFO program. This is the sixth consecutive year in which SCWD has received this award.

CSMFO is California’s premier statewide association for finance professionals, with Chapters located throughout the State. CSMFO seeks to improve the knowledge, skills, and performance of individuals responsible for municipal and other local government fiscal policy and management.

SCWD’s Budget and other financial documents can be found right on our webpage at: http://scwater.org/finance.

PRESS RELEASE | THURSDAY, FEB 23, 2017

A Billion-Dollar Showdown in Kansas.

Kansas Gov. Sam Brownback kept his tax reform package — and its $1 billion budget shortfall — in tact this week by preserving a tax loophole that lets scores of business owners pay no income tax.

At issue is a tax exemption for what are called pass-through businesses. These businesses are not incorporated, and therefore are not subject to the corporate income tax. Instead, income is reported on the business owners’ personal tax returns. Pass-through businesses are typically small but also include some major companies like Chrysler and Kaiser Permanente.

Brownback’s 2012 tax reform packages exempted the state’s more than 330,000 pass-through businesses from any income tax. Experts like the Tax Foundation warned at the time the package would lead to deficits and encourage tax dodging. Still, lawmakers five years ago not only signed off on the idea, they stuck back in some of the credits and deductions that Brownback would have eliminated to help pay for the cuts.

The Takeaway: The Kansas Legislature tried but failed this week after a Brownback veto to eliminate the pass-through exemption in an effort to raise revenues. The events indicate a far different legislature from the one in 2013 that, facing a $300 million revenue gap, could only stomach cutting spending by $150 million.

Years of dealing with shortfalls seem to have worn legislators down. “Everything’s going to be chaotic for a while,” House Minority Leader Jim Ward told the Kansas City Star. “At the end of the day, you’re going to see a plan substantially similar to what was rejected by an obstructionist governor and his followers in the Senate.”

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 24, 2017

Pension Funds Mess With Texas.

The country’s largest public pension systems and investors are pressuring Texas officials not to approve a so-called bathroom bill introduced in January. The legislation targets transgender individuals by requiring them to use the public restroom that aligns with the gender on their birth certificate.

Pointing to North Carolina, which lost hundreds of millions in business from canceled sporting events, concerts and conventions after its bathroom bill became law last year, the group warned in a letter that Texas could meet the same fate. Already, the National Football League and the NCAA have said that the siting of future events in Texas would be jeopardized if lawmakers move forward.

The more than 30 signatories on the letter include comptrollers, controllers and treasurers of California, Connecticut, New York, Oregon, Rhode Island and Vermont, as well as major firms such as BlackRock and T. Rowe Price. Collectively, the group represents more than $11 trillion in assets.

The Takeaway: Threats like these aren’t new. Called social divesting, stewards of major pensions have increasingly urged corporate boards in recent years to make policy changes, such as pressuring energy companies to move away from fossil fuels.

But wading into another state’s politics is unusual. And we’re talking significant amounts of money. California’s public employees fund (CalPERS) and its teachers fund (CalSTRS), the two largest pension funds in the country, have billions invested in Texas holdings. Of CalPERS’ nearly $303 billion in assets, just under $15 billion (about 5 percent) is invested in Texas holdings, according to data from the Controller Betty T. Yee’s office. CalSTRS has roughly $5.6 billion of its nearly $200 billion portfolio, or 3.5 percent, in Texas holdings.

If the other investors in the letter have similar shares related to Texas and ultimately decide to divest, the total cost to Texas could number in the hundreds of billions.

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 24, 2017

Fitch: Port Authority Capital Program; Large in Size and Risk.

Fitch Ratings-New York-23 February 2017: The Port Authority of New York and New Jersey's proposed 2017 – 2026 capital plan calls for $32.2 billion in total spending to meet its diverse transportation infrastructure needs. The overall size of the program, which is $4.6 billion larger than the previously adopted 10-year capital program, coupled with the inherent challenge of focusing on core assets and responsibilities while controlling the overall budget of high profile projects within a limited revenue envelope, will be one of the primary risks facing the agency for years to come, according to Fitch Ratings.

As compared to earlier capital programs, which had significant spending associated with the World Trade Center real estate complex, the new capital program focuses on transportation infrastructure renewal, expansion, and connection projects, as well as partnership (public and private) initiatives. Leading projects include: the Port Authority Bus Terminal Replacement ($3.5 billion), JFK and Lagaurdia Airport infrastructure and access improvements ($2.5 billion), Newark Airport Terminal A redevelopment ($2.34 billion), George Washington (GW) Bridge Restoration ($1.44 billion) and Lincoln Tunnel Helix Replacement ($1.1 billion). Separate partnership programs include: Gateway Tunnel ($2.7 billion) as well as long-term public-private partnership agreements at Laguardia airport's existing Central and Delta terminal buildings.

The underlying funding mix for the capital program at this budget level have relatively equal sourcing from debt borrowings and pay-go capital, supplemented by other revenue sources and grants. Future consolidated bonds expected to be issued total approximately $11.3 billion. However, the plan of finance could be challenged by new unplanned developments related to major maintenance needs and increased borrowings, both of which could impair the agency's ability to preserve financial metrics such as coverage and leverage at historical levels.

Some mitigation to cost overrun risks is evident by the contingencies and reserve set-asides within the overall plan as well as ongoing project reassessments during the program life. Still, any material underperformance in net revenue generation in future years could also contribute to more debt in the funding mix if capital spending cannot be reduced. Similarly, given the age of many core agency facilities, the level of deferred maintenance could lead to variability in the plan, especially if asset deterioration accelerates given either the positive user activity trends or other unplanned events.

Several of the projects will likely cost far more than the spending anticipated during the term of this capital program. For example, the bus terminal replacement program in Manhattan assumes $3.5 billion of costs through 2026; however, the total project cost is an estimate of up to $10 billion. Without a site identified and many planning and environmental approval stages needed for this project, the true cost may be greater. Similar considerations will likely manifest for all of the major regional redevelopment projects. The Gateway Tunnel Project contribution is already a fixed obligation.

Ongoing pressures to Port Authority finances is an area of concern as additional borrowings are assumed. When comparing the 2014 – 2023 capital program to the recently approved program extending through 2026, the expected level of new debt is largely the same at slightly over $11 billion over the forward-looking 10-year period. Still, annual debt service obligations for the consolidated bonds alone are expected to rise from $1.1 billion in 2016 to nearly $1.4 billion in 2021; a 25% overall increase. Operating revenues are projected to rise by a smaller rate of growth; 3.3% annually through 2021. Coverage metrics are likely to remain unchanged, averaging 2.4x, but as the true cost of some of projects become clearer, more revenues will be needed or some coverage dilution will likely occur.

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Fitch: Indiana Finance Authority's MOU a Positive Development for I-69.

Fitch Ratings-New York-23 February 2017: [Fitch Ratings views positively the Memorandum of Understanding (MOU) signed on Feb. 13, 2017 by the Indiana Finance Authority (IFA) and I-69 Development Partners (I-69 DP), as it appears to address key issues and unresolved disputes in conjunction with construction delays on the I-69 development project. Fitch will assess the implications for the transaction upon receiving further details from the Technical Advisor (TA). Fitch anticipates taking the appropriate rating action on the IFA private activity bonds (PABs, 'B'/Rating Watch Negative) subsequently.

The MOU extends the project's longstop date (i.e., the date when the project defaults if not completed) and requires additional payment contributions by I-69 DP, the IFA and the construction contractor, Isolux Corsan LLC (Isolux). The MOU revised the substantial completion date of the project to May 31, 2018, with various sections to be completed no later than August 2017 and March 2018. Fitch notes that the longstop date under the concession agreement will be revised to Nov. 30, 2018 from its original date of Oct. 31, 2017, which provides additional cushion for the concessionaire to complete the project. The term of the concession will remain unchanged and in effect until the earliest of: 34 years after the baseline substantial completion date, 34 years after the substantial completion date or termination of the PPA.

The MOU requires I-69 DP and Isolux to contribute $23.3 million and $52.0 million to the project, respectively. Of Isolux's $52.0 million additional payment, $23.0 million has already been contributed through funds drawn from its letter of credit (LC). Furthermore, the IFA will make an additional $28.2 million milestone payment to I-69 DP during the remaining construction period and availability payments will be delayed to coincide with the new schedule, commencing in June 2018. A partial milestone payment will be made by the IFA with the payment equal to the percentage of work completed under milestone 4 at the time of closing. All additional contributions will be made at the time of the closing of the definitive documents, which will reflect the terms and conditions set forth in the MOU. At closing, existing relief claims will be extinguished with current disputes no longer active. Specifically, I-69 DP will forgo any relief events that were previously claimed. Additionally, after the revised project schedule has been agreed upon by all parties, an updated cash flow projection will be made and will reflect the plan for paying for the D&C work and the debt service on the outstanding bonds.

Prior to taking any rating action, Fitch will assess the impact of the MOU on the project and the PABs rating after the TA opines on the reasonableness of I-69 DP and Isolux to achieve the revised completion dates as well as the sufficiency of the additional funds to cover the revised cost to complete. In addition, Fitch will review the updated financial model, the remaining scope, any deviations from the original concession agreement, the achievability of the revised schedule, the remaining critical path items, the flexibility to absorb unexpected future delays, and any potential impact on the operating period. Fitch expects additional information from the TA in the next few weeks.

Fitch previously downgraded the PABs on Oct. 26, 2016 from 'BB'/Rating Watch Negative to 'B'/Rating Watch Negative due to continued construction delays and unresolved disputes between the construction contractor and the IFA, which resulted in a limited margin remaining to complete the project by the prior long-stop date. The disputes culminated in six Notices of Default issued by I-69 DP to the construction contractor and a Notice of Non-Performance issued by the IFA to I-69 DP. In particular, Fitch noted that the fifth default, issued on Sept. 26, 2016, pertained to the failure of the contractor to replenish the LC, which was drawn upon two weeks prior (Sept. 15, 2016), for a total of $23 million. The subcontractors are now fully paid; however, the construction contractor has not replenished the LC as required.

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Detroit Mayor Proposes Trust Fund to Cover Future Pension Payments.

(Reuters) – Detroit Mayor Mike Duggan on Thursday proposed setting aside money in a special trust fund to cover higher-than-expected pension payments expected to begin in fiscal 2024.

Under the plan, fund deposits and interest earnings would total $377 million by the end of fiscal

2023, according to John Naglick, the city's finance director.

Detroit, which exited the biggest-ever municipal bankruptcy in December 2014, has already set aside $70 million for the higher pension payments.

The court-approved bankruptcy exit plan had projected city pension payments to spike to $111 million beginning in fiscal 2024 after years of minimal or no payments by the city. But a subsequent actuarial analysis pegged the payment spike at $200 million or more.

In his annual budget presentation to the city council on Thursday, Duggan also proposed a $1.074 million general fund budget for the fiscal year beginning on July 1 that is slightly smaller than the current spending plan.

The city's credit rating remains deeply in the junk category in the wake of the bankruptcy, which allowed Detroit to shed about $7 billion of its $18 billion of debt and obligations.

Naglick said Detroit is eying the sale of about $100 million of bonds backed by state of Michigan transportation funds due the city. The bonds would be issued through the Michigan Finance Authority and would have investment grade ratings, he said.

By REUTERS

FEB. 23, 2017, 6:39 P.M. E.S.T.

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

Public-Private Partnership Eyed For Regional High Speed Rail.

Governor Jay Inslee in his 2017-19 biennial budget has proposed $1 million to fund a feasibility study on an ultra-high speed rail line between Portland and Vancouver, B.C, which business leaders say could strengthen regional economic development. Proponents argued February 1 at a Senate Transportation Committee meeting that the proposed public-private partnership could cut travel times between Vancouver, B.C. and Seattle down to one hour and reduce traffic congestion on the interstate highways.

However, top ranking panel members say money for the study may be hard to come by this session. One lawmaker suggests a less costly update to a 1992 state study that concluded a high speed rail line was viable. Inslee's proposal is similar to that study in that it would assess many of the same Washington cities as potential rail stations, including Bellingham, Everett, Seattle, SeaTac, Tacoma, Olympia, and Vancouver.

Private Sector Push For High Speed Rail

The governor's proposal comes on the heels of a September Cascadia Conference hosted by Microsoft in Vancouver, B.C., where tech industry leaders emphasized their desire for a bullet train to promote stronger regional ties between Seattle and Vancouver, B.C. Proponents include the Association of Washington Business, Washington Roundtable, and all 11 members of the Microsoft Board of Directors.

"There is time, there is energy, and maybe even dollars that they're (employers) willing to put forward on this," Inslee's Transportation Executive Policy Advisor Charles Knutson said.

In agreement was Microsoft lobbyist Michael Groesch, who told the committee "there's a lot of things that could work together to help both economies grow faster and stronger."

Strengthening Weak Regional Economic Ties

A [2016 study] by Boston Consulting Group found ties unusually weak between the two metro areas. It noted that "although only 120 miles separate the two cities…their level of connectedness is more akin to cities that are 2,000 miles apart. Of the handful of companies that operate in both cities, most have a large presence in one and only a satellite footprint in the other."

Based on LinkedIn data, the study also determined that Seattle had stronger connections to Atlanta than Vancouver, B.C.

A bullet train could change that, says Knutson.

"In a word, this is economic development," he said. "We've known really since the days of the Wild West that when the train comes through the town it provides an opportunity for economic activity and for growth."

Study: Bullet Trains Bring Prosperity

Knutson's remarks match the findings of a 2009 study conducted by the London School of Economics and Political Science and the University of Hamburg. It examined the economic impact a German high speed train line between Cologne and Frankfurt on two cities, where service was available, compared to the other 3,000 nearby cities that did not have access. The authors found that those two cities' gross domestic product (GDP) increased by 2.7 percent over a four-year period after the train was built, which was directly attributable to the new metro access provided by that rail service.

Washington's Amtrak Cascades trains currently offer trips between Portland and Vancouver, B.C. However, the trains can only go 79 miles per hour (mph), one third the speed of a 250 mph bullet train. Also, Amtrak offers only two daily trips between Seattle and Vancouver, B.C., four between Seattle and Portland.

"A trip up there (to Vancouver, B.C. from Seattle) in a day is currently almost impossible," Groesch said. "High speed rail is an option for that."

He added that "these two lines, both Amtrak and ultra high speed rail, can coexist and complement one another, because they provide a different type of service."

Knutson: Compelling Case For High Speed Rail

A private Texas-based company is currently developing a privately-funded, 240-mile ultra high speed rail line from Houston to Dallas. The line will offer rides every 30 minutes, reducing travel times between those cities from roughly four hours in a car to less than 90 minutes.

Knutson said that travel times between Seattle and Vancouver, B.C. could be reduced by rail from two and half hours currently in a car to just one.

That time savings could be crucial for commuters as the Central Puget Sound region grows. That region's population has increased from three million to nearly four million in less than twenty years, and the Puget Sound Regional Council expects another million more residents by 2040. Home purchasers are already seeking more affordable homes in areas farther north and south, driven in part by a lack of available land and restrictive land use regulations.

“We (Washington state) are now bigger than the country of Norway,” Knutson said. “We’re bigger than Finland. Bigger than Denmark. We’re bigger than Ireland. And in a growing state, it’s important that we are providing our people with the best means to move as quickly and safely as possible.”

However, whether the idea is an easy sell to legislators may depend on the project’s final price tag and the amount taxpayers must cover. Committee Assistant Ranking Minority Member Sen. Marko Liias (D-21) told Knutson “the number one question from the Transportation Budget Committee is ‘How much does it cost?’”

He also asked whether the private companies interested in the study would be willing to chip in, something Groesch said was possible.

Liias’ emphasis on minimizing state costs is shared by Transportation Vice Chair Sen. Tim Sheldon (D-35), a member of the Senate Majority Coalition Caucus. He told Lens appropriating $1 million for the study could prove “tough this year.” A less costly alternative is updating the 1992 high speed rail study, he added.

“It might be good to dust off what we have on the shelf and take a look at it before we start investing that much money in a proposal that we’ve studied several times before,” he said.

However, Groesch stressed to panel members at the February 1 meeting the need to thoroughly examine the concept in order to make the best decision moving forward. “If we don’t ask those questions (through a study), we’ll never get the answers.”

The Lens News

By TJ Martinell – February 10, 2017

[Miami’s Mayor Climbs Aboard the Trump Train.]

The county may need billions in federal funds for a transit system.

He’s the immigrant mayor of Miami-Dade County—where most people speak a foreign language at home and half the population was born abroad—and he voted for Hillary Clinton. Yet Mayor Carlos Gimenez is falling in line with President Trump’s demands on immigration, and many of his constituents are furious.

After Trump threatened to curtail federal funds to so-called sanctuary cities that protect illegal immigrants from federal immigration laws, Gimenez quickly eliminated the policy that had landed Miami-Dade on a list of sanctuary jurisdictions. But even amid growing uproar in the community, the mayor is clear about his motive: It’s all about the money.

The second-term Republican needs federal funds to make good on one of his signature campaign promises—to build an expansive mass transit system to connect downtown to Miami Beach and several suburbs. When Trump put out his order on Jan. 25, threatening to withhold funds from disobedient mayors, Gimenez got on board. “I said, ‘You know what? I think this gentleman is serious,' " he told a local ABC affiliate. "Money is in jeopardy, because there is a law that says if you don't comply with federal law, you can lose." Gimenez says Miami-Dade relies on $350 million in federal funds every year and will try to get hundreds of millions—"if not billions of dollars"—for the transit system.

Sean Foreman, a political science professor at Barry University in Miami Shores, Fla., sees parallels between the mayor's decision and moves by companies such as Ford and United Technologies, which made deferential gestures after Trump blasted offshore manufacturing. "It's political expediency," he says. "If you want to get anything done for your business or for your municipality, you have to fall in line."

That rationale hasn't appeased the scores of protesters who have shown up at county hall. The county commission is holding a special meeting on Feb. 17 to consider the mayor's memorandum rolling back the city's sanctuary status. At issue is whether jails should keep people beyond normal periods because federal immigration authorities want to question them. Since 2013, Miami-Dade had refused to do so unless it was reimbursed by the federal government, a policy that typically led to most people being let go.
Gimenez insists the move represents a minor shift in policy. Still, the change wasn't lost on Trump, who tweeted, "Miami-Dade mayor dropped sanctuary policy. Right decision. Strong!" In the first two weeks under the new policy, the mayor's office noted that Miami-Dade got 34 detainer requests from the federal government. That compares with 174 for all of 2016.

Even if Gimenez gets the federal funds, questions remain as to how he'll obtain the land for the transit project, which would cut across hundreds of acres of private property. "So yes, if we end up solving transportation issues in this community, the mayor will come out very popular," Foreman says. "But there's a low likelihood of success."

The bottom line: Miami-Dade's mayor is avoiding a clash with Trump over immigration because he needs federal money for mass transit.

Bloomberg BusinessWeek

by Jonathan Levin

February 16, 2017, 8:00 AM PST

—With Paul Murphy

Meet the Gold Rush Towns at Risk of Flooding From California Dam.

- Evacuation warnings in effect for Butte, Sutter, Yuba counties
- Communities have $1.6 billion in municipal debt outstanding

The damage to the spillway of the Oroville Dam puts a spotlight on the northern California communities that once boomed during the Gold Rush and are now at risk of severe flooding.

Evacuation warnings remain in effect for Butte, Sutter and Yuba counties, meaning that residents who were allowed to return Tuesday after being ordered to leave on Sunday must be prepared to flee again if necessary.

Damage to an emergency spillway of the nation's tallest dam after weeks of rain had raised the risk of disastrous floods downstream, and repair crews are still working around the clock. Adding to the concern are new storms forecast for next week that could strain the reservoir behind the spillway.

The communities, which the state's current economic boom has largely passed by, have $1.6 billion in outstanding municipal debt, data compiled by Bloomberg show. Some of their debt has already been repriced to higher yields, according to Bloomberg BVAL.

If the municipalities flood, President Donald Trump would likely sign an emergency declaration, authorizing the Federal Emergency Management Agency to act, said Eric Hoffmann, an analyst at Moody's Investors Service.

"The FEMA aid would supplement state and local expenses, alleviating immediate financial challenges and minimizing fiscal and credit pressures," Hoffmann said.

The following are details about each county:

Butte County:
Population: 225,411
Poverty rate: 21.4 percent
Total outstanding debt by all issuers in county: $338 million
Biggest issuers: Chico Redevelopment Agency, $73 million; Chico Unified School District, $68 million

Sutter County:
Population: 96,463
Poverty rate: 17.5 percent
Total outstanding debt by all issuers in county: $533 million
Biggest issuers: Yuba Levee Financing Authority, $151 million; Sutter Union High School District, $93 million

Yuba County:
Population: 74,492
Poverty rate: 21.6 percent
Total outstanding debt by all issuers in county: $731 million
Biggest issuers: Yuba Community College District, $373 million; Marysville Joint Unified School District, $164 million

Bloomberg

by Romy Varghese

February 17, 2017, 2:00 AM PST

Bigger New York City bond Sale Finds Eager Buyers.

The possibility New York City could lose some federal funding as a result of its status as a haven for undocumented immigrants did not deter investors who snapped up $900 million of the city's bonds on Tuesday.

Underwriters led by Citigroup repriced the AA-rated general obligation bonds, shaving yields by a basis point in a handful of maturities. Yields topped out at 3 percent for bonds due in 2029.

The city's so-called credit spread over Municipal Market Data's benchmark triple-A yield scale widened slightly to 22 basis points for five year bonds and 36 basis points for 10 year bonds from pre-sale secondary market trading levels. MMD attributed the spread widening to the size of the deal, which was increased from $800 million.

"It's too early to know how the market will treat the sanctuary cities," said Daniel Berger, a MMD analyst.

Jack Sterne, a spokesman for the New York City Comptroller's Office, said the deal was increased to $900 million after more than $600 million of bonds were sold to individual investors during a presale period.

"We're pleased investors continue to recognize the city's financial strength and invest in our bonds," he said in a statement.

Ahead of the sale, New York tried to assure potential bond buyers that its status as a so-called "sanctuary city" that shields illegal immigrants should not result in a substantial loss in federal funding due to President Donald Trump's recent executive order.

The Republican president signed an order on Jan. 25 directing the U.S. attorney general and Homeland Security secretary to withhold federal money from cities where local law enforcement refuses to report undocumented immigrants they encounter to federal authorities. Trump's Homeland Security chief told a congressional panel on Tuesday that funding to cities that refuse to cooperate with immigration agents would only be cut on a case-by-case basis.

In the bond deal's preliminary official statement, New York said federal grants related directly to immigration enforcement comprise a small portion of its budget and that grants supporting law enforcement in general would be exempted from the order. The city also vowed to "mount a vigorous legal challenge" against a reduction in federal aid.

In addition to New York, other major cities offering some form of protection to illegal immigrants include Los Angeles, Chicago, Philadelphia, Boston, Denver, Washington, and Seattle. Another sanctuary city, San Francisco, filed a legal challenge to the order last week.

Reuters

Tue Feb 7, 2017 | 4:13pm EST

(Reporting By Karen Pierog; Editing by Tom Brown)

In Day of Action, More Than 35 State Municipal League Executive Directors and Officers Join NLC to Advocate for City Priorities on Capitol Hill.

WASHINGTON, Feb. 8, 2017 /PRNewswire-USNewswire/ — In a day of action on Capitol Hill, more than 35 executive directors and local leaders from more than 20 state municipal leagues have come to Capitol Hill to advocate for critical city priorities. In 42 meetings today with federal officials, city representatives will work to build local-federal partnerships and tell Congress why city priorities –

including infrastructure and protecting municipal bonds – will help to move America forward. The fly in was coordinated by the National League of Cities (NLC), the nation's largest and most representative organization for cities and their leaders.

"With so many new faces on Capitol Hill, it's important that city leaders build relationships with federal officials and tell them why city priorities are critical to the success of our nation," said NLC President Matt Zone, a councilmember from Cleveland. "We're proud that our state league partners have come to Washington with a unified voice and a simple message: that the federal government needs to partner with cities to keep our economy growing and to build a national infrastructure that is the envy of the world."

The day of action included a briefing on Capitol Hill for senators, Members of Congress and their staffs. Rep. Drew Ferguson (GA-3), a former mayor of West Point, Georgia, spoke at the briefing about the need for stronger federal-local partnerships.

"This day of action shows our federal partners that cities need a seat at the table when debating policies that affect cities and our communities," added NLC CEO and Executive Director Clarence E. Anthony. "We're excited to build on this momentum leading up to the Congressional City Conference in March, when city officials will meet with more than 250 Senators and Members of Congress to build crucial federal partnerships and make them champions for cities."

In partnership with the 49 state municipal leagues, NLC represents more than 19,000 cities across America. More than 2,000 city leaders are coming to Washington March 11-15 for NLC's annual legislative conference, the Congressional City Conference.

The following state league leaders are in Washington today for the fly-in:

Arkansas

Mayor Harry Brown, Stephens, Ark., and president, Arkansas Municipal League
Ken Wasson, director of operations, Arkansas Municipal League

Colorado

Sam Mamet, executive director, Colorado Municipal League

Delaware

Mayor Jermaine Hatton, Dover, Del., and president, Delaware League of Local Governments
Carl Luft, executive director, Delaware League of Local Governments

Florida

Jeannie Garner, deputy executive director, Florida League of Cities
Commissioner Gil Ziffer, Tallahassee, Fla., and first vice president, Florida League of Cities

Georgia

Mayor Boyd Austin, Dallas, Ga., and president, Georgia Municipal Association
Lamar Norton, executive director, Georgia Municipal Association
Becky Taylor, director, Federal Relations & Research, Georgia Municipal Association

Illinois

Brad Cole, executive director, Illinois Municipal League

Iowa

Councilmember Kris Gulick, Cedar Rapids, Iowa, and past president, Iowa League of Cities

Maryland

Mayor Tracy Gant, Edmonston, Md., and president, Maryland Municipal League
Scott Hancock, executive director, Maryland Municipal League

Massachusetts

Geoff Beckwith, executive director & CEO, Massachusetts Municipal Association
Town Administrator Mel Kleckner, Brookline, Mass., and president, Massachusetts Municipal Association

Minnesota

Kevin Frazell, director of Member Services, League of Minnesota Cities
Mayor Rhonda Pownell, Northfield, Minn., and president, League of Minnesota Cities

Mississippi

Mayor Jimmy Clyde, Magee, Miss., and president, Mississippi Municipal League
Shari Veazey, executive director, Mississippi Municipal League

New Hampshire

Selectman Brent Lemire, Litchfield, N.H., and chair, New Hampshire Municipal Association

New York

Peter Baynes, executive director, New York State Conference of Mayors and Municipal Officials
Mayor Tom Roach, White Plains, N.Y., and president, New York State Conference of Mayors and Municipal Officials

North Carolina

Mayor Bob Matheny, Zebulon, N.C., and president, North Carolina League of Municipalities
Paul Meyer, executive director, North Carolina League of Municipalities

Oregon

Mayor Denny Doyle, Beaverton, Ore., and president, League of Oregon Cities

Pennsylvania

Mayor C. Kim Bracey, York, Pa., and first vice president, Pennsylvania Municipal League
Rick Schuettler, executive director, Pennsylvania Municipal League

Tennessee

Margaret Mahery, executive director, Tennessee Municipal League

Charles “Bones” Seivers, president & CEO, Tennessee Municipal League Bond Fund

Virginia

Mayor Robert Coiner, Gordonsville, Va., and president, Virginia Municipal League
Kimberly Winn, executive director, Virginia Municipal League

Washington

Peter King, CEO, Association of Washington Cities

Wisconsin

Jerry Deschane, executive director, League of Wisconsin Municipalities
Village Board President George Peterson, Rothschild, Wis., and president, League of Wisconsin Municipalities

About the National League of Cities
The National League of Cities (NLC) is dedicated to helping city leaders build better communities. NLC is a resource and advocate for 19,000 cities, towns and villages, representing more than 218 million Americans. www.nlc.org

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City of Riverside Recognized For Excellence in Budgeting by Peers Statewide.

RIVERSIDE, Calif. – For the first time, the City of Riverside has received the Excellence in Budgeting Award from the California Society of Municipal Finance Officers, a statewide organization devoted to promoting best practices among California municipal finance professionals.

The award recognizes the work of the City in preparing the 2016-2018 biennial budget, which was approved by the City Council in June. That budget document covers the next two fiscal years and guides the City’s financial decisions.

“Riverside is fortunate to have highly-qualified professionals providing detailed information to drive good decision-making,” Mayor Rusty Bailey said. “Our decisions as elected officials are only as good as the data that informs them, so precise budgeting is crucial to our City’s financial health.”

The 2016-18 budget that was recognized for excellence was the first in recent years to plan the City’s financial future for the next two years, instead of just one year, which is most common in local government. Riverside’s two-year budget, combined with a five-year financial plan, transformed the way the City of Riverside handles its financial planning.

“Our budgeting process has evolved in a very dramatic way during the past year,” Mayor Pro Tem Mike Gardner said. “We now have a much broader scope when looking at our options for utilizing the city’s funds in the most responsible way, and our budget is a big part of that.”

The California Society of Municipal Finance Officers (CSMFO) promotes excellence in financial management through innovation, continuing education and the professional development of its members. The Excellence in Budgeting Award is the first such recognition the City has received from CSMFO.

“This is a significant accomplishment for the City,” said Assistant City Manager Marianna Marysheva, who supervises the Finance Department. “Our staff showed great focus and determination in preparing a budget document that serves as an excellent planning, financial management and public education tool.”

Riverside previously has received 13 budgeting awards from another organization, the Government Finance Officers Association (GFOA). The most recent award from the GFOA can be found here.

The Biennial Budget that was recently recognized by CSMFO also was submitted for the GFOA Award, the results of which are pending.

The budget document that was submitted for the award can be found here.

A list of recognitions received by the City’s Finance Department can be found here.

inlandempire.us

By Staff – February 9, 2017

Cincinnati’s Streetcar and a Downtown Revival.

By the time the first passengers boarded Cincinnati’s streetcar in September, its advocates had already been on a wild 15-year ride that included surviving two ballot initiatives to derail the project.

With political battles now largely in its rearview mirror, the streetcar has arrived at a key time in Cincinnati, where a revival of the city center is already well underway. The streetcar logged its first 250,000 rides in just over two months, helped by curiosity over the streetcar and an ongoing real estate development boom in the neighborhoods along the 3.6-mile (5.8 km) route: the Banks, downtown, and Over-the-Rhine.

“They had the paddles out on the operating table,” longtime streetcar advocate John Schneider says of its several near-death experiences. “It’s been a long effort to bring rail here. The politics were ugly, but once the politics got out of it, the result was really good.”

The Cincinnati Bell Connector—the streetcar’s formal name, thanks to that company’s ten-year, $3.4 million naming-rights deal signed in August—began clanging through Cincinnati’s streets at a time when construction continues ramping up in the city center. There has already been about $1.5 billion in public and private investment along the figure-eight streetcar route in the past five years, says Harry Black, city manager.

“All of these things working together have propelled us to a point of critical mass,” Black says of efforts to enliven the city center. “I believe we’re just at the beginning of that critical mass. The streetcar is one of those major elements, but it’s not the only element.”

The $1.5 billion figure includes the $148 million streetcar project, about $45 million of which was funded by federal grants. Long before the city-owned streetcar was a sure thing, other efforts were underway to spruce up the city’s core, starting with major investments in the Banks, an area along the Ohio River near the Cincinnati Reds’ ballpark and the Bengals’ football stadium. That area is on the southern tip of the streetcar line.

Perhaps most dramatic has been the gentrification of Over-the-Rhine, a one-time German enclave that in more recent years had become notorious as one of the nation's most dangerous neighborhoods. It is at the northern end of the streetcar route.

Cincinnati Center City Development Corp., a nonprofit real estate development and finance organization known to locals as 3CDC, has completed $1.1 billion in real estate projects in the past decade in Over-the-Rhine and downtown, says executive vice president Adam Gelter, who oversees all of 3CDC's real estate development. That includes the purchase and rehabilitation of more than 250 dilapidated buildings, many of them with Italianate architecture, as well as larger projects such as a $48 million overhaul of Washington Park.

Over-the-Rhine is now known for breweries, boutiques, Findlay Market, bars, and restaurants. 3CDC and others are focused on attracting a broader range of retail to the area, as well as rehabbing broad areas of Over-the-Rhine still in disrepair.

"The streetcar is a strong complement to efforts we've already been making to build up the retail in Over-the-Rhine," Gelter says. "Being able to get more people here is ultimately what's going to attract retailers."

Cincinnati had been without a streetcar since 1951, and in the decades since many residents moved to areas outside the city's core or to suburbs. Cincinnati became more and more driving-centric.

Schneider, known to many in Ohio's third-largest city as "Mr. Streetcar," has lived downtown for 40 years. He began pushing municipal officials to pursue a streetcar in 2001, and by 2007 the city began formal planning.

Streetcar proponents fought back votes to kill off the idea in 2009 and 2011 and overcame several other obstacles—including Ohio Governor John Kasich pulling $52 million in state funding over doubts about the project's potential economic impact in 2011.

In the early going, the Cincinnati Bell Connector has encountered glitches including difficult-to-use ticket machines, and the initial ridership numbers have declined, particularly on weekdays and as the weather has gotten colder. Because traffic lights are timed for an east–west flow and the streetcar travels north and south, the streetcar also often becomes bogged down in traffic.

While solutions to those issues are examined, longer-term challenges also loom. Cost estimates and potential funding sources for potential expansions of the route have yet to be determined. Expansion likely would be targeted for uphill to the University of Cincinnati or across the river to Newport, Kentucky.

Despite early hiccups, the streetcar's usage rate has been a pleasant surprise, says Derek Bauman, southwest Ohio director and vice chair for statewide transportation advocacy group All Aboard Ohio.

"We've blown projections out of the water, especially on the weekends," says Bauman, who lives in Over-the-Rhine. "It's part of the revival of the city center. There's just a buzz, and people are out on the streets. There are families with strollers, which wasn't the case four or five years ago."

Anecdotally, streetcar riders are a diverse mix that includes young professionals, families, empty-nesters, and out-of-towners staying in nearby hotels, Schneider says.

"It's not all millennials," he says. "A friend told me he's seeing more hip replacements than hipsters on the streetcar."

It is too early to assess the long-term economic impact along the streetcar, but property values already appear to be on the rise, according to commercial real estate brokerage CBRE. In 2012, developers were paying an average of $17 per square foot ($183 per sq m) for adaptive-use buildings in Over-the-Rhine, says retail broker Chris Hodge, a CBRE senior vice president. By late 2015 and early 2016, the average had risen to $78 per square foot ($839 per sq m), he says.

“I think the biggest impact the streetcar has had is in Over-the-Rhine,” Hodge says. “The development really started on the east side of Over-the-Rhine, and now it’s moving west and north.”

Rhinegeist Brewery, which opened in a former Christian Moerlein Brewing bottling plant on Elm Street in 2013, is one business likely cashing in on the streetcar. President and cofounder Bob Bonder says that revenue from visits to the brewery is up more than 30 percent in 2016 from last year.

“I couldn’t tell you how much of that increase is due to the streetcar and how much is us being a new, fresh brand three years into existence,” Bonder says. “But all you have to do is stand there and watch the streetcar to see that, wow, this is working. It seems like every time the streetcar stops by, it drops off 20 people and picks up ten.”

The Urban Land Institute

By Ryan Ori

January 9, 2017

Ryan Ori covers commercial real estate for Crain’s Chicago Business.

S&P: For Illinois, Having A Plan Beats No Plan.

A bipartisan package of proposed budget legislation recently unveiled in the Illinois State Senate could mark a breakthrough in the state’s nearly two-year-long budget impasse. The legislation, which includes appropriations for the remainder of fiscal 2017 and increased tax rates, offers the potential for the semblance, at least, of a shift toward fiscal stabilization.

Continue reading.

Feb. 6, 2017

Puerto Rico Collapse Casts Bond-Market Pall Over Pacific Island.

- Territory of Guam’s bonds lose since Congress acted on crisis
- Guam still investment grade as other territories cut to junk

The bond-market gales that battered U.S. territories in the Caribbean are reaching a Pacific Ocean island more than 7,000 miles away.

As Puerto Rico stumbles through record-setting defaults and the U.S. Virgin Islands contends with a building fiscal crisis, Guam is being penalized by investors even though it’s kept an investment-grade rating. The island’s debt has lost 4.4 percent since the end of June, following the unprecedented U.S. rescue of Puerto Rico, compared with a 2.5 percent loss in the broader municipal market, according to S&P Dow Jones Indices.

“They are all struggling financially,” said Dan Solender, head of municipals at Lord Abbett & Co., which hold about $100 million of Puerto Rico bonds and isn’t buying territory debt. “As an investor, you don’t know what your downside is anymore. You don’t know if the terms you agreed to when you originally loaned them the money will be the terms that will be used to handle the situation if something goes wrong.”

Investors’ confidence in America’s territories has been undermined by the U.S. effort to save Puerto Rico. That law, enacted in June, gave the government legal powers to cut its debts in bankruptcy-like proceedings, setting a precedent that Congress could extend to other cash-strapped territories.

The territories are wrestling with pension bills, heavy debt loads and economies dominated by a few key industries. The Virgin Islands since December has twice delayed a bond sale that it was counting on to help pay bills, and Monday its water and power company debt was downgraded to a few notches above securities already in default. Last month, Moody’s Investors Service said it may cut American Samoa deeper into junk, in part because of the economic hit caused by the closing of a tuna-packing plan.

Star Territory

But Guam has avoided falling into junk-bond status. In July, S&P Global Ratings graded the island’s bonds BBB+, the third-lowest investment grade, after deciding not to change its assessment in light of the Puerto Rico legislation. While Moody’s Investors Service doesn’t rate all of Guam’s bonds, it grades the power authority’s securities Baa2, two steps above junk.

Guam is the “shining star of the territories,” said Ken Kurtz, an analyst with Moody’s. “It’s not on the edge of a cash crisis like the Virgin Islands is. Guam could deal with its issues if it chooses to.”

Governor Eddie Calvo on Jan. 31 proposed a $722 million budget for the next fiscal year that he said balances after setting aside money for tax refunds and using $14.7 million to pay down the deficit. Guam, with about 170,000 residents, had about $2.6 billion of debt outstanding as of May — or about $15,000 per capita, according to bond documents.

“The governor has always taken the stance that we don’t need federal assistance when it comes to our financial situation because we will pay our debts no matter what,” said Jay Rojas, administrator for the Guam Economic Development Authority. “It’s in the budget for us to be able to take care of all the debt service that’s required.”

The island’s reliance on military bases, which occupy one-third of its territory, could be bolstered by President Donald Trump’s promise of increased military spending. International tourism is another major industry. Rojas said the governor’s office is looking at opportunities to expand into the shipping industry or the high-tech space.

“Diversification is always good,” said Rojas. “Right now we have a two-legged stool. If we add a third leg — which would be, you know, the creation of a new economy or a new industry on the island — it would make us even more secure.”

Bloomberg Markets

by Jordyn Holman

February 9, 2017, 2:00 AM PST

Fitch: Alaska Power Pool Is Likely Credit Positive.

Fitch Ratings-New York-07 February 2017: Public power utilities in Alaska's recently announced power pool should benefit from greater efficiencies, lower costs and a potential reduction in capex over the long term, Fitch Ratings says. To the extent that projected savings are used to build cash reserves, fund capital expenditures or reduce outstanding debt, credit quality among the participating utilities could improve. However, if the savings are passed back to the rate payers, creation of the power pool would likely be credit neutral.

The proposed power pooling and joint dispatch agreement between Chugach Electric Association, Inc., Anchorage Municipal Light and Power (ML&P), the Municipality of Anchorage, and Matanuska Electric Association was filed with the Regulatory Commission of Alaska (RCA) on Jan. 30. The proposed power pool expands on earlier efforts by Chugach and ML&P.

The pool will benefit the utilities by reducing the cost of power, increasing efficiencies and lowering the use of natural gas and emissions of carbon dioxide. The pool's goal is to meet the combined needs of the systems at the lowest possible cost by dispatching the most efficient resource, regardless of ownership, to meet the combined need. This approach allows for the better utilization of existing resources serving the region and reduces the need to develop and construct redundant resources, lowering capital costs over the long term.

The expanded power pool would include significant hydroelectric resources; two recently built natural-gas-fired combined cycle baseload plants, and quick-start peaking resources. By dispatching the most efficient resources across the pool, the utilities project savings of $12 million to $16 million annually in fuel and operation and maintenance costs. The increased efficiency and reduction in natural gas use would also extend the life of current supplies and reduce carbon dioxide emissions by an estimated 90,000 to 120,000 tons per year.

The proposal is currently considered an informational regulatory filing, providing the general framework for the pool's operation and goals. The participating utilities are still working out details regarding the power pool's operation and settlement process. A final, long-term agreement is expected to be filed with the RCA in 2018.

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[Fitch Downgrades Illinois Ratings to 'BBB'; Negative Rating Watch Maintained.]

Fitch Ratings-New York-01 February 2017: Fitch Ratings has downgraded the following ratings of the state of Illinois:

–Issuer Default Rating (IDR) to ‘BBB’ from ‘BBB+;
–$25.9 billion in outstanding general obligation (GO) bonds to ‘BBB’ from ‘BBB+’;
–$431 million Illinois Sports Facilities Authority sports facilities bonds (state tax supported) to ‘BBB-‘from ‘BBB’;
–$2.6 billion Metropolitan Pier and Exposition Authority McCormick Place expansion project bonds to ‘BBB-‘ from ‘BBB’;
–$267.8 million city of Chicago motor fuel tax revenue bonds to ‘BBB-‘ from ‘BBB’.

The Rating Watch Negative is maintained.

SECURITY
GO bonds are general obligations, full faith and credit of the state of Illinois.
State statutory mechanisms include an irrevocable and continuing appropriation for all GO debt service, and continuing authority and direction to the state treasurer and comptroller to make all necessary transfers from any and all revenues and funds of the state. The state funds debt service in advance by setting aside 1/12 of principal and 1/6 of interest every month for payments due in the ensuing 12 months.

The Sports Facilities Authority, Metropolitan Pier and Exposition Authority, and motor fuel tax bonds require state appropriation for the payment of debt service, resulting in a rating one notch below the state’s IDR.

KEY RATING DRIVERS

The downgrade of Illinois’s IDR and related ratings reflects the unprecedented failure of the state to enact a full budget for two consecutive years and the financial implications of spending far in excess of available revenues, which has resulted in increased accumulated liabilities and reduced financial flexibility. Even if the current attempts at a resolution to the extended impasse prove successful, Fitch believes that the failure to act to date has fundamentally weakened the state’s financial profile.

The Negative Watch reflects Fitch’s expectation that the state’s implementation of a solution, whether temporary or permanent, will be a challenge in the current political environment and that in the interim the state will continue to delay and defer payments in lieu of balancing the budget. While Fitch acknowledges that there is a plan being developed in the state Senate that contains elements that could ultimately resolve the impasse, its passage is uncertain and the timing of implementing solutions is unknown. Fitch expects to resolve the Rating Watch within the next six months based on an assessment of the state’s fiscal trajectory as it starts fiscal 2018. If the state continues on the current path, a further downgrade would be warranted.

Illinois has failed to capitalize on the economic growth of recent years to bolster its financial position. Rather, the decision to allow temporary tax increases to expire and the subsequent failure to develop a budget that aligns revenues with expenditures have resulted in a marked deterioration in the state's finances during this time of recovery. Once again, the state has displayed an unwillingness to utilize its extensive control over revenues and spending to address numerous fiscal challenges.

The 'BBB' rating continues to reflect the strengths inherent in a state's independent ability to control its budget, which remain substantial in Illinois despite policy decisions over a long period that have reduced expenditure flexibility. The rating also incorporates the state's elevated but still moderate liability burden, even considering its accumulated budgetary liabilities. These factors are offset by a history of notable fiscal management weakness that manifests itself in weak operating performance throughout the economic cycle.

Economic Resource Base
The state benefits from a large, diverse economy centered on the Chicago metropolitan area, which is the nation's third largest and is a nationally important business and transportation center. Economic growth through the current expansion has lagged that of the U.S. as a whole.

Revenue Framework: 'aa' factor assessment
Illinois' broad revenue base, primarily income and sales taxes, captures the diversity in its economy and has shown modest growth since the end of the recession. Fitch expects revenue performance to continue to track slow economic growth. The state has unlimited legal ability to raise revenues.

Expenditure Framework: 'a' factor assessment
Illinois has adequate expenditure flexibility despite elevated carrying costs for debt service and retiree benefits, with much of the broad expense-cutting ability common to most U.S. states. However, it is unlikely that reductions in state spending alone would be sufficient to achieve budgetary balance given the magnitude of the current budget gap. Funding demands associated with retiree benefits will continue to be a pressure, as these benefits are constitutionally protected.

Long-Term Liability Burden: 'a' factor assessment
Liabilities are an elevated but still moderate burden on Illinois' resource base, even when considering the large and growing accounts payable backlog that the state has accumulated. The state has very limited flexibility with regard to pension obligations following a May 2015 Illinois Supreme Court decision that found 2013 pension reform unconstitutional.

Operating Performance: 'bbb' factor assessment
Illinois' operating performance, both during the great recession and in this subsequent period of economic growth, has been very weak. The failure to address a long-standing structural budget gap with permanent and comprehensive solutions, whether revenue or expenditure, has left the state with an gaping hole in its operating budget and increasing budgetary liabilities.

RATING SENSITIVITIES
BUDGET SOLUTIONS: Failure to enact a balanced budget for fiscal 2018 would result in a further downgrade. Successful implementation of measures to enact a structurally balanced budget and reduce accumulated budget liabilities would stabilize the credit.

LIQUIDITY: The rating is sensitive to a material reduction in the state's ability to manage within available revenues through discretionary payment deferrals. Furthermore, failure of the state to make its statutorily required debt service transfers as scheduled, 12 months in advance on a rolling basis, would result in an immediate downgrade of the rating to below investment grade because it would suggest that the state's liquidity pressures are presenting a risk to bondholder interests that has not been evidenced to date.

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 U.S. in general, away from manufacturing to professional business services. The remaining manufacturing sector does include more resilient non-durables, and 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 to declining.

Revenue Framework
Illinois has a reasonably diversified revenue base. It relies most heavily on personal income taxes (close to half of general fund revenues) and sales tax. The balance consists of corporate income tax, lottery and gaming revenues, and a variety of other smaller taxes and transfers. The state has a flat personal income tax rate of 3.75%, which was temporarily increased to 5% between 2011 and 2015 from the prior flat rate of 3% to close post-recession budget gaps and reduce accumulated liabilities.

Historical revenue growth, adjusted for the estimated impact of policy changes, has been slightly above inflation but has somewhat lagged national economic growth. With Illinois' economic performance also lagging national growth, Fitch expects a continuation of this trend of flat-t--modest real revenue growth.

Illinois has no legal limitations on its ability to raise revenues through base broadenings, rate increases, or the assessment of new taxes or fees.

Expenditure Framework
As with most states, Illinois' spending is largely for social services and education, although its carrying costs for debt service and pension payments are comparatively high.

Spending growth, absent policy actions, is likely to be higher than revenue growth, driven mainly by increasing pension costs. Illinois has chronically underfunded its pension system based on a statutory formula that permitted a slow incremental build-up to higher pension funding and targeting only 90% of full actuarial funding. Pension costs are unusually large and continuing to grow, crowding out other spending. As with most states, other spending drivers include Medicaid and education.

The fiscal challenge of Medicaid is common to all U.S. states. Federal action to revise Medicaid's programmatic and financial structure appears likely, although the magnitude and timing of changes for state budgets remain unknown. Both the new presidential administration and congressional leadership support significant Medicaid policy shifts. As one of the largest parts of state budgets and by far the biggest source of federal funding to the states, federal decisions could have significant implications for states' ability to manage this key budget item.

Despite carrying costs that are among the highest of the states, Fitch believes that Illinois retains adequate expenditure flexibility that could be used in the budget process. Illinois funds a broad range of services for its citizens and did not significantly reduce spending during the recession. This leaves the state with ongoing capacity to make spending reductions. However, Illinois has no ability to unilaterally modify retiree benefits following the May 2015 Illinois Supreme Court decision that found 2013 pension reforms unconstitutional.

During the current budget impasse, almost 90% of spending continued to be funded in fiscal 2016 at the 2015 rate, based on continuing appropriations, consent decrees, and court orders, as well as the enacted education budget. A similar partial general funds budget was enacted for fiscal 2017, including full-year appropriations for K-12 education and other state and federal funds; however, the partial budget expired Jan. 1, 2017 and the state is again operating without a full budget in place. There is little flexibility to control spending outside of the budget process in part because the governor cannot unilaterally make many changes without legislative participation.

Long-Term Liability Burden
Illinois' long-term liabilities, particularly pension liabilities, are very high for a U.S. state. Illinois is the weakest of the states in terms of its ratio of debt and unfunded pension liabilities to personal income, at 23% as of 2016, well above the 5.1% median for states. The state's three largest pension systems, covering teachers, universities, and state employees, have low funded ratios driven by a history of weak contribution practices.

In addition to its long-term liabilities, the state has a sizeable accounts payable balance that has accumulated through multiple years of operating at a deficit. As of the end of fiscal 2016, the accounts payable balance totaled $7.6 billion and it has increased since with the ongoing budget impasse. If the senate proposal to issue bonds to reduce or eliminate this budgetary liability proceeds, Illinois' debt levels would be further elevated but would remain within the moderate range.

Short-term borrowing is allowed, subject to a limitation of 5% of appropriations for revenue anticipation purposes, which must be repaid by the close of the fiscal year, and 15% to meet revenue failure, which must be repaid within one year. The state has no short-term borrowing currently outstanding or planned, although notes were issued during the downturn.

Operating Performance
Illinois is poorly positioned to address a future economic downturn. While it has substantial theoretical capacity to weather a downturn, in terms of both revenue-raising potential and spending flexibility, it has not demonstrated the political capacity to achieve a long-term solution to its chronic budget deficits. During the great recession, the state largely maintained spending but delayed payments to address lower revenues. It accrued, as a result, an accounts payable balance that at its peak, reached 20% of the operating budget. In the absence of a change in management's approach to state finances, it is Fitch's expectation that future deficits would also be addressed by deferring state payments and increasing accumulated liabilities, although this approach is made more challenging by the state's already significant and growing deferrals during this period of economic growth.

Illinois' budget management during the current period of expansion has been especially weak. Temporary increases in personal and corporate income tax rates in place for four years, from Jan. 1, 2011 through Dec. 31, 2014, closed or partially closed the budget gap across five fiscal years. However, with their expiration, and the failure to enact a spending plan within expected revenues, the budget gap has ballooned. As a result, the state finds itself with a current operating deficit, structural budget deficit, cash crunch, and accumulation of accounts payable that will surpass its highest level at the depth of the recession.

The governor and state legislature could not come to agreement on a realistic spending and revenue plan for either the fiscal year that ended June 30, 2016 or the current fiscal year. With spending that far exceeded available revenues in fiscal 2016, the state's accounts payable balance grew to an estimated $7.9 billion at year-end, a significant portion of which was for the state employee health insurance plan. Similarly unable to enact a full-year balanced budget for fiscal 2017, the governor proposed, and the legislature enacted, a partial budget to fund operations while continuing negotiations over the budget and the governor's proposed reform agenda, which addresses issues separate from the budget. The partial budget has now expired, and if spending continues in the current year without approval of new revenues or the enacting of severe budget reductions, which seem unlikely, the state is on course to once again run a sizeable deficit that would flow through to the accounts payable bottom line.

The state Senate has put forth a series of bills that have the potential to lead to a compromise that will resolve the impasse. The Senate bills include raising the state income tax and other revenue measures, debt issuance to reduce accumulated budgetary liabilities, pension reforms, aid to Chicago public schools, and non-budgetary reforms sought by the governor, including a freeze on property taxes, workers compensation reform, and some form of term limits. These proposals, if they proceed through the full legislature and are signed by the governor, have the potential to meet the requirements to stabilize the Illinois IDR and related ratings. However, their passage is uncertain as is the timing of the implementation of any solutions.

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Fitch: California School Downgrades Outpace Upgrades.

Fitch Ratings-San Francisco-07 February 2017: Most California school district ratings have been affirmed under Fitch Ratings' new criteria, though the bulk of rating changes have been downgrades, in contrast to the local government portfolio in general, which has seen significantly more upgrades than downgrades with the criteria change.

Fitch is currently conducting a portfolio review of California school districts under its revised U.S. tax-supported criteria, which was released in April 2016. Eighty percent have been affirmed to date.

CRITERIA HIGHLIGHT FINANCIAL RESILIENCE THROUGH THE CYCLE

Downgrades to date reflect certain common features of California school district credits that play a greater role in the rating analysis following the criteria revision. The revised criteria emphasize an issuer's revenue framework and financial resilience in light of an issuer's sensitivity in downturns. California school districts have little independent legal control over revenues, which are primarily driven by relative enrollment rather than the local economy, and comparatively high revenue volatility due to the state's funding framework. Expectations for elevated volatility increase the financial cushion necessary to offset future declines. This inherent volatility, when compounded by a trend of thinning reserves observed in some districts, weakens the assessment of financial resilience through the cycle.

ENROLLMENT DRIVES REVENUE GROWTH PROSPECTS
The revised criteria highlight the significance of average daily attendance (ADA) to growth prospects for California school district revenues, as total per-student revenue from state and local sources is set by the state's Local Control Funding Formula (LCFF). Most districts have experienced solid revenue growth in recent years due to LCFF's funding mechanism, which is also tied to the state's solid revenue performance. However, LCFF is near full implementation, and given the state's constitutional school funding formula, future district revenue growth is expected to be more closely tied to local ADA trends relative to overall state revenue and enrollment performance.

PROP 13 LIMITS REVENUE FLEXIBILITY
California school districts' ability to independently raise revenues is constrained by constitutional limitations under Prop 13. Districts may not raise the operating property tax rate under any circumstance, and may only raise a parcel tax with a vote of the people. In districts with ADA declines, the confluence of limited revenue flexibility and weaker revenue growth prospects has been the central credit factor in many downgrades. This includes situations where the local tax base and economy are strong but enrollment is declining due to factors such as demographic changes and competition from charter schools.

VOLATILITY AND RESERVE DECLINES HINDER FINANCIAL RESILIENCE
Fitch's assessment of financial resilience, which considers financial reserves in the context of expected revenue volatility and budgetary flexibility in the event of a typical economic downturn, has also driven some downgrades. State school aid in California historically has been notably more volatile than typical municipal revenues because of the state's tax structure and funding framework. California's funding framework is governed by Prop 98, which ties school funding, in part, to year to year changes in state revenue (with a minimum guarantee of 40% of the state budget), thereby linking volatility in the state tax structure to local districts. While the state's tax structure remains more volatile than most (and can be exacerbated for a district by declining ADA), Fitch believes that the institutional reforms implemented during and coming out of the great recession may reduce school funding volatility somewhat going forward.

Higher expected volatility increases the level of reserves necessary to offset declines in Fitch's scenario analysis; however, the state's reforms moderate to a limited degree Fitch's expectation for districts' future volatility. Furthermore, many districts have been drawing down high fund balances to more historical levels in the improving state revenue environment, which Fitch believes reduces their financial flexibility in the event of an economic downturn.

California school districts benefit from a very strong financial oversight framework under AB 1200. For districts with limited gap-closing capacity, where financial operations could otherwise become distressed in the event of a revenue downturn in Fitch's scenario analysis, Fitch expects support by the state oversight mechanism to ensure that finances return to stable operations and recover financial flexibility. This strong oversight system supports an overall operating performance assessment that is slightly higher than the level suggested by Fitch's scenario analysis alone.

SPECIAL REVENUE ANALYSIS YIELDS STRONG RATINGS
Fitch continues to rate the general obligation securities of certain California school districts above the level of the issuer rating based on our assessment that bondholders are legally insulated from any operating risk of the district. (See 'California School Districts: Special Revenue Analysis Yields Strong Ratings' dated Sept 30, 2016.) In these cases, the general obligation bond rating is based on a dedicated tax analysis without regard to the district's financial operations because there is a reasonable basis for concluding that the tax revenues levied to repay the bonds would be considered pledged special revenues in the event of a district bankruptcy.

Fitch sets a high bar for considering local government tax-supported debt to be secured by special revenues, which provide security that survives the filing of a municipal bankruptcy (in preservation of the lien) and benefit from relief from the automatic stay provision of the bankruptcy code. Fitch gives credit to special revenue status only if, in its view, the overall legal framework renders remote a successful challenge to the status of the debt as secured by special revenues under Section 902 (2) (e) of the U.S. Bankruptcy Code. No such ratings have been affected by implementation of the revised criteria.

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Connecticut Gov. Proposes School Funds Move from Wealthy Towns to Poor Ones.

The plan is the governor's first attempt to address disparities in school funding after a court ruled that the current system is unconstitutional

Connecticut Gov. Dannel Malloy is seeking to redistribute funds for education from affluent towns like Greenwich and Groton to poor cities like Bridgeport and Hartford, as part of his $18 billion budget proposal revealed Wednesday.

Under Mr. Malloy's plan, education funding to municipalities, including for special education, would increase 8% to $2.19 billion for the fiscal year beginning July, but wealthier towns would get less money while poor cities would get more.

Under the new system, the state would reduce funding to the town of Groton for schools and special education by 33% to $16.8 million while the Hartford school system would receive an 11% increase to $221 million. School funding is largely derived from local property taxes.

The proposed changes are the governor's first attempt to address disparities in school funding after a Connecticut judge ruled in September that the current system is unconstitutional. The state Supreme Court is reviewing that order.

"I agree that we are not meeting our constitutional requirement of a fair and equitable public education system—one that guarantees every student the opportunity for success," Mr. Malloy, a Democrat, said during a budget address in Hartford.

The changes to education funding come as the governor tries to close a projected $1.7 billion budget deficit in the coming fiscal year. To deal with the shortfall, Mr. Malloy proposed $256 million in cuts to spending by state agencies for higher education, mental health and addiction services and other measures. It also increases tax revenue by $205 million by eliminating a property tax credit and raising levies on cigarettes.

The governor's budget also assumes $700 million in savings from unstated concessions from state employees. If the state and public-sector unions can't come to an agreement on concessions, up to 4,200 state employees could be laid off under the governor's plan.

Mr. Malloy also wants to shift about $408 million in teacher pension costs from the state to cities and towns.

The proposal, if approved, would result in 31 towns and cities receiving more funding in the coming fiscal year than the current one, according to the state budget office. The state's remaining 138 towns in the state would get funding cuts.

"That's a lot of municipalities that are losing under this budget," said Elizabeth Gara, executive director of the Connecticut Council of Small Towns. Local governments will be forced to raise property taxes to make up the shortfall in state funding, she said.

Benjamin Barnes, the state's budget chief, said the changes are being driven by the fact that many towns are in good financial shape while others have poor finances.

"We've tried to restack our municipal aid program to reflect that and to provide more concentrated relief to the communities that desperately need it," Mr. Barnes said.

Mr. Malloy's education funding proposal would change the metric used to determine poverty levels in schools from the number of children receiving free and reduced lunches to the number of students on Medicaid, which the governor says is a more accurate measure of poverty.

The change would also takes into account a school district's current enrollment levels as well as its financial strength.

Mark Waxenberg, executive director of the Connecticut Education Association, the state's largest teachers union, said the governor's proposal would hurt middle-class communities.

"You are basically creating a winners-and-losers system," Mr. Waxenberg said. "That's just not a good way to fund public education in Connecticut."

Mr. Waxenberg said the state should increase funding for education so that towns don't lose what they currently receive rather than reallocating money from affluent communities to low-income school districts. He said lawmakers should consider raising new tax revenue to make that possible.

Jennifer Alexander, chief executive of Connecticut Coalition for Achievement Now, an advocacy organization that supports charter schools, said it welcomed the governor's efforts to give more financial resources to students with greatest learning needs.

"I think that the governor's proposal reflects the harsh reality of Connecticut's budget—that there are no new dollars to add into the system," Ms. Alexander said.

But the funding cuts coupled with potentially new teacher pension obligations would put pressure on towns and school districts to trim expenses, said Patrice McCarthy, general counsel of the Connecticut Association of Boards of Education.

That could lead to increased class sizes, less investment in technology and fewer paraprofessionals to support teachers and students, she said.

THE WALL STREET JOURNAL

By JOSEPH DE AVILA

Feb. 8, 2017 5:27 p.m. ET

Write to Joseph De Avila at joseph.deavila@wsj.com

Michigan Leads Effort to Shift Workers Away From Pensions.

LANSING, Mich. — Struggling under the weight of pension and health care obligations, Michigan lawmakers appear ready to take another whack at public employee benefits — a move that reflects renewed determination to shift workers to 401(k)-style retirement systems, even if it happens in baby steps.

Other states have made more modest changes, but the latest push shows that conservatives want to approve big reforms 20 years after Michigan became the first state to close pensions to future state workers. Republican Gov. Rick Snyder is pressing to address $14 billion in unfunded liabilities, mostly from retiree medical costs, spread across more than 330 communities.

"As a state, we cannot get ahead if too many of our local communities have problems," he said.

The proposals could serve as a national blueprint, and they will provoke a pitched battle with public unions that are desperate to preserve traditional benefits.

Michigan is taking a leading role because of its size and the fact that GOP legislators and Snyder turned what was once a stronghold of organized labor into a right-to-work state. They also forced teachers and state employees to contribute a portion of their paychecks to avoid receiving smaller pensions in retirement.

After ending pensions for new state workers in the late 1990s, Republican legislators are now considering moving all newly hired teachers and local government workers to 401(k)-type plans and cutting municipal retiree health benefits. Just one other state, Alaska, has ended teacher pensions.

The governor, a former accountant and venture capitalist, has not outlined specific retirement proposals other than to be cool to shifting new teachers away from pensions because of the large upfront costs. But he warns that if nothing is done, retiree obligations — especially medical costs — will squeeze city budgets further and jeopardize basic services.

Influential conservatives point to Detroit, where thousands of people had their pensions cut by 4.5 percent in the bankruptcy. Annual cost-of-living increases were eliminated, and health coverage was replaced with a monthly stipend to buy insurance through the federal exchanges.

“If any more of the cities go bankrupt, their workers are not going to get what they were promised. That’s just not fair,” said John Kennedy, president and CEO of Autocam Medical in Grand Rapids, who led an informal task force that Snyder formed to study the issue. He is also a board member at the West Michigan Policy Forum, a group of business leaders and GOP donors that has listed unfunded retirement costs as its top priority.

Municipal officials are eager to see changes, too.

“This is essentially a mortgage crisis. We can’t afford our payments, and they’re ballooning,” said Port Huron City Manager James Freed, who worries that his town of 29,000 people an hour’s drive outside of Detroit will have to cut spending by up to 20 percent in coming years if nothing is done.

“We’ve already gone through 10 years of budget cuts,” Freed said. “At this point we’re not talking about cutting services. We’re talking about eliminating services.”

Options that may be considered in the Legislature include prohibiting retiree health benefits from being a subject of collective bargaining, capping how much local governments pay toward retiree medical insurance and eliminating traditional coverage in retirement for new workers in favor of contributions toward tax-deferred accounts, which is already in effect for new teachers and state employees.

Critics say the state should not intervene in local labor contracts and describe the push as an attack on police and firefighters who risk their lives and typically must retire earlier than other workers.

“We thought what we had was bought and paid for,” said 56-year-old Monty Nye, who retired from the Meridian Township Fire Department outside Lansing two years ago.

An officer in the statewide union, Nye said some new hires have already ceased to qualify for health care in retirement and will receive smaller pensions. Veteran firefighters agreed to smaller pay raises to keep intact the size of their pension, he said.

Nye said he pays $800 a month for his family’s health insurance — half of the premium. He also challenged a contention by Republicans that millennial workers prefer 401(k) systems because the plans are portable from job to job.

“That might be people that are looking to move around in the corporate world,” Nye said. “But the people that go to fire departments go there for the stability of the job.”

A pension, he said, lets first responders retire no matter how the stock market is faring.

“You don’t want some 65-year-old firefighter trying to drag your butt out of a burning house,” he said.

Oklahoma and Alaska are the only other states besides Michigan where new state employees are in mandatory 401(k)-style plans, which have been common in the private sector for many years.

If Michigan were to shift all new local workers and teachers to 401(k)-style plans, "it would be the first large state that's taken that kind of action. People would certainly look closely at it," said Greg Mennis, who studies public-sector retirement systems for the Pew Charitable Trusts.

The drive comes as President Donald Trump's administration explores how to implement at the federal level parts of a Wisconsin law that all but eliminated collective bargaining for public-sector unions in that state, according to Gov. Scott Walker.

Michigan conservatives are determined to take action.

"At some point, the political resolve needs to be applied to this problem," said Sen. Phil Pavlov, a Republican from St. Clair, north of Detroit.

Democrats say they are willing to talk about easing long-term liabilities but not without also discussing cuts in state revenue that have contributed to local budget woes.

Senate Minority Leader Jim Ananich of Flint said it would be foolish to rush bills while there is so much uncertainty over the future of the federal health care law and Medicare in the GOP-controlled Congress.

"You can't talk about cutting benefits for teachers and firefighters … and expect the federal government to come in," he said. "After what their plans are, people are going to be more economically insecure."

By THE ASSOCIATED PRESS

FEB. 5, 2017, 12:27 P.M. E.S.T.

Follow David Eggert on Twitter at https://twitter.com/DavidEggert00 . His work can be found at http://bigstory.ap.org/author/david-eggert .

Iowa Lawmakers Champion Bill to Limit Public-Sector Unions.

(Reuters) – Iowa lawmakers considered legislation on Wednesday to limit the powers of public-sector unions to negotiate for state and local employees, restrictions similar to those enacted in Wisconsin and Michigan despite huge protests.

Republicans in Iowa have gained an important advantage in pushing for legislation to rein in public-sector salaries and benefits after gaining control of the state Senate in last November's election. Republicans also control the state House of Representatives.

Iowa Republican Governor Terry Branstad supports the legislation, which if approved, would see Iowa join Wisconsin and Michigan in imposing restrictions on public-sector unions in the past decade. Branstad said the measure was needed to save money for the state.

Many Southern states have long limited collective bargaining by public-sector workers.

Union members protested the measure at the state capitol on Tuesday, according to local media.

The American Federation of State, County and Municipal Employees has said the measure, supported by the billionaire Koch Brothers' political spending group Americans for Prosperity, would gut collective bargaining rights.

Ross Eisenbrey, a vice president at the left-leaning Economic Policy Institute, said the measure was in line with efforts by conservative lawmakers to overrule minimum-wage increases adopted by cities and push for lower wages for construction workers on state projects.

The Iowa measure would lift mandates that require the state and local governments to negotiate with public-sector unions on how much employees receive in health benefits, according to a text of the legislation.

Instead, mandated negotiations would center on wages. Public safety employees, including police and firefighters, would be exempted from those provisions.

The legislation also would make it easier to dismiss certain state and local employees, including teachers, who are deemed by their supervisors to be poor performers.

The measure was heard by House and Senate subcommittees on Wednesday, according to the legislature's website. It was not immediately clear when the state House and Senate might vote on the measure.

Branstad told a news conference on Tuesday that state employees covered by public-sector unions typically pay $20 a month for their health coverage, leaving taxpayers on the hook for over $22,000.

"This is wrong and it's certainly out of whack with what everybody else in the state has to pay," he said.

By REUTERS

FEB. 8, 2017, 6:15 P.M. E.S.T.

(Reporting by Alex Dobuzinskis in Los Angeles; Editing by Peter Cooney)

Puerto Rico Says it Will Miss Some Feb. 1 Debt Payments.

Puerto Rico's government said it will miss some debt payments due on Wednesday, including another payment on general obligation (GO) bonds backed by the U.S. territory's constitution.

In a statement on Wednesday, the Fiscal Agency and Financial Advisory Authority (FAFAA) said the island will miss the GO debt payment; payments owed at Puerto Rico's public finance and infrastructure agencies; and $279 million owed by its Government Development Bank.

Puerto Rico has been defaulting on debt periodically for more than a year, including on GO debt, and the missed payments were expected.

FAFAA said Puerto Rico will make full payments due Wednesday on so-called COFINA debt, which is backed by sales tax, as well as payments owed by the island's retirement system, water authority, municipal finance authority and industrial development agency.

Puerto Rico is facing $70 billion in total debt, and nearly half its 3.5 million residents live in poverty. New Governor Ricardo Rossello, sworn in on Jan. 2, on Sunday signed a law to ensure the government continues to provide essential services.

Rossello has said paying debt is also crucial, and has proposed a number of measures to reduce government spending to free up cash for debt payments.

Still, the island likely cannot afford to pay its debt in full, and is in talks with bondholders to restructure.

Reuters

By Nick Brown

Wed Feb 1, 2017 | 1:08pm EST

KBRA Comments on Stress Cases Applied to Puerto Rico Insured Debt.

Kroll Bond Rating Agency (KBRA) rates three bond insurers with exposure to Puerto Rico totaling $9.3 billion of outstanding bonds issued by several Commonwealth issuers. In KBRA's view, recent developments have had potentially significant effects upon Puerto Rico's credit profile notwithstanding its continuing defaults. KBRA uses stress case loss assumptions for Puerto Rico issuers to address the continuing uncertainty in these exposures when rating bond insurers.

In KBRA's view, the ability of the three bond insurers to satisfy these assumed stress case losses supports their strong rating levels. Further details regarding the stress case loss assumptions are presented in the comment linked below.

Please click here to access the full comment.

N.C. House Again Attempts Eminent Domain Constitutional Amendment.

The NC House is considering a bill that would result in an eminent domain amendment to the NC Constitution. House Bill 3 would place the amendment on the November 2018 ballot. The bill would not allow private property to be taken by eminent domain, or to be condemned, except for public use. The bill does not define public use. The US Constitution and many states have similar requirement.

Another bill adds communications and natural gas facilities and pipelines to those projects for which eminent domain is allowed for infrastructure projects. In cases where public use is permitted, HB 3 would require "just compensation" be paid and the amount determined by a jury if requested.

The NC House has submitted similar bills at least five previous times since a the 2005 U.S. Supreme Court Kelo decision. However, none were enacted by both houses.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Last Updated: January 30 2017

Article by David B. Snyder

[Three More States and San Francisco Sue Trump Over Orders.]

- Healey calls Trump's immigrant ban 'harmful, discriminatory'
- San Francisco files first sanctuary city case against Trump

New York, Massachusetts and Virginia joined lawsuits challenging President Donald Trump's executive order temporarily banning immigration from seven Middle Eastern countries, adding legal firepower and resources to litigation bound to have national impact.

Also on Tuesday, San Francisco became the first U.S. city to sue Trump over another executive order threatening funding cuts to so-called sanctuary cities, claiming it violates immigrants' rights and that the municipality is protected by the 10th amendment to the Constitution, which guarantees state rights.

"President Trump's executive action is unconstitutional, unlawful and fundamentally un-American," New York Attorney General Eric Schneiderman said in a statement, adding that the implementation of the order was "hasty and and irresponsible," with "families caught in the chaos."

Schneiderman and Massachusetts Attorney General Maura Healey said separately that they're joining lawsuits filed in their states by rights groups claiming the president's Jan. 27 order violates the Constitution. Virginia Attorney General Mark Herring will also join a case challenging the order, spokesman Micheal Kelly said in an e-mail. All three officials are Democrats, as is Washington state Attorney General Bob Ferguson, who filed a suit on Monday.

Trump's Jan. 27 directive indefinitely suspended U.S. entry Syrian refugees and all other refugee resettlement for 120 days. It also banned entry for 90 days of nationals from seven predominantly Muslim countries: Syria, Iraq, Iran, Sudan, Libya, Somalia, and Yemen. Trump has said the move will improve security by preventing potential terrorists from slipping into the country

Central Claim

A central claim in the lawsuits is that Trump's order discriminates against Muslims based on their religion. Trump has maintained that it isn't a Muslim ban, but rather a ban against specific regions where terrorism is a threat. The order's implementation slowed the entry of just 109 people at U.S. airports out of 325,000 people coming into the country on Jan. 28, White House spokesman Sean Spicer said, although by other calculations tens of thousands of people were affected.

Massachusetts joined a lawsuit filed on behalf of detained refugees by the state's branch of the American Civil Liberties Union. Carol Rose, executive director of the ACLU in Massachusetts, said lawyers are amending the complaint to add additional plaintiffs.

Mohamad Ali, chief executive officer of Boston-based Carbonite Inc., also condemned the executive order at the Massachusetts' press conference, calling it "morally and ethically beneath our America's values."

San Francisco alleges that a Jan. 25 executive order is a "severe invasion" of the city's sovereignty. Claims against Trump, U.S. Secretary of the Department of Homeland Security John Kelly and Acting Attorney General Dana Boente boil down to San Francisco's rights to determine how to handle its population of undocumented residents.

“San Francisco faces the imminent loss of federal funds and impending action if it does not capitulate the president’s demand that it help enforce federal immigration law,” the city said in the complaint filed in San Francisco federal court. “The Executive Branch may not commandeer state and local officials to enforce federal law.”

Federal Funding

San Francisco receives more than $1.2 billion in federal funds annually, accounting for 13 percent of the city’s budget. The president’s threat to federal funds is preventing the city from producing a budget for the new fiscal year, according to the filing.

Prices for municipal bonds issued by San Francisco show investors are demanding more to own its debt, a sign of increased risk. City bonds due in 2029 were trading at yields of 0.53 percentage point over benchmark municipal debt, data compiled by Bloomberg show, compared with 0.39 percentage point on Jan. 23.

Two of the people who were detained at Logan International Airport in Boston because of the order are professors at the University of Massachusetts Dartmouth, on their way home from an engineering conference abroad, Healey said. “They are training the next generation of Massachusetts engineers,” she said. “But with the waive of a pen, the president’s executive order kept them and thousands of others from coming home.”

Bloomberg Politics

by Erik Larson and Kartikay Mehrotra

January 31, 2017, 10:41 AM PST January 31, 2017, 2:46 PM PST

[Fitch Downgrades Illinois Ratings to 'BBB'; Negative Rating Watch Maintained.]

Fitch Ratings-New York-01 February 2017: Fitch Ratings has downgraded the following ratings of the state of Illinois:

–Issuer Default Rating (IDR) to ‘BBB’ from ‘BBB+;
–$25.9 billion in outstanding general obligation (GO) bonds to ‘BBB’ from ‘BBB+’;
–$431 million Illinois Sports Facilities Authority sports facilities bonds (state tax supported) to ‘BBB-‘from ‘BBB’;
–$2.6 billion Metropolitan Pier and Exposition Authority McCormick Place expansion project bonds to ‘BBB-‘ from ‘BBB’;
–$267.8 million city of Chicago motor fuel tax revenue bonds to ‘BBB-‘ from ‘BBB’.

The Rating Watch Negative is maintained.

SECURITY
GO bonds are general obligations, full faith and credit of the state of Illinois.
State statutory mechanisms include an irrevocable and continuing appropriation for all GO debt service, and continuing authority and direction to the state treasurer and comptroller to make all

necessary transfers from any and all revenues and funds of the state. The state funds debt service in advance by setting aside 1/12 of principal and 1/6 of interest every month for payments due in the ensuing 12 months.

The Sports Facilities Authority, Metropolitan Pier and Exposition Authority, and motor fuel tax bonds require state appropriation for the payment of debt service, resulting in a rating one notch below the state's IDR.

KEY RATING DRIVERS

The downgrade of Illinois's IDR and related ratings reflects the unprecedented failure of the state to enact a full budget for two consecutive years and the financial implications of spending far in excess of available revenues, which has resulted in increased accumulated liabilities and reduced financial flexibility. Even if the current attempts at a resolution to the extended impasse prove successful, Fitch believes that the failure to act to date has fundamentally weakened the state's financial profile.

The Negative Watch reflects Fitch's expectation that the state's implementation of a solution, whether temporary or permanent, will be a challenge in the current political environment and that in the interim the state will continue to delay and defer payments in lieu of balancing the budget. While Fitch acknowledges that there is a plan being developed in the state Senate that contains elements that could ultimately resolve the impasse, its passage is uncertain and the timing of implementing solutions is unknown. Fitch expects to resolve the Rating Watch within the next six months based on an assessment of the state's fiscal trajectory as it starts fiscal 2018. If the state continues on the current path, a further downgrade would be warranted.

Illinois has failed to capitalize on the economic growth of recent years to bolster its financial position. Rather, the decision to allow temporary tax increases to expire and the subsequent failure to develop a budget that aligns revenues with expenditures have resulted in a marked deterioration in the state's finances during this time of recovery. Once again, the state has displayed an unwillingness to utilize its extensive control over revenues and spending to address numerous fiscal challenges.

The 'BBB' rating continues to reflect the strengths inherent in a state's independent ability to control its budget, which remain substantial in Illinois despite policy decisions over a long period that have reduced expenditure flexibility. The rating also incorporates the state's elevated but still moderate liability burden, even considering its accumulated budgetary liabilities. These factors are offset by a history of notable fiscal management weakness that manifests itself in weak operating performance throughout the economic cycle.

Economic Resource Base
The state benefits from a large, diverse economy centered on the Chicago metropolitan area, which is the nation's third largest and is a nationally important business and transportation center. Economic growth through the current expansion has lagged that of the U.S. as a whole.

Revenue Framework: 'aa' factor assessment
Illinois' broad revenue base, primarily income and sales taxes, captures the diversity in its economy and has shown modest growth since the end of the recession. Fitch expects revenue performance to continue to track slow economic growth. The state has unlimited legal ability to raise revenues.

Expenditure Framework: 'a' factor assessment
Illinois has adequate expenditure flexibility despite elevated carrying costs for debt service and retiree benefits, with much of the broad expense-cutting ability common to most U.S. states.

However, it is unlikely that reductions in state spending alone would be sufficient to achieve budgetary balance given the magnitude of the current budget gap. Funding demands associated with retiree benefits will continue to be a pressure, as these benefits are constitutionally protected.

Long-Term Liability Burden: ‘a’ factor assessment
Liabilities are an elevated but still moderate burden on Illinois’ resource base, even when considering the large and growing accounts payable backlog that the state has accumulated. The state has very limited flexibility with regard to pension obligations following a May 2015 Illinois Supreme Court decision that found 2013 pension reform unconstitutional.

Operating Performance: ‘bbb’ factor assessment
Illinois’ operating performance, both during the great recession and in this subsequent period of economic growth, has been very weak. The failure to address a long-standing structural budget gap with permanent and comprehensive solutions, whether revenue or expenditure, has left the state with an gaping hole in its operating budget and increasing budgetary liabilities.

RATING SENSITIVITIES
BUDGET SOLUTIONS: Failure to enact a balanced budget for fiscal 2018 would result in a further downgrade. Successful implementation of measures to enact a structurally balanced budget and reduce accumulated budget liabilities would stabilize the credit.

LIQUIDITY: The rating is sensitive to a material reduction in the state’s ability to manage within available revenues through discretionary payment deferrals. Furthermore, failure of the state to make its statutorily required debt service transfers as scheduled, 12 months in advance on a rolling basis, would result in an immediate downgrade of the rating to below investment grade because it would suggest that the state’s liquidity pressures are presenting a risk to bondholder interests that has not been evidenced to date.

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 U.S. in general, away from manufacturing to professional business services. The remaining manufacturing sector does include more resilient non-durables, and 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 to declining.

Revenue Framework
Illinois has a reasonably diversified revenue base. It relies most heavily on personal income taxes (close to half of general fund revenues) and sales tax. The balance consists of corporate income tax, lottery and gaming revenues, and a variety of other smaller taxes and transfers. The state has a flat personal income tax rate of 3.75%, which was temporarily increased to 5% between 2011 and 2015 from the prior flat rate of 3% to close post-recession budget gaps and reduce accumulated liabilities.

Historical revenue growth, adjusted for the estimated impact of policy changes, has been slightly above inflation but has somewhat lagged national economic growth. With Illinois’ economic performance also lagging national growth, Fitch expects a continuation of this trend of flat-t--modest real revenue growth.

Illinois has no legal limitations on its ability to raise revenues through base broadenings, rate increases, or the assessment of new taxes or fees.

Expenditure Framework

As with most states, Illinois' spending is largely for social services and education, although its carrying costs for debt service and pension payments are comparatively high.

Spending growth, absent policy actions, is likely to be higher than revenue growth, driven mainly by increasing pension costs. Illinois has chronically underfunded its pension system based on a statutory formula that permitted a slow incremental build-up to higher pension funding and targeting only 90% of full actuarial funding. Pension costs are unusually large and continuing to grow, crowding out other spending. As with most states, other spending drivers include Medicaid and education.

The fiscal challenge of Medicaid is common to all U.S. states. Federal action to revise Medicaid's programmatic and financial structure appears likely, although the magnitude and timing of changes for state budgets remain unknown. Both the new presidential administration and congressional leadership support significant Medicaid policy shifts. As one of the largest parts of state budgets and by far the biggest source of federal funding to the states, federal decisions could have significant implications for states' ability to manage this key budget item.

Despite carrying costs that are among the highest of the states, Fitch believes that Illinois retains adequate expenditure flexibility that could be used in the budget process. Illinois funds a broad range of services for its citizens and did not significantly reduce spending during the recession. This leaves the state with ongoing capacity to make spending reductions. However, Illinois has no ability to unilaterally modify retiree benefits following the May 2015 Illinois Supreme Court decision that found 2013 pension reforms unconstitutional.

During the current budget impasse, almost 90% of spending continued to be funded in fiscal 2016 at the 2015 rate, based on continuing appropriations, consent decrees, and court orders, as well as the enacted education budget. A similar partial general funds budget was enacted for fiscal 2017, including full-year appropriations for K-12 education and other state and federal funds; however, the partial budget expired Jan. 1, 2017 and the state is again operating without a full budget in place. There is little flexibility to control spending outside of the budget process in part because the governor cannot unilaterally make many changes without legislative participation.

Long-Term Liability Burden

Illinois' long-term liabilities, particularly pension liabilities, are very high for a U.S. state. Illinois is the weakest of the states in terms of its ratio of debt and unfunded pension liabilities to personal income, at 23% as of 2016, well above the 5.1% median for states. The state's three largest pension systems, covering teachers, universities, and state employees, have low funded ratios driven by a history of weak contribution practices.

In addition to its long-term liabilities, the state has a sizeable accounts payable balance that has accumulated through multiple years of operating at a deficit. As of the end of fiscal 2016, the accounts payable balance totaled $7.6 billion and it has increased since with the ongoing budget impasse. If the senate proposal to issue bonds to reduce or eliminate this budgetary liability proceeds, Illinois' debt levels would be further elevated but would remain within the moderate range.

Short-term borrowing is allowed, subject to a limitation of 5% of appropriations for revenue anticipation purposes, which must be repaid by the close of the fiscal year, and 15% to meet revenue failure, which must be repaid within one year. The state has no short-term borrowing currently outstanding or planned, although notes were issued during the downturn.

Operating Performance
Illinois is poorly positioned to address a future economic downturn. While it has substantial theoretical capacity to weather a downturn, in terms of both revenue-raising potential and spending flexibility, it has not demonstrated the political capacity to achieve a long-term solution to its chronic budget deficits. During the great recession, the state largely maintained spending but delayed payments to address lower revenues. It accrued, as a result, an accounts payable balance that at its peak, reached 20% of the operating budget. In the absence of a change in management's approach to state finances, it is Fitch's expectation that future deficits would also be addressed by deferring state payments and increasing accumulated liabilities, although this approach is made more challenging by the state's already significant and growing deferrals during this period of economic growth.

Illinois' budget management during the current period of expansion has been especially weak. Temporary increases in personal and corporate income tax rates in place for four years, from Jan. 1, 2011 through Dec. 31, 2014, closed or partially closed the budget gap across five fiscal years. However, with their expiration, and the failure to enact a spending plan within expected revenues, the budget gap has ballooned. As a result, the state finds itself with a current operating deficit, structural budget deficit, cash crunch, and accumulation of accounts payable that will surpass its highest level at the depth of the recession.

The governor and state legislature could not come to agreement on a realistic spending and revenue plan for either the fiscal year that ended June 30, 2016 or the current fiscal year. With spending that far exceeded available revenues in fiscal 2016, the state's accounts payable balance grew to an estimated $7.9 billion at year-end, a significant portion of which was for the state employee health insurance plan. Similarly unable to enact a full-year balanced budget for fiscal 2017, the governor proposed, and the legislature enacted, a partial budget to fund operations while continuing negotiations over the budget and the governor's proposed reform agenda, which addresses issues separate from the budget. The partial budget has now expired, and if spending continues in the current year without approval of new revenues or the enacting of severe budget reductions, which seem unlikely, the state is on course to once again run a sizeable deficit that would flow through to the accounts payable bottom line.

The state Senate has put forth a series of bills that have the potential to lead to a compromise that will resolve the impasse. The Senate bills include raising the state income tax and other revenue measures, debt issuance to reduce accumulated budgetary liabilities, pension reforms, aid to Chicago public schools, and non-budgetary reforms sought by the governor, including a freeze on property taxes, workers compensation reform, and some form of term limits. These proposals, if they proceed through the full legislature and are signed by the governor, have the potential to meet the requirements to stabilize the Illinois IDR and related ratings. However, their passage is uncertain as is the timing of the implementation of any solutions.

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In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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Connecticut Governor Seeks to Shift Teacher Pension Costs to Towns, Cities.

Gov. Dannel Malloy's proposal comes as state faces budget shortfall; measure could force local governments to raise property taxes

Connecticut Gov. Dannel Malloy said Friday he wants to shift more than $400 million in annual teacher pension costs from Hartford down to cities and towns, as the state wrestles with ways to balance its budget.

If adopted, the measure could force local governments to find new ways such as property-tax hikes to offset the new costs.

Mr. Malloy's proposal comes as the state faces a budget deficit of about $1.7 billion for the fiscal year that begins in July. The governor, a Democrat, plans to submit his budget plan to close that shortfall on Wednesday.

"I'm going to ask for a lot of additional sacrifices," Mr. Malloy said at a news conference Friday.

The state currently pays about $1.2 billion annually toward the pension system for teachers across the state. Towns and cities don't pay into the system. Mr. Malloy's proposal, which would have to be approved by the Legislature, wouldn't reduce pension benefits for teachers, who pay 6% of their of their salary into the pension fund.

Fairfield First Selectman Michael Tetreau said his town would have to pay $27.5 million toward teacher pensions under governor's plan. Mr. Tetreau, Fairfield's top municipal officer, said the town would have to raise property taxes by 10% to cover that.

"I'm in totally disbelief that anyone would even propose that," Mr. Tetreau said. "It merely transfers the tax burden from the state to the town, but it's still the same taxpayers that are paying for it."

Joe DeLong, executive director of the Connecticut Conference of Municipalities, called Mr. Malloy's proposal a "colossal cost transfer." He said local governments would urgently need to tap new revenue streams in order to make these pension payments. His group has called for the creation of a 1% local sales tax for all of Connecticut's cities and towns to bring in new cash.

"It's a full-frontal assault on local taxpayers," said Peter Tesei, the first selectman of the town of Greenwich. It will "further drive local taxpayers to move elsewhere," he said.

Mr. Malloy said the state currently pays into the retirement system based on factors it can't control, such as how many teachers a town can afford to hire and how much they pay them. It is not based on student enrollment or need, Mr. Malloy said.

Under the current system, that means towns that can afford to hire the most teachers and pay them the highest salaries get the most pension funding, he said. “The current system results in vast disparities,” Mr. Malloy said.

By comparison, the state is scheduled to pay $24 million for the pensions of teachers in Greenwich, a wealthy town. For New Britain, one of the state’s low-income districts, that figure is $18 million.

Officials in Bridgeport, another low-income district, estimate the change could cost the city between $12 million and $13 million. Av Harris, director of legislative affairs and public policy for Bridgeport, said those additional costs would be significant. But he noted that Mr. Malloy has called for additional municipal aid and public-school funding for cities like Bridgeport.

THE WALL STREET JOURNAL

By JOSEPH DE AVILA

Feb. 3, 2017 5:29 p.m. ET

Write to Joseph De Avila at joseph.deavila@wsj.com

Connecticut Governor Calls for Expanded Municipal Oversight System.

NEW YORK — Connecticut Governor Dannel Malloy called on Thursday for an expansion of the state’s system for municipal intervention to help avert a crisis in cities struggling with fiscal problems.

The Municipal Accountability Review Board that Malloy plans to introduce in his Feb. 8 budget speech would create four tiers of oversight with increasing levels of review and intervention, based on municipalities’ fiscal condition and the amount of state aid they get, the governor said in a statement.

Factors that go into the determination would include bond rating, fund balances and state aid as a percentage of budget, the statement said.

“With this system, the state will be poised to intercede early to put struggling local governments on a path to sustainable fiscal health before they are on the brink of a fiscal crisis,” he said.

It would build on the state’s existing Municipal Finance Advisory Commission. As part of the state’s two-year budget proposal, the plan would have to be passed by the time lawmakers end their session on June 7, though they could be called into a special session.

Such a program could not come soon enough for the capital city itself, Hartford, rated in junk territory at Ba2 with a negative outlook by Moody’s Investors Service.

Hartford could need “extraordinary assistance” to avoid insolvency, according to a January report from the Yankee Institute for Public Policy.

The state’s other three big cities – Bridgeport, New Haven and Waterbury – have also had to cut services and dip into reserves amid pension pressures and other fiscal challenges, the report found.

Many U.S. states have such programs, but the degree and scope of intervention can vary widely.

By REUTERS

FEB. 2, 2017, 4:18 P.M. E.S.T.

(Reporting by Hilary Russ; Editing by Tom Brown)

Michigan Municipal League Proposes Cost-Control, Investment Legislation.

With the goal of fixing what they see as Michigan's broken municipal finance system, the Michigan Municipal League announced this week that they would now be offering proposals aimed at changing the situation.

The league, a coalition dedicated to educating officials, assisting administration and innovating in Michigan communities, is pushing the value of placemaking–a concept promoted by Gov. Rick Snyder during his State of State address–and trying to tear down impediments to it. Placemaking is the concept of revitalizing and modernizing downtown and neighborhood areas.

"Michigan's current system for funding municipalities is clearly broken," Dan Gilmartin, executive director and CEO of the Michigan Municipal League, said. "From 2002-2012, we were the only state in the nation where municipal revenue actually fell, and there has been little improvement since then. That means cities have laid off first responders and been unable to maintain roads and infrastructure, let alone provide the services that attract college graduates, the lifeblood of today's middle class."

Part of the problem facing municipalities, according to the league, are that its finance system fails to track the economy, which has actually seen revenue sharing cut by $7.5 billion since 2002 while state policy limits local governments' ability to control many of their own costs.

"Gov. Snyder has called for our state to grow its population back to the 10 million mark, and we agree that 'true' growth is the answer," Gilmartin said. "We must recognize that won't happen if our cities continue to be burdened by archaic state policies."

The league has advocated for state-authorized efforts to help cities contain costs so they can continue providing benefits to retirees, enhancements to existing infrastructure and a recommitment to revenue sharing.

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Puerto Rico Creditors Open Checkbooks in Debt Negotiations.

Hedge funds holding Cofina bonds have offered emergency financing to struggling U.S. territory

Some of Puerto Rico's creditors are offering financing to the indebted U.S. territory as they jockey for top status in the renegotiation of its debts, according to people familiar with the matter.

The federal board installed to supervise Puerto Rico's debt restructuring met last week with major creditor groups, some of which are sizing up whether the island's government needs an immediate infusion of liquidity, and if so, how much, these people said.

Hedge funds holding senior bonds backed by sales-tax revenues, called Cofinas, have offered roughly $800 million in emergency financing to alleviate a potential cash crunch, these people said. As recently as last week, Franklin Advisers and OppenheimerFunds Inc., the territory's two largest mutual-fund creditors, separately offered to extend financing to Puerto Rico, a person familiar with the matter said.

A spokesman for the oversight board on Monday declined to comment on specific financing proposals.

With $70 billion in bond debt, crippling out-migration and high unemployment, Puerto Rico is in the midst of a financial crisis that has led it to seek concessions from creditors. Last week, departing Treasury Secretary Jacob Lew warned that Puerto Rico may be unable to renew contracts with health care providers without financial relief before April.

Congress passed a rescue law for Puerto Rico last summer to install the board and establish two debt-restructuring mechanisms, one of which allows for consensual settlements with creditors. If negotiations fail, Puerto Rico can petition a court to initiate a quasi-bankruptcy process known as Title III and potentially force creditors to accept unfavorable repayment terms.

The Puerto Rico Oversight, Management and Economic Stability Act, or Promesa, also temporarily freezes litigation against the government. In a letter sent last week to new Gov. Ricardo Rossello, the oversight board said it was "favorably inclined" to extend the litigation stay from Feb. 15 to May 1 to give him time to develop a fiscal plan. The board also warned him not to accept any "short-term liquidity loans or near-term financings that could restrict fiscal options."

Elias Sánchez, Mr. Rossello's representative on the board, responded in a letter Sunday that the governor would "face the upcoming operational and budgetary challenges through structural reforms and spending cuts during the stay period." While an extension of the stay until May 1 is widely expected, creditors' hopes are dimming that Puerto Rico can strike restructuring deals or line up financing before it runs out of cash and needs to seek protection under Title III, according to people familiar with the matter.

Lending to Puerto Rico may be tricky because the financing likely would require collateral that other creditors would say is theirs, said Gary Greendale, managing director of bond insurer Ambac Assurance Corp., which has guaranteed nearly $9 billion in Puerto Rico bonds. Moreover, as their price for providing financing, creditors are pushing to lock in debt-restructuring terms, something Puerto Rico may not be willing to provide this early in the restructuring process, according to people familiar with the matter.

"The currency of liquidity comes with some component of working out a deal," Mr. Greendale said. "Nobody wants to make an investment for investment's sake."

The group of senior Cofina creditors, led by Tilden Park Capital Management LP, Merced Capital LP, Whitebox Advisors LLC and Goldentree Asset Management LP, are proposing to let Puerto Rico access roughly $400 million in sales-tax revenue that has already been collected, according a person familiar with the matter. The creditors would then purchase another roughly $400 million in long-term sales tax bonds at market rates on the condition that Puerto Rico not seek additional concessions from holders of Cofina bonds.

The proposal also requires participation from subordinated sales-tax creditors, the people said. But floating new Cofina bonds may be difficult outside of Title III because a rival group of creditors holding general obligation debt has sued to invalidate the Cofina bonds and claim those sales taxes as their own, the people said. Puerto Rico owes roughly $17 billion in sales-tax bonds and another $13 billion in general-obligation bonds.

“Without commenting on prospective developments or undermining the process, we’re continuing to pursue constructive, creative solutions that align creditor interests with those of our fellow citizens in Puerto Rico,” said Susheel Kirpalani, a Quinn Emanuel Urquhart & Sullivan attorney advising the senior Cofina creditor group.

Creditors offered to provide financing during the prior gubernatorial administration, but none succeeded. The hedge funds who have challenged the Cofina structure offered last year to buy up to $750 million in new bonds as part of a restructuring offer. Those talks failed. In July, Puerto Rico didn’t pay $780 million in general obligation debt service, the largest-ever U.S. municipal default.

THE WALL STREET JOURNAL

By ANDREW SCURRIA

Updated Jan. 23, 2017 6:54 p.m. ET

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Welcome to the Virgin Islands, One of the Most Indebted Places in the U.S.

The U.S. territory is running out of options as it faces rising debt and pension obligations, a declining population and tepid response to proposed new bond offerings

A U.S. territory famed for its white-sand beaches and azure waters is in a precarious financial position. This time, it isn’t just Puerto Rico.

The U.S. Virgin Islands shares many of the same fiscal problems as its Caribbean neighbor 80 miles to the west: high levels of debt, mounting pension obligations and a declining population.

Local legislators on Tuesday are expected to consider a new round of taxes as a way to shore up the Virgin Islands’ $110 million budget deficit. That follows an unsuccessful attempt this month to sell about $220 million in bonds, the second time in two months the territory has called off a planned bond sale.

Virgin Islands Gov. Kenneth Mapp said the territory, with a population of some 105,000 people, has no problems making payments on its $2.2 billion in debt obligations. But he predicted widespread service cuts and layoffs if new bonds can’t be sold.

Moody’s Investors Service on Tuesday downgraded certain Virgin Islands bonds by three notches further into junk and cited “an increased possibility that the government may be forced to restructure its debt to address its financial problems.”

“I think this is a critical juncture,” said Nikolao Pula, director of the Office of Insular Affairs, which coordinates federal policy for several U.S. territories as part of the Interior Department. “We just hope whatever decision they make will be good moving forward.”

Any failure by the Virgin Islands to pay back money owed to investors could intensify competition for limited government dollars inside the territory.

Virgin Islands bonds have traditionally appealed to mainland bondholders and U.S. mutual funds because they are exempt from state taxes. U.S. mutual funds hold nearly $1 billion in Virgin Islands bonds, according to research firm Morningstar Inc.

The mutual fund with the highest percentage of its portfolio invested in Virgin Islands debt is made up largely of Wisconsin investors. Wells Fargo Asset Management, which oversees the Wells Fargo Wisconsin Tax Free C fund, said it is protecting itself from the Virgin Islands' financial situation by holding debt that is either insured or coming due within the next 18 months. More than 8% of its holdings is debt issued by the U.S. territory.

At Western Asset Management, based in Pasadena, Calif., which also holds Virgin Islands bonds, senior analyst Fred Poon said he expects the Virgin Islands legislature will eventually enact a "sin tax" on cigarettes and alcohol, as well as other revenue-raising measures.

"Who wants to argue against taxes on sin?" Mr. Poon said.

Including the islands of St. Thomas, St. John and St. Croix, the Virgin Islands has long struggled with budget deficits, but its problems accelerated after the 2008 economic downturn.

First, the economy, long dependent on tourism, took a hit. Annual expenditures by visitors fell 19% in the period from 2007 to 2013, a drop of $280 million. The territory's population shrank by almost 9% over that period.

Another blow came in 2012 when one of the territory's biggest employers shut down. The Hovensa oil refinery on the island of St. Croix employed 1,200 workers and 960 contractors, according to a report by Fitch Ratings at the time. The closing was expected to deprive the government of an estimated $100 million in annual revenue, according to a 2012 report from the then-governor.

With less revenue, the territory has relied increasingly on bond proceeds to pay operating costs while contributing less to pension plans. That borrowing has increased its debt to a level similar to that of Puerto Rico, on a per capita basis.

The lower pension contributions widened the funding gap for a retirement system that covers 9,303 current workers and 8,465 retirees and past workers, according to the fund's 2015 financial reports.

That pension plan has only 27% of what it needs to pay future benefits, according to 2015 financial statements; a 2015 analysis by Segal Consulting predicted the fund would run out of money by 2024.

The governor said he plans to unveil proposed pension fixes this year and hold hearings on the topic. "We need to come up with a strategy," Mr. Mapp said.

Another strain is that U.S. territories, including the Virgin Islands, typically receive less federal money than U.S. states, according to Rep. Stacey Plaskett, the nonvoting U.S. congresswoman representing the Virgin Islands. For example, the federal government caps the amount of Medicaid payments the territories receive. "Our disparity of treatment is I believe what has caused these financial issues to occur," Rep. Plaskett said.

Some analysts expect the territory to eventually turn to Washington, D.C., for help, as Puerto Rico did in 2016. Congress last year passed legislation that provides Puerto Rico with a stay against creditor litigation in exchange for oversight from a seven-member board that controls the territory's finances and approves any court-supervised debt restructuring.

A similar solution for the Virgin Islands "is totally possible within the next five years," said Matt Fabian, a partner with research firm Municipal Market Analytics.

But a cash crunch could come much sooner. Ken Kurtz of Moody's predicts the territory will need to sell bonds within the next few months to keep from running out of operating cash.

Interest in Virgin Islands bonds has been scarce ever since Congress authorized debt-relief legislation for Puerto Rico last June. Bondholders showed lukewarm interest in a Jan. 11 offering, even after the governor requested that federal funds backing the bonds be wired directly to an escrow agent, to alleviate concerns that the Virgin Islands would divert the money if the financial situation worsens.

The Virgin Islands Public Finance Authority received orders for slightly more than 60% of the bonds after offering an interest rate "in the 6% range," according to Mr. Mapp. The authority opted to cancel the deal rather than reduce its size, he said. A spokesman for the authority said it is no longer trying to sell bonds and will assess whether to re-enter the market "when appropriate credit and acceptable interest rates are present."

About $55 million of the $219 million offering would have been used to close a gap in this year's $1.35 billion budget, the governor said. If the Virgin Islands can't close that gap, "this is not sustainable," Mr. Mapp said. "We can't continue doing this."

THE WALL STREET JOURNAL

By HEATHER GILLERS

Updated Jan. 26, 2017 3:22 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

Puerto Rico Governor Weighs Asking Creditors for More Concessions.

Some investors fear shift by governor reflects higher chance of bankruptcy

Many bond investors have viewed Puerto Rico's new governor, Ricardo Rosselló, as a likely ally in their fight to get repaid. Now that hope is starting to dwindle.

Gov. Rosselló wrested control Friday of negotiations over the only bond restructuring agreement Puerto Rico has reached thus far, a $9 billion deal struck in 2015 covering a public electricity utility known as Prepa, and is preparing to change terms of the deal, people familiar with the matter said.

Prepa's board was on the verge of completing the settlement when representatives of the governor informed board members and their advisers on a phone call Friday morning that they were relieved of their negotiating duties and that the island's Fiscal Agency and Financial Advisory Authority, known as AAFAF, would take over, the people said. The governor made the move to consolidate the negotiation process under an entity that is fully empowered to approve a deal, a person involved in the process said.

The utility's bonds were unchanged Friday, but the decision rattled bondholders who had hoped the governor would quickly approve the Prepa agreement. That pact had been lauded as a road map for consensual restructurings of the island's other bonds. Campaign promises by Gov. Rosselló to mend fences with bondholders raised hopes among investors that they could avoid lengthy court fights to determine how much Puerto Rico will repay its various creditors.

But Gov. Roselló is evaluating potential changes to the settlement, a person familiar with the matter said. Getting more concessions from creditors could allow Prepa to moderate rate increases on customers, potentially offsetting politically unpopular fiscal tightening in other areas.

The governor also struck a populist tone in a recent public spat with the federal oversight board managing Puerto Rico's financial rehabilitation. Investors increasingly fear there will be a bankruptcy, which could mean deep losses for many holders of the commonwealth's approximately $70 billion of debt.

"We're legitimately concerned that the Commonwealth's administration and the oversight board may choose to let it fall apart on the 1-yard line," said Stephen Spencer, a banker advising bondholders of the Puerto Rico Electric Power Authority.

The governor hasn't decided whether to renegotiate the Prepa agreement and is waiting for more clarity on the fiscal plan for the island before making a decision, said Elias Sanchez, the governor's representative to the oversight board. The governor is committed to reaching consensual deals with creditors, he said.

Puerto Rico has time to reach a negotiated settlement. The U.S. Congress passed a debt-relief law in June granting the island a standstill on creditor litigation until Feb. 15, and the federal oversight board says it supports extending the stay until at least May 1.

Gov. Rosselló is trying to balance the demands of bondholders and his electorate while placating the oversight board, which is pushing for creditors and Puerto Rico's budget to share significant reductions, a bid to stabilize the economy.

"He seemed more creditor friendly in the campaign, but now that he's the chief officer of the island, he faces harsh realities and different pressures," says Joe Rosenblum, director of municipal research at investment firm AllianceBernstein, who has been bearish on Puerto Rico bonds for several years.

Complicating matters, Puerto Rico's bondholders are divided among themselves.

Gov. Roselló also is pushing for financial relief from the U.S. Congress with measures such as higher health-care funding that could mitigate the need for cost cuts.

The debt-relief law passed by Congress last year allows the commonwealth to restructure all its debts through consensual negotiations, while allowing for a switch to a bankruptcy-like process known as Title III that can bind all creditors should talks fail. Nevertheless, it remains unclear whether the new administration can reach a settlement with bondholders that voters and the oversight board would also accept.

"The numbers are so huge, it's hard to see how they're going to be able to negotiate a deal," Mr. Rosenblum said.

Tensions erupted into public view this month when the oversight board published a letter prodding Gov. Rosselló to make $4.5 billion in fiscal measures by 2019. It also projected a 79% shortfall in the island's funds for debt repayment. The governor responded with a letter calling the board's focus on budget cuts "unacceptable."

Friction also is growing between the new administration and Prepa and its bondholders, including mutual-fund companies OppenheimerFunds Inc. and Franklin Templeton Investments and hedge funds BlueMountain Capital Management LLC, Knighthead Capital Management LLC and Marathon Asset Management.

Bondholders had been working with Lisa Donahue, the utility's chief restructuring officer, to complete terms and have been asking the Rosselló team since December to confirm his support for the agreement but have received no response, people familiar with the matter said.

"We believe this is the best deal for Prepa and the island," said Ms. Donahue, before her removal form negotiations. "We will continue providing the governor and his advisers information to that effect."

To be sure, the new administration could still renegotiate Prepa's debts outside of bankruptcy court and may propose only modest changes to avoid alienating bondholders, especially Franklin and Oppenheimer, which own billions of dollars of the island's other municipal bonds.

But it may be far harder to reach out-of-court deals with large holders of Puerto Rico's $13 billion of general obligation bonds, such as Aurelius Capital Management LP, Autonomy Capital LP and Monarch Alternative Capital LP, as well as owners of $17 billion bonds backed by sales taxes, including bond insurers Ambac Financial Group Inc. and hedge funds like Whitebox Advisors LLC. The factions are already litigating over who should be repaid more.

THE WALL STREET JOURNAL

By MATT WIRZ and ANDREW SCURRIA

Updated Jan. 27, 2017 6:14 p.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com and Andrew Scurria at Andrew.Scurria@wsj.com

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Judge Confirms San Bernardino, California's Plan to Exit Bankruptcy.

SAN FRANCISCO — San Bernardino, California, won final court approval on Friday for its financial restructuring plan, clearing the way for the city to wrap up the bankruptcy case it launched more than four years ago when its leaders learned it was facing insolvency.

"I look forward to the city having a prosperous future," U.S. Bankruptcy Judge Meredith Jury said at the conclusion of a hearing in Riverside, California.

Jury said she would sign a confirmation order soon and issue a written opinion on her decision.

City Attorney Gary Saenz told Reuters he expects the city's plan to take effect in late March or early April.

"We're well on our way," Saenz said.

Jury's decision capped San Bernardino's efforts, including lengthy negotiations with its employees, retired employees and creditors, to repair its finances, Mayor Carey Davis said.

"It allows us to be free of the stigma of being in bankruptcy," Davis said.

In December, Jury had said she would approve San Bernardino's plan, the product of a bankruptcy that cost the Southern California city at least $25 million to press and litigate.

San Bernardino filed for Chapter 9 municipal bankruptcy in 2012, marking the third filing of its kind that year by a California city.

San Bernardino's filing came on the heels a report by city staff that said the city faced an imminent financial crisis because it had exhausted its reserves and projected spending for the looming new fiscal year would exceed revenue by $45 million.

The city's plan for mending its finances involves cutting costs by folding its fire department into San Bernardino County's fire services district.

Retiree healthcare costs will also get slashed while city employees' pensions will be protected, and San Bernardino will pay holders of its pension obligation bonds 40 percent of what they are owed to erase $45 million of the debt over time.

San Bernardino expects its restructuring to cut $350 million in spending over 30 years, according to a city spokeswoman.

The city's plan promises to restore financial stability, said Michael Sweet, a partner at the Fox Rothschild law firm in San Francisco who handles municipal restructurings.

"I like the fact that they just didn't budget their way through this, but made significant structural changes, which appears to have put them a much better footing," Sweet said.

"We'll have to see if it holds," Sweet added.

The case is In re City of San Bernardino, in U.S. Bankruptcy Court, Central District of California, No. 12-28006.

By REUTERS

JAN. 27, 2017, 5:54 P.M. E.S.T.

(Reporting by Jim Christie; Editing by Chris Reese and Tom Brown)

Chicago's Poor Credit Rating Boosts Taxpayer Tab for Borrowing by Tens of Millions.

Chicago taxpayers are on the hook for tens of millions of dollars in additional borrowing costs over the next two decades, after interest rates on nearly $1.2 billion in city bonds Thursday came in several percentage points higher than comparable issues in cities with solid credit ratings.

The interest rates on the bulk of the bonds — $887.5 million in tax-exempt borrowing — ranged from 5.8 percent to 6.2 percent, municipal bond analysts said. That's more than 3 percentage points higher than rates typically paid by cities with benchmark AAA ratings, they said.

Interest rates came in even higher on about $275 million in taxable bonds also priced Thursday. Experts said those rates were more than 4 percentage points above those on Treasury notes, which is the benchmark used because cities rarely use that type of borrowing.

The so-called spread between what the city will pay to borrow and ideal market rates was greater than many analysts expected, said Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics. Part of the reason is that interest rates on municipal bonds have risen in the past six months, but investors also are worried about a number of financial uncertainties in the city's future, he said.

"I think that in general the market sees the city as on the right track, but there still is a lot of work to do," Fabian said. "The city still has problems."

In recent years, Emanuel and the City Council have approved a series of substantial tax increases, including a record-high property tax hike, to increase contributions to the long-neglected city worker pension systems. Nevertheless, in the early to mid-2020s the city will have to come up with hundreds of millions of more dollars a year to meet the mayor's goal of making sure those systems are 90 percent funded in 40 years.

Investors also are concerned about even more troubled finances at Chicago Public Schools and how that affects City Hall, as well as the state's partisan budget stalemate. Meanwhile, in its latest round of borrowing that was priced Thursday, the city is taking out hundreds of millions of dollars in new debt to pay off old debt, borrowing money to pay legal settlements and judgments, and taking out loans to pay initial interest costs — all of which push city debt out into the future at a higher cost.

As a result, "the market is still skeptical about Chicago bonds," said Richard Ciccarone, president and CEO of Merritt Research Services. Although the city in recent years has taken steps to address its financial woes, "they're not finished," Ciccarone said.

The spreads on the interest rates were about a percentage point higher than they were a year ago, when the city issued $500 million in bonds. That was before a pair of Wall Street ratings agencies further downgraded Chicago city creditworthiness. The lower ratings typically result in higher borrowing costs.

In response to the pricing Thursday, Emanuel administration officials reiterated the mayor's pledge that the city will not again issue bonds to pay off old bonds or cover routine legal settlements and judgments. "The city continues to address our financial challenges and work to end bad financial practices of the past," city Chief Financial Officer Carole Brown said in a statement.

The bond deals priced Thursday are expected to close Feb. 1. After that, the city doesn't plan to issue further bonds until 2019, officials said.

January 19, 2017

by Hal Dardick

Chicago Tribune

hdardick@chicagotribune.com

New York's Cuomo Proposes Doubling Bond Sales in Borrowing Blitz.

- Governor proposes $153 billion budget for 2018 fiscal year
- Budget calls for $7.1 billion of bond sales, jump of 131%

New York Governor Andrew Cuomo proposed selling $7.1 billion of bonds in the fiscal year beginning April 1, more than twice as much as the current fiscal year, as the Democrat boosts spending on infrastructure.

The $153 billion budget includes $14.5 billion in capital spending for projects including the transformation of a landmark Manhattan post office into a railway station, improvements to highways to John F. Kennedy International Airport and grants to facilitate hospital mergers.

The New York governor is joining other state and local governments that have been issuing debt at a record pace while interest rates in the municipal market remain not far from the record lows hit last year.

Cuomo has jump-started projects, including a new $4 billion span to replace the Tappan Zee bridge, and provided record funding for roads, bridges and the New York City region's Metropolitan Transportation Authority. His job has been made easier because of $9.4 billion in monetary settlements from banks and insurance companies for offenses including executing transactions on behalf of countries like Iran and Sudan that are subject to U.S. sanctions.
Despite the increase in next year's budget, capital spending is projected to decline to $11.4 billion in fiscal 2022, according to the state's capital program and financing plan, while state-related debt outstanding is projected to rise to $61.8 billion in fiscal 2022.

State debt had been on the decline, falling from $56.4 billion in fiscal 2012 to $50.8 billion in the current year.

New York's outstanding debt at the end of the current year is on track to be lower than when the governor took office in 2011, marking the first time in "modern history" that it has declined for five consecutive years, said Morris Peters, a spokesman for the state Division of Budget.

State debt measured as a percent of personal income has decreased from 5.9 percent in fiscal 2011 to 4.2 percent in 2017. That's "the most favorable debt to income ratio since the 1960s and is expected to remain relatively constant over the plan period, even as the state makes targeted capital investments for housing, health care, transportation, and economic development," Peters said.

Cuomo's budget proposes extending the 8.82 percent personal income-tax bracket for three years. The bracket is scheduled to sunset on Dec. 31, 2017, reducing the top rate to 6.85 percent.

The budget estimates total tax revenue will grow 5.6 percent to $79.5 billion.

Bloomberg Markets

by Martin Z Braun

January 18, 2017, 7:26 AM PST

Court Orders N.J. Towns to Allow Affordable Housing.

New Jersey towns and cities must accommodate unmet affordable-housing needs, the state Supreme Court said Wednesday in a unanimous decision that could greatly expand housing options for the state's low- and moderate-income residents.

In a 6-0 decision written by Justice Jaynee LaVecchia, the Supreme Court ruled that towns and cities are constitutionally required to allow enough affordable housing to be built to satisfy needs that arose during a 16-year period when a state agency charged with enforcing housing laws failed to do its job.

“Municipal responsibility for a fair share of the affordable housing need of low- and moderate-income households formed during that period was not suspended,” Justice LaVecchia wrote.

New Jersey’s Council on Affordable Housing was created in 1985 to monitor and enforce constitutionally mandated affordable-housing requirements, but the agency has been plagued by bureaucratic and legal problems since 1999. In 2015 the state Supreme Court stripped it of its powers after determining that it had failed to enforce state housing laws.

The case was brought by the southern shore town of Barnegat, which had argued that it was unfair to hold towns and cities responsible for affordable-housing requirements that accrued between 1999 and 2015 when the state failed to enforce them. Barnegat was joined by nearly 300 other municipalities.

Wednesday’s Supreme Court decision didn’t address the scope of the affordable-housing obligations towns and cities will now be required to meet.

Kevin Walsh, executive director for the affordable housing advocacy group Fair Share Housing Center, said his analysis shows that about 200,000 affordable housing units are needed to fulfill obligations spanning from 1999 to 2025, but the exact number likely will be worked out through litigation.

“The municipalities don’t have to build the homes, the municipalities don’t have to fund the homes,” Mr. Walsh said. “All the municipalities have to do is remove the local red tape that prevents starter homes and apartments from being built.”

In some cases, Fair Share Housing Center and local officials already have reached agreements on the number of affordable housing units.

The Somerset County town of Bridgewater, which had about 17,000 housing units as of 2010, has agreed to allow the building of 1,414 affordable units. Affordable-housing eligibility in Bridgewater, where the annual median household income is about $115,000, ranges from $22,050 in annual income for a single person to $97,440 for a family of six, according to the town’s website.

Jeffrey Surenian, who represented Barnegat in the case, didn’t immediately return a call for comment. In previous interviews with The Wall Street Journal, Mr. Surenian said that towns and cities shouldn’t be held responsible for state government dysfunction, and said that requiring them to meet the retroactive obligations would infringe on local zoning powers.

State Sen. Steve Oroho and Assemblyman Parker Space, both Republicans, said the Supreme Court’s ruling will force towns to conduct expensive housing studies, spur further litigation and increase property taxes.

“This court-ordered overdevelopment will change the landscape of many communities,” Messrs. Oroho and Space said in a joint statement. “It will decimate open space while forcing taxpayers to pay for additional services to handle the increase in population.”

Len Albright, an assistant professor at Northeastern University and co-author of Climbing Mount Laurel, a 2013 book about New Jersey’s affordable housing laws, countered by saying his research found affordable housing didn't increase crime rates or drive increases in property taxes. Low-income residents experienced rising incomes and were able to depend less on government assistance once they found stable housing, he said.

"Families that were able to move into subsidized housing in the suburbs became more economically self-sufficient," Mr. Albright said. "We also found people's health was better and their education levels went up."

THE WALL STREET JOURNAL

By KATE KING

Jan. 18, 2017 5:57 p.m. ET

Write to Kate King at Kate.King@wsj.com

Puerto Rico Needs Urgent Congress Action: U.S. Treasury, Health Chiefs.

(Reuters) – The secretaries of the U.S. Treasury and Health and Human Services called for fast congressional action to help Puerto Rico out of its economic mess, and said a bipartisan task force report failed to go far enough on recommending a low-income tax credit for the commonwealth.

In a letter to U.S. House Speaker Paul Ryan on Tuesday, Treasury Secretary Jacob Lew and Health and Human Services Secretary Sylvia Burwell reaffirmed calls to step up healthcare funding for Puerto Rico.

"We write to underscore the need for additional legislation early in this (congressional) session to address the economic and fiscal crisis in Puerto Rico," the letter said.

They noted that 900,000 Puerto Ricans could risk losing healthcare unless Congress took action by April.

The U.S. territory is hampered by $70 billion in debt, unemployment more than twice the U.S. average, a 45 percent poverty rate and a decreasing population as locals flock to the U.S. mainland.

A congressional task force of U.S. senators and congressmen in December recommended several fixes for Puerto Rico, including boosting healthcare funding and exploring giving the island access to the federal Earned Income Tax Credit.

The benefit for low- to moderate-income workers has been used to combat poverty, and the Obama Administration has proposed expanding it to Puerto Rico. If the credit exceeds a worker's income tax liability, the government will refund the balance.

The report did not go far enough with the tax credit, Lew and Burwell said, calling the benefit a "powerful economic driver."

The task force report described healthcare in Puerto Rico as "a serious and urgent issue," but did not agree on solutions.

For decades, the United States offered lower payments to most island residents under the federally sponsored Medicare and Medicaid insurance programs. Funding for the Medicaid program for the poor, for example, has been capped by Washington, spurring island officials to borrow heavily through municipal bonds.

Read the Special Report here.

By REUTERS

JAN. 17, 2017, 7:24 P.M. E.S.T.

(Reporting by Nick Brown in New York and Robin Respaut in San Francisco; Editing by Richard Chang)

California Green Muni Bonds Top $1.3 Billion in 2016.

In 2016, California agencies issued over $1.38 billion in labelled green bonds, or nearly a $1 billion over the 2015 total.

In the three years since the State Treasurer's Office issued the first California green bond, there have been over $2 billion in government issued green bonds in the state.

Continue reading.

Fitch: Meaningful Pension Reform Critical To Dallas Credit Quality.

Fitch Ratings-Austin-09 January 2017: Maintenance of the City of Dallas' current 'AA' Issuer Default Rating (IDR) and limited tax bond rating, hinges upon the ability of city and Dallas Police and Fire Pension (DPFP) staff and leadership to craft meaningful pension reform legislation that is acceptable to both groups as well as state lawmakers in the upcoming Texas legislative session, according to Fitch Ratings.

Fitch believes that such legislation has reasonable prospects for success and keeps Fitch's assessment of carrying costs and operating performance from deteriorating further at present.

The Rating Outlook on the city's IDR and bond rating is currently Negative, indicating the likelihood of further negative rating action if one or more key rating factors weaken from current levels. Fitch would view additional credit deterioration as a likely outcome if current efforts result in ineffectual or no pension reform in the 2017 legislative session. The session begins January 10.

(Please see 'Fitch Downgrades City of Dallas, TX GOs to 'AA' on Pensions; Outlook Negative' dated Oct. 6, 2016 at www.fitchratings.com for more information related to Fitch's most recent rating action.)

The Rating Sensitivity in Fitch's Oct. 6, 2016 Dallas rating action commentary states 'Maintenance of the current rating will require successful pension reform efforts that stabilize the level of the city's obligations and reduce the risks presented by the deferred retirement option plan.' The city's 'AA' rating continues to reflect strong operating performance enabled by robust economic and revenue growth prospects, strong control over revenues, conservative budgeting , and solid reserve funding.

The city's fiscal 2015 carrying costs (for debt service and retiree benefit outlays) were elevated at 25% of governmental spending, contributing to the 'a' category assessment for expenditure flexibility. The city and DPFP are reportedly seeking consensus on a package of pension reforms to lower benefits and stabilize the system, although implementation requires legislative approval. Fitch believes a reform proposal endorsed by both groups will receive a better reception at the legislature and improve odds for approval. Lack of meaningful DPFP pension reform would put additional upward pressure on pension contributions, which have been driven higher by the magnitude of the DPFP net pension liability, now at nearly $7 billion. Further increases in carrying costs would reduce expenditure flexibility, weaken the city's budget management capabilities, and reduce overall financial resilience. Deterioration of these key rating factors would weaken the city's credit profile and may result in a multi-notch downgrade.

Fitch will monitor closely the Texas 2017 session and track the progress of DPFP pension reform legislation as it winds through the legislative process.

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Puerto Rico Bondholder Lawsuit Revived on Appeal.

Holders of Puerto Rico's pension bonds deserve a hearing in their lawsuit over the territory's emergency measures to conserve cash, a federal appeals court ruled.

The U.S. Court of Appeals for the First Circuit on Wednesday revived a lawsuit filed by bondholders of the Employees Retirement System, Puerto Rico's largest government pension fund, against the territorial government. The bondholders filed a suit after Puerto Rico's former governor invoked a fiscal emergency law to interrupt the payment stream that back the debt.

The appeals court didn't decide whether the disputed funds can be diverted, ordering only that a lower court must hold a hearing to determine whether the lawsuit can proceed.

In the same ruling, the appeals court halted a similar lawsuit brought by holders of bonds issued by Puerto Rico's highway and transportation authority who likewise complained that their collateral had been confiscated. The bondholders failed to show they were harmed, the appeals court said, and aren't entitled to a hearing.

The ruling marks the first time an appellate court has interpreted the debt-related provisions of the Puerto Rico Oversight, Management and Economic Stability Act, or Promesa, but it likely won't be the last.

Congress passed the rescue law over the summer to install a financial oversight board with debt restructuring authority on the financially struggling island, home to 3.2 million U.S. citizens.

The pension and highway bondholders are just two of several investor groups that sued Puerto Rico last year, when former Governor Alejandro García Padilla used a local debt-moratorium law to begin diverting funds that were pledged as collateral to bondholders.

Promesa includes an automatic stay on lawsuits to close the courthouse doors to bondholders while restructuring negotiations are ongoing. The stay, which is currently in effect, can be extended until May 1, but the bondholders argued it didn't apply to them. A federal judge in November disagreed, keeping the stay in place.

Only the pension bondholders and the highway bondholders appealed. The pension bondholders, who are normally paid from employee contributions to the retirement fund, said there wouldn't be sufficient funds to pay them if the moratorium continues.

Judge Francisco A. Besosa of the U.S. District Court for Puerto Rico, is currently weighing whether to apply the stay to halt yet another lawsuit, one with far larger financial consequences. In that case, general obligation bondholders owed $13 billion are laying claim to sales tax revenues that are currently pledged to a competing group of creditors.

The oversight board on Wednesday hired the law firm Dentons to help negotiate with creditors. The appeals court said in its ruling that Judge Besosa was wrong to block the board from participating in the bondholder lawsuits. The board had tried to intervene in the litigation in a bid to keep the lawsuits frozen.

THE WALL STREET JOURNAL

By ANDREW SCURRIA

Jan. 12, 2017 9:40 a.m. ET

Write to Andrew Scurria at Andrew.Scurria@wsj.com

Illinois Governor Pans State Legislature's Chicago Pension Fix.

CHICAGO — Illinois Governor Bruce Rauner signaled a likely veto on Monday of newly passed legislation to stave off possible insolvency for two of Chicago's pension funds.

Credit ratings for the nation's third-largest city have been plummeting largely due to an unfunded pension liability that stood at $33.8 billion at the end of fiscal 2015 for Chicago's four retirement systems.

By a 41-0 vote, the Illinois Senate approved the proposed rescue, which cleared the House overwhelming in December. The plan would authorize new city funding for Chicago's municipal and laborers retirement systems.

The systems are projected to run out of money in the coming decade and were depending on legislative sign-off of the city's enactment of a water and sewer usage tax and telephone surcharge designed to help get them 90 percent funded in 40 years.

City officials have acknowledged that more money will be needed starting in 2023 when payments will reach actuarially required levels.

“The bill essentially authorizes another property tax hike on the people of Chicago and sets a funding cliff five years out without any assurances that the city can meet its obligations,” Rauner spokeswoman Catherine Kelly said in a statement. “The governor cannot support this bill without real pension reform that protects taxpayers.”

Rauner’s response drew belittlement from Chicago Mayor Rahm Emanuel’s administration.

“Bruce Rauner is Governor Gridlock, and he is showing why nothing gets done in Springfield,” said Emanuel spokesman Adam Collins, who argued the governor should focus on passing a budget and fixing Illinois’ pension woes.

A bipartisan, statewide fix to Illinois’ $129.8 pension crisis did not get called for a vote in the Illinois Senate on Monday as part of a sprawling deal to end an 18-month budget stalemate, pass non-budgetary reforms sought by Rauner and expand casino gambling, among other things.

That package’s architects, Democratic Senate President John Cullerton and Senate Republican Leader Christine Radogno, pledged to reintroduce their plan after a new legislative session begins Wednesday.

On a separate budgetary track, the House on Monday approved a $657.3 million appropriation plan for universities and social service agencies that lost spending authority on Jan. 1.

The House-passed legislation that would fund operations through June awaits Senate approval, but Rauner has expressed past reluctance to support new stopgap spending without other reforms.

By REUTERS

JAN. 9, 2017, 6:45 P.M. E.S.T.

(Reporting by Dave McKinney; Editing by Leslie Adler)

Transgender Bill Could Cost San Antonio $234 Million, Says Study of Final Four.

A study for the city of San Antonio predicted that the 2018 Final Four would bring nearly a quarter of a billion dollars in spending to the city, a talking point sure to be raised as debate continues over a proposed Texas law seen by some as discriminatory to transgender people.

A similar law in North Carolina prompted the N.C.A.A. and the N.B.A. to pull events from that state.

According to a memo obtained Friday by The New York Times and verified by a spokeswoman for the local organizing committee, next year’s Final Four would lead to $135 million in direct spending and a total economic impact, accounting for money spent by tens of thousands of visitors at other businesses, of $234 million.

The study, conducted by the chief economist of the Sabér Research Institute, projected state tax revenue of $9.5 million and municipal tax revenue of $4.4 million stemming from the event.

Earlier this month, Texas officials, led by Lt. Gov. Dan Patrick, a Republican, proposed legislation that would require transgender people to use bathrooms in government buildings and public schools and universities based on their “biological sex,” overriding any local rules to the contrary (potentially including a nondiscrimination ordinance that, the committee spokeswoman noted, San Antonio has). The proposal is known as Senate Bill 6.

Jeff Coyle, San Antonio’s director of government and public affairs, declined to comment on the specifics of the bill. “What it all comes down to,” he said, “is the message we send to the rest of the country as a state: Are we welcoming, are we open for business, or are we restrictive?”

The N.C.A.A. has not commented on the Texas bill.

The bill strikes many observers as similar to the North Carolina law that prompted the N.C.A.A. to move championship events out of the state, including games in the early rounds of the Division I men’s basketball tournament. The N.B.A. moved its All-Star Game, and the Atlantic Coast Conference moved its football championship game in response to the law.

Many of North Carolina’s business interests opposed the law, citing economic downsides. The Texas Association of Business has also opposed the bill, in addition to several groups that represent lesbian, gay, bisexual and transgender individuals.

The Texas bill appears to have an exemption for venues “privately leased to an outside entity,” which could include a situation such as Houston’s NRG Stadium, which is set to host the Super Bowl early next month (likely before the bill would actually be made law), or the Alamodome come March 2018.

It is not clear how such an exemption would affect hotels or restaurants accounted for in the economic impact report. It is also unclear how the N.C.A.A. would assess it. Currently the association quizzes prospective host sites over their abilities to cultivate nondiscriminatory atmospheres.

THE NEW YORK TIMES

By MARC TRACY

JAN. 14, 2017

Puerto Rico’s New Governor Takes Over as Debt Crisis Reaches Climax.

- Governor sworn in Monday, just weeks before bond payments due
- Rossello vows to reduce spending, work with creditors

After a series of record-setting defaults, Puerto Rico is slowly moving toward ending its debt crisis under a new governor who has pledged to work with bondholders and federal overseers to restore the island’s battered financial credibility.

Ricardo Rossello, a 37-year-old former medical researcher, took office on Monday, ushering in a change of power after the island skipped payments on a growing share of debt under predecessor Alejandro Garcia Padilla, a member of the opposing party.

Faced with projected budget deficits over the next decade nearly as large as its $70 billion public debt, Rossello said he plans to start tightening the government’s purse strings in his first few days in office. He immediately signed orders for agencies to reduce 10 percent of spending by the end of the fiscal year in June and cut the number of political appointees.

“Once we get to our first budget, we’ll make even more adjustments and cuts,” Rossello said in a telephone interview from San Juan, adding that an additional 10 percent of spending would later be cut. “We’re taking the immediate steps that are necessary.”

The measures are aimed at closing the chronic deficits that pushed the government to the brink and prompted the federal government to install an oversight board authorized to approve the budget and any restructuring of debt. That’s left Rossello with considerably less power than any of his predecessors, including his father, who led the commonwealth in the 1990s.

He’s taking office with only weeks to come up with a fiscal blueprint that will serve as the base for talks with bondholders, a plan that federal overseers want to have in place by the end of the month. Another $1.3 billion in debt payments is due in February.

The governor, however, has the ability to extend for two months a debt-moratorium law enacted under Garcia Padilla, who said that only devastating spending cuts would allow the island to meet its obligations. Puerto Rico last month projected that it will have a deficit of at least $2 billion in the current fiscal year if forced to cover bond payments.

On a call with reporters last month, control board officials suggested that the moratorium — or the extension of a federal measure that has kept creditor lawsuits on hold — could be used to avoid the looming cash crunch.

Rossello has said he would like to reach a settlement with bondholders out of court. During his campaign, he said he’d be willing to cover some interest bills if creditors are willing to delay principal payments.

But investors will almost certainly be forced to accept less than they’re owed. The oversight panel has already warned that “substantial, deep” debt reduction and as much as $8 billion in spending cuts are needed to keep the government running while servicing its debt. If some creditors balk, the board can try to force losses on them in court, an option the Puerto Rico governor didn’t have before President Barack Obama enacted the emergency rescue law in June.

The new administration must also find ways to address the expiring tax on multinational businesses, known as Act 154. The levy, which makes up more than 20 percent of the island’s budget, is set to lapse in December. Supplemental funds allocated by the Affordable Care Act will also likely be depleted by 2018, according to estimates by a congressional panel.

With President-elect Donald Trump and a Republican-controlled Congress threatening to repeal the health-care law and modify the tax code, it’s not clear what additional help, if any, the territory will get. Rossello, in his inauguration speech on Monday, vowed to enact legislation to push for statehood.

“If we as a government start making some tough decisions, and there’s still some gaping holes, the federal government needs to intervene,” Rossello said in the interview. “We don’t need a bailout. What we aim to have is some areas where Puerto Rico can be treated equally and stand to benefit.”

Bloomberg

by Tatiana Darie

January 3, 2017, 2:00 AM PST

Written with the assistance of Bloomberg's Municipal Global Data team.

Revenue Bonds Allow ABQ Leaders to Bypass Voters.

Albuquerque taxpayers have borrowed $63 million over the past two years to build pickleball courts, baseball fields and a new bus system down the middle of Central Avenue.

The package of goodies also includes a new Route 66 visitor center, a library and other projects.

It's a shadow bond program of sorts, allowing Mayor Richard Berry and city councilors to borrow money without the restrictions imposed by the traditional method of financing big capital projects – general obligation bonds, which require voter approval, a shorter borrowing period and a lengthy planning process.

The new financing mechanism centers on revenue bonds, or debt that's repaid with gross receipts taxes. It offers the mayor and council far more flexibility in paying for big capital projects.

There's no need for an election if seven of nine councilors agree to authorize the bonds. And they don't have to repay the debt as quickly as they do for general-obligation bonds.

Perhaps best of all for the mayor and council, they can pick and choose what to fund, bypassing the complicated requirements for the traditional bond program – where policies require certain percentages of the program to be dedicated for specific purposes, such as energy conservation and public art.

Berry has made the revenue bond program a centerpiece of his administration.

It's necessary, he said, because past administrations at City Hall siphoned away money that would have otherwise supported the traditional bond program – $48 million a year, he estimates, in lost financing for capital projects.

That meant finding a new way to pay for "game-changing projects" that make Albuquerque a vibrant city to live in, Berry said in a recent interview.

"I like the agility," he said. "I think it's turned out to be a good hybrid system."

How it works

For a government agency, selling bonds is like taking out a loan – the way a family might take out a mortgage to buy a house. The money must be repaid with interest.

As part of the deal, the city can pledge to make the payments with income from a certain revenue source, such as gross receipts taxes. It's a bit like showing your paycheck when you get a mortgage.

The city of Albuquerque has an excellent credit rating and can generally borrow money at a much lower interest rate than a private company could.

When the city authorized the sale of about $18 million in gross receipts tax revenue bonds this year to finance a variety of projects – including the baseball complex – it got an interest rate of about 2.5 percent. The city plans to make annual payments on the bonds through 2038, or about 22 years.

Going too far?

Tapping into gross receipts taxes – a critical revenue source for the city's operating budget – to issue bonds has won bipartisan support at City Hall. Berry is a Republican, but Democrats and Republicans alike have embraced the chance to find money for their favored capital projects.

But some councilors say they fear going too far. About $7.5 million is now tied up each year to make payments on the revenue bonds. That money would otherwise support Albuquerque's $526 million general operating budget.

The capital projects built with that money will generally squeeze the operating budget in other ways, too. It takes employees, of course, to operate a new library.

"We were criticized for moving (money) from capital to operating in the past," said City Council President Isaac Benton, a Democrat and former chairman of the council's budget committee. "I think perhaps the pendulum has swung too far in the other direction now."

Benton is the only current member of the council who has offered some resistance to the trend toward revenue bonds. In 2012, he and former Councilors Debbie O'Malley and Rey Garduño, all Democrats, refused to authorize up to $50 million in bonds for the reconstruction of Paseo del Norte unless it was sent to voters.

The proposal did end up going to voters that year and passed by a wide margin.

But the remaining $63 million in projects financed through revenue bonds have been authorized by the mayor and council without a public election. That's why a controversial project like Albuquerque Rapid Transit – the new bus system being built on Central Avenue – didn't require direct voter approval. About $13 million in revenue bonds makes up the bulk of the city's contribution to the project, which is largely funded by the federal government.

Meanwhile, the traditional general-obligation bond program – which is backed by property taxes – goes to voters every two years as a series of ballot questions broken up broadly by topic: for library materials, for streets and so on.

Opponents of Albuquerque Rapid Transit have pushed unsuccessfully for an election on the project. About 76 percent of voters last year responded to an advisory question on the ballot by saying the city should schedule an election on ART, but the results aren't binding.

Berry said that, in general, the ability to avoid an election has helped the city move quickly when needed to secure matching funds from other governments.

And because seven of nine councilors and the mayor must agree, officials say, the public is protected from frivolous projects.

"I think we have a system of checks and balances that people can be comfortable with," Berry said.

He would veto the legislation, he said, if he felt councilors had gone too far in doling out pork to their districts.

'A grab bag of sorts'

The level of scrutiny isn't quite the same as required under the traditional bond program, in which a broad outline of what's to be funded is subject to Environmental Planning Commission and budget hearings.

The revenue bonds can be more of a free-for-all, each councilor fighting for projects in his or her district.

"The nature of these things is they become a grab bag of sorts once they're opened up for discussion," Benton said.

He added that he fights for his district, too, just as other councilors do.

The largest single project funded so far was the reconstruction of the Paseo del Norte and Interstate 25 interchange. Voters authorized up to $50 million in bonds, but the city ended up borrowing only $42 million.

The second biggest is $21 million for a complex of baseball and softball fields on the West Side, near the new Albuquerque Public Schools stadium. That project is aimed at boosting the economy by luring out-of-state teams for tournaments, and it was a factor in landing the 2019 National Senior Games for Albuquerque.

The next biggest project is $13 million for Albuquerque Rapid Transit. The remaining projects generally get $2 million or less.

"I don't mind a few projects here and there that aren't big game changers," the mayor said. "But we shouldn't get into the trend of that."

Stimulating the economy

City Councilor Ken Sanchez, a Democrat and an accountant, said the city must take care to avoid going too far in moving more of its revenue back into capital projects. The operating budget is already under stress, he said, as the state reduces payments to cities and counties to help offset a package of tax cuts.

Nevertheless, Sanchez said, spending on construction helps put people to work.

"In this economy," he said, "that's a decision we as policymakers made to keep people working and keep jobs here. We had to do something to help stimulate the economy."

The consequences will have long-lasting effects on the city budget. The last of the revenue bonds – a $45 million package that helped pay for the baseball fields, Albuquerque Rapid Transit and other projects – won't be paid off until 2038, a 22-year term.

The annual payment is somewhere in the neighborhood of $2.9 million.

The mayor said it's worth it. Even with $7.5 million now going to pay off revenue bonds altogether, that's far from the $48 million a year in property tax revenue that was switched from capital to operations before Berry took office in late 2009.

"When the decision was made to shift those property tax mills, it basically robbed our ability to have a thriving" bond program the traditional way, Berry said.

The Albuquerque Journal

By Dan McKay / Journal Staff Writer

Monday, January 2nd, 2017 at 12:05am

New York Transit Bonds Lead Next Week's U.S. Muni Supply.

New York's Triborough Bridge and Tunnel Authority will lead next week's U.S. municipal bond calendar with a $665 million deal that is the largest of some $8.9 billion in sales.

The authority, a unit of the Metropolitan Transportation Authority, will price $400 million of refunding bonds and $265 million of general revenue bonds in a negotiated deal through lead underwriter Goldman Sachs & Co.

The MTA plans fare and toll increases and is continuing to reduce costs, according to its most recent disclosure statement.

It is also attempting to rein in expenses by paying down its pension liability when possible, cutting health and debt service costs, and hedging fuel purchases.

Issuers in New York state plan to sell nearly $4.3 billion of debt in the first quarter, about 70 percent of which will be new money, according to a tentative schedule from New York State Comptroller Thomas DiNapoli on Thursday.

Also next week, Wisconsin will price about $524 million in negotiated general fund refunding bonds, while Texas will be the most heavily represented state, with $1.1 billion in total negotiated deals. That includes $389 million in revenue bonds by the Texas A&M University System and about $347 million by the city of Austin for airport system revenue bonds.

The largest competitive bond deals will come out of Washington state, which on Tuesday plans to issue $473 million in new various purpose general obligation bonds and $136 million in GO refunding bonds. Seattle will price $190 million of water system improvement refunding bonds on Wednesday.

Given the potential for tax reforms such as a repeal of the Affordable Care Act, municipal bonds "are not extremely appetizing," Barclays analysts said in a research note on Friday.

"Munis can have some upside near-term," they said, citing stabilizing Treasury yields and light dealer balance sheets, but "we think it is likely to be limited."

Reuters

Jan 6, 2017 | 1:52pm EST

(Reporting by Nick Brown and Hilary Russ in New York; Editing by Lisa Von Ahn)

U.S.-Based Bond Bunds Score 1st Net Inflow Week Since Election.

NEW YORK, Jan 4 U.S.-based bond funds netted cash for the first time since the U.S. election shook the fixed-income market, Investment Company Institute data released on Wednesday showed.

Bond mutual funds and exchange-traded funds gathered $1.9 billion in the seven days through Dec. 28 as strong demand for taxable bonds offset a two-month municipal debt fund sell-off, ICI said.

It was the first week of net inflows for the funds since the week through Nov. 9, according to the trade group.

Stocks have rallied on the potential for lower U.S. corporate taxes and fewer regulations, after the Nov. 8 election gave Republicans who support such policies control of the presidency and the U.S. Congress.

But many bond prices have sunk as investors fear those policies could spark inflation, the bane of the fixed income market.

That sell-off reignited long-running predictions of what is known in financial markets as a “great rotation” from bonds to stocks.

While some money has moved out of bonds, funds have also rotated from munis and Treasuries, which lose value when rates rise, to other fixed-income products.

These include floating-rate corporate debt funds, which pay more interest as rates rise, and “hedged” and “low duration” products also designed to do better in that environment.

“There was a little bit of a rally going into year-end, and that helped fixed-income flows,” said Sebastian Mercado, ETF strategist at Deutsche Bank. “And we’re seeing a steady rotation from rates into floating-rate products.”

Taxable bonds took in $4.7 billion during the latest week, while municipal bonds reported $2.7 billion in outflows, ICI said.

Stock funds attracted $1.4 billion, with that about evenly split between domestic and international equity funds.

Commodity funds, hurt by a gold sell-off since the election, saw outflows slow to just $240 million in withdrawals from an average of $1.3 billion over the six prior weeks.

Gold is highly sensitive to higher rates, which diminish the appeal of holding an asset that pays no interest. Higher rates also boost the dollar, in which the metal is priced.

The following table shows estimated ICI flows, including ETFs (all figures in millions of dollars):

	12/28	12/21	12/14	12/7	11/30/2016
Equity	1,376	1,435	19,924	5,372	2,716
-Domestic	687	190	18,636	2,959	2,779
-World	689	1,244	1,288	2,413	-63
Hybrid	-1,087	-2,032	-6,657	-1,423	-984
Bond	1,912	-2,191	-951	-173	-4,088
-Taxable	4,652	1,723	2,564	4,208	-624

-Municipal	-2,740	-3,914	-3,515	-4,381	-3,463
Commodity	-240	-936	-576	-1,724	-854
Total	1,961	-3,724	11,740	2,052	-3,210

(Reporting by Trevor Hunnicutt; Editing by Richard Chang)

Reuters

By Trevor Hunnicutt

(Reporting by Trevor Hunnicutt; Editing by Richard Chang)

Trump Calls for Federal Takeover of Chicago if Decline Continues.

President-elect Donald Trump today took on Chicago Mayor Rahm Emanuel for his sub-par performance, noting that the city, whose bond rating last year dropped to junk status, ended 2016 on an even more sordid note: as the murder capital of the world.

“Chicago’s murder rate is record-setting,” Trump commented on Monday via the Twitter social media platform. “Four-thousand, three-hundred and thirty-one shooting victims with 762 murders in 2016. If Mayor can’t do it, he must ask for federal help.”

The city has more murders than Los Angeles and New York combined, and last year had 1,100 more shooting incidents than in 2015.

By contrast, the U.S. Pentagon had only 13 civilian casualties, including nine killed in action, last year in Iraq, according to the U.S. Department of Defense.

With the city’s municipal bonds last year downgraded to junk bond status, and rated Ba1 by Moody’s Investment, the city is perilously close to becoming a failed state, like Somalia, in geopolitical terms, analysts have said.

The mayor of Chicago was a former fundraising aide to Bill and Hillary Clinton, during the 1990s, and was the first Chief of Staff for the outgoing Obama White House back in 2009.

Illegal aliens and illegal guns from Mexico are said to have overtaken the city. Mayor Emanuel has taken a stance that the city will not enforce federal immigration laws and will continue to be a “sanctuary city” for undocumented illegals from Latin America and other foreign countries.

“It is almost like there is a pull-back so they, the gangs, can kill each other,” said Rev. Marshall Hatch, a leading minister in the black community in Chicago, told reporters over the weekend, as he, Rev. Jesse Jackson and Fr. Michael Pfleger, among other famous clergy, marched on city hall to demand an end to the violence.

On Wall Street, Chicago has $9.8 billion in general obligation (GO) bonds outstanding and $486 million in sales tax revenue bonds.

Moody’s lowered the city’s bond rating from Baa2 last March, and has another recalculation of the value of the debt coming up this spring.

Investing.com

Jan 02, 2017 05:39PM ET

Amendments To California PACE Financing Statutes Become Effective January, 1 2017: Orrick

On January 1, 2017, certain amendments to California's current statutory schemes for authorizing Property Assessed Clean Energy (PACE) financing programs will become effective. The amendments primarily prescribe additional statutory requirements that must be met in order for PACE financing to be provided to the owners of residential properties with four or fewer units (Residential Properties). The additional statutory requirements enacted through the amendments apply whether or not the PACE financing is undertaken under the voluntary contractual assessment provisions of the California Streets and Highways Code (commonly referred to as Chapter 29 or the AB 811 version of PACE) or the special provisions of the Mello-Roos Community Facilities Act of 1982 (commonly referred to as SB 555 version of PACE).

With respect to Residential Properties, the additional statutory requirements enacted by the amendments consist of the following:

- The total amount of the annual property taxes and assessments (including the annual special taxes or assessments that result from the PACE financing) may not exceed 5% of the market value of the property, as determined at the time that the PACE financing agreement with the property owner is approved.
- The PACE financing recipients must be the legal owners of the property.
- The PACE financing recipients must be current on mortgage and property tax payments.
- The PACE financing recipients must not be in default or in bankruptcy proceedings.
- The PACE financing must be for less than 15% of the value of the property, up to the first $700,000 of the value of the property, and must be for less than 10% of the remaining value of the property above $700,000.
- The total mortgage-related debt and PACE financing on the property must not exceed the value of the property.
- If the improvements financed are energy efficiency improvements, the energy efficiency improvements must follow applicable standards of energy efficiency retrofit work, including any guidelines adopted by the State Energy Resources Conservation and Development Commission.
- The property owner must be given a three business day right to cancel the PACE financing agreement and must receive (in printed form unless the property owner agrees to an electronic copy) a statutorily prescribed form of right to cancel document or a substantially similar document that displays the same information in a substantially similar format.
- Prior to the consummation of a PACE financing agreement by a property owner, the property owner must be given (in printed form unless the property owner agrees to an electronic copy) a statutorily prescribed form of financing estimate and disclosure document or a substantially equivalent document that displays the same information in a substantially similar format.
- In addition, the amendments generally prohibit the making of monetary or percentage representations to property owners regarding the effect that the PACE financed improvements will have on the value of the property unless the estimate of value is derived through the use of an automated valuation model, a broker's price opinion from a state licensed real estate broker or an appraisal conducted by a state licensed real estate appraiser.

The full text of the amendments is contained in Assembly Bill No. 2693, which was approved by the Governor and filed with the Secretary of State on September 25, 2016, and Assembly Bill No. 2618, which was approved by the Governor and filed with the Secretary of State on September 29, 2016.

Last Updated: December 29 2016

Article by Brandon Dias

Orrick

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

CA State School Bond System Needs Overhaul: Editorial

Over the objections of Gov. Jerry Brown, California voters passed Proposition 51, a $9 billion bond measure to construct and modernize the state's public school, charter school and community college facilities. Now the governor is redoubling his efforts to reform the state's costly and convoluted school bond system, worrying school districts that construction project funds might be delayed or denied.

We understand communities' desperate need for new and modernized school facilities after 10 years without new bond funding — that's why The Chronicle supported Prop. 51. But the governor is right. California needs to find more fair, cheaper and faster ways to finance school and community college facility construction.

School districts and Prop. 51's sponsor, California's Coalition for Adequate School Housing, are nervous about changing the rules because so much rides on obtaining the funds: students need modern facilities; construction workers need jobs and the municipal bond industry needs business. San Francisco Unified School District, for example, has 23 modernization projects dependent on Prop. 51 funding, including projects at Washington and Lincoln high schools, and A.P. Giannini and Denman middle schools. While enrollment statewide is flat or declining, some districts, including Dublin and Fremont, need new schools to accommodate growth.

The governor's office swept aside last week concerns around delaying fund distribution or reordering the queue. "We are going to implement Prop. 51," said H.D. Palmer, spokesman for the state Department of Finance. "The people spoke; it is the law of the state."

The governor however is calling together stakeholders — school districts, builders, the financial industry and state agencies involved with funding applications — to figure out a new system going forward. His concerns are:

Cost: Prop. 51 loads an additional $500 million onto the $2.4 billion the state is paying annually to retire old school bonds.

Efficiency: 10 state agencies must approve bond funding, resulting in long time lines and "fragmented oversight."

Fairness: Larger districts that can afford personnel to bird-dog the applications tend to get funding, leaving out smaller or poorer districts with significant need but less ability to compete.

Flexibility: Current standards can result in costly new construction when maybe public dollars are better spent on educational programs or different kinds of facilities. Districts need more flexibility in how they raise and spend funds.

It is in every Californian's interest to keep borrowing costs low. Repaying Prop. 51 bond principal and interest crowds out general fund spending on other needs — affordable housing, transportation and water infrastructure, pensions. And everyone benefits when students have facilities to prepare them well for 21st century jobs. Prop. 51 addressed the short-term needs; now we should support the governor's efforts to address the long-term concerns that affect our state's future.

San Francisco Chronicle

Updated: December 25, 2016 2:00pm

Are U.S. Territories Now Junk? Puerto Rico Creates Ratings Rift.

- Fitch cuts Guam's revenue bonds to junk; S&P holds A rating
- Pacific island struggles with budget deficits, high debt

The U.S. effort to help pull Puerto Rico from a fiscal crisis has two major rating agencies at odds over another U.S. territory's debt.

Fitch Ratings cut Guam's business-tax revenue bonds to junk last week, arguing that Puerto Rico's rescue law, known as Promesa, "fundamentally" alters the premise used to rate debt issued by territorial governments. Even though the act doesn't apply to the Pacific island 9,300 miles (15,080 kilometers) from Puerto Rico, analysts say it has set a precedent that could let other territories escape from obligations to bondholders.

S&P Global Ratings disagrees. It holds an A rating on the securities, reflecting the island's ability to pay investors.

Promesa "currently only applies to Puerto Rico. The idea that it already applies to Guam, in our view, is not correct," said Paul Dyson, an analyst with S&P. "We have no indication that Guam is going to do something similar to Promesa."

Unlike its Caribbean counterpart, Guam's economic outlook is stable, according to S&P. The territory, home to American Air Force and Navy bases, stands to benefit from U.S. plans to expand its military operations on the island, which is the closest U.S. territory to potential hot spots in Asia. Representatives for Donald Trump's transition team did not respond to requests for comment on whether the president-elect will reconsider the military buildup on the island.

Guam, however, shares some of Puerto Rico's fiscal challenges, such as unbalanced budgets, rising pension liabilities and swelling debt. It has $3.2 billion in obligations and a population of about 165,700, according to data compiled by Bloomberg.

The possibility that other territories will be given legal recourse to cut their debts — an idea that Guam officials have repeatedly rejected — has prompted some investors to reduce their positions. Daniel Solender, head of municipals at Lord Abbett & Co., which manages $20 billion of state and local securities, said he's sold some of the island's debt after Promesa was enacted on June 30 and doesn't own any of its business-tax bonds, in part because of Promesa.

“When the outcome of an investment might determined by a political process rather than the originally agreed upon terms, that makes the investment much more risky,” said Solender, whose portfolio still holds some of the Pacific island’s utility bonds. “Guam is not near that, but it opens up as a possibility now, which is hard to quantify.”

Along with the downgrade, Fitch has since withdrawn its ratings on the territory because the government decided to stop its participation in the process.

Bloomberg Markets

by Tatiana Darie

December 28, 2016, 8:59 AM PST

Written with the assistance of Bloomberg’s Municipal Global Data team.

The Fall, Rise, Fall and Rise of Stamford, Connecticut.

The world’s largest trading floor is just up the street from the train station in Stamford, Connecticut. It was built in the mid-1990s for Swiss Bank Corp., and now covers 103,000 square feet. It’s also empty.

UBS Group AG, which merged with Swiss Bank in 1997, was set to move the last of its employees out of the office complex at 677 Washington Boulevard this month. The mortgage on the building is in default and for sale, with the purchaser likely to take control of the troubled property. As the Wall Street Journal’s Peter Grant put it last week:

Continue reading.

Bloomberg

10DEC 29, 2016 1:54 PM EST

By Justin Fox

Fitch: New Jersey Quarterly Pension Payments Credit Neutral.

Fitch Ratings-New York-21 December 2016: [Fitch Ratings-New York-20 December 2016: New Jersey’s recently enacted Senate Bill 2810 (S2810), requiring quarterly payments to the state’s pension systems beginning in fiscal 2018, is not likely to have a meaningful impact on the state’s liquidity, budgetary flexibility or on the funded status of its pension systems, according to Fitch Ratings. However, it could result in higher cash flow borrowing in the future. The state’s ‘A’ Issuer Default Rating/Stable Outlook, is well below most other states, reflecting its structural fiscal challenges and persistent underfunding of pension liabilities. Fitch expects these factors to remain unchanged with enactment of the bill.

S2810 will require the state, starting with fiscal year 2018, to make its annual employer pension contribution in level quarterly payments by the final day of each quarter, a change from the current practice of a year-end contribution. As the payment schedule is statutory, rather than constitutional, it does not limit the governor's executive authority to strike or reduce pension contributions during the fiscal year should the state experience an unanticipated revenue shortfall. That authority was upheld by a state superior court ruling in 2014.

S2810 also provides flexibility to the executive branch to make contributions at a time of its choosing within the quarter, and to net off any debt service cost associated with the increased cash flow borrowing necessitated by scheduling pension contributions earlier in the fiscal year. For fiscal 2017, the state has $1.5 billion in privately placed tax and revenue anticipation notes outstanding.

New Jersey's pension contribution, because it has historically been paid at fiscal year-end rather than periodically through the fiscal year, has become by default a form of budgetary cushion, notably when spring personal income tax (PIT) collections lag forecast expectations. In fiscal 2014, the governor slashed the annual pension payment by $883 million as a means to address a late-year $1 billion budget gap created, in part, by disappointing April PIT collections. Although S2810 may reduce the budgetary cushion available at fiscal year-end, a still sizable balance would remain to be paid in the last quarter of the fiscal year; $600 million in fiscal 2018 from an expected $2.4 billion pension system payment. New Jersey retains expansive powers to address budgetary weakness.

Fitch expects the new law to have little positive impact on the state's very strained pension systems in the near term. S2810 does not change the governor's one-tenth ramp-up schedule of annual contributions to reach the actuarially determined level in fiscal 2023. While contributions earlier in the fiscal year may result in higher accrued investment earnings over time, such gains are likely to be at a far lower rate of return than the unrealistic 7.9% assumed return level used by the systems. Moreover, given the forecast depletion dates for six of the state's seven plans, Fitch expects the systems' funded status to continue to erode, requiring shorter duration investments to support benefit outflows.

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Tribal Corporation Sues Wisconsin City Over Power Plant.

GREEN BAY, Wis. — A tribal corporation is suing the Wisconsin city of Green Bay, seeking damages from a failed waste-to-energy plant.

The Oneida Seven Generations Corp. received the city's permission in 2010 to build a power plant fueled by municipal solid waste. However, after construction started, the city revoked the conditional use permit under pressure from citizens opposed to the plant.

The tribal corporation now wants to recover damages.

In the complaint filed Friday in federal court, the corporation says it lost around $21 million in profits and expenses, plus substantial legal expenses.

The Wisconsin Supreme Court last year affirmed an appeals court ruling that Green Bay improperly revoked the plant's permit.

The city attorney's office says it isn't ready to comment.

By THE ASSOCIATED PRESS

DEC. 27, 2016, 2:00 P.M. E.S.T.

Puerto Rico Ten-Year Deficit Forecast Raised to $68 Billion.

- Projection is higher than governor's previous estimates
- Board wants to reach voluntary agreement with creditors

Puerto Rico is facing a budget shortfall of $67.5 billion over the next decade, almost $10 billion more than previously projected by Governor Alejandro Garcia Padilla, underscoring the need for the island to cut its debts and turn around the faltering economy.

The forecast was released Tuesday by the U.S. board that was installed after the territory's worsening fiscal crisis led it to default on a growing share of its $70 billion debt. The seven-member panel said it plans to restart negotiations with creditors this week, seeking to secure a voluntary agreement with bondholders instead of imposing losses on them in court.

"We are doing everything we can to be correct with the creditor community," Jose Carrion, the chair of the board, said during a press call on Tuesday. "We're moving in that direction."

The board also said that the government needs to cut spending because the deficit is so large that even wiping out all of its debt — an option that's not legally available — wouldn't be enough to balance the budget.

"This reality requires the government of Puerto Rico to step up to the plate and propose the initiatives and measures necessary for Puerto Rico to meet the enormous fiscal challenge it faces," José Ramón González, a member of the Financial Oversight and Management Board for Puerto Rico, said in a statement.

Puerto Rico is veering toward the largest restructuring ever in the U.S. municipal-bond market after borrowing for years to pay its bills as the economy contracted. Garcia Padilla, who will leave office next month, has been defaulting on bonds to avoid deep cuts to services on an island where nearly half of the 3.5 million residents live below the poverty line.

The resolution will now largely be up to the oversight board. Members plan to work with the Governor-elect Ricardo Rossello to approve a turnaround plan by the end of January.

The revised financial projections exclude additional health-care funding from Washington and don't assume any revenue from an excise tax on multinational businesses that's set to expire. The levy, which U.S. corporations can take as a credit on their federal income taxes, made up 28 percent of revenue in the first five months of the 2017 fiscal year, according to the island's Treasury Department.

Bloomberg

by Tatiana Darie

December 20, 2016, 9:26 AM PST December 20, 2016, 12:30 PM PST

[California Drivers Pay for Underfunded State Patrol Pension.]

- Pension is the lowest funded among those in largest U.S. plan
- Motorists will pay $10 more in April to meet rising costs

Training officers watch over cadets as they march in formation at the California Highway Patrol Academy in West Sacramento, California. Photographer: David Paul Morris/Bloomberg
Californians in April will start paying more to register their cars — not to help maintain roads, but to keep the pension checks rolling for the motorcycle cops who policed them.

The retirement fund for the California Highway Patrol is worse off than any other managed by California Public Employees' Retirement System, the largest U.S. pension, as payments by the state and employees fail to keep up with benefits locked in during the dot-com bubble. As a result, the state's contributions jumped 14 percent this year to $415 million and are projected to continue rising. A $10 increase to registration fees will help cover the expense.

"It's a pension tax — call it what it is," said state Senator John Moorlach, a Republican who introduced a bill that would implement measures to cut pension costs. "It's like a tumor that's growing inside the budget."

The situation facing the Highway Patrol underscores the consequences to taxpayers whose state and local governments have about $2 trillion less than they need to cover promised retirement benefits. On Wednesday, the Calpers board voted to lower the target investment return by half a percentage point to 7 percent over three years, which would require larger contributions from California and its municipalities to make up for the smaller projected gains.

Jon Hamm, who in May retired as the chief executive officer of the California Association of Highway Patrolmen, said before the meeting that Calpers should lower that target to below 7 percent "so we can deal with real numbers."

"We want to do everything in our power to make sure our members get what they've been promised, and everything in our power includes what we can do as an entity to fix the problem," such as possibly higher contributions from officers, said Hamm, who continues to work for the union.

The fund for the patrol, whose officers gained some fame from the late-1970s television series "CHiPs," had 62 cents for every dollar in obligations as of the year ended June 2015, according to a September report. The state must pay about 50 percent of its costs this year, compared with a rate of 13 percent in 2000.

Moorlach, the state senator, lays part of the blame on deciding to boost benefits during the Internet stock bubble, wagering that the market's gains would pay for them. The change allowed officers to retire at the age of 50 with pension checks based on a higher percentage of their salaries. The average pension received by an officer who retired in 2015 was about $77,000, according to Calpers.

Although stocks are again at record highs, the combination of enhanced benefits, longer lifespans and fewer employees paying into the system has left many pensions underfunded. For the past decade, beneficiaries of the highway patrol pension have outnumbered active members, documents show. At the same time, Calpers's 20-year investment return is lagging its goal, forcing individual plans to make up the difference.

"It creates a financial hole, a very deep financial hole, very quickly," said Joe Nation, a pension researcher and professor at the Stanford Institute for Economic Policy Research. "Unless you respond very quickly, it's hard to get out of it."

While California meets pension obligations for many workers through its general budget, for the Highway Patrol's operations it taps the motor vehicle account, funded mostly through revenue generated from cars and licenses. The patrol takes up about 78 cents out of every dollar in registration fees drivers pay.

Governor Jerry Brown requested the increase to the base vehicle registration fee by $10 to $56 to deal with the agency's rising costs from salaries and pensions, said H.D. Palmer, a spokesman for the finance department. He declined to say what action the administration may take if Calpers reduces the investment return.

"We just had that increase," Palmer said. "We want to evaluate how that is addressing some of those issues."

Moorlach thinks it's inevitable that fees will rise, although the drivers may not understand why. "Everyone will think, we're fixing roads, but that money is going to be diverted into pension plans," he said.

Blomberg

by Romy Varghese

December 21, 2016, 2:00 AM PST December 21, 2016, 9:52 AM PST

— Written with the assistance of Bloomberg's Municipal Global Data team

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Calpers Cuts Investment Targets, Increasing Strain on Municipalities.

The board of California's state public pension system, Calpers, voted Wednesday to lower expectations for future investment returns, a step that will increase pressure on the budgets of towns and cities across the state.

Calpers, a giant with roughly $300 billion in assets, has long been a bellwether among America's thousands of public pension funds because of its sheer size and influence in the investment industry. It manages the investments for more than 1.7 million current and future retirees, making it the nation's largest public fund outside the federal government. Calpers' move to lower its investment expectations is likely to prompt pension systems in other states to do the same.

“This is very monumental for the organization,” one trustee, Richard Costigan, said at a public meeting just before the vote.

With the move, Calpers is changing its business plan, so that investment returns will cover less of the cost of retirees’ pensions than previously. That will force local governments to pay more, either through higher taxes or reduced public services. Public workers in California will have to chip in more, too.

At the same time, the move has little chance of satisfying critics of public pension systems who have argued for years that the sector’s methodology is dangerously flawed — not just because many investment projections are overly optimistic, but also because pension plans use those projections to calculate their liabilities, violating basic economic principles.

Such critics, many of them economists, say that because public pensions are virtually risk-free for recipients, their values should be based on the returns of safe investments like Treasury securities, which have recently hovered around 2.5 percent for 10-year bonds. Calpers now uses Treasury rates only when a city wants to drop out of its system.

Under all other circumstances, Calpers currently assumes that its investment portfolio will return an average of 7.5 percent a year over the long term, and bills its member governments accordingly. Its trustees agreed Wednesday to reduce that to 7 percent, phasing in the reduction over the next three years.

Many other state pension systems have even higher expectations, according to a survey of 127 plans by the National Association of State Retirement Administrators. Most were expecting to earn 7.5 percent to 8 percent over the long term. The second-largest group was counting on annual returns of 7 percent to 7.5 percent.

The differences may sound small, but just a slight reduction in the assumed rate drives up the cost sharply, because it is multiplied across decades and for thousands of retirees.

Shifting expectations down to 7 percent will force the State of California to contribute an additional $2 billion a year for state workers, according to Eric Stern, a policy adviser for the California Department of Finance who briefed Calpers board members about the measure on Tuesday.

All public pension funds pool money and invest it in the hope that returns will cover most of the cost of retirees’ benefits. But those costs are rising quickly now, as the baby boom generation retires, and investment returns have not nearly kept pace.

Even before the change takes effect, some cities in California have complained that their pension plans are too costly. Calpers bills them once a year for their share, assuming the investments will return 7.5 percent in the future. Calpers confirmed in a recent risk report that for some types of pensions — especially those for police — those bills are higher than ever before.

Some local governments say they simply cannot keep up, yet they are not allowed an easy exit from the system. Pensions thus played a prominent role in the municipal bankruptcies of Vallejo, Stockton and San Bernardino, with Calpers arguing that the cities could not lower their pension contributions or switch to less costly plans, even though companies routinely do so in bankruptcy. Those arguments prompted the judge in Stockton’s bankruptcy case, Christopher Klein, to call Calpers “a bully” with “an iron fist.”

The waning California town of Loyalton took matters into its own hands three years ago, voting to simply drop out of Calpers. In response, Calpers sent a bill for a hefty withdrawal payment; Loyalton said it was broke and could not pay.

In November, Calpers responded by cutting the pensions of each of Loyalton's four municipal retirees by 60 percent — the first time on record that Calpers had cut anyone's pension.

Marcia Fritz, president of the California Foundation for Fiscal Responsibility, said the additional pension costs might push more local governments over a fiscal cliff.

"The ones that are hurting the most are the small, non-volunteer fire districts in rural areas," Ms. Fritz said.

They lack a tax base big enough to cover the substantial cost of keeping firefighters on duty around the clock, she said. Some have been experimenting with other revenue sources but have not found a permanent fix, and rising pension costs could be their death knell.

Despite those concerns, Calpers board members decided they had no choice but to lower investment expectations. Outside advisers have been urging the system to do so for years. Its chief investment officer, Ted Eliopoulos, said last summer that investment returns for the previous year were close to zero, and that it would be a big challenge for Calpers to get through the next three to five years.

With rising numbers of retirees drawing their benefits, Mr. Eliopoulos said this week that he had been scaling back the risk level in Calpers' investment portfolio. Stocks — both domestic and global — had been reduced to 46 percent of the investment portfolio from 51 percent, for example.

Lowering risk, however, generally means lower returns as well.

NEW YORK TIMES

By MARY WILLIAMS WALSH

DEC. 21, 2016

Mexico City Issues First Municipal Green Bond in Latin America.

Mexico City has closed a US$50 million municipal green bond, the first in Latin America.

The bond, which was oversubscribed by two and a half times, has a five-year maturity, and will finance climate-resilient infrastructure and transport, paving the way for further issuances in Mexico City in 2017.

Proceeds of the bond will go towards providing potable water, wastewater, energy efficient public lighting and infrastructure for metro transport.

The bond is the fourth to be issued from Mexico and is its second to be issued in local currency.

Mexico is committed to reducing greenhouse gas emission under the Paris agreement by 22 percent by 2030. According to Climate Bonds Initiative, the country has US$1.3 billion in outstanding climate bonds. The country has one labelled green bond, issued at US$500 million by local development bank Nacional Financiera (NAFIN) in November 2015.

Viola Lutz, a consultant at sustainable energy firm South Pole Group, told Cities Today: “I would say that we see interest in green bonds from financial institutions and cities all over Latin America, particularly in Mexico, Brazil and Colombia–these are the most likely places to see an issuance.”

She added that national and regional development banks, as well as commercial financial institutions were also likely to comprise a large share of the uptake in future.

In September 2016, banks that include Citigroup, HSBC and JP Morgan began marketing the first of what could reach up to US$6 billion in green bond trades. The bonds will go towards funding the construction and operation of a new international airport in Mexico City.

The Mexico City International Airport (NAICM) aims to achieve a carbon neutral footprint, and is due to begin operating in 2020.

CitiesToday

by Jack Aldane

14th December 2016

California Bill Would Provide $6B in Annual Infrastructure Funding.

On Dec. 5, California Assemblyman Jim Frazier (D – Oakley) introduced a new bill that offers a plan to repair the state’s crumbling transportation infrastructure, East County Today reports.

AB1 would raise an additional $6 billion in annual funding to repair state and local roads, improve trade corridors and support public transit, and will also include measures for accountability and the streamlining of projects.

“My commitment to passing a comprehensive funding plan that addresses California’s failing transportation system will not waiver,” stated Assemblyman Frazier in a press release. “This proposal dedicates billions to road and highway repairs that our state so desperately needs while also creating tens of thousands of good paying jobs.”

“The transportation crisis in California affects each and every part of our state,” Assembly Speaker Anthony Rendon (D-Paramount) said in the press release. “If we don’t step up and solve it, our economy will decline and the people we represent will suffer. Transportation funding has traditionally been a bipartisan issue and our goal is to work across the aisle to come to a comprehensive solution.”

“We have been working closely with Assemblyman Frazier for more than two years on a variety of concepts to provide the resources local governments need to fix our roads and bridges,” said Kiana Valentine, Legislative Advocate for the California State Association of Counties, in the press release. “It’s no secret that our vital infrastructure is crumbling and we’re at a tipping point. We urge the Governor and Legislative Leadership to keep their promise to advance this vital legislation early in the 2017 session.”

Some of the highlights of the proposed AB1 bill include the following:

- The creation of the Office of the Transportation Inspector General with a term of six years;

- An increase of $0.012 per gallon in the gasoline tax, with an inflation adjustment;
- An increase of $38 in the vehicle registration fee every year, with an inflation adjustment;
- A new $165 annual vehicle registration fee for zero-emission vehicles, with an inflation adjustment; and
- A $0.20 per gallon increase in the diesel fuel excise tax.

Kerry Clines | December 12, 2016

Missouri Lawmaker Wants to Stop Use of State Money for Stadiums.

A lawmaker's proposed legislation to eliminate a panel which is now considering whether to award tax credits for a St. Louis soccer stadium.

Republican state Senator Rob Schaaf has filed a bill to strip the Missouri Development Finance Board, or MDFB, of its power to grant loans or issue bonds or tax credits. He contends the board has already wasted millions of dollars in a failed attempt to build a second football stadium for the now departed Rams.

Schaaf doesn't mince words over what the board's currently discussing. "And so now if MDFB is going to get $40 million to build a soccer stadium, then I think they just need to go away."

The city of St. Louis has applied to the Development Finance Board for $40 million of state tax credits to help finance a stadium for a future Major League Soccer team. The board's expected to announce its decision on December 20th. St. Louis is also poised to ask city taxpayers to approve $80 million to go toward the stadium in an April election.

Schaaf is highly critical of outgoing Democratic Governor Jay Nixon's recent moves to restrict Medicaid spending by almost $41 million, while calling for the NDFB to meet and consider the $40 million tax credit request from St. Louis city for the stadium.

He says Nixon attempted to steer hundreds of millions of tax payer dollars toward building a second St. Louis football stadium in an effort to keep the NFL Rams from moving. Schaaf contends that, at the same time, the MDFB was draining taxpayer money for the same purpose.

"They've cost us many millions of dollars that we'll never get back that they spent trying to build the second St. Louis football stadium, which didn't pan out" said Schaaf. "We're out all those millions of dollars."

The Rams moved to California this year after plans for a $1 billion stadium fell through. The Development Finance Board had pledged $50 million in state tax credits to assist in building the structure. Schaaf noted the state is still spending $12 million a year on the first football stadium built for the Rams, which they moved into in 1995.

He's filed another measure which more broadly addresses the use of tax dollars for sports complexes. Senate Joint Resolution 2 would block the state from entering into an agreement with any sports complex authority which would require the state to pay back any newly issued bonds without legislative or voter approval.

Schaaf says it would put an end to the use of state taxpayer money for stadiums. The resolution, if passed by the legislature, would be required to go to a public vote because it would make changes to the state constitution.

Schaaf thinks it will be warmly received. “I think the people of Missouri would vote for it overwhelmingly.”

MISSOURINET

DECEMBER 12, 2016 BY JASON TAYLOR

Uber, Lyft Face Pushback From Hometown Taxis Taking a Stand.

- San Francisco taxi says ride-hailing sites get unfair edge
- California regulator wants lawsuit tossed, citing state law

A San Francisco taxi operator, desperate to protect a troubled industry’s turf, is trying to tighten the rules for Uber Technologies Inc. and Lyft Inc. in their hometown.

In a struggle playing out across the U.S. and in Europe, traditional cab companies have gone to court complaining they’re at a grave disadvantage because upstart ride-hailing services got a pass from regulators.

With the number of San Francisco licensed taxis at 1,800 and shrinking, compared with 45,000 drivers working mostly for Uber and Lyft, Flywheel Taxi is asking a federal judge to flatten what it calls an “unlevel and unequal field.” Similar fights are under way in New York, Boston and Philadelphia, while a Chicago federal appeals court in October thew out a challenge by a local taxi lobbying group.

Flywheel, a 2011 reinvention of Desoto Cab Co., claims to be the first app-oriented taxi fleet. Calling itself San Francisco’s oldest and biggest taxi service, Flywheel argues it was hobbled by a state regulator’s 2013 decision to usurp regulation of ride-hailing companies from the city.

It contends that by creating a new category to classify Uber and Lyft as transportation network companies, or TNCs, the California Public Utilities Commission allowed them to “operate free from the rules and regulations that govern all other taxi companies in San Francisco, and without incurring the associated costs of complying with local rules and regulations,” according to a court filing.

“Uber and Lyft got their foot in the door, then it was swung wide open by the CPUC,” Flywheel President Hansu Kim said in an interview. Looser regulations under the TNC classification allowed drivers for the ride-hailing platforms to flood San Francisco’s streets, he said. “Essentially anyone with a car can act as a taxi and sell rides.”

Seeking to undo the 2013 decision, Kim says Flywheel’s costs amount to as much as $9 million annually for medallions, permits and registration, along with liability insurance to cover $1 million per incident and workers’ compensation insurance for all drivers.

Taxi cabs must also meet fuel efficiency and clean-air standards, and taxi drivers must be commercially trained, licensed and screened with background checks. While their companies must comply with price controls, Uber profits from raising fares during peak demand, according to the court filing.

The CPUC Thursday asked U.S. District Judge Edward Chen in San Francisco to throw out the case. Chen has already ruled against Uber in other cases involving its disruption of the transportation-for-hire business, allowing its drivers to sue as a group to seek some employee benefits despite the company designating them as independent contractors.

Matt Kallman, an Uber spokesman, and Lyft spokeswoman Chelsea Harrison declined to comment on the taxi case.

Jonathan Koltz, a lawyer for the CPUC, said taxis continue to enjoy at least one important edge over Uber and Lyft: they can pick up passengers hailing them from the street.

'Breaking the Law'

"If an Uber driver picks up a street hail they are breaking the law," Koltz said. "They can be fined or lose their permit to operate."

More importantly, Koltz said, the CPUC was following state law when it assumed regulatory control of the nascent ride-hailing business three years ago. That view was confirmed by a law passed by California lawmakers the following year, he said.

"The legislature said, 'OK, CPUC, you've asserted jurisdiction over TNCs, looks good,'" Koltz said. "It's pretty well settled at this point under California law that we got it right."

Flywheel argues that Uber and Lyft perform the same function of taxis but benefit from lighter regulation, in violation of the constitution's guarantee of equal protection under the law. To make that case, Flywheel has to demonstrate the ride-share companies are similar to taxis.

'Key Distinction'

"There's no question there are many similarities," Chen said in court. "It does seem to me the key distinction comes down to street hails," and that may warrant "a different level of regulation," he said. The judge will issue a written decision later.

Flywheel has an unlikely ally in its fight — its regulator, the San Francisco Municipal Transportation Authority. While the agency isn't directly involved in the lawsuit, it issued comments urging the CPUC to revisit its regulation of ride-sharing companies. Its concerns echo some of Flywheel's.

"These are drivers operating commercially on our streets" with "very limited regulation and almost zero enforcement," Kate Toran, head of taxi regulation for the municipal agency, said in an interview.

If Flywheel loses the battle with the CPUC, it still has another fight. It has sued Uber directly in the same court over claims the startup relied on billions of dollars in funding to drive competitors out of business through predatory pricing. Uber hasn't filed a response yet.

"Uber and Lyft are taking their mounds of money, of venture capital, to destroy the taxi market by subsidizing rides," Kim said.

The case is Desoto Cab Co. Inc. v. Picker, 15-cv-04375, U.S. District Court, Northern District of California (San Francisco).

Bloomberg Markets

by Joel Rosenblatt

December 15, 2016, 11:18 AM PST December 15, 2016, 6:29 PM PST

Struggling Chicago Schools Increase Size of Bond Deal by 46 Percent.

NEW YORK — Chicago's financially struggling public school system boosted the amount of its planned bond sale on Thursday by 46 percent to $729.6 million, taking advantage of a new type of debt that priced at lower interest rates than its existing bonds.

Strong investor demand allowed the Chicago Board of Education to increase the capital improvement tax bonds deal that was originally set for $500 million.

Bonds maturing in 2046 with a 6 percent coupon priced at a 6.25 percent yield, according to a pricing sheet obtained by Reuters.

That is 243 basis points higher than similarly rated debt and 309 basis points over triple-A rated benchmark debt. It is lower, however, than where the district's outstanding debt has been trading, which recently has been at a spread of 375 to 390 basis points over top-rated bonds, according to Municipal Market Data.

"For an untested tax stream that's brand new for them, it was obviously well-received," said Eric Kazatsky, a municipal credit analyst at Janney Montgomery Scott in Philadelphia. "They were able to lower their borrowing costs at the end of the day."

The deal likely drew some investors who do not typically buy the district's debt, he said.

Forty-five investors participated in the deal, which also priced 200 basis points tighter than the district's February general obligation sale, Senior Vice President of Finance at Chicago Public Schools Ronald DeNard said in a statement.

The proceeds will be used only to fund "much-needed capital investments like relieving overcrowding, modernizing schools and making critical repairs," DeNard said.

The deal received an investment grade rating of A from Fitch Ratings because of the bonds' ability to withstand a hypothetical bankruptcy filing.

The district's new debt calls for the bonds to be secured solely with a capital improvement property tax that can, if needed, be intercepted and sent directly to the bond trustee.

Fitch's A rating is eight steps above the district's overall junk rating of B-plus with a negative outlook. The school system has $6.8 billion of outstanding general obligation bonds.

The deal had an investment-grade BBB rating from Kroll Bond Rating Agency and was not rated by Moody's Investors Service or S&P Global Ratings.

By REUTERS

DEC. 15, 2016, 4:03 P.M. E.S.T.

(Reporting by Hilary Russ in New York; Additional reporting by Karen Pierog in Chicago; Editing by

Daniel Bases and Peter Cooney)

[S&P: Why Massachusetts Charter Schools Haven't Damaged Municipalities' Credit Quality.]

On Nov. 8, 2016, Massachusetts voters defeated a referendum to increase the number of charter schools in the state, thus maintaining the existing cap on charter school expansion. Had it passed, the referendum would have allowed as many as 12 new charter schools to open each year regardless of the budgetary impact on cities and towns.

Continue reading.

Dec. 5, 2016

S&P: Pennsylvania School Districts Could Face More Funding Pressure Due To Sluggish State Revenue Growth, Rising Costs.

Debate over funding for public education has contributed to Pennsylvania’s last two budget impasses. Generally, state lawmakers have agreed that public education spending should increase over the past two budget cycles, but given slow revenue growth and other rising required costs (e.g., pensions), they have struggled over how to increase education funding. In our view, recently projected budget deficits for fiscal years 2017 and 2018 increase the likelihood that education funding could be a key budget issue again in fiscal 2018, potentially contributing to another year of protracted deliberations. In addition to the possibility of a late budget, given limited discretionary spending, lawmakers could turn to education funding cuts to balance the budget. Both outcomes would increase credit pressure on Pennsylvania school districts.

Overview

- Education funding could again become a key budget issue as Pennsylvania grapples with projected deficits in fiscal 2017 and 2018.
- Rising pension costs will be an ongoing burden for all school districts.
- Reliance on state aid varies from district to district.

Continue reading.

01-Dec-2016

U.S. Muni Bond Market Shrinks to $3.831 trln in Q3 - Federal Reserve.

The U.S. municipal bond market shrank slightly to $3.831 trillion in the third quarter from a revised $3.838 trillion in the second quarter, according to a quarterly report from the Federal Reserve released on Thursday.

Households, or retail investors, held $1.591 trillion of muni bonds compared with $1.598 trillion the previous quarter.

Property and casualty insurance companies bought $19 billion of munis in the third quarter after a revised $1.9 billion of acquisitions in the second quarter. Life insurance companies added $7.6 billion to their muni holdings, while U.S. banks picked up $40 billion.

U.S mutual funds bought $75.9 billion of munis in the third quarter, and exchange-traded funds added $6.2 billion.

Foreign owners bought $14 billion of muni bonds. Their third quarter holdings were $93.3 billion, the highest level on record.

Reuters

Thu Dec 8, 2016 | 12:04pm EST

(Reporting by Hilary Russ)

Michigan Municipal League Wants to Reform State Municipal Finance.

Great places make for a strong economy, and the research supports that contention. By employing community-based placemaking strategies, we strengthen both our economic and social future. On behalf of the Michigan Municipal League, I am pleased to be coming to Adrian on Monday to explain how at the heart of great places are strong cities, but in Michigan we are failing our communities.

Across the country, cities account for over 80 percent of GDP, but in Michigan we are disinvesting in this vital resource.

A recent report, "Michigan's Great Disinvestment: How State Policies Have Forced Our Communities into Fiscal Crisis," was prepared for the League using information from state and local records as well as census data. The report details the economic challenges facing Michigan's communities.

Michigan is the only state where total municipal revenue declined from 2002 to 2012, an 8 percent reduction before considering inflation. Revenues remain below the 2002 level for most communities.

Michigan has cut state support for cities more than any state in the nation. Since 2002, the state has diverted from communities more than $7.5 billion in revenue sharing to balance its own budget shortfalls. For example, Lenawee County communities have seen their revenue sharing cut by $25 million over the last 14 years. Adrian's revenue sharing has been cut by $9.4 million; other cities throughout Lenawee lost between $119,000 and $2.9 million since 2002. As a result, most communities in the county have had to reduce their police and fire forces, cut back on road and sidewalk repairs, and generally reduce their services to citizens – including rural residents who often work or play in communities from Tecumseh to Morenci.

How is this possible? State policies that hamstring cities by over constraining property tax growth, cuts in state revenue sharing and few local options for raising revenue. Michigan is one of only a handful of states that so aggressively limits the ability of local governments to raise their own revenues to address their issues, while simultaneously reducing state support.

After years of working within the existing paradigms, the League and other partners are undertaking a major legislative and policy push detailed at saveMIcity.org. This Save Michigan Cities effort is aimed at reforming municipal finance in Michigan to encourage renewed investment in our communities.

As part of this initiative, the League is traveling throughout the state discussing the state's broken system for funding municipalities. This statewide tour comes to Adrian for a public saveMIcity event 3:30 p.m. Monday, Dec. 12, at Siena Heights University, 1247 E. Siena Heights Drive in Adrian at Dominican Hall's Rueckert Auditorium. The event is free and open to the public.

This is intended to be an examination of how we can do things differently in Michigan to assure that local government can't just survive, but can thrive. To that end, the League is developing policy recommendations around three themes: Cost Containment, Revenue Enhancement, and Structure of Government.

We are taking this three-pronged approach to break away from the historically limiting tactic of incremental change within the context of where we are today. We also want to hear your ideas and innovative approaches, so that together we can take bold action to create a new future for communities around Michigan.

Tony Minghine is the associate executive director and chief operating officer of the Michigan Municipal League, which is involved in local government in Michigan. Minghine will speak about state municipal finance Monday, Dec. 12, in Adrian.

Michigan Municipal League

By Tony Minghine

www.mml.org

Posted Dec 9, 2016 at 9:37 AM

Report: Michigan Needs $4 Billion More Per Year to Close Infrastructure Spending Gap.

New study from Snyder-appointed commission suggests state needs better inventory management, planning

LANSING — Michigan needs to come up with nearly $4 billion more per year if the state is to close a gap in spending on its infrastructure needs, according to a report released Monday by a commission formed to study the issue.

The 21st Century Infrastructure Commission, appointed by Gov. Rick Snyder, found that the state would need to spend in excess of $60 billion more over 20 years just to fix existing infrastructure systems. (That would come to about $3 billion per year; the report did not indicate how much more than $60 billion would be required over the next two decades. A spokesman for Snyder said the annual $4 billion investment figure could fluctuate.)

Continue reading.

December 05, 2016 8:00 a.m.

Dallas Bankrupted by Pensions? Bond Market Doesn't Think So.

- City's G.O. bonds due 2025 closely tracking 10-year benchmark
- Police and fire pension fund projected to go broke by 2030

Dallas's police and fire pension system may be going broke, but you'd never know it by looking at the municipal-bond market. The city's general obligations due in 2025 yield 2.46 percent, less than even top-rated 10-year debt, according to data compiled by Bloomberg.

That's despite Mayor Mike Rawlings telling a state board last month that the city's $7 billion debt to the retirement fund has left it walking into "fan blades" that look like bankruptcy.

"There's a lot of positive aspects absent of the pension issues that, given the right spreads and the right market context, would certainly make me look toward Dallas as a name to invest in," said Eric Kazatsky, municipal credit analyst at Janney Montgomery Scott. "The pension issue wouldn't prohibit me from adding it to a portfolio."

Bond market investors, known for enforcing financial discipline on governments by stanching the flow of capital and demanding higher interest rates, sometimes respond slowly the fiscal distress of local governments, which rarely default or go bankrupt.

But in Dallas, the pension fund's shortfall contrasts with an otherwise prosperous city, with rapid employment growth, a strong tax base and a population that swelled by nearly 100,000 since 2010 to 1.3 million last year. The city's fiscal 2016 tax rate is 7 cents per $100 of assessed value, with ample room to grow before hitting the $2.50 statutory cap.

Dallas's city council is scheduled Wednesday to discuss plans to save the fund. A briefing posted on Friday has few specifics, though it makes it clear that the city won't chip in the $1.1 billion requested by pension officials.

The scale of the city's pension debt — which is twice the size of its annual budget — prompted Fitch Ratings in October to downgrade Dallas one step to AA, the third-highest investment grade. The fund is projected to become insolvent by 2030.

The fund's leadership has tried to stem the bleeding by proposing a package of benefit rollbacks that will cut costs. A vote on the measures is scheduled to close on Dec. 17, according to the fund's website, after a judge refused a bid by workers to halt the proceedings.

Despite the drama, the strength of the city's financials has bondholders seemingly at ease.

"It's a holding that lets me sleep well at night," said Doug Benton, senior municipal credit manager for Canaval Hill Investment Management, which manages about $7.5 billion, including the city's debt. "I've got things that keep me up, but this is not one of those."

Bloomberg

by Katherine Greifeld

December 5, 2016 — 2:54 PM EST December 6, 2016 — 11:05 AM EST

[Judge Authorizes San Bernardino to Exit Bankruptcy.]

California city to emerge from bankruptcy after more than four years with a plan to eliminate millions of dollars in debt

A federal judge on Tuesday ruled that San Bernardino, Calif., can leave bankruptcy even though city leaders said they won't have enough money to fully fund a police department that is fighting a rise in violent crime after last year's terror attack.

U.S. Bankruptcy Judge Meredith Jury cleared the 200,000-resident city to emerge from bankruptcy after more than four years with a plan to eliminate millions of dollars in debt. The plan, however, would pay just a portion of the $56.5 million sought by the police department for the next five years.

"The city infinitely could use more funds" for its police department, Judge Jury said. "Anybody who lives in the area knows that the crime problem in San Bernardino is substantial."

San Bernardino police officers were lauded for their response to the Dec. 2, 2015, attack in which Syed Farook and Tashfeen Malik shot and killed 14 people, injuring 22 others, at a gathering of county workers.

Now the same department is battling a crime wave with 220 officers, down nearly 40% from before the bankruptcy.

"It wasn't like crime decided to take a vacation when we lost those positions," said Lt. Mike Madden. "We're chasing our tails; we're not being as proactive and stopping crime before it's committed."

The city outside of Los Angeles has recorded 60 homicides so far this year, Lt. Madden said. There were 44 murders last year, including the 14 people killed in the attack at the Inland Regional Center.

"If the homicide rate continues, the city will have more murders this year than in any year since 1995," Chief of Police Jarrod Burguan warned in papers filed in the city's bankruptcy case.

Gary Saenz, the city's lawyer, said that while the restructuring will balance the city's budget for the next 20 years, the city plans to pay only about 40% of what is necessary to fund the city's police needs. The city won't be able to provide all of the services that citizens need, he said.

"Given where we are financially, this is what we can afford," Mr. Saenz said, adding that the plan will provide an "adequate" level of public safety.

During the bankruptcy, the city's staffing fell to 600 people from 1,140. Its finance department can't recruit workers to work at below-market wages, city officials said in court papers.

The city also won't be able to fund the $180 million needed for street repairs and $130 million for building repairs. It can't afford to replace the 60 public computers at its library system that are all more than seven years old.

San Bernardino filed for bankruptcy on Aug. 1, 2012, projecting it would run out of money in less than two months. The city that sits about 60 miles east of Los Angeles has suffered from double-digit unemployment and lower tax revenue from fallen property values.

Throughout the case, San Bernardino officials found ways to save money aside from cutting the amount of debt it faced. The city began using county-employed firefighters instead of its own and contracted out solid-waste disposal, recycling and sweeping services.

City leaders stopped paying retiree health benefits, though they will continue making full payments into the pension fund run by California Public Employees’ Retirement System, also known as Calpers. The system distributes payments to thousands of retired city workers—often their lone source of income, court papers said.

The city decided to make pension payments even though federal judges in charge of other large municipal bankruptcy cases ruled that pensions could indeed be cut.

The restructuring plan also doesn’t call for any immediate tax increases on its residents.

“The city came in in financial chaos, and it’s leaving in much better shape,” Judge Jury said Tuesday.

The plan aims to pay 1% of $209.3 million owed to retirees for health-care claims, families who have won police brutality lawsuits and other unsecured debts.

A European bank owed $51 million in bond debt will be paid 40% of its claim over 30 years. The bank’s lawyers argued that, by law, the bonds should be paid at a higher rate. City officials disagreed.

Lawyers who handled the bankruptcy of Detroit, the largest city in U.S. history to file for chapter 9 municipal bankruptcy, had to similarly balance cutting debts between retirees and certain Wall Street firms who stood, by law, to be paid a better rate. Detroit leaders reached a deal with all of the major creditors before emerging from bankruptcy in December 2014.

THE WALL STREET JOURNAL

By KATY STECH and ZUSHA ELINSON

Dec. 6, 2016 7:01 p.m. ET

Write to Katy Stech at katherine.stech@wsj.com and Zusha Elinson at zusha.elinson@wsj.com

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Judge Approves San Bernardino, California's Plan to Exit Bankruptcy.

SAN FRANCISCO — The judge overseeing San Bernardino, California’s municipal bankruptcy said on Tuesday she would approve the city’s plan to restructure its finances, according to a spokeswoman for the city.

An official confirmation order is expected by late January, spokeswoman Monica Lagos added in an email to Reuters.

U.S. Bankruptcy Judge Meredith Jury in recent months has been signaling support for the Southern California city’s plan to emerge from Chapter 9 bankruptcy after four years.

The plan involves slashing bondholder debt and retiree healthcare costs while protecting pensions.

San Bernardino’s financial restructuring also includes folding its fire department into San Bernardino County’s fire services district as a cost-cutting measure.

Hit by the 2008 financial and housing foreclosure crises as well as years of budget mismanagement, San Bernardino declared bankruptcy in July 2012 with a $45 million deficit.

The case is In re City of San Bernardino, in U.S. Bankruptcy Court, Central District of California, No. 12-28006

By REUTERS

DEC. 6, 2016, 7:12 P.M. E.S.T.

(Reporting by Jim Christie; Editing by Bernard Orr)

Chicago School Board Approves Revised Budget With $215 Million Hole.

CHICAGO — The Chicago Board of Education on Wednesday approved a revised fiscal 2017 budget that accommodates a new teachers' contract, but contains a $215 million funding gap for pensions.

The spending plan for the fiscal year that began on July 1 was increased by $55 million to $5.5 billion to reflect an additional contribution of surplus tax increment financing money from the city of Chicago. That money will cover higher costs from a new four-year contract with the Chicago Teachers Union that the board ratified on Wednesday.

Chicago Public Schools (CPS), the nation's third-largest public school system, is struggling with pension payments that will jump to about $720 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency. The fiscal woes have pushed credit ratings on the district's $6.8 billion of general obligation bonds deep into the junk category and led investors to demand fat yields for its debt.

Illinois Governor Bruce Rauner last week vetoed a bill to give CPS a one-time $215 million state payment to help cover pension costs.

CPS officials on Wednesday blasted Rauner's action, while contending there is still time to pressure the governor and state lawmakers to restore the money.

"We will not allow Chicago students, most of them poor and minority, to be held hostage," said CPS Chief Executive Officer Forrest Claypool.

If the effort fails, School Board President Frank Clark said the district was prepared to deal with the budget gap in January.

The board also reaffirmed its approval for issuing up to $840 million of bonds backed by a new $45 million a year property tax levy earmarked solely for capital expenses.

On Tuesday, CPS released a preliminary prospectus for a $500 million bond sale secured by that revenue stream and not the district's junk-rated general obligation pledge. A CPS spokeswoman said the timing for the bonds' pricing is subject to market conditions.

Richard Ciccarone, president and CEO of Merritt Research Services, an independent municipal bond research and data provider, said the new type of CPS credit could attract investors who have avoided the district's GO bonds.

“The buyers are still going to demand a higher rate,” Ciccarone said.

By REUTERS

DEC. 7, 2016, 6:21 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Chicago Schools' New Debt Deal Tops U.S. Muni Sales Next Week.

CHICAGO/NEW YORK — The financially struggling Chicago Board of Education next week will sell a new type of debt, armed with an investment grade rating from Fitch Ratings based on the bonds’ ability to withstand a bankruptcy filing.

The $500 million of capital improvement tax bonds slated to price through Barclays Capital are secured by a new property tax levy earmarked exclusively for capital spending and not by the school district’s junk-rated general obligation pledge.

That money would be considered special revenue in a “hypothetical” municipal bankruptcy by the district, allowing debt service payments to continue as bondholders retain a lien on the tax collections, according to the debt issue’s legal opinions. The Chicago Public Schools cannot file for bankruptcy under Illinois law.

Fitch assigned the bonds an A rating, eight steps above the district’s B-plus junk rating with a negative outlook.

Alan Schankel, a municipal bond strategist at Janney Capital Markets, said the new bonds should fetch lower yields than the district’s February GO bond sale, when yields hit a whopping 8.5 percent.

“I suspect pricing will still be well into high yield territory given lack of Moody’s and S&P ratings as well as relative novelty of Fitch’s rating approach,” he said.

Earlier this week some of the school system’s longer-dated GO bonds yielded as much as 380 basis points over Municipal Market Data’s benchmark triple-A scale, according to MMD.

The deal is the largest of the $4.3 billion of U.S. muni bond and note sales scheduled next week.

The light issuance could help stabilize the market near term, especially with December redemptions on track to be the largest in 25 years, Barclays analysts wrote on Friday.

Munis suffered in the wake of the presidential election, with the 30-year yield jumping 82 basis points to 3.35 percent between Nov. 7, the day before the election, and Dec. 1.

Yields have since dropped, closing at 3.12 percent on Friday.

“This week’s massive rally is at the very least a little puzzling to us and feels artificial,” Barclays wrote.

The rally is “too far, too fast” because concerns remain about how munis would be affected by changes to tax policies and the Affordable Care Act under President-elect Donald Trump.

Barclays said fund outflows are the biggest threat to the market. Investors drained $9.5 billion from muni funds over the last four consecutive weeks, according to data from Thomson Reuters' Lipper service.

By REUTERS

DEC. 9, 2016, 4:54 P.M. E.S.T.

(Reporting by Karen Pierog in Chicago and Hilary Russ in New York; Editing by Daniel Bases and James Dalgleish)

Curb to Compost Toolkit.

Americans want to live more sustainable lives. Can governments keep up?

Adam Ortiz gets asked a lot about composting. As director of the Department of the Environment for Prince George's County, Md., he says residents ask him all the time if the county can provide curbside pickup. "When I tell them we're working on it but aren't quite there yet, they respond, 'OK, we'll do it ourselves,'" Ortiz says. "People are paying an extra $20 to $30 a month to have a private contractor come and pick up their little bucket of food scraps."

Prince George's County, just outside Washington, D.C., is no stranger to composting. It runs one of the biggest food scrap operations in the country. For 25 years now, the county has been collecting leaves and grass clippings that it then processes into a trademarked mulch product called Leafgro. In just the last three years, the county has expanded the program to include food scraps. But the public clamor for composting has grown so rapidly that Ortiz says he can't set up a curbside program fast enough. "We cannot meet the demand," he says. Referring to the county's current composting program, Ortiz adds, "We already have a waitlist of 30 communities and institutions."

Ortiz's story is familiar to many city and county officials across the country. Curbside composting programs have doubled in the last five years, from around 100 communities in 2011 to at least 198 across 19 states today. Indeed, according to the U.S. Composting Council, those numbers don't even tell the whole story. In lieu of curbside composting, dozens of municipalities have formalized drop-off programs for residential food scraps, and entrepreneurs offer curbside subscription services that, in some cases, have grown as large as 4,000 households.

Responding to that existing public demand is important, says Ortiz. People clearly "want to live a 'closed loop' or more sustainable way of life," he says. But government is driving demand, too. Last year, the U.S. Department of Agriculture and the Environmental Protection Agency set a national goal of reducing food waste by 50 percent by 2030. (Right now, 95 percent of the food disposed of in the U.S. ends up in a landfill, where it emits methane and contributes to global warming.) Many cities have also set waste diversion goals. Austin, for example, wants to reduce the material sent to landfills by 90 percent by 2040, and Milwaukee has a goal of diverting 40 percent of its waste from landfills by 2020. What's more, several states and cities either ban food scraps and yard waste from landfills or mandate that they be recycled.

With so many policies in effect calling for composting, curbside programs and drop-off centers are expected to continue growing steadily. The structure of these programs will undoubtedly vary from city to city. Challenges such as upfront costs, siting and permitting new facilities, and resident resistance can shape what a composting program looks like.

Frank Franciosi, executive director of the U.S. Composting Council, says all these barriers can be eliminated by developing a detailed and concise plan with “a good public relations program showing the benefits of using compost from both a horticultural view as well as an environmental view,” he wrote in an email.

To that end, the council has developed a toolkit with guidelines for local governments on how to set up a program, from building awareness to managing program logistics. The council also offers model legislation to help states upgrade their current rules regarding siting and permitting. “Zoning is one of the biggest obstacles when private commercial compost manufacturers want to site and build a facility,” says Franciosi.

As for the added costs for outreach, source separation, signage and additional containers, Franciosi says, “Cities should look at this as an investment for future growth and sustainability. One must calculate the cost of doing nothing against the cost savings of valuable landfill space. What are the costs for increasing methane in our atmosphere?”

GOVERNING.COM

BY ELIZABETH DAIGNEAU | NOVEMBER 2016

Family Tie Clouds Nashville Bond Deals; Mayor Vows Changes.

The financial firm employing the son of the top adviser to Nashville’s last two mayors has earned almost all of the city’s bond underwriting deals in recent years without having to competitively bid for the contracts.

Four of the last five bonds issued by Metro agencies have been underwritten by Piper Jaffray, which employs the son of Rich Riebeling, who is a top aide to Nashville Mayor Megan Barry and is the city’s chief operating officer. Barry has continued her predecessor’s practice of awarding bond underwriting contracts without a competitive bidding process.

In response to questions from The Tennessean after weeks of investigation, Barry’s administration has committed to change the way underwriting contracts are awarded. Finance Director Talia Lomax-O’dneal will oversee bond issuances, instead of Riebeling, and a new solicitation process will be implemented.

Though there is debate in municipal finance circles, the Securities and Exchange Commission and multiple experts say competitive bond deals tend to yield better interest rates and lower underwriting fees. Metro’s own debt management policy states that the city prefers competitive bond deals.

Under a competitive process, firms submit sealed proposals and the government picks the bid with the lowest interest rate.

After Karl Dean was elected mayor in 2007, under Riebeling’s leadership of the city’s finances, Metro switched to negotiated deals. For negotiated deals, Metro and its financial adviser can hold behind-closed-doors talks with financial firms and pick one without a public bid. Proponents of these deals say negotiated offerings allow flexibility to go to the bond markets at the optimal time.

In the past five years, Metro has used just one competitively bid bond deal.

On the other hand, the city has executed 17 negotiated bond deals in the past five years. Piper Jaffray has been the lead underwriter on nine of those deals and underwrote at least a portion of 16 issuances, according to records provided by Metro. Piper Jaffray, which is a preeminent financial firm headquartered in Minnesota, earned roughly $3.07 million in underwriting fees on those deals, according to an analysis by The Tennessean.

Metro does business with Piper Jaffray's Memphis office, where Riebeling's son Michael Riebeling works in the public finance division.

"Public confidence in transactions overseen by the Metropolitan government is important," said at-large Councilman John Cooper, who is chairman of the Council Budget and Finance Committee. "Good process protects us all. That's not to say anything has gone wrong here, but it merits asking the question for what our conflict of interest policy is."

City's debt policy calls for competitive deals

On Dec. 6, 2011, the Metro Council approved the city's new debt management policy, which states that Metro "prefers a competitive issuance process for debt issuances" but will "consider negotiated issuance … where it is clear that such process is in the best interests of the Metropolitan Government."

The Government Finance Officers Association, a nonprofit trade group of state and municipal finance officials, laid out guidelines for when a city should utilize negotiated bond deals — instances when there is low credit, a traditional bond issuance is too expensive, the structure of the issuance is complicated or if the city requires use of a minority-owned underwriting firm.

However, Metro's outside financial adviser Wayne Placide argued in a prepared statement that negotiated deals benefit the city. He said the city's bond issuances have been complicated deals that warranted a negotiated sale.

"The negotiated sale method is used for the more complex or nontraditional bond issues to allow time to explain the financing to potential investors, thereby potentially reducing or removing market uncertainty," Placide said. "Also, the negotiated sale method provides a more flexible timetable, which, during periods of high market volatility, may allow the bond issue to be sold at short notice when a favorable marketing window is perceived to exist."

But Emily Evans, who was formerly the head of the underwriting division at JC Bradford and served on the Metro Council from 2006 until 2015, said the city's bond deals are straightforward. Interest rate swaps, derivatives or forward-looking speculative deals are the kinds of issuances that may be more complicated and benefit from a negotiated sale. Evans said those kinds of deals don't apply to Metro.

"There's nothing complicated about those deals," Evans said. "In fact, Tennessee bond laws are very conservative and by virtue of that we just don't have very complicated financing in this state."

Piper Jaffray's hot streak

The Tennessean examined five years of Metro bond deals and found that until 2014, the city used a variety of underwriters selected through a negotiated process. Reputable financial firms Morgan Keegan, Morgan Stanley, Raymond James and Goldman Sachs each served as the lead underwriter on various bond issuances.

Metro issues bonds to pay for sidewalks, schools, police headquarters or other capital projects.

Since 2014, Piper Jaffray has been on a hot streak, serving as the lead underwriter on all but one bond issuance from a Metro agency. Michael Riebeling was hired by Piper Jaffray in 2012.

“Piper Jaffray takes conflicts of interest issues seriously and has robust procedures throughout our various businesses, including public finance, to avoid or mitigate perceived or actual conflicts of interest based on the facts and circumstances of each client relationship,” the company said through spokeswoman Pamela Steensland.

Rich Riebeling was Metro’s finance director and one of two top advisers to Dean between 2007 and 2015. Riebeling was picked by Barry to be her chief operating officer and still advisers her on financial matters. Before advising the mayors, Riebeling worked at Fifth Third Securities and at Morgan Keegan.

Metro changes bond underwriting after newspaper questions

The relationship between Riebeling and his son’s firm does not constitute a conflict of interest, Barry’s spokesman, Sean Braisted, said. Michael Riebeling works on a salary and has not benefited financially from the underwriting of Metro’s bonds, Braisted said.

“Based on the facts presented to me, there does not seem to be any actual conflict of interest,” said Barry, who worked as an ethicist advising health care companies before she was elected mayor last year. “However, out of an abundance of caution, steps will be taken to avoid even the appearance of a conflict going forward.”

Rich Riebeling acknowledged that once his son was hired by Piper Jaffray in 2012 he was aware of the potential for conflicts.

“After Michael accepted an offer of employment, I made clear to the management team that he could not be involved in, or financially benefit from, any work related to Metro Nashville,” he said. “To the best of my knowledge, they have never violated those conditions. Since my son has been employed with Piper Jaffray, many other firms have participated in and led underwriting transactions, and at no point was his employment ever a consideration when choosing an underwriter.”

Rich Riebeling said that going forward he will not be involved with any negotiations for bond underwriting. When he was advising Dean, Riebeling failed to list some of his personal business dealings on annual public disclosures, including real estate deals with prominent attorney Charles Robert Bone, who was hired as legal counsel for the Music City Center project. Riebeling amended his disclosure forms to show those investments.

Lomax-O’dneal, the finance director, said she would instruct Hilltop Securities, Placide’s firm that advises Metro on financial matters, to conduct an “annual, independent competitive solicitation” to compile a list of pre-approved underwriting vendors for the Treasury Office to negotiate with.

“This will ensure the continued objective selection of our underwriters, while avoiding even the appearance of impropriety,” she said.

The solicitation process described by Lomax-O’dneal is still through a negotiated sale and Metro would not necessarily used competitive bids to choose the firm proposing the lowest interest rate.

The Tennesseean

by Nate Rau

November 21, 2016

Reach Nate Rau at 615-259-8094 and on Twitter @tnnaterau.

Puerto Rico Power Utility Seeks to Extend Debt-Cutting Deal.

- Bond-purchase agreement with creditors expires on Dec. 15
- Company was sued for breaching federal racketeering laws

Puerto Rico's main electricity provider won't meet its deadline to issue the new securities needed to restructure its $9 billion of debt. Instead it is seeking to extend a long-sought resolution with creditors that is viewed as a potential guide for how other Puerto Rico agencies could cut their debt as the government runs out of cash.

Under the agreement struck a year ago, the Puerto Rico Electric Power Authority, the largest U.S. public-power provider, has to issue the new debt by mid-December as part of its bond-purchase agreement with creditors, who agreed to take a 15 percent loss by exchanging their bonds for the new securities. The utility, also known as Prepa, would use a 3.10-cent-per-kilowatt-hour surcharge to back new debt issued as a result of the deal.

The $7 to $8 billion transaction now requires approval from the federal oversight board, appointed under a U.S. rescue law known as Promesa. Javier Quintana Mendez, the utility's executive director, said to a local newspaper El Nuevo Dia that the new issuance will not proceed this year.

"Several of the RSA milestones will not likely be met by December 15," Quintana Mendez said in an e-mailed statement to Bloomberg News, using an acronym for Restructuring Support Agreement, which expires in about two weeks. "As a result, we do not anticipate that Prepa's legacy bonds will be exchanged into new securitization bonds by such date and we are beginning the process of negotiating RSA extensions with Prepa's creditors."

Jose Luis Cedeno, a spokesman for the control board, said members were not immediately available for comment.

Richard Donner, Moody's Investors Service lead analyst for Prepa, said he expects the oversight board to approve the agreement, without amendments.

"We expected it to be moved into next year because this is a very complicated restructuring," Donner said. "The deadline for the end of this year will very likely be extended as all deadlines have been."

Bond insurance companies like MBIA Inc. and Assured Guaranty Ltd. would provide the surety policies that will guarantee repayment in the event of a default. MBIA said the delay doesn't change its views on the agreement. On a Nov. 9 conference call, Chief Operating Officer William Fallon said the restructuring will likely move forward in the first half of 2017.

Robert Tucker, a spokesman for Assured Guaranty Ltd. couldn't immediately be reached for comment. Chief Executive Officer Dominic Frederico said that he expects the board to support the agreement "as currently constituted," according to a Nov. 4 conference call transcript.

The accord is the largest-ever restructuring in the $3.8 trillion municipal-bond market. Puerto Rico has been defaulting on a growing share of its $70 billion debt. Prepa's obligations would be cut by more than $600 million if the bond sale goes through. The utility's next major payment is Jan. 1, when $200 million is due, according to Mendez.

Prepa bonds maturing in 2026 traded Monday at an average price of about 64.75 cents on the dollar for a yield to worst of 10.95 percent, data compiled by Bloomberg show. That price is below the 85-cent recovery rate that investors would receive when they exchange their bonds for the new securities.

Adding to its woes, the electric utility has been sued for violating federal racketeering laws by allegedly accepting fuel oil that didn't comply with U.S. environmental regulations and selling it at a pricier, compliant fuel rate, resulting in $1 billion in overcharges.

The suit concerns suppliers such as Petrobras America, a subsidiary of Brazil's state oil company embroiled in a massive corruption scandal, that allegedly paid kickbacks to Prepa executives. Other defendants such as Shell Trading is appealing a court's decision to reject a motion to dismiss the lawsuit.

Prepa is unlikely to settle the claims in the near term, Brandon Barnes, senior litigation analyst for Bloomberg Intelligence, wrote in a note. "The defendants will likely wait on the outcome of Shell Trading's efforts to secure early dismissal of the entire lawsuit at an appeals court, as well as the next round of motions, before turning to talks."

Brunilda Torres Torres, a spokesperson for Prepa, declined to comment on the lawsuit.

Bloomberg

by Tatiana Darie

November 28, 2016 — 2:30 PM EST November 28, 2016 — 4:55 PM EST

New Jersey Averts Atlantic City Bond Default as Revival Plotted.

- No Garden State municipality has defaulted since the 1930s
- After casino collapse dealt blow, the state took control

By the end of today, Atlantic City will use $2.3 million to cover payments due on its bonds, saving investors from the toll of the seaside casino town's financial collapse.

With New Jersey seizing control of the city's finances to avoid a default, the burden is poised to fall instead on residents, municipal employees and businessmen like John Exadaktilos, the owner of the Ducktown Tavern that's a few blocks from the shuttered Trump Plaza casino. He said his property tax bill this year was $51,000, more than twice what it was over a decade ago, and is set to rise again next year.

"It's becoming harder and harder," said Exadaktilos, 40, who predicts that more local businesses will buckle under the increasing burden. "They're going to close. It's becoming too hard."

Atlantic City is the latest test for New Jersey, which hasn't allowed a local government to default or go bankrupt since the Great Depression — a commitment that's left even its distressed municipalities able to raise money for schools, roads and other public works in the bond market. This stands in contrast to what has been seen in California, Alabama and Michigan, where municipalities resorted to bankruptcy after the most recent recession to escape from debts they could no longer afford.

“Let’s say that there was a bankruptcy-type scenario in Atlantic City, the optics would bleed out to other local credits and they would be penalized by the capital markets,” said Eric Kazatsky, a municipal credit analyst at Janney Montgomery Scott in Philadelphia. “It would reflect poorly on the current administration if that happened under their watch.”

The city of 39,000 residents has been veering toward insolvency since a third of its casinos shut down in 2014 due to the proliferation of legalized gambling on the East Coast, which undercut the city’s gambling monopoly. That dealt a blow to its finances, leaving an ongoing budget shortfall of about $100 million, as revenue disappeared and casinos still opened successfully challenged their annual property-tax bills. The Taj Mahal, once owned by President-elect Donald Trump, shut in October.

In May, Governor Chris Christie signed legislation that gave local officials 150 days to draft a plan for Atlantic City’s recovery or risk being stripped of their control. Last month, New Jersey rejected the city’s plan, saying it failed to take steps sufficient for a turnaround. As a result, the state approved a takeover overseen by former state Attorney General Jeffrey Chiesa, who has the power to seek to break labor contracts, sell off city assets, or oversee a restructuring of Atlantic City’s $500 million debt.

On Nov. 9, the state imposed a $241 million budget on the city that boosted the property tax by 15 cents to $1.898 for every $100 of assessed value. New Jersey’s Department of Community Affairs said in a statement that Chiesa will take immediate steps to ensure that all debt payments are made on time while working on a long-term solution. Tammori Petty, a spokeswoman for the department, didn’t respond to requests for an interview with Chiesa.

Further tax increases or spending cuts will likely be needed, said Marc Pfeiffer, a senior fellow with Rutgers’s Bloustein Local Government Research Center.

“I think you’ve got to start bringing some finality to this process,” he said. “If you take a softer approach and try to negotiate, it could take longer and I don’t think this administration is necessarily in the mood to negotiate anymore.”

Such plans may not go unchallenged. Virginia Darnell, president of the city’s white collar union, said workers may file suit to keep employees covered by labor contracts from losing their jobs. City council president Marty Small said that while talks with Chiesa have so far been productive, the city is taking a “wait and see approach.”

“You can’t just take over Atlantic City and not take over its problems,” said Small in an interview. “They’re getting a rude awakening. It’s easy from the outside to look in and criticize, but they’ll see.”

While the loss of control has rankled city officials, New Jersey’s pledge to cover its debts has triggered a rebound in the price of its bonds, which tumbled as Atlantic City failed to shore up its finances. General obligations due in 2023, which traded for as little as 62 cents on the dollar in early May, sold for 81 cents on Nov. 29 to yield 8.7 percent. The securities were issued in 2013 for 107 cents on the dollar, or a yield of 4.2 percent.
City councilman Frank Gilliam, who criticized the city fiscal recovery plan that was dismissed by the state, said he’d prefer that bondholders ultimately share in the sacrifice, though he’s optimistic that

New Jersey will revive his town.

“I would love to have the bondholders take a haircut,” he said. “We’ve had residents and businesses carry this burden.”

“I like to use the analogy that Atlantic City is the kid that doesn’t want to take the cap full of medicine,” he said. “Atlantic City has a sickness, and we need to actually be taking the medicine.”

Bloomberg

by Katherine Greifeld

December 1, 2016 — 5:00 AM EST

[This Nonprofit Is Funding Good Ideas From People, Not Big Organizations.]

It’s part of a new philanthropic approach to improving neighborhoods.

Giacomo Ciminello had a pretty good idea: projecting massive versions of old video games onto blighted buildings. It draws people into neighborhoods they might not otherwise visit and highlights structures in need of an overhaul.

The way Ciminello got the funding to execute his plan wasn’t a bad idea, either.

The Haile U.S. Bank Foundation is a leading philanthropy in Cincinnati, routinely writing seven-figure checks to support civic functions such as schools, parks and streetcars. But lately, it’s been trying a different approach, giving money not to nonprofits, but to individuals like Ciminello.

It’s done through a spinoff of the foundation called People’s Liberty. The organization provides fellowships to a couple of people who present good ideas for making life better in and around the city; the fellowships allow recipients to take a year off to try to make their idea happen. Other grantees receive five-figure sums to carry out local initiatives that are innovative and achievable within a set time frame.

The aim is to reach beyond the usual pool of nonprofit groups and potentially tap creativity from anywhere within the community. Plenty of people bat around good ideas for revitalizing empty storefronts or overgrown lots, says Jake Hodesh, vice president of People’s Liberty. The foundation not only gives them cash, but also helps them get set up.

It’s an experiment in philanthropy that’s drawing attention from groups around the country curious about the potential upside of spreading money through unusual channels. Giving money directly to individuals carries risks, as Hodesh acknowledges. Working out the kinks with the IRS took time, and there’s clearly less accountability than dealing with a standard-issue nonprofit.

But working with individuals opens up lots of new ideas — an indoor urban gardening project, say, or educational popups teaching kids about science and music. People’s Liberty is funding an apprentice program that links retired trade workers with younger homeowners looking to rehab properties.

Ciminello says he never would have been able to afford a projector big enough to light up an entire building if not for the unexpected grant he received. “I can’t tell you how many people you come across who have a great idea but don't know where the money can come from," Ciminello says. Now, "the local preservation groups are constantly calling us to light up a block on a weekend night to highlight some activities they've got going on."

GOVERNING.COM

BY ALAN GREENBLATT | NOVEMBER 2016

San Diego Unified School District's Rating Upgrade On GO Bond Named The Bond Buyer's 2016 Far West Deal Of The Year.

In a deal shaped by an Orrick team's legal guidance, the San Diego Unified School District's rating upgrade to "AAA" on its General Obligation Bond was awarded 2016's Far West Deal of the Year by The Bond Buyer. Winners will be honored December 1 at a reception in New York.

"The San Diego Unified School District delivered a deal that smashed the template for local GO bonds in California to benefit students and taxpayers," The Bond Buyer observed. "The winners here are students who benefit from their school district's easier, more affordable market access and taxpayers who will get smaller bills because the GO bonds they authorized will pay lower interest."

For the last several years, Orrick's General Obligation Bond Group has led an effort to improve the ratings and reduce the borrowing costs associated with California General Obligation Bonds for all school and community college districts, cities, counties, and other local governments that issue them. On November 4, 2015, after Orrick helped write state legislation and then delivered a legal opinion to rating agencies on the "special" nature of the funding for these bonds, Fitch assigned a "AAA" rating to $550 million of San Diego Unified School District's 2016 General Obligation Bond.

The development was viewed as a potential sea change in the rating and sale of school district, community college district and other local agency general obligation bonds in California.

Last Updated: November 17 2016

Article by Mary Collins and John Palmer

Orrick

Upside in Puerto Rico Municipal Bonds.

Puerto Rico's new governor is intent on restructuring the island's debt.

The recent election of a new governor in Puerto Rico, and the formation of a powerful federal financial control board this summer, have resulted in some optimism about a bondholder-friendly restructuring of much of the island's $70 billion of debt.

The situation is still unsettled, but the new governor, Ricardo Rosselló, is viewed on Wall Street as a serious leader who wants to put the island on a stronger financial footing, bolster a weak economy, and work out a reasonable agreement with bondholders. Rosselló contrasts with the more combative outgoing governor, Alejandro García Padilla, who clashed with bondholder groups and then opted to default on $1 billion of debt-service payments on July 1.

Rosselló's election came after midyear, when President Barack Obama signed the Puerto Rico Oversight, Management, and Economic Stability Act, which created a seven-member control board with broad fiscal and debt-restructuring authority.

The benchmark Puerto Rico 8% general-obligation bond due in 2035 rallied after the Rosselló win, to about 72 cents on the dollar from 69 cents, but has since slipped back to about 69 cents. The market for Puerto Rico's senior sales-tax revenue bonds, known by their Spanish acronym Cofina, has been stronger, with long-term senior debt trading up to the low $70s from the high $60s in the summer, as Puerto Rico has continued to make payments to that debt.

Barron's was among the first to warn about Puerto Rico's growing financial troubles in a cover story more than three years ago ("Troubling Winds," Aug. 26, 2013).

Key future developments will be a new fiscal proposal from the incoming governor and recommendations from a task force about steps the U.S. government can take to ease Puerto Rico's financial burden.

Things should heat up in early 2017 because a stay on bondholder lawsuits ends in February—with a potential extension to around May 1. This means that a bond restructuring plan probably needs to be in place by then. There is apt to be considerable wrangling among different bondholder groups, and there is overall risk given Puerto Rico's fiscal, economic, and pension problems.

Against that backdrop, the general-obligation bonds, trading at less than 70 cents on the dollar, look like the best way to bet on a bondholder-friendly deal that could give GO holders a package worth 85 cents to 90 cents on the dollar.

Barron's

—Andrew Bary

November 26, 2016

Mississippi Tightens Bond Rules for Long-Term Debt.

JACKSON — Don't take on long-term debt to cover day-to-day expenses. Don't use credit to buy stuff that will wear out before it's paid off.

It's advice many parents give their soon-to-be adult children. And, in a nutshell, it's what the Mississippi Bond Commission says in rules it recently adopted.

The rules were written partly in response to a $308 million bond bill that legislators passed during the 2016 session.

"Nearly every year, the Mississippi Legislature passes a bond bill, authorizing debt on behalf of the state to fund projects over the long-term," state Treasurer Lynn Fitch said last week. "Typically, those bills include infrastructure projects for economic development, capital improvements for our universities and colleges, and upgrades to our health care system. This year's bill included over four dozen other projects that were far more local in their benefit and questionably appropriate for funding with the taxpayer credit card."

The new rules prohibit Mississippi from issuing bonds to pay for salaries or other recurring expenses. They say any bond project must have a life at least as long as the life of the debt. They require that specific information be submitted about each project. They also say that the Bond Commission must have "clear and convincing evidence of economic use and benefit" for any project funded with tax-exempt bonds.

The Legislature must approve bond projects. Then, the Bond Commission must vote to issue the long-term debt.

This year's bond package, House Bill 1729, included nearly $62 million for improvements on most university campuses; $25 million for community colleges; $45 million for improvements at Ingalls Shipyard in Pascagoula; $20 million for bridge replacement; and $16.6 million for the Mississippi history and civil rights museums opening in Jackson in 2017.

Among the local projects were $5 million for the Mississippi Arts and Entertainment Center in Meridian; $1.6 million for seawall replacement at the Ross Barnett Reservoir; and $1.1 million for walking and bike trails, hunting and firing ranges at Columbus Air Force Base. The bill also authorized bonds for zoos in Jackson and Hattiesburg; museums in Pascagoula, Kosciusko and Leland; tourism projects in Vicksburg; a beautification project in New Albany; a welcome center in Okolona; street repairs in Laurel and Heidelberg; and baseball field lights for the Alcorn County School District.

At their October meeting, the Bond Commission members — Republican Gov. Phil Bryant, Republican Fitch and Democratic Attorney General Jim Hood — ratified bonds for all but eight of the projects authorized by legislators.

Fitch's chief of staff, Michelle Williams, said the projects they skipped were for dams on private property in DeSoto County; a Science Exploration Center in Hattiesburg, for several reasons; a recreation center in McComb, because local officials didn't pass a resolution supporting it; a park in Mount Olive because of questions about the project's details; a seminary in Natchez, because of constitutional questions about spending public money on a religious group; for projects in Terry and Saltillo, because leaders in each town wanted to use money for items different than the ones in the bond bill; and a Tishomingo County equine center because county officials didn't know how they'd fund the local share.

Fitch said the Bond Commission's new rules, which affect future projects, are based on suggestions from financial officers' organizations and on best practices in other states. Paying off the principal and interest on bonds typically takes 20 years.

"With every man, woman, and child in the state already on the hook for over $1,700 in state debt," Fitch said, "we need to think long and hard about what we put on the taxpayer credit card."

Emily Wagster Pettus, Associated Press 5:44 p.m. CST November 13, 2016

Emily Wagster Pettus has covered Mississippi government and politics since 1994. Follow her on Twitter: http://twitter.com/EWagsterPettus.

Dallas Stares Down a Texas-Size Threat of Bankruptcy.

DALLAS — Picture the next major American city to go bankrupt. What springs to mind? Probably not the swagger and sprawl of Dallas.

But there was Dallas's mayor, Michael S. Rawlings, testifying this month to a state oversight board that his city appeared to be "walking into the fan blades" of municipal bankruptcy.

"It is horribly ironic," he said.

Indeed. Dallas has the fastest economic growth of the nation's 13 largest cities. Its streets hum with supersize cars and its skyline bristles with cranes. Its mayor is a former chief executive of Pizza Hut. Hundreds of multinational corporations have chosen Dallas for their headquarters, most recently Jacobs Engineering, which is moving to low-tax Texas from pricey Pasadena, Calif.

But under its glittering surface, Dallas has a problem that could bring it to its knees, and that could be an early test of America's postelection commitment to safe streets and tax relief: The city's pension fund for its police officers and firefighters is near collapse and seeking an immense bailout.

Over six recent weeks, panicked Dallas retirees have pulled $220 million out of the fund. What set off the run was a recommendation in July that the retirees no longer be allowed to take out big blocks of money. Even before that, though, there were reports that the fund's investments — some placed in highly risky and speculative ventures — were worth less than previously stated.

What is happening in Dallas is an extreme example of what's happening in many other places around the country. Elected officials promised workers solid pensions years ago, on the basis of wishful thinking rather than realistic expectations. Dallas's troubles have become more urgent because its plan rules let some retirees take big withdrawals.

Now, the Dallas Police and Fire Pension System has asked the city for a one-time infusion of $1.1 billion, an amount roughly equal to Dallas's entire general fund budget but not even close to what the pension fund needs to be fully funded. Nothing would be left for fighting endemic poverty south of the Trinity River, for public libraries, or for giving current police officers and firefighters a raise.

"It's a ridiculous request," Mr. Rawlings, a Democrat, said in testimony this month to the Texas Pension Review Board, whose seven members are appointed by Texas governors, all Republicans for the last 20 years.

The mayor — who defeated a former Dallas police chief to win his office in 2011 — added that he had nothing but respect for the city's uniformed safety workers, five of whom were gunned down by a deranged sniper during a protest against police shootings in July.

But that does not change the awful numbers. This month, Moody's reported that Dallas was struggling with more pension debt, relative to its resources, than any major American city except Chicago.

"The City of Dallas has no way to pay this," said Lee Kleinman, a City Council member who served as a pension trustee from 2013 until this year. "If the city had to pay the whole thing, we would declare bankruptcy."

Other ideas being considered include raising property taxes, borrowing money for the pension fund, delaying long-awaited public works or even taking back money from retirees. But property taxes in Dallas are already capped, the city's borrowing capacity is limited, and retirees would surely litigate any clawback.

This month, the city's more than 10,000 current and retired safety workers started voting on voluntary pension trims, but then five people sued, halting the balloting for now.

The city is expected to call for an overhaul in December. But it has no power to make the changes, because the fund is controlled by state lawmakers in Austin. The Texas Legislature convenes only every other year, and Dallas is preparing to ask the state for help when the next session starts in January.

One state senator, John Whitmire, stopped by the pension building this month and urged the 12 trustees to join the city in asking Austin to scale back their plan.

"It's not going to be pleasant," said Senator Whitmire, a Democrat in the statehouse since 1973. But without some cuts, "this whole thing will come crashing down, and we'll play right into the hands of those who would like 401(k)s or defined contribution plans."

To many in Dallas, the hole in the pension fund seems to have blown open overnight. But in fact, the fuse was lit back in 1993, when state lawmakers sweetened police and firefighter pensions beyond the wildest dreams of the typical Dallas resident. They added individual savings accounts, paying 8.5 percent interest per year, when workers reached the normal retirement age, then 50. The goal was to keep seasoned veterans on the force longer.

Guaranteed 8.5 percent interest, on tap indefinitely for thousands of people, would of course cost a fortune. But state lawmakers made it look "cost neutral," records show, by fixing Dallas's annual pension contributions at 36 percent of the police and firefighters' payroll. It would all work as long as the payroll grew by 5 percent every year — which it did not — and if the pension fund earned 9 percent annually on its investments.

Buck Consultants, the plan's actuarial firm, warned that those assumptions were shaky, and that the changes did not comply with the rules of the state Pension Review Board.

"The Legislature clearly ignored that," Mr. Kleinman said. The plan's current actuary, Segal Consulting, reported in July that 23 years of unmet goals had left Dallas with a hidden pension debt of almost $7 billion.

Back in Dallas, the pension trustees set about trying to capture the 9 percent annual investment returns. They opted for splashy and exotic land deals — villas in Hawaii, a luxury resort in Napa County, Calif., timberland in Uruguay and farmland in Australia, among others.

The projects called for frequent on-site inspections by the trustees and their plan administrator, Richard Tettamant. The Dallas Morning News reported that officials were spending millions on global investment tours, with stop-offs in places like Zurich and Pisa, Italy. Pension officials argued that their travel was appropriate and their investments were successes.

It was an investment right in Dallas that led to the pension fund's undoing: Museum Tower, a luxury condominium high rise. It went up across the street from the Nasher Sculpture Center, a collection housed in a Renzo Piano building surrounded by manicured gardens. The Nasher, opened in 2003, was integral to a city campaign to revitalize its downtown.

Museum Tower started out modestly, with a $20 million investment from the pension fund. But as the downtown Arts District flourished, the pension fund raised its stake, then doubled the height of the building, and finally took over the whole development for $200 million. Mr. Tettamant became the general manager.

As Museum Tower soared to 42 stories, its glass cladding acted as a huge reflector, sending the sun's intensified rays down into the sculpture center. Mr. Piano had installed a filtered glass roof, designed to bathe the masterpieces in soft, natural light. The glare from the tower ruined the effect, killed plants in the garden and threatened to damage the sculptures. The center called on the pension fund to reduce the glare. Mr. Tettamant said nothing could be done and suggested the center change its roof.

Mr. Rawlings, the mayor, brought in a former official of the George W. Bush administration, Tom Luce, for confidential mediation. But Mr. Luce resigned after five months, saying Mr. Tettamant had failed to adhere to "the conditions and spirit under which I agreed to serve."

Before long, The Dallas Morning News published a long exposé of the fund's real-estate holdings, raising serious questions about its claimed investment success. Some retirees began to clamor for a criminal investigation. The mayor demanded a full audit.

When the audit was done, it showed that the investments were indeed overvalued, and that the fund was in deep trouble.

Mr. Tettamant, who was dismissed in 2014, said he believed he was being blamed for problems he did not cause.

"The Dallas mayor has a vendetta against me," he said in an interview. "I never made any real estate investments. The board made all the investment decisions, and I was not a board member."

In April, the Federal Bureau of Investigation raided the offices of CDK Realty Advisors, a firm that helped the pension fund identify and manage many of its investment properties. A spokesman for CDK declined to discuss the raid, but said the firm was working to resolve its differences with the pension fund.

In his meeting with the trustees, Senator Whitmire recalled that in 1993 he had voted enthusiastically for the plan that sent the pension fund on its ill-fated quest for 9 percent investment returns.

"We all know some of the benefits, guaranteed, were just probably never realistic," he said. "It was good while it lasted, but we've got some serious financial problems because of it."

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

NOV. 20, 2016

Pension Battle Pushes Precedent in Distressed California Town.

Letters sent by certified mail usually aren't how state and local governments signal they're about to breach the promise that public workers consider ironclad when it comes to retirement benefits.

But that's how Patsy Jardin, 71, of Loyalton, California, found out that she may lose much of her $48,000 annual pension because the town government failed to fund its long-term liabilities. Reading the letter delivered to her rural home made the former clerk "sick," she said in an interview. "It's my livelihood."

The board of the California Public Employees' Retirement System on Wednesday voted to cut the retirement benefits of Jardin and four others who worked for the former sawmill town of about 700 people in the Sierra Valley that quit the program. It may be the first time the largest U.S. public pension has taken such a step. Recent California municipal bankruptcies kept pensioners whole, underscoring the sanctity assigned to benefits earned by workers.

However, mounting retirement costs give many municipalities little choice, especially if they must make up for lackluster investment returns that were supposed to pay for the lifetime checks, said State Assemblyman Brian Dahle, a Republican who represents Loyalton.

"They can't bail everybody out in the same situation," Dahle said of Calpers before the decision. "There's a lot of municipalities in California, counties and cities, that are putting out a lot of their income to pensions."

Across the country, local governments are short about $2 trillion what they need to cover retirement benefits granted in boom times. Investment losses during the recession that ended in 2009, benefit increases, years of governments failing to make adequate contributions, rising retirements and fewer current workers paying into the systems have exacerbated the gap.

Sawmill Closing

Loyalton, like many other municipalities, extended retirement benefits decades ago — in 1985 — and then struggled to pay for them. The city's economic base dwindled with the 2001 closing of the Sierra Pacific sawmill and the waning of the regional timber industry.

At the most, the community employed three full-time staffers. Currently it has one full-time worker and four part-timers, said Brooks Mitchell, a councilman first elected in 2009. The City Council decided to leave Calpers because continuing to pay the same level of benefits and salaries would bankrupt the town, said Mitchell, who was picked by fellow council members to serve as mayor at that time.

In March 2013, city officially exited the retirement system. The next year, Calpers sent Loyalton a bill to cover the cost of the benefits and the unfunded liability: $1.6 million.

That's money Loyalton doesn't have. A spreadsheet from the city shows it projects ending November in the red by $2,700 as expenses exceed its cash flow of $50,600.

Calpers Notifications

"I didn't realize we would be billed right off the bat for the $1.6 million," Mitchell said. "Looking back we probably should have done a little more research."

Calpers staffers told the agency's board members that they tried to compel Loyalton to pay through 50 telephone calls and 10 collection notices, without success. Finally, on Aug. 31, they sent letters to the city saying it has 30 days or it will be in default. They also sent notices to the five former employees, four of whom had been receiving pensions, that their benefits would be reduced.

The three-paragraph missives came as a shock to Jardin and Jim Cussins, who retired in 2011 as a maintenance foreman. The council had told them pulling out of Calpers wouldn't affect them, they said.

While they blame the city's leaders, they also said the public pension system should have acted more quickly.

Benefit Reductions

"They let this go for three years and they don't contact us until the last minute?" said Cussins, 55, who relies on his $36,000 annual pension. Cussins, who filled an open council seat in 2015, didn't run for election last week and is departing the board in January.

Under the law, the pensioners could see their checks cut by 60 percent since the city is falling short by that rate to make the benefits fully funded.

In less than five minutes, the Calpers board dispatched with the Loyalton matter. It's municipal employers who make the promise of benefits, said board member JJ Jelincic.

"If they won't fund it, there's not much we can do about it," he said.

Possible Recovery

There's a chance the retirees may recoup some of their lost money. Calpers' Chief Financial Officer Cheryl Eason told board members the city pledged to cover what the pension system is cutting. But Cussins said after the meeting there was no council vote to do that, and he's considering a lawyer to sue Loyalton.

Mitchell, the councilman and former mayor, said before the vote that the pension system is playing hardball because of its financial troubles. The system has about 68 percent of the assets it needs to meet obligations, and its staff has warned returns may lag the 7.5 percent target for a third year. Lower income from investments means higher payments from taxpayers to bridge the gap.

"They're going to make an example out of the little city of Loyalton," Mitchell said.
Wayne Davis, a Calpers spokesman, said the agency can't categorically say it would be the first time it cut benefits in its 84-year history, Eason characterized the situation as "uncharted territory" during a September board meeting.

The pension system "would be basically stealing money from somebody else to pay somebody who wasn't their employee" if they let the Loyalton checks continue because of the "really bad decision" by the municipal government, said Dave Low, chairman of Californians for Retirement Security, a group representing public workers.

"If it can happen here, it can happen someplace else," he said.

Bloomberg

by Romy Varghese

November 16, 2016 — 2:00 AM PST Updated on November 16, 2016 — 12:15 PM PST

[Competition Aims to Spur Local Government Consolidation.]

ALBANY, N.Y. — The Cuomo administration is offering a $20 million award for local governments that come up with the best plan for saving money and cutting property taxes by sharing municipal services.

Under the Municipal Consolidation and Efficiency Competition, teams of two or more local governments will submit plans for sharing services and reducing property taxes. The prize money will support the municipal actions. A winner will be announced in August.

Gov. Andrew Cuomo announced the competition on Thursday. He said the goal is to get local governments to band together and streamline their bureaucracies to deliver real relief to taxpayers.

The Democrat first proposed the competition in his State of the State and budget proposal last January.

Updated Nov. 13, 2016 9:49 a.m. ET

Associated Press

[Judge Directs San Bernardino, Insurers to Negotiate Bankruptcy Resolution.]

The city filed for bankruptcy protection in 2012, suffering from unemployment and low tax revenue

A federal judge told San Bernardino, Calif., officials to negotiate with an insurer to gain access to money that would have gone to families who have filed lawsuits claiming police brutality, an issue that's again delayed the exit of the city of 200,000 from bankruptcy.

Judge Meredith Jury said Tuesday that another bankruptcy judge will mediate a dispute between city leaders and insurance administrators over coverage for major lawsuits, including the police litigation.

She set a Dec. 6 hearing to determine whether the city can leave bankruptcy protection after more than four years.

"I wish I ruled this afternoon because I pretty much knew what I was going to do," she told lawyers in her Riverside, Calif., courtroom. Judge Jury was originally expected to rule on the city's exit from bankruptcy last month, but the insurance issue prevented her from doing so.

The city had filed for bankruptcy on Aug. 1, 2012, saying it suffered from double-digit unemployment and lower tax revenue from fallen property values.

City lawyers have proposed a 76-page plan that would pay 1% of $209.3 million owed to retirees, families who have won police brutality lawsuits and other unsecured debts. Under that plan, which Judge Jury must approve, a European bank owed $51 million in bond debt would be paid 40% of its claim over 30 years, according to documents filed in U.S. Bankruptcy Court in Riverside.

At Tuesday's hearing, Judge Jury rejected the idea that the city may be able to pay off a greater portion of its debts because of California's recent vote to legalize marijuana. The suggestion that the legalization would boost the city's sale tax revenue came from lawyers who represent a municipal entity that handles San Bernardino's solid waste disposal and hasn't been paid for that work.

"I agree it would be a nice tax source, but there are so many unmet needs," Judge Jury said, ending her remarks with "nice try."

Throughout the bankruptcy, the city found ways to save money, including reduction of staff from 600 people from 1,140. It began using county-employed firefighters instead of its own and contracted out solid waste disposal, recycling and sweeping services.

City leaders stopped paying retiree health benefits, though they will continue making full payments into the pension fund run by California Public Employees' Retirement System, also known as Calpers. The system distributes payments to thousands of retired city workers—often their lone source of income, court papers said.

The city decided to make pension payments even though federal judges in charge of Detroit and Stockton's bankruptcy cases ruled that pensions could indeed be cut.

But despite the money-saving changes and the debt elimination, city leaders concede that the plan will pay only a portion of the $56.5 million requested by the police department for the next five years. By its own financial projections, the city will pay about 40% of what is necessary to fund the city's police needs amid a crime wave, according to court papers.

San Bernardino's bankruptcy-exit plan doesn't call for any immediate tax increases on its residents.

Creditors who had the power to vote on the plan largely agreed to approve it. A total of 983 creditors who are owed $154.1 million voted to accept the plan, while 43 creditors owed $2.8 million rejected it, according to court papers.

San Bernardino, about 60 miles east of Los Angeles, was the scene of a terrorist attack nearly a year ago that left 14 people dead.

THE WALL STREET JOURNAL

By KATY STECH

Nov. 15, 2016 7:21 p.m. ET

Write to Katy Stech at katherine.stech@wsj.com

California Voters Approve Record Number of Local Tax and Bond Measures.

The results of Tuesday's election indicate a continuing confidence in local government in California and the importance of the services provided by cities, counties, special districts and schools. California considered over 650 local measures on Nov. 8 and approved a record number of local taxes and bonds. They approved over $32 billion facility bonds including $23 billion in school construction bonds and $7.2 billion in transit and other local public facility improvements. The full preliminary report is available online. It will be updated as new results become available.

Among the 224 non-school local revenue measures were 12 measures asking for a total of $7.266 billion in bonds including the $3.5 billion Bay Area Rapid Transit (BART) Measure RR covering three

San Francisco Bay area counties, the $1.2 billion Los Angeles homeless housing and services Measure HHH and Santa Clara County's $950 million affordable housing Measure A.

There were 88 measures to increase or extend Transactions and Use Tax (Sales Tax) rates. Thirty of these were special (earmarked) taxes requiring two-thirds voter approval. These include 13 countywide measures for transportation improvements. There were 58 city and county majority vote general purpose tax proposals ranging from 0.25 percent to 1 percent.

There were 39 city, county and special district parcel taxes requiring two-thirds voter approval, including five street/road improvement measures, eight for parks/recreation/open space, 14 for fire /emergency medical response, four for hospitals, and four for police.

Coinciding with the statewide Proposition 64 that legalizes recreational marijuana in California, there were 63 local measures related to cannabis including 39 to impose local taxes on marijuana. There were also three measures to tax sugary beverages (in Albany, Oakland and San Francisco).

League of California Cities

November 10, 2016

Kentucky Rolls Out its P3 Law in Lexington: Nossaman

The National Council for Public Private Partnerships (NCPPP) and the Kentucky Chamber of Commerce recently concluded on October 28 a very well-attended two day conference in Lexington, Kentucky on the Commonwealth's new public-private partnership (P3) enabling legislation, the so-called "HB-309." HB-309's chief drafter, Rep. Leslie Combs, was on-hand, participating in nearly every panel discussion, either as a panelist or from the audience. Rep. Combs reflected on HB-309 "as if she were a proud mama," and her and fellow Kentuckians' enthusiasm for its flexibility and broad applicability was evident. Secretary Don Parkinson, of the Kentucky Tourism, Arts and heritage Cabinet, noted in lunchtime remarks that Kentucky's border states each had enabling legislation for P3s, and that the time had come for Kentucky to consider this procurement tool as a means by which to grow Kentucky's economy and solve some of Kentucky's challenges.

The conference, subtitled "Opportunities and Obstacles," indeed identified and discussed both. At once a primer on P3s and collection of government decision-makers revealing their plans, the conference gathered people from all over the country to learn about P3 opportunities in the Commonwealth. With over 200 participants, representatives from the architects/engineers, construction, development, banking, university, legal and municipal/county communities engaged in active discussions about P3s, what they are, how they work and most critically, how a P3 comes to be in Kentucky. Active social media participation during the conference (#kyp3) recounts many discussions, insights and perspectives relevant to Kentucky.

HB-309 affords state and local governments in the Commonwealth both to initiate P3 procurements and to entertain unsolicited proposals for P3 projects. A series of processes within the legislation are drafted to support transparency in the process. The Kentucky Finance and Administration Cabinet recently promulgated amended proposed regulations to implement the law. On a notable panel, the general counsels from the Kentucky Finance and Administration Cabinet, the Kentucky Tourism, Arts and Heritage Cabinet and the Kentucky Transportation Cabinet discussed candidly their respective Cabinet's efforts to create internal infrastructure capable of handling unsolicited P3 proposals and organizing for possible P3 procurements.

The Kentucky Chamber and NCPPP anticipate working together to continue to educate interested parties and citizens in the Commonwealth about P3s.

USA November 2 2016

Nossaman LLP – John P. Smolen

Chicago Board of Education to Issue Bonds as Finances Improve.

Plans $426 million in general obligation municipal bonds next week

The Chicago Board of Education is preparing to issue $426 million in general obligation municipal bonds next week, according to credit ratings firm Fitch Ratings.

The deal would be the first open market bond sale by the troubled school system since February, when it struggled to issue $725 million of bonds amid tepid investor demand.

The bonds are scheduled to be sold via negotiation in five tranches, according to Fitch, which will rate the deal B-plus with a negative outlook, reflecting the likelihood that the school district's costs will continue to outpace revenues amid acrimonious interaction with Chicago's teachers union. Proceeds of the bond sale will repay some of the school board's higher cost bonds, reimburse previously paid swap termination payments and fund capital improvements.

The transaction will be a litmus test of market sentiment toward Chicago public schools now that it has reached a contract agreement with the teachers union, narrowly averting a planned strike.

Many investors balked at buying the bonds issued in February out of fear that the school system might run out of cash.

When the board of education needed more money in July, it opted to issue $150 million of bonds directly to a single bank, J.P. Morgan Chase & Co., to avoid the risk that investors might shy away once again.

Investors grew more confident in ensuing months as the school district made more budget cuts, secured new state aid and tax revenues, and clinched a deal with its teachers. The price of the 7% bond due 2044 that issued in February has risen to around 105 cents on the dollar this week from 84 cents when it was originally sold, according to data from Electronic Municipal Market Access.

THE WALL STREET JOURNAL

By MATT WIRZ

Nov. 8, 2016 4:17 p.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com

A One-Cent Soda Tax Gets Expensive in California.

In this most contentious of elections, you wouldn't think that a soda tax would be the issue to attract the big bucks. But measures in just two California cities have drawn more money than that state's Senate race and statewide referendums on marijuana legalization and gun control — combined.

Soda taxes are on the ballots in San Francisco and Oakland, Calif., and spending to persuade citizens to vote for or against them has topped $50 million — enough to buy every person in those two cities about 100 cans of Coke, at least if you bought them in bulk.

On the pro-tax side are big donations from billionaires: Michael Bloomberg, the former mayor of New York, and Laura and John Arnold. And opposing them are the companies in the deep-pocketed beverage industry, which is outspending them by a ratio of about 3 to 2.

The battle is the biggest so far by health advocates in their efforts to reduce the consumption of sugary carbonated soft drinks that they say leads to obesity, diabetes and tooth decay.

The idea of taxing sugar-sweetened beverages, which the measures would do, was initially an esoteric idea hashed out in medical journals. Some municipal officials showed interest, but, until recently, no soda tax got far. The failure of 40 tax measures around the country reflected public skepticism about the idea, often seen as a nanny-state intrusion. But it also reflected the lopsided investment of industry to defeat them.

Recently, the tide has begun to turn, helped in part by big donations from Mr. Bloomberg. Two years ago, Berkeley, Calif., became the first city in the country to pass such a tax. Mr. Bloomberg got involved late in the effort, when it became clear the law had a chance of passing. (San Francisco had its own failed soda-tax initiative that year; it won a majority of votes but failed to clear a supermajority threshold, a bar it won't need to clear this time.)

In June, Philadelphia passed its own soda tax through the City Council. The beverage industry spent about $10 million there, but Mr. Bloomberg weighed in too, contributing about $1.6 million of the $2.5 million spent to support the bill.

Albany, Calif., another community in the Bay Area, is also voting Tuesday, though there has been less direct spending there. Boulder, Colo., will vote on a 2-cent-per-ounce soda tax measure Tuesday. And Cook County, Ill., which includes Chicago, is to consider a soda tax measure later this month.

Public sentiment on soda is also shifting. Many Americans now say they are trying to avoid the products, and national sales of such drinks have been slipping.

The Bay Area initiatives are expensive prizes. Unlike Philadelphia, where much of the battle was fought through lobbying, both California tax proposals must win passage by a majority of voters. That means both sides have invested in big public outreach campaigns.

Citizens have been inundated with pro- and anti-soda tax TV and radio commercials, and mailboxes are filled with direct mail from both sides. Canvassers are making phone calls and going door to door in the final days of the campaign. Dan Newman, a political consultant with SCN Strategies, who is working on the pro-tax campaign, said the volume of messages about the measures dwarfs the 2014 effort.

"It was intense and expensive, and folks were amazed in talking about it," he said of 2014. "And it was nothing like this."

The tax battle has also prompted accusations of skulduggery. The soda industry enlisted the help of several local grocers to pose for mailers and state their opposition to the tax. Several of them, later approached by pro-tax advocates and reporters, said they had been misled about the nature of the tax proposal. Others have become the subjects of negative Yelp reviews and threatened with boycotts, what an anti-tax campaigner described as “intimidation.”

The measures are similar in both cities: They would impose a tax of one cent per ounce of any drink with added sugar, including sugary soft drinks, iced teas and smoothies. The taxes would be imposed on beverage distributors, not at the checkout registers. The emerging evidence from existing soda taxes suggests those higher prices will be passed through to retailers and then to shoppers. If they are, they could result in a price increase of 67 cents on a two-liter bottle, or $1.44 for a 12-pack.

Those higher prices are intended to discourage shoppers from consuming so many sugary drinks, which have been linked to obesity, diabetes and tooth decay. The pro-tax side has been emphasizing the negative health effects of soft-drink consumption, and arguing the tax will make the city’s children healthier.

Research from Mexico, which passed a national soda tax in 2014, shows that the taxes can drive down soda consumption. But it is not known yet whether those reductions will result in better health.

The industry argues that the taxes have no clear connection to public health and that they will fall disproportionately on low-income shoppers. In California, they have also been arguing that the taxes could result in higher prices for other items at the grocery store as retailers try to spread the rising wholesale cost of soft drinks over other products. But there is no research from Berkeley or Mexico that advocates could cite to support the notion.

A local coalition of anti-tax advocates, led by the American Beverage Association, a trade group for drink-makers, began sending direct mail months earlier than is typical for a ballot initiative.

Susan Neely, the association’s president, said her organization was committed to fighting soda taxes on every front. “We oppose them wherever they are introduced — that is a clear position that we have staked out,” she said. “That is not going to change.”

There has been little public polling on the measures, though consultants on both sides said they have been polling privately, and the vote will be close. The complexity of the city’s ballots this year makes predicting a result hard. In San Francisco, voters are considering more than 40 initiatives, including two separate measures about plastic shopping bags. The beverage tax is fairly far down on both ballots, which means some voters may grow fatigued and fail to weigh in.

The New York Times

BY Margot Sanger-Katz @sangerkatz

Nov. 6, 2016

New Jersey Moves to Take Control of Atlantic City.

The State of New Jersey moved on Wednesday to take control of Atlantic City, having lost patience with the financially troubled gambling resort’s inability to pay its bills.

Over the objections of Atlantic City’s elected officials, the Local Finance Board in Trenton unanimously approved a five-year state takeover to stave off a bankruptcy filing by the city. The decision would give the head of the finance board the power to sell municipal assets, renegotiate union contracts and fire city employees.

“It’s an incredible responsibility, one that I’ve lost sleep over the last few weeks,” Timothy Cunningham, the head of the finance board, told reporters, according to The Associated Press. “I’m sure I’m going to lose sleep tonight.”

It was not immediately clear what authority the city’s Republican mayor, Donald Guardian, or its elected council would retain. Mr. Guardian said before the vote that the city would go to court to assert its rights to manage its own affairs.

Afterward, Mr. Guardian released a statement that said that a five-year recovery plan drawn up by the city “would have saved the state a substantial amount of money and would have allowed us to maintain complete local sovereignty.” He said the city would continue to work with the state but would “keep all of our options on the table.”

Other New Jersey cities, including Camden, have been placed under state supervision in the past, but the state has granted itself more authority to take direct control in Atlantic City, said Marc H. Pfeiffer, assistant director of the Bloustein Local Government Research Center at Rutgers University.

“This is a new process,” Mr. Pfeiffer said. “We’ve never done a process like this before.”

In 2002, the state assigned a chief operating officer to help sort out Camden’s financial problems. One of the changes that ensued was the dissolution of the city’s police department and the transfer of authority to patrol Camden to the county police.

“Camden is effectively not on the critical list any more” and is in better shape than Trenton and Paterson, Mr. Pfeiffer said. “Atlantic City’s fiscal problems are far more critical that those of Trenton or Paterson.”

Atlantic City, which has around 39,000 residents, has sunk deep into debt as much of its lifeblood, the money that gamblers lose at its casinos, has been drained away by Pennsylvania and other neighboring states that have legalized gambling in recent years.

Three years ago, Atlantic City had 12 casinos, two of which had once been controlled by Donald J. Trump, the president-elect. But five of the 12, including the Trump Plaza and the Trump Taj Mahal, have shut down as the industry’s annual revenue has been cut in half in the past decade.

During that period, the value of the city has plunged to about $6 billion from $21 billion, Mr. Pfeiffer said. But the city has not adjusted its budget to account for that sharp decline in fortunes, he said.

“The city’s not dead,” he said. “They haven’t been able to get their expenses under control to live within their circumstances.”

The state had ordered the city to submit a five-year plan for solving its financial problems. But last week, the commissioner of the state’s Department of Community Affairs, Charles A. Richman, rejected that plan, concluding that the city was “not likely to achieve financial stability” without raising taxes or taking more drastic actions.

The city has few assets that it could sell to pay down its $500 million of debt. City officials have been loath to divest the most valuable of them, the local water utility, operated by the Municipal Utilities

Authority. The city also owns a defunct airport, Bader Field.

Rather than selling the utility, city officials proposed another idea: having the utility issue bonds and using the proceeds to buy the airfield for $100 million. Mr. Richman said that would not be “prudent fiscal management.”

Mr. Pfeiffer said that the state might opt to dissolve the Municipal Utilities Authority and sell the utility company or enter into a long-term contract with an outside entity for its operation. But city officials have made it clear that they would sue to stop such a move.

THE NEW YORK TIMES

By PATRICK McGEEHAN

dNOV. 9, 2016

S&P Pushes Credit Rating for Chicago Schools Deeper Into Junk.

CHICAGO — S&P Global Ratings on Wednesday dropped its credit rating for the cash-strapped Chicago Public Schools (CPS) deeper into junk ahead of the district’s planned $426.3 million bond sale.

The rating fell one notch to B with a negative outlook, putting it just two notches above the substantially risky triple-C level.

“The rating action reflects our view of the district’s continued weak liquidity in its most recent cash flow forecast and reliance on cash flow borrowing, combined with the increased expenditures in the district’s new labor contract that exacerbate the district’s structural imbalance challenges,” S&P analyst Jennifer Boyd said in a statement.

S&P warned that the rating stands at least a one in three chance of falling further over the next year. The credit rating agency has raised concerns over the school system’s ability to obtain cash flow financing and a one-time $215 million pension funding boost from the state of Illinois. That money is contingent on the long-shot passage of state-wide pension reform by the legislature this year.

The nation’s third-largest public school system is struggling with pension payments that will jump to about $720 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency.

As CPS’s ratings have fallen into the junk level, the municipal bond market has demanded fat yields for its debt. Even a private sale of $150 million of 30-year GO bonds by CPS in July to J.P. Morgan came at a 7.25 percent yield, which was 513 basis points over the yield for AAA-rated bonds on Municipal Market Data’s (MMD) benchmark scale.

CPS heads to the bond market in the wake of approval by the Chicago Teachers Union last week of a four-year contract with a retroactive start date of July 1, 2015.

The district plans to refund $160 million of outstanding general obligation bonds and sell new debt through JP Morgan Securities and Loop Capital Markets. A pricing date was not immediately available from a CPS spokeswoman.

Fitch Ratings on Monday affirmed a B-plus rating and negative outlook on the district's $7.1 billion of outstanding bonds.

By REUTERS

NOV. 9, 2016, 3:39 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by Leslie Adler)

Fitch: Revenue Bond Vote May Slow or Stop California Water Fix.

Fitch Ratings-San Francisco-04 November 2016: Approval of Proposition 53 by California voters next week would likely slow or prevent a $17.1 billion water project known as the California Water Fix, Fitch Ratings says. The project's timing and cost are important to the state's water and sewer utilities. Even if Proposition 53 is not approved, the long-term plan for the project will remain controversial.

Proposition 53, if approved, would require revenue bonds issued by the state of California exceeding $2 billion dollars to be approved by two-thirds of voters. General obligations bonds, which are paid with taxpayer dollars, already require voter approval. Revenue bonds, which are paid by user fees including water rates, do not.

The timing and cost of the California Water Fix (the Fix), formerly known as the Bay Delta Conservation Project, are important to California's water and sewer utilities as they will likely pay for it and pass those costs on to end users. However, the process used to implement rate increases in California can be lengthy and many utilities are already passing on other costs due to drought-related conservation and other regulatory changes.

The State Water Control Resources Board eased its conservation mandates in May 2016. The statewide mandate of 25% was largely met, resulting in lower water sales and revenues for utilities. In fiscal 2016 many water issuers experienced weaker metrics and sought rate increases or alternate rate structures to mitigate the financial impact.

Issuers that already had rate structures with high fixed components in place or other structures that allowed them to adjust quickly were better positioned to absorb the decline in demand.

The Fix's cost is estimated at $17.1 billion. This figure includes mitigation, operations and maintenance and would be paid by the public water agencies that use the water it supplies. The cost to end users is anticipated at approximately $5 per month.

The Fix is intended to increase the reliability of water supplies through the Bay Delta via the State Water Project. The California Department of Water Resources and US Bureau of Reclamation released a revised biological assessment in July and an incidental intake permit application last month. The plan proposes the construction of two 45-mile long tunnels and three intakes on the Sacramento River and may produce an average annual yield of 4.9 million acre-feet.

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

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Colorado's Record Number of School Bond Measures Raking in Donations from Varied Interests.

Almost $2 million has poured into campaigns working to pass Colorado's 10 largest school bond requests from a range of interests that could benefit, a Chalkbeat review has found.
The donations are mostly from unions, education reform groups, construction companies and companies that sell the bonds.

While contributors say the money is needed to get the message out about school district needs, potential ethical and legal landmines exist if donors are hired to see bond projects through.
More than 60 school bond and tax measures are on Colorado ballots this year seeking more than $4.2 billion in funding — a record number of measures, and a record dollar amount.

Continue reading.

Chalkbeat

By Yesenia Robles
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Illinois: Public Policy Groups Put Up Caution Signs on Transportation Amendment.

SPRINGFIELD — With Election Day just around the corner, public policy organizations are urging voters to put to proceed with caution on a proposed amendment to the Illinois Constitution that would create a "lockbox" for transportation funding.

The Center for Municipal Finance at the University of Chicago's Harris School of Public Policy and the bipartisan Center for Tax and Budget Accountability are among the latest to issue warnings about the unintended consequences of the so-called "Safe Roads Amendments" and the difficulty that would be involved in rectifying them if voters on Tuesday approve the measure.

Supporters of the proposal, including road builders, labor unions, and lawmakers and organizations across the political spectrum, say the measure is necessary because the General Assembly too often has diverted money intended for roads and other transportation infrastructure to pay for unrelated expenses.

As Mike Sturino, president and CEO of the Illinois Road and Transportation Builders Association and a spokesman for Citizens to Protect Transportation Funding, put it last month: "This measure is about better accountability in Springfield. It's about enhancing the safety of our transportation infrastructure, and it's about growing our economy through having a great transportation network."

While those goals are admirable, critics say, amending the state constitution to achieve them would be an extraordinary step.

“The fact that this is a constitutional amendment is something that people should take into consideration very carefully,” said Amanda Kass, assistant director of the Center for Municipal Finance, “because once it’s approved, once it’s part of the constitution, that’s very difficult to change.”

If the amendment receives support from either 60 percent of those voting on the issue or a majority of those voting in the election as a whole, it would take another amendment to make any changes. The soonest that could happen would be in 2018.

“Because of the number of questions there are about the amendment’s ultimate impact, voters don’t really know what they’re voting on,” Kass said. “You don’t really know what you’re going to get with this.”

The Center for Municipal Finance says the proposal is vaguely worded and “may result in more revenue streams, at both state and local levels of government, than intended being restricted to a limited number of transportation related expenses.”

As one example, the Center for Tax and Budget Accountability, which calls the proposal “bad policy for Illinois,” points to the roughly $30 million in revenue the Department of Natural Resources receives annually from license plate and vehicle title fees. The amendment may restrict the department to using that revenue only for transportation-related expenses.

“That is clearly transportation-related revenue based on … a plain reading of the amendment … but that’s not money that’s currently meant to be used for transportation services,” senior policy analyst Daniel Hertz said.

In response to questions about the amendment, the department has issued the following statement: “When election results are known for the Lockbox Amendment, staff will do any evaluations necessary to determine its potential impacts on IDNR’s budget.”

Supporters have said that if the amendment passes, follow-up legislation could be used to help clarify what counts as transportation-related revenue and how it can be spent. But that legislation would be subject to judicial interpretation.

Kass added, “There’s a bit of an irony to proponents saying, ‘Oh, well, lawmakers are going to clean up the implementation,’ because part of the argument for this … is that lawmakers have misspent transportation funds … and yet we’re going to trust those same lawmakers to write the rules about how this amendment is supposed to work.”

THE SOUTHERN ILLINOISAN

DAN PETRELLA

THE SOUTHERN SPRINGFIELD BUREAU

Updated Nov 2, 2016 0

[Moody's Withdraws 4 U.S. Public Finance Local Government Obligors for Lack of Sufficient Information.]

New York, November 02, 2016 — Moody's Investors Service has withdrawn the ratings of 4 U.S. public finance local government obligors, affecting approximately $94 million of outstanding debt, due to insufficient information.

The affected obligors are:

Hattiesburg (City of), MS

Hattiesburg (City of), MS Water and Sewer Enterprise

Miller County Nursing Home District, MO

Muleshoe Area Hospital District, TX

SUMMARY RATING RATIONALE

Moody's has withdrawn the ratings because it believes it has insufficient or otherwise inadequate information to support the maintenance of the ratings. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on our website, www.moodys.com.

REGULATORY DISCLOSURES

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Opinion: North Dakota’s Public Bank Is Funding Police Repression at Standing Rock.

The brutal repression of indigenous and allied protesters at Standing Rock has shocked the conscience of fair-minded Americans, particularly those advocating economic and ecological reform. Although the protesters had in some cases been encroaching on “company land,” they had done so peacefully, and their chief modes of political action have been prayer and nonviolent civil disobedience. The crackdowns of the last few weeks have seen attack dogs and rubber bullets causing bloody injuries to protesters, detention and malicious prosecutions, and other dehumanizing behavior from the cops and soldiers deployed there by North Dakota Governor Jack Dalrymple.

For those of us in the public banking movement, used to holding up the Bank of North Dakota (the nation’s only public bank) as an example of how promising public banks are, the recent news that Dalrymple and an emergency spending panel voted to add $4 million in additional credit onto a $10 million line from BND, to fund law enforcement expenses at Standing Rock, is troubling. It means BND is using its heralded public power over fractional reserve banking to pay for those rubber bullets and a host of logistical expenses involved in arresting and evicting protesters the federal government has refused to evict, citing free speech concerns.

This financing is part of one of BND’s core functions: providing emergency loans. A more positive deployment of that function happened in 1997, when BND provided emergency loans for the Grand Forks flood, at a time when communities desperately needed loans before receiving slow-moving FEMA reimbursements. Unlike the need to abuse peaceful protesters, the flood was a real public emergency–the flooding caused structure fires and destroyed dozens of buildings via fire or water. Property losses in Grand Forks topped $3.5 billion. There were 50,000 evacuees. BND provided over $70 million in funds for relief.

The Bank of North Dakota was conceived a century ago in the molding of distinctly American, agrarian-socialist populism. North Dakota farmers were in trouble, getting cheated by the big banks and big grain companies headquartered in Minneapolis and Saint Paul. Those entities knew they had farmers at their mercy, and so all the interest rates were double-digit, all the loan terms were unfavorable (and less favorable to those who relied on them the most), and as the grain companies operated every grain elevator along the railroad route; those companies offered farmers destructively low prices, often cheating on tonnage because the farmers had nowhere else to go.

In 1915, led by a struggling farmer named A.C. Townley, a group of North Dakotans formed the Nonpartisan League to push back against those powerful grain and banking interests. The NPL ended up taking political power in the state, creating both the Bank of North Dakota and the North Dakota Mill and Elevator. Today, those two public utilities are the only institutions of their kind under any state government in the U.S. They’ve long outlived the NPL, whose inexperienced political leaders were subject to constant attacks and red-baiting from big business interests, exacerbating NPL infighting and corruption, culminating in the recall of Governor Lynn Frazier, alongside whom the state legislature had created one of the most progressive state agendas in American history.

Since then, for understandable reasons, BND has been militantly apolitical. BND President and CEO Eric Hardmeyer has explicitly repudiated arguments that the BND ought to be a model, despite his effective touting of its successes. The Bank exists to help the state and its businesses function well and to maintain liquidity and economic stability. BND created the infrastructure for North Dakota's oil boom, and if the state were to commit to a truly proactive transition to renewable and clean energy (it has taken baby steps), the BND would make it happen financially–with an efficiency that would put the rest of the country to shame.

But in the present political reality, cops and soldiers are brutally cracking down on Standing Rock protesters, and BND is funding it, and that makes BND not truly apolitical, but a facilitator of injustice. Public banks are tools, not sources of virtue in themselves. In the hands of bad policymakers, they can prop up bad policies.

So what do we do with this unfortunate knowledge, besides continuing to support the Standing Rock protesters, calling the governor regularly (if you do, please mention that using BND to finance repression is shameful), and pushing for a just and sustainable transition to clean energy (including economic support for energy sector workers and their families)? What do these unfortunate events teach us about our movement?

First, the awful actions in North Dakota don't undermine the idea of public banking. If anything, they're more evidence against private ownership and shareholding in both fossil fuels and the financial sector. In financing those rubber bullets and smoke bombs, BND is paying the security costs of private corporations, subsidizing the worst of big oil capitalism. But as my colleague, Ira Dember, pointed out to me yesterday, North Dakota is rich in wind and is building wind farms. That four million dollars could have been better lent to develop additional wind resources and technology, and to train workers to transition from oil fields to wind farms and more. That depends on a larger movement, which I'll talk more about below.

Second, the actions illustrate the folly of pushing for state and local control without accompanying universal human and environmental rights. Economic and environmental justice advocates have long promoted local autonomy as a bulwark against big corporations and their puppets in national and state government. But local governments (often pushed by state legislators and governors) can do violence to indigenous communities just as they have enforced segregation and lynchings in the South. Human rights and environmental protection must be encoded in national and international norms and these norms need to have a complimentary and non-oppressive relationship with local communities. That makes our coalition-building and policy-making tasks bigger and more challenging. It makes allies and communication more important, and demands clarity about various movements' and organizations' ethical frameworks.

Third, you can't keep people you disagree with ideologically out of single-issue movements. Sometimes this can be frustrating: There are all sorts of people in the public banking movement, including a few supporters who aren't committed to ending fossil fuel consumption, and even weirder and more disturbing, a tiny handful of extremists who want to take down big private banks because they associate banking with Jews. Thankfully, those toxic forces don't show up in any significant numbers (and the Public Banking Institute has explicitly repudiated them). While the movement is primarily white and bourgeois, there are powerful non-white, non-bourgeois voices in it, and its alignment with the New Economy Coalition and other economic justice coalitions helps considerably. It matters who you do your activist business with.

Finally, whatever your own organization's commitment to justice, the policies and institution your movement creates, if it is lucky enough to create them, will only be as socially positive and ethically correct as the people working inside of them, and the communities overseeing them. Public banks can fund a post-carbon, sustainable energy transition–but only if people successfully demand a post-carbon, sustainable energy transition. Public banks can create safe and prosperous communities for all, but only if that's what communities are already committed to.

Public banking advocates, in particular, ought to emphasize the ways public control of state and municipal finance can fund new structures of work and production that neither exploit nor extract. That has always been the most powerful argument for public banks: that they can produce justice because as community-controlled entities, we can make them just.

Posted on Nov 4, 2016

By Matt Stannard / Cowboys on the Commons

Matt Stannard is policy director at Commonomics USA and was formerly on the Public Banking Institute's board of directors. The views expressed in this post are his own.

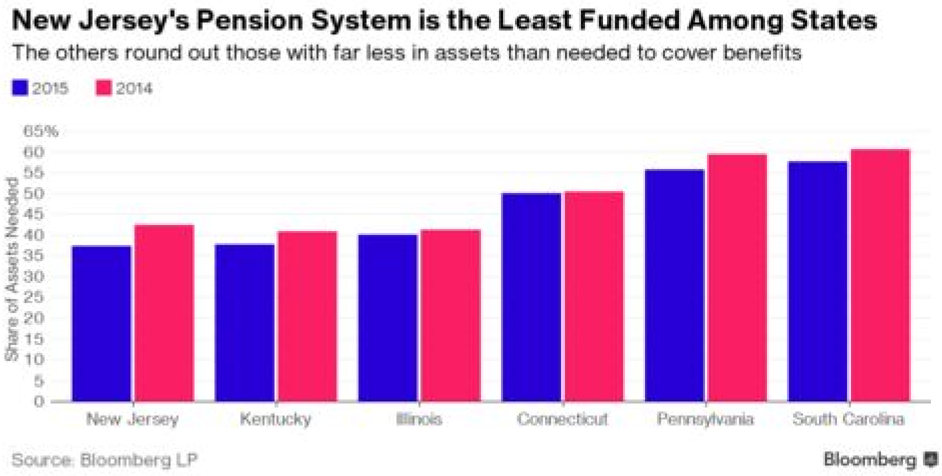
[New Jersey Tops Illinois as State With Worst-Off Pension System.]()

New Jersey became the state with the worst-funded public pension system in the U.S. in 2015, followed closely by Kentucky and Illinois.

The Garden State had $135.7 billion less than it needs to cover all the benefits that have been promised, a $22.6 billion increase over the prior year, according to data compiled by Bloomberg. Illinois's unfunded pension liabilities rose to $119.1 billion from $111.5 billion.

The two were among states whose retirement systems slipped further behind as rock-bottom bond yields and lackluster stock-market gains caused investment returns to fall short of targets. The median state pension had 74.5 percent of assets needed to meet promised benefits, down from 75.6 percent the prior year. The decline followed two years of gains. The shortfall for states overall was $1.1 trillion in 2015.

"It's a long-lived problem and a long-lived solution," said Natalie Cohen, managing director for municipal-securities research with Wells Fargo Securities LLC in New York. "Unfortunately, the solution is ugly, long, hard and requires everybody to sit down at the table together."



Pressure on governments to increase pension contributions has mounted because of investment losses during the recession that ended in 2009, benefit increases, rising retirements and flat or declining public payrolls that have cut the number of workers paying in. U.S. state and local government pensions logged median increases of 3.4 percent for the 12 months ended June 30, 2015, according to data from Wilshire Associates.

State and local pensions count on annual gains of 7 percent to 8 percent to pay retirement benefits for teachers, police officers and other civil employees. The funds are being forced to re-evaluate projected investment gains that determine how much money taxpayers need to put into them, given the recent run of lackluster returns.

Large pension shortfalls may lead to cuts in services as governments face pressure to pump more cash into the retirement systems, Cohen said. Illinois, whose effort to roll back benefits was struck down by a state court, owes vendors $9 billion and is behind on payments to schools and universities. In Connecticut, state spending on retired teachers' pensions is set to surge 28 percent, $282.7 million, next fiscal year, the Connecticut Mirror reported Tuesday.

"The crowding out is pretty obvious," Cohen said. States can't file bankruptcy, which gives them less leverage than municipalities to negotiate benefit cuts, she said.

Broad numbers mask big difference in the health of public pensions between states. While New Jersey only has 37.5 cents available to pay each $1 of benefits, South Dakota, the state with the best-funded pension, had $1.04, according to data compiled by Bloomberg. Kentucky, the state with the second-worst funded retirement system, had a ratio of assets to liabilities of 37.8 percent, followed by Illinois at 40.2 percent.

New Jersey and Illinois' pension liabilities have led to credit-credit rating cuts and higher borrowing costs relative to other governments. The Garden State 10-year bonds yield about 2.5 percent, or 0.8 percentage point more than top-rated debt and the second highest among 20 states surveyed by Bloomberg. Illinois pays the highest, 3.7 percent.

In New Jersey, a proposed constitutional amendment supported by public-employee unions that would have mandated the state to make the full actuarially required contributions by 2022 failed to make it on the ballot this November.

In May 2015, the Illinois Supreme Court struck down a 2013 pension overhaul saying it violated the state constitution's ban on reducing worker retirement benefits. The ruling highlighted the lack of legal flexibility some states have in addressing their pension funding deficits.

Oregon's pension funding levels declined by 11.7 percentage points in fiscal 2015, the most among states that report liabilities under Government Accounting Standards Board rules that made it more difficult for some plans to minimize the scale of their unfunded liabilities. Oregon's pensions are 92 percent funded, lagging only North Carolina and South Dakota.

Alaska was the only state whose pension funding increased among states that have adopted the new standards.

Bloomberg

by Martin Z Braun

November 2, 2016 — 2:00 AM PDT Updated on November 2, 2016 — 7:21 AM PDT

Hedge Funds Face Off Over Puerto Rico as Recovery Effort Begins.

Hedge funds that piled into Puerto Rico bonds are mounting a battle against each other in court, seeking to shelter their investments from the island's escalating series of defaults.

Arms of Aurelius Capital Management, Stone Lion Capital Partners and other owners of general-obligation debt, which is given top priority under the island's constitution, are seeking to block Governor Alejandro Garcia Padilla from steering sales-tax revenue to bondholders with a claim to the funds. On Oct. 24, sales-tax debt holders requested that U.S. District Court Judge Francisco Besosa temporarily halt the litigation, a step he declined to take when asked to do so by Puerto Rico.

"It's natural that investors in these two different types of securities would pursue all legal remedies that are present to improve their returns and to try to lock in the best possible treatment in the restructuring," said Ted Hampton, a Moody's Investors Service analyst in New York.

The litigation marks a push by bondholders to win a leg up as Puerto Rico heads toward a new phase aimed at ending its long-building debt crisis. A U.S. board is just beginning its effort to help oversee an orderly way to cut $70 billion of debt backed by varying revenues and legal safeguards, a step that eluded Garcia Padilla during months of on-and-off negotiations. If some creditors balk, the board can try to foist losses on them in court, an option the Puerto Rican governor didn't have.

Congress moved to forestall legal wrangling in the meantime by ordering a stay on lawsuits by creditors seeking to force Puerto Rico to honor its debts. The G.O. bondholders claim the administration directed money away from the general fund, which they say violates the federal rescue law, called Promesa, enacted this year. They also say Puerto Rico cannot pay its sales-tax debt while defaulting on general-obligation bonds.

"Puerto Rico's constitution could not be clearer — general-obligation debt has the first claim on Puerto Rico's available resources, including sales taxes," Andrew Rosenberg, a partner at Paul, Weiss, Rifkind, Wharton and Garrison who is advising a group of G.O. bondholders, said in an e-mail.

The clash between the hedge funds centers on the island's two largest classes of debt, a $30 billion chunk that carries the strongest repayment pledges. Puerto Rico's constitution states that general obligations must be repaid before other expenses, while the sales-tax bonds, known by the Spanish acronym Cofina, have a first claim on that revenue. GoldenTree Asset Management LP, Merced Capital LP and Whitebox Advisors LLC are among senior Cofina bondholders that have sought to head off the G.O. lawsuit.

Cofinas are one of the few Puerto Rico securities not in default, and Garcia Padilla's administration continues to allocate sales-tax revenue every month to its bond trustee. The commonwealth and its agencies have missed about $1.8 billion of principal and interest since August 2015, including a $780 million general-obligation payment on July 1. Another $360 million is owed on the bonds in January.

The Cofina bondholders are asking the court not to redirect the sales-tax revenue to the general fund.

"Diverting Cofina's sales and use tax revenue would constitute a violation of our legal property rights, which are protected under both the Puerto Rico and U.S. constitutions," Greg Marose, spokesman for the senior Cofina investors at Edelman Financial Communications in New York, said in an e-mail.

Garcia Padilla's last restructuring offer gave general-obligation bondholders a recovery of 83.5 cents on the dollar, compared with 80 cents on senior sales-tax bonds, according to the commonwealth's last bondholder offer in June.

That's higher than where the bonds are trading. General obligations maturing 2035 with an 8 percent coupon changed hands Wednesday at an average 68.7 cents, data compiled by Bloomberg show. Senior Cofina debt with a 5.75 percent coupon and maturing 2057 traded Tuesday at 71.8 cents.

While the two classes of debt may ultimately receive similar recoveries through negotiation or in court, the constitutional pledge for the general obligations gives those investors a strong legal argument, said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

"I have a hard time understanding how the commonwealth can make a promise that's stronger than its own constitution," Fabian said. "That defies my understanding of promises."

Puerto Rico began selling Cofina bonds in 2007 as a way to get around the island's debt limit. The proceeds repaid loans the commonwealth owed to its Government Development Bank and helped to cover budget deficits. A court could ultimately view the sales-tax debt as unconstitutional because it allowed Puerto Rico to avoid its debt ceiling mandate.

"It does appear as though the Cofina bondholders have some issues at risk," said Phil Fischer, head of municipal research at Bank of America Merrill Lynch in New York.

Bloomberg

by Michelle Kaske

November 3, 2016 — 2:00 AM PDT

Cash, No Credit: Libertarians Shake Up Minneapolis Suburb.

CRYSTAL, Minn. — When most cities want to build something — a water plant, a convention center — they borrow the money on the bond market and pay it off over time with interest. Not Crystal, a middle-class suburb of Minneapolis.

It paid $13 million in cash when it needed a new public works building, taking the money from its savings accounts and shrinking the city's reserves by nearly one-quarter.

Pay-as-you-go wisdom or long-term financial folly? However it eventually works out, the decision is just one example of how the Crystal City Council approaches civic issues a bit differently. The reason: A majority of its seven members are Libertarians or are sympathetic to the party's philosophy of maximum personal freedom and minimum government.

In fact, the bedroom community of 22,500 people has the highest proportion of Libertarians in power of any elected body in the U.S., according to the party. No Libertarian serves in Congress, and just four sit in state legislatures.

For voters who can't stomach either Hillary Clinton or Donald Trump and are thinking of casting their ballots for Libertarian presidential candidate Gary Johnson, Crystal provides a window — admittedly a very small one — onto how the party's principles might apply in the real world.

In addition to paying cash for civic improvements, Crystal has undertaken a cleanup of the municipal code to get rid of ordinances considered outdated, unenforceable or just plain silly. And it has all but eliminated the city's human rights commission. At the same time, in a seeming departure from Libertarian principles of thrift, the city has raised property taxes and water and sewer fees.

"I know a lot of fears that are out there: If Libertarians get into government, they're going to be cutting government," Libertarian council member Casey Peak said. "The reality is we just think differently because we come at it with a different core mentality."

Crystal is a city of well-kept homes, built mostly in the 1950s and '60s, with big leafy trees. The population is about 80 percent white and tends to vote heavily Democratic in statewide and national races.

Peak was elected in 2012 and recruited other Libertarians and like-minded people to run for the council two years later, leading to the current five-member majority.

The results have dismayed some of their political adversaries.

"They're inexperienced to the max," said former Mayor ReNae Bowman, a Democrat trying to regain the seat she narrowly lost in 2012. "They don't know what they're doing."

She and other candidates running to replace the Libertarian bloc in November say the council is mismanaging city finances, squandering tens of thousands of dollars on the municipal code just to "move periods and commas around," as Bowman put it, and inviting community divisions by abandoning the human rights commission.

Peak defended the project to overhaul the code, which is as thick as an unabridged dictionary. He said several parts had become "almost unenforceable" because they referred to state laws that have been eliminated or rewritten. None of the revisions fundamentally changed policy, he said.

"Finally, the pool table at the community center is going to be legal," said Mayor Jim Adams, who is not a party member but considers himself "liberty-minded." "Because you can't have a pool table within so many feet of a city building."

As for the human rights commission, which was set up in the civil rights era to advise the council on eliminating discrimination in the city, it still exists on paper, but there's nobody on it.

Peak said that even under the previous mayor, it was difficult to find people to serve on the commission and that it no longer had a clear purpose, holding events that weren't "Crystal-centric," such as forums against genocide.

John Budziszewski, who is challenging Peak to regain a seat on the council, said: "It's heartbreaking. I'm astounded by what these people are willing to do just in order to get their point across."

In 2015, the newly seated council decided against issuing bonds to finance the public works building because that would have meant debt, something Libertarians don't like. The mayor said the move saved the city more than $1 million in financing costs. The building opened just over a year ago.

That decision and others have reduced the city's reserves from about $54 million before the Libertarians gained control to $37 million today. That's still considered healthy for a city of Crystal's size, said finance director Charles Hansen, a longtime civil servant who says he stays out of politics.

Nevertheless, the city might have to consider raising money on the bond market for big future projects, he said.

If that happens, it would not be the first time the Libertarians had to abandon their small-government, tax-cutting approach when faced with real-world concerns.

The alliance split in September when the City Council raised property taxes nearly 8 percent. One of the Libertarians, Councilwoman Olga Parsons, said she voted in favor because she thought the budget was already lean and she didn't see anywhere to cut spending.

Parsons said she adheres to a philosophy of "personal liberty, property rights, personal responsibility," but also takes things "one issue at a time."

The Libertarian bloc was united on a vote to raise water and sewer charges 25 percent, saying it was the most cost-effective way to save for repairs and pay the higher rates Minneapolis is charging to tap into its water. Peak said the increase works out to only a few dollars per quarter for most households.

Critics said the tax increases are a direct result of the Libertarians' financial mismanagement: Their use of cash to pay for infrastructure has depleted reserves and left the city unable to produce the kind of investment income that for years helped hold down taxes.

Bowman also complained that people who disagree with the Libertarian agenda are being shut out of or driven off advisory panels.

"We're poorer and more disenfranchised than we ever were," she said.

Crystal's experiment with Libertarian governing has drawn little attention, even within the city. Because the council is officially nonpartisan, few residents seem to have noticed.

Carol Harbison, 66, follows council meetings on cable and said her dealings with her Libertarian-leaning councilman have been positive.

"I'm very happy with city government," she said. "I think it works well."

By THE ASSOCIATED PRESS

OCT. 31, 2016, 1:04 P.M. E.D.T.

State Rejects Atlantic City Fiscal Plan, Can Seek Takeover.

ATLANTIC CITY, N.J. — Gov. Chris Christie's administration rejected a financial turnaround plan by Atlantic City, enabling it to move forward with a threatened takeover of the struggling seaside gambling resort's assets and major decision-making power.

The state Department of Community Affairs on Tuesday rejected a five-year turnaround plan in which the city would lay off 100 workers, cut spending and sell its largest tract of vacant land to its water utility, with the money helping pay down its $500 million debt.

Commissioner Charles Richman said the plan didn't bring enough stability to Atlantic City's finances and relied on legally dubious asset transfers to raise most of the money with which it intends to pay down the debt.

"I would have much preferred to leave management of the city's recovery in the hands of its municipal officials," Richman wrote in his decision. "However, I am constrained by the plan the city has placed before me. The enormous problems confronting the city did not occur overnight. City leadership has had ample time to improve the city's financial condition, yet has avoided doing so in any meaningful way. The plan is not likely to achieve financial stability for the city."

City Council President Marty Small, a Democrat, called the decision "misinformed, misguided and biased."

"The fix was in, and it will be dealt with," he said. "This is far from over."

Mayor Don Guardian, a Republican as is Christie, has promised to appeal an adverse decision in court. He called on Christie to hold off on imposing a takeover to give the city a chance to address the state's concerns, even as he warned, "We will fight this until we cannot fight any longer."

Democratic Assembly Speaker Vincent Prieto lamented the decision.

"Taxpayers better now beware," he said. "State takeovers of school districts have been disastrous. The administration needs to immediately detail whether a takeover would cost taxpayer money and how much. It must also detail whether it will push a property tax hike upon Atlantic City residents that the city's plan showed was unnecessary."

The proposed takeover would give the state vast authority over Atlantic City's affairs, including the right to dissolve agencies, cancel decisions by local elected officials and sell off assets, including land and a water utility coveted by private operators.

Richman stopped short of saying the state intends to use that authority. Spokeswoman Tammori Petty said deciding whether to do so is "the next step" for the state Local Finance Board but gave no timetable for a decision.

Some of Richman's criticisms of Atlantic City's plan include that it underestimates debt service over the next five years by approximately $18 million; assumes it will receive $31 million more in redirected casino investment taxes than is likely; and overstates property tax revenues by $20.5 million.

Richman also faulted the city for not including tax increases as part of its recovery plan and said the proposed $110 million sale of the city-owned Bader Field former airport property to the city's municipal utilities authority is "structurally flawed." That sale would've raised the largest share of money the city intended to use for debt reduction.

Atlantic City's financial situation has worsened as its casino industry continues to contract. Five of the city's 12 casinos have gone out of business since 2014.

In 2006, casino revenues were $5.2 billion; last year they fell to $2.56 billion. As the casinos' value decreased, they won numerous reductions in their tax assessments, making it impossible for the city to fund the level of spending it had when times were better.

By THE ASSOCIATED PRESS

NOV. 1, 2016, 6:30 P.M. E.D.T.

Gov. Brown Opposes Voters' Say on Big Bonds.

SACRAMENTO (CN) — As voters await the presidential election, California Gov. Jerry Brown is focused on a statewide proposition he spent millions of dollars to suppress. If approved, Proposition 53 could stop work on two multibillion-dollar public works plans that Brown considers his legacy projects.

Coined the “Stop Blank Checks” initiative, Proposition 53 would sap decision-making power from legislators and state officials and require voter approval for megaprojects that seek $2 billion or more in revenue bonds.

Decades of borrowing, often with voter approval, have swelled California’s state debt to more than $330 billion. And the Golden State is pouring billions more into its largest-ever public works projects: a high-speed bullet train and a $16 billion Delta tunnels water project.

Fiscal conservatives, including the Howard Jarvis Taxpayers Association, have united behind Proposition 53. The proposal would reroute control over multibillion-dollar bond decisions from bureaucrats to the taxpayers who foot the bill, said David Wolfe, legislative director at the Howard Jarvis Taxpayers Association.

“Unelected bureaucrats can basically approve these [bonds] willy-nilly without transparency for really big projects that frankly might not generate any revenue,” Wolfe said.

Critics of the constitutional amendment, including Brown and a host of public safety groups and local governments, call Proposition 53 “terribly written” and “dangerous,” due to its potential to stall infrastructure projects and the state’s response to natural disasters.

“Prop. 53 irresponsibly fails to contain an exemption for natural disasters or major emergencies. That flaw could delay our state’s ability to rebuild critical infrastructure following earthquakes, wildfires, floods or other natural or man-made disasters,” the California Professional Firefighters warned in a statement.

The measure landed on the statewide ballot thanks to the deep pockets of California farmer and former Brown supporter Dean Cortopassi. He spent more than $4.5 million promoting and collecting signatures to place the measure on the November ballot. Cortopassi failed to qualify a similar measure for the 2014 election.

Proposition 53 calls for a state constitutional amendment requiring statewide voter approval of any government project financed with more than $2 billion in state revenue bonds. If the state wants to issue major revenue bonds, it would need to poll voters in a special or general election.

At issue are revenue bonds which are typically repaid by money generated from the completed public project for which they were issued. Bridge tolls, increased water rates and airport fees are examples of fees used to repay revenue bonds.

Usual buyers of state-issued revenue bonds include municipal bond mutual funds, investment banks and hedge funds. Revenue bonds can be attractive to investors because they carry a higher interest rate than state-issued general obligation bonds.

While general obligation bonds require voter approval because they are repaid with General Fund revenue, California officials can issue revenue bonds without asking voters.

Officials can also dig up revenue for projects through a less commonly used method known as lease revenue bonds. Lease revenue bonds generate funding for projects not expected to bring in revenue, such as state buildings or prisons.

Proposition 53 critics say the state's revenue bond policy doesn't need a tune-up because there is no risk in bureaucrats issuing bonds that are bought by private parties.

Supporters say the state's credit rating could drop if it doesn't repay the large bonds.
Requiring state officials to justify issuing major bonds is a common-sense proposal, particularly with the small amount of mega projects, Wolfe said.

"I can only think of three projects over the last 15 years that would have or will be impacted by this. It's not like there is going to be 30 different projects on the ballot every two years for people to approve," Wolfe said.

States such as Arkansas, Missouri, Louisiana and Oregon require voter approval on some or all types of revenue bonds, as do Santa Clara and San Diego counties, according to the Yes campaign.

Robert Wassmer, state and local public finance professor at California State University, Sacramento, said taxpayers can be better off when governments issue revenue bonds, not general obligation bonds.

"Revenue bonds are actually safer for citizens and the government because the only thing that is backing them is the project itself," Wassmer said.

He said the state would be highly unlikely to default on revenue bonds because it would jeopardize future projects by damaging its reputation and credit rating with borrowers.

Proponents say the measure won't affect local government projects or borrowing, and that allowing voters from different regions to have a say on projects hundreds of miles away is not a real risk.

The Yes campaign cites several examples of voters approving projects in faraway regions, including improvements to San Francisco Harbor and special projects on University of California campuses.

Brown and his deep war chest adamantly oppose Proposition 53.

According to the California Secretary of State's website, Brown's campaign has donated more than $4 million to fight the proposition and opponents have outraised supporters by nearly a 3-1 margin. In recent weeks, supporters have ponied up more than $7 million against Proposition 53, including donations from Brown, Hustler Magazine founder Larry Flynt and the Kaiser Foundation.

The No campaign says allowing voters in faraway regions to assert control over local projects creates an unpredictable scenario. They rebut the proposition's language that local projects are exempted, noting that cities forming joint power authorities with the state are included in Proposition 53.

Loren Kaye with the California Chamber of Commerce used the proposed Sites Reservoir in rural Colusa and Glenn counties as an example of a project that could be delayed by uninterested voters in Southern California if the measure passes.

“People in L.A., San Diego and the Bay Area would be able to vote on the project. It really flies in the face of local control,” Kaye said.

The No campaign says the measure is really about stalling the California WaterFix, better known as the Delta tunnels project.

In its official ballot argument, the opposition paints Proposition 53 as a measure “financed entirely by one multimillionaire and his family, who are spending millions in an attempt to disrupt a single water infrastructure project.”

Cortopassi, Proposition 53 author, once sat on the board of Restore the Delta, an anti-tunnels coalition. He has also sued the state for allegedly mismanaging the Sacramento Delta and supported Brown’s attorney general campaign in 2006.

The project calls for twin 40-foot-wide, 35-mile long tunnels to reroute water from the Sacramento-San Joaquin River Delta into southbound aqueducts. The water would eventually reach Central Valley farmers and Southern California residents in a theoretically more efficient manner than the state’s current water project.

Critics also take issue with Proposition 53’s potential impact on the Golden State’s ability to respond to natural disasters and other emergencies. It does not include an exemption for emergencies, so the state may need to wait for voter approval to repair damaged water systems or freeways under Proposition 53. And as California hosts the most active and longest earthquake faults in the nation, opponents say, that’s a risky proposition.

Kaye cited California’s 2000 energy crisis, when the state was forced to buy mass amounts of electricity with billions in revenue bonds. Proposition 53 could restrict the state’s ability to handle another emergency by restricting revenue bond use, Kaye said.

“The fact is, we don’t know what sort of emergencies might befall the state and that’s why they are emergencies. It’s irresponsible to not have a safety valve for emergencies,” Kaye said.

The fiscal conservatives say that in the event of a major earthquake or other disaster, California would still be able to seek immediate federal relief funding if the measure passes.

The state’s nonpartisan legislative analyst says most state projects won’t come close to the $2 billion price requirement, but because the measure does not clearly define what a “project” is, it would be up to the courts to decide what is considered a single project.

“A broader definition could result in more projects meeting the $2 billion requirement, thus requiring voter approval,” the analyst’s report states.

Wassmer said the proposition is an opportunity for Californians to be more involved in the state’s planning of mega projects.

“People are going to get rich off the tunnels and the high speed rail,” Wassmer said. “The idea is to bring voters in and let them weigh in on them.”

COURTHOUSE NEWS SERVICE

By NICK CAHILL

Thursday, October 27, 2016

Cities Are In Trouble. The State Hired Him to Help.

LANSING – For more than 10 years now, Eric Scorsone has helped diagnose the illnesses of local governments and written prescriptions that could be hard for some to swallow.

In 2012, the Michigan State University economist worked with the city of Lansing and, as part of a committee, helped craft a 60-page analysis of the city's strengths and weaknesses, along with nearly 60 recommendations for a sounder budget. Among the suggestions: pension reform and asking more from employees for retiree health care, selling City Hall and trimming some services.

Earlier this year, he did the same with the city of East Lansing.

Those tough decisions were easier to make, in part, because of Scorsone's sober, data-driven analysis and his personable demeanor, said former Lansing mayor Dave Hollister, who served on the city's Financial Health Team with Scorsone.

"He is likable. He is low-key, so he doesn't come on as strong (or) pushy on a particular point of view," Hollister said. "He comes across as a very thoughtful scholar."

Now Scorsone has taken that measured wonkiness from MSU and into a modest corner office at the state Treasury in downtown Lansing, where the 46-year-old Saginaw native is the new senior deputy treasurer for finance.

His appointment comes as cities, villages, townships and counties across Michigan struggle to climb out of the Great Recession amid slow property tax growth, less money from the state, and rising long-term debt on pensions and retiree health care costs.

Some people say local government's in crisis, and Scorsone is the point man on finding a fix.

"Working on these issues for the last 10 years, I think for me (this job) was a chance to get back into government and see if I could make a difference," Scorsone told the State Journal last week. "You can do that from outside government, to an extent, but it's not going to be the same. You often have to be on the inside to effect change."

'Numbers always have a context'

Scorsone arrived in Chicago in 1989 to attend business school at Loyola University, searching for a way to make numbers make a difference in people's lives.

"I was always interested in public policy and government, from a pretty young age," he said. "I didn't know what that would translate into. I was in business school but economics seemed to be more policy than accounting or finance."

He earned his bachelor's in 1993, then came home to Michigan to earn his master's from MSU in 1996. He served one brief stint in the private sector, working for an agriculture firm, before launching a long career mixing academia with civil service.

He was a research assistant at Colorado State University before he joined Colorado state government as an economist in the governor's budget office. Then on to the city of Aurora, Colo. — he earned his doctorate from Colorado State in 2001 – before joining the University of Kentucky.

In 2005, his wife was ready to return to Michigan, and he just happened to see a job posting at MSU.

“That almost never happens in academia, but it worked out that way,” he said.

Over the last 11 years, he delved as deep as anyone into the minutiae of municipal finance and the policy that affects it, studying long-term pension costs, the Detroit bankruptcy, the emergency financial manager law. Early this year, after his experience with the Lansing and East Lansing financial health teams, he formed the Center for Local Government Finance & Policy at MSU.

Even now, he’s still blending academia and government. He’s on a two-year leave of absence from MSU — and the local financial health teams — and will return to the university when his state appointment is finished.

In his time spent on spreadsheets, statehouses and city halls, he’s learned that even something as stoic as economics can be influenced by politics – “you have liberal economists, conservative economists, and they fight in the New York Times,” he said.

But, like the accountant-turned-governor he now calls boss, Scorsone believes hard data, plus perspective, can calm the debate.

“Numbers always have a context, so I try and use data to provide an understanding of alternatives and consequences of alternatives,” he said. “Data at least tries to give us a sense of where we’re heading.”

‘A hell of a lot tougher’

Where we’re heading isn’t necessarily good.

Michigan’s economy is vastly improved from the troughs of the Great Recession. Unemployment’s low, population’s steady, the all-important auto sector is humming along.

But local governments have structural issues baked in that are already straining many and will ensnare others into the future. Long-term pension debt is becoming an ever-larger share of municipal budgets, pulling from other essential services, as retiree costs climb and governments’ income remains relatively flat.

“It’s not gonna be everybody’s in a crisis, but I think the pressures are tremendous,” Scorsone said. “And I don’t think the problem is 10 years in the future. I do think we have to start thinking about these issues now. It is, at a minimum, consuming a large part of some municipal budgets.”

Under Gov. Rick Snyder, the state has shifted new public school teachers away from pensions, known as defined benefit plans where retirement payments are guaranteed, and into 401(k) plans, known as defined contribution plans, where the payout is not. It also made changes to the state pension plan that existed for workers hired before March 31, 1997, creating some plans that blend the pension and defined contribution savings. And employees are paying more toward their retiree health care.

Scorsone said something will have to happen with municipalities, but he isn’t sure what.

“We’re obviously thinking of ideas,” he said, “but there’s really no clear pathway at this time.”

He said some sort of pension reform will have to be paired with more government-to-government collaboration and other efficiency efforts to deliver services “at the right price.”

Among municipal government officials, there is faith that Scorsone is the right man for the job.

Michael Moquin, a former chief general counsel for the Michigan Municipal Employees Retirement System who chairs East Lansing's financial health team, said Scorsone is "very engaged and passionate about good public policy, and I think that will inform his policies and proposals that he will be involved in making that could have a positive effect on local government's finances."

But there is little faith that he's working in the right political climate. Snyder, his reputation damaged by an ongoing drinking water crisis in Flint, has only two years left in his tenure. The wildly unpopular presidential candidates on the ballot this year are throwing into question whether Republicans will maintain their six-year reign as majority party of both chambers in the Legislature.

Hollister, the former Lansing mayor who also spent two decades representing the city in the Michigan House, said the Capitol is essentially in for a two-year lame-duck session.

Municipal finance is "tough on its best days," Hollister said. "It gets a hell of a lot tougher in a lame duck. It's going to be hard for him. Even with his brilliant scholarship and his creative ideas and his no-nonsense solutions, getting the state government to act is really a challenge."

Justin A. Hinkley , Lansing State Journal 6:02 a.m. EDT October 24, 2016

Contact Justin A. Hinkley at (517) 377-1195 or jhinkley@lsj.com. Follow him on Twitter @JustinHinkley. Sign up for his email newsletter, SoM Weekly, at on.lsj.com/somsignup.

The Scorsone file

NAME: Eric Scorsone

AGE: 46

LIVES IN: DeWitt

OCCUPATION: Senior deputy state treasurer for finance, Michigan Treasury

BACKGROUND: Director/associate professor, Center for Local Government Finance & Policy at Michigan State University, 2005-current (on leave for Treasury post); chief economist, Michigan Senate Fiscal Agency, 2010; assistant extension professor, University of Kentucky, 2001-2005; analyst/planner/economist, City of Aurora, Colo., 1999-2000; economist, Colorado Office of State Planning & Budget, 1998-1999; research assistant, Colorado State University, 1996-1998; crop scout, Crop ProTech, 1996; teaching/research assistant, MSU, 1993-1995

EDUCATION: Doctorate in agricultural economics, Colorado State University, 2001; master's in agricultural economics, Michigan State University, 1996; bachelor's in economics, Loyola University of Chicago, 1993.

FAMILY: Married, three kids, ages 12, 14 and 17

'Put Bankruptcy on the Ballot!'

Activists in financially beleaguered Scranton, Pa., are petitioning for a ballot initiative that would let residents decide if the city should file for bankruptcy. It's a first-of-its-kind petition and reflects the ongoing frustrations of a city that's been "fiscally distressed" for two decades.

Scranton is one of Pennsylvania's Act 47 cities, which designates it as fiscally distressed and opens it up to aid and other resources from the state. The designation also means that the city must comply with certain fiscal requirements, such as developing a recovery plan.

But Act 47 has had its problems, the biggest being that it doesn't seem to provide enough oversight. For example in 2011, the Scranton City Council voted to lower property taxes to provide relief for residents. But the move intensified the city's budget problems, which included legacy costs, a shrinking tax base and limited access to the credit market. "Why council and executive actions that do not comply with a recovery plan are not constrained by Act 47 is a mystery," wrote Natalie Cohen, Wells Fargo's managing director for municipal research, in a recent analysis.

Another big problem is that cities languish in the program for decades. The act became law in 1987 and by 2012, 14 municipalities across the state had been in the program more than a decade. Some, like Scranton, have been in the program for more than 20 years.

The Takeaway: Scranton's recovery plan says it will exit Act 47 by the close of 2017. The city has actually made strides in recent years to stay on schedule, including settling a back pay issue that threatened to drain the city's coffers and approving some tax increases to help get its underfunded pensions back on track, among others. In short, it's making all the kinds of decisions municipalities have to make to exit bankruptcy. It's just doing so without the label.

But it's understandable, given the length of the city's fiscal distress, why residents might not have too much faith in that plan. Their frustration and skepticism is a lesson for other states — such as Michigan and New Jersey — that have oversight programs for distressed municipalities. Bankruptcy may be a label states would rather avoid, but residents might be clamoring for it if it means it'll get the job done more efficiently.

GOVERNING.COM

BY LIZ FARMER | OCTOBER 28, 2016

Most Dreaded Provision of Puerto Rico Law Seen Spurring Pact.

What some Puerto Rico bondholders dreaded the most under the creation of a federal oversight board may end up leading to a long-sought resolution to the first debt-restructuring agreement reached by the commonwealth.

After coming to terms with creditors and bond insurers in January, the Puerto Rico Electric Power Authority, the island's main electricity provider, has been unable to close the deal, in part because of seven different lawsuits in Puerto Rico courts that oppose the $9 billion workout plan and a new customer surcharge that will repay the restructuring bonds.

Both creditors and the utility had pushed forward for nearly two years on the deal under the premise that an agreement would be more beneficial to all parties rather than having the matter resolved by a judge once the oversight board was in place. It turns out that the Promesa oversight law passed in June contains a provision, called Title III, that's similar to municipal bankruptcy and forces investors to take losses while also resolving legal suits.

“That proceeding will resolve all claims,” said attorney James Spiotto, managing director at Chicago-based Chapman Strategic Advisors LLC, which advises on municipal restructurings. “It’s to prevent the annihilating litigation that leads to meltdown, because that’s in nobody’s best interest because this is a necessary public service, electricity.”

Bondholder Outlook

Under the agreement bondholders would take a 15 percent loss and wait longer to be repaid in exchange for new debt with stronger repayment pledges. While the accord is set to expire Dec. 15, the agency is working to extend the pact with creditors as it has done several times through the negotiations, according to Javier Quintana, executive director of the utility known as Prepa.

There are enormous opportunities for the board to help turn Puerto Rico around if there is the will to find consensual deals with creditors, Thomas Wagner, co-founding partner of Knighthead Capital Management, said Thursday during a Bloomberg Television interview. The New York-based hedge fund owns Prepa bonds.

“We are bullish on their long-term prospects to do that,” Wagner said. “It will probably be a rocky road as it often is, but I do think that in the long run things will go quite well.”

Not everyone is as optimistic. Prepa debt is trading below the potential 85-cents on the dollar recovery rate. Bonds maturing in 2040 with a 5.25 percent coupon changed hands Thursday at an average price of 67.9 cents, according to data compiled by Bloomberg.

A Prepa debt restructuring may offer a blueprint for other commonwealth entities seeking to lower their obligations. The control board is charged with lowering the island’s $70 billion debt load and putting in place a structure to end budget deficits that have plagued the island for more than a decade. Part of that process includes analyzing the Prepa deal and voting on whether it should move forward.

Puerto Rico officials are seeking to reduce Prepa’s debt payments so they can modernize a system that relies on petroleum to produce electricity rather than less-expensive natural gas or even solar power. The high cost of electricity has contributed to the shrinkage in economic growth over the past decade.

While the pact involves creditors holding 70 percent of the utility’s securities and no more than $700 million in existing bonds would remain after a restructuring, Title III would force all creditors to accept a workout and leave no legacy debt. It could also give the deal a court validation that would resolve the lawsuits brought by unions, business groups and customers, Spiotto said.

“The Prepa advisory team is in the process of analyzing and evaluating the different alternatives available to Prepa under Promesa to implement its restructuring plan, which may involve, among other things, the commencement of a restructuring process under Title III or Title VI of Promesa,” Quintana said in an e-mail.

Cramdown Concern

The control board would need to approve any plan to use the Promesa law to help push through Prepa’s restructuring deal. Along with reviewing its options under Promesa, the utility is working on a five-year fiscal plan that the federal board requested from certain commonwealth agencies at its last meeting on Oct. 14.

While Congress was drafting Promesa, some bondholders and insurers objected to a provision similar to municipal bankruptcy that would allow a court to force creditors to accept a debt restructuring plan. For Prepa investors who have already agreed to the 15 percent haircut, the Promesa law could help to finally execute the debt exchange.

"Getting this deal done is a priority for all parties, and once completed, Prepa can finally move forward with its revitalization," Stephen Spencer, managing director at Houlihan Lokey, which is advising the group of bondholders, said in a statement. "The Prepa deal has received Puerto Rican legislative and energy commission approval, and positive support from all sides involved, other than a few individuals vested in Prepa's stagnation and retaining the status quo."

Remaining Obstacles

Even so, the deal still faces other hurdles such as a requirement for the new bonds to receive an investment-grade rating as well as remaining political questions. The utility currently carries a junk rating.

Governor Alejandro Garcia Padilla isn't seeking re-election. It's unclear whether the next administration will allow Prepa to renew contracts. A $3 million agreement with Millco Advisors LP, an affiliate of Washington-based Millstein & Co., which is advising Prepa on the restructuring plan, expires at the end of December. A pact with AlixPartners LLP, the utility's restructuring adviser, is set to end on Dec. 15.

Ricardo Rossello, who is leading in the latest polls going into the Nov. 8 election, said he's concerned about whether the deal would lower energy costs over the long term for residents and business.

"Our preference is to create public-private alliances so that we can have a generation of energy at a much lower cost," Rossello said in a telephone interview.

Bloomberg Business

by Michelle Kaske

October 28, 2016 — 2:00 AM PDT

Atlantic City Showdown Looms Over Finances.

Municipality is poised to file plan to shore up budget; Christie administration has five days to accept it or proceed with state takeover

A yearslong power struggle between Trenton and Atlantic City is expected to come to a head this week as both sides reveal plans for saving the New Jersey gambling hub from bankruptcy.

Atlantic City officials are hoping their plan to sell the city's former airport, offer early-retirement incentives to public workers and implement other cost-cutting measures will stave off state intervention. Gov. Chris Christie and many state legislators have said a state takeover is the best way to solve the city's financial crisis.

"A lot of people think that we're wasting our time, that no matter what we turn in the state is going reject it," said Atlantic City Council President Marty Small, a Democrat. "Every ounce of energy and effort that we've put into this since January is to avoid a state takeover."

A spokesman for Mr. Christie, a Republican, referred requests for comment to the state Department of Community Affairs, which will review Atlantic City's proposal. A spokeswoman for the department said, "We emphatically and categorically reject any implication that a decision regarding the city's plan has been predetermined."

Atlantic City's casino industry has crumbled over the past decade, decimating the local tax base and leaving a $100 million deficit in the municipal budget. In May, the Democratically controlled Legislature passed bills, later signed by the governor, that gave the city an unspecified bailout and 150 days to develop a plan to balance its budget. The bailout came in July, when Atlantic City officials signed a $73 million loan agreement with the state.

While Atlantic City has revealed several key details of the five-year recovery plan, it is expected Monday to formally submit it to the state. Mr. Christie's administration then will have five days to decide whether to accept it or move forward with a takeover.

State Sen. Jim Whelan, a Democrat who represents Atlantic City and supported a state takeover, said state officials are "professionals" who will review the city's plan fairly. "If it achieves the goals, which is to provide a path to fiscal stability for the city, then it will presumably be embraced," said Mr. Whelan, who was Atlantic City's mayor from 1990 to 2001.

The showdown comes as Atlantic City faces a Nov. 1 deadline to make a $9 million debt payment. The city's mayor, Don Guardian, a Republican, said the city will make the payment.

The centerpiece of the city's plan is a proposal to sell Bader Field, a 142-acre tract of city-owned land that once served as the municipal airport. The local water utility has agreed to borrow $110 million to buy the land, with the proceeds of the sale going toward paying down the city's $500 million in debt, Mr. Guardian said.

The water utility, which operates as an independent government authority funded by ratepayers, is one of the city's most valuable assets. State officials have urged the city to monetize it, either through selling it, or by boosting revenue by having the city or county run it and implement budget cuts and rate increases.

Atlantic City residents and officials have long suspected the state wants to sell off the utility, which they fear would lead to lower water quality and higher residential rates. Mr. Guardian said the proposed land sale is a "poison pill" designed to protect the water utility from privatization. Potential buyers, he said, wouldn't want to be saddled with $110 million in debt.

He said the water utility could use Bader Field for special events, to develop wind and solar energy or sell it to developers.

The proposed deal passed a preliminary vote Wednesday by the City Council but needs final approval from the state. The water utility's board unanimously voted to buy the land, its executive director said.

Mr. Christie's administration hasn't commented on the proposed land deal. Sen. Paul Sarlo, a Democrat who represents portions of Bergen County, called it a "financial shell game" that wouldn't solve the city's underlying problems.

Moody's Investors Service released a statement Sept. 29 questioning whether the utility, which has a junk-level credit rating, would be able to borrow the money needed to purchase Bader Field. The credit-rating company also expressed doubt that the land, which received a top bid of $50 million at a city auction this summer, is worth more than $100 million.

Have something to say about an article in Greater New York? Email us, along with your contact information, at gnyltrs@wsj.com. Letters will be edited for brevity and clarity. Please include your city and state.

Assemblyman Chris Brown of Atlantic County, a Republican who has opposed state intervention in Atlantic City, said he wants to make sure the proposal isn't a "gimmick," but understands residents' concerns about protecting their water utility.

Atlantic City also has offered early-retirement incentives to trim its budget. Mr. Guardian said 190 city workers have applied for the buyouts.

Betty Lewis, who has worked for the city's planning department for 31 years and is president of the local NAACP chapter, said morale is low among workers at City Hall. The city's nine public unions have been on a monthly pay schedule since March, when the city didn't have enough cash to make payroll and the workers voted to spread out their pay periods to avoid a government shutdown.

"Everybody's just scared," Ms. Lewis said.

The mayor said he hopes to resume a biweekly pay schedule in January.

THE WALL STREET JOURNAL

By KATE KING

Updated Oct. 23, 2016 5:14 p.m. ET

Write to Kate King at Kate.King@wsj.com

Chicago School Board Approves $1 Bln Bonds for Junk-Rated District.

CHICAGO — The Chicago Board of Education gave final approval on Wednesday to the sale of up to $1 billion of new and refunding bonds for the junk-rated district.

The third-largest public school system in the United States will sell up to $840 million of general obligation bonds through Barclays and JP Morgan Securities to fund capital improvements using a $45 million property tax hike approved by the Chicago City Council last year. The district will also restructure up to $160 million of variable-rate bonds into a fixed-rate mode through a yet-to--e-announced underwriting team.

Emily Bittner, a Chicago Public Schools (CPS) spokeswoman, said earlier this week that market conditions will dictate when the deals will be priced.

CPS is struggling with pension payments that will jump to about $720 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency. As a result, the district's credit ratings have fallen deeper into the junk category, most recently with a downgrade from Moody's Investors Service.

The muni market has demanded fat yields for CPS debt. Even a private sale of $150 million of 30-

year GO bonds by CPS in July to J.P. Morgan came at a 7.25 percent yield, which was 513 basis points over the yield for AAA-rated bonds on Municipal Market Data's (MMD) benchmark scale.

Meanwhile, uncertainties lurk for CPS. A proposed four-year contract that averted a teachers' strike earlier this month is scheduled for a ratification vote by Chicago Teachers Union members next week. New money for classrooms under the tentative deal will flow from a nonrecurring revenue source – surplus property taxes generated by city economic development districts.

The school district's $5.46 billion operating budget includes a one-time, $215 million state of Illinois pension contribution that is contingent on the legislature's passage of major state-wide pension reforms by January.

By REUTERS

OCT. 26, 2016, 4:48 P.M. E.D.T.

(Reporting By Karen Pierog; editing by Grant McCool)

CA Man Pushing for Voter Approval on Bonds Over $2B.

This man is bankrolling a California ballot measure to force voter approval on big bonds. Would that kill projects like high-speed rail?

Dean Cortopassi makes no apologies for it: He's angry about government debt. And his anger explains why he was willing to go it alone and bankroll the effort to place Proposition 53 on the Nov. 8 ballot.

A wealthy Central Valley farmer and tomato cannery owner, Cortopassi contends that politicians refuse to either fully disclose or accept the long-term cost of billions of dollars in local and state government borrowing. This proposition would require any revenue bond of $2 billion or more to be approved by California voters.

He's quick to invoke an adage he says he learned from his Italian immigrant father.

"In English, it translates into 'arithmetic is not an opinion,'" said Cortopassi, who liked the saying so much he filed a trademark for it earlier this year.

The arithmetic doesn't add up, Cortopassi argues, when it comes to how billions of dollars in government debt will be paid off. Frustrated by the red ink that flowed from the bankruptcy in his hometown of Stockton and the billions of dollars in cost overruns in the construction of a new section of the San Francisco-Oakland Bay Bridge, Cortopassi said he became convinced that there needed to be more public attention on murky government accounting.

He paid for a series of 2014 newspaper ads accusing Gov. Jerry Brown and legislators of "flim-flam" when it came to balancing the state budget. And he argues Proposition 53 is the next step toward increased transparency, by expanding the number of bond offerings that are contingent on voter approval.

Voters have approved general obligation bonds, such as the $9-billion school bond on the Nov. 8 ballot, for generations. Proposition 53 would expand the voter approval process to revenue bonds, a kind of debt paid back over time not by general taxpayer dollars but instead with fees paid by users of the project.

Used to finance buildings, dams or other infrastructure projects, revenue bonds are generally designed with state government assuming a role somewhat akin to a broker. State officials set up the bond sale, collect user fees and then pay them to the investors who bought the bonds.

Proposition 53 would create a new mandate that would be enshrined in the state Constitution. The $2-billion threshold would be adjusted for inflation. The ballot measure exempts local revenue bond projects, though analysts say it's possible that a large revenue bond for a joint local-state project may have to be placed on the ballot — meaning voters in, say, Eureka could be asked to approve a project in San Diego.

Cortopassi, 79, alleges revenue bonds are part of an elaborate co-mingling of funds in which money is "skimmed" for things such as administrative costs. Absent that kind of sleight of hand, he argues, government expenses would be revealed as being much higher.

"What motivates me is that it's a con game going on against the people of California," he said.

We've got a look at what's inside November's 17 statewide propositions »

Opponents argue that Proposition 53 could stall or even squelch large infrastructure projects through misleading political campaigns or lawsuits challenging the ballot measure's fine points. They believe that it could also raise the cost of projects if government officials decide a political campaign is too risky, and instead seek privately financed debt at a higher interest rate.

Cortopassi insists that no particular public works project inspired Proposition 53 but admits he thinks two particular proposals should have a statewide vote if they end up relying on big revenue bonds: California's plans to build a high-speed train system and the sweeping proposal to build twin underground tunnels to transport water through the Sacramento-San Joaquin River Delta region.

"It's not about the tunnels, it's about debt," he said.

Critics of the Stockton farmer, who is also a sizable delta landowner, believe that he simply wants to kill both efforts by subjecting them to contentious political campaigns.

"This seems to be an indirect way, with something that probably polled really well, to get at a couple of projects," state Sen. Bob Hertzberg (D-Van Nuys), said during a legislative hearing about Proposition 53 earlier this year. "This is a long-term constitutional shift, and are we really solving a problem?"

It's unclear whether either the delta water tunnels or bullet train would be stopped should Proposition 53 pass and voters be asked to ratify large revenue bonds. Still, a series of statewide public polls have shown the train project has lost significant support since 2008, when voters approved general obligation bonds as seed money.

And supporters of the delta project haven't forgotten what happened in 1982, when voters rejected an effort at the end of Brown's second term to build a peripheral canal around the region for sending water to Southern California.

The governor, who has helped raise more than $15 million to defeat Proposition 53 and is the face of the opposition in a new statewide TV ad, said it's challenging to persuade voters to take a pass on having a say in how some future big infrastructure projects will be financed.

“It’s a real burden, by one guy who’s got a beef and has enough money” for a campaign, he said in a recent interview with The Times. “We don’t know all the things it could affect.”

Brown likened the impact of Proposition 53 to how development projects are sometimes delayed or killed by threats of legal action under the landmark California Environmental Quality Act, or CEQA.

“It’s what I call CEQA on steroids, because it’s another way to block infrastructure investment,” the governor said. “This is like a gift to all the crazies.”

Cortopassi and Brown have a history, with the Stockton agribusiness owner donating money to Brown’s 2006 campaign for attorney general and the charter schools he created while mayor of Oakland. “He is very adept as a politician,” Cortopassi said.

He points to data that California voters usually approve bond measures on the ballot, and thus rejects that what he’s trying to do is stop government borrowing.

“What I’m trying to force,” Cortopassi said, “is truth to the surface.”

The Los Angeles Times

by John Myers

October 31, 2016

Mass. Treasurer Will Remove Wells Fargo from List of Approved Debt Underwriters.

Massachusetts Treasurer Deborah Goldberg said Wells Fargo will be banned from handling the state’s main bond issues for one year, after four members of the state’s Congressional delegation asked her to cut off business with the troubled banking giant.

In a letter released by US Representative Stephen Lynch’s office Monday, the South Boston Democrat and colleagues James McGovern, Michael Capuano, and Katherine Clark said Goldberg should cut off dealings with Wells Fargo because “Massachusetts has a long history of protecting consumers and instilling trust in our financial services sector.”

Chandra Allard, a spokeswoman for Goldberg, said in response the treasurer is removing the bank from the list of approved underwriters for general obligation bond issuances, which the state uses to finance big expenditures.

It is difficult to project how much business the Massachusetts move will cost Wells Fargo. The company was one of more than 20 approved underwriters for general obligation bonds. The underwriters are compensated based on the size of given bond issuances and whether they are the lead underwriter on a deal. The Treasurer’s office estimated the bank could miss out on as much as $1.5 million per deal.

The Boston Globe

By Adam Vaccaro

October 17, 2016

Florida Cat Fund in Best Financial Shape Ever.

BRADENTON, Fla. – The Florida Hurricane Catastrophe Fund says it's in its best financial shape ever, though $454 million in damage claims have been filed across the state because of Hurricane Matthew.

The FHCF – a state-run, nonprofit reinsurer can expect some insurance companies to trigger claims payments as a result of Matthew's impact, chief operating officer, Anne Bert, said Tuesday.

While Bert cautioned that insurance companies are still estimating damages, the Cat Fund's reinsurance losses could be less than $200 million, she said.

The storm damage update came during a biannual report on the financial strength of the Cat Fund, whose bonds are rated AA by Fitch Ratings and S&P Global Ratings, and Aa3 by Moody's Investors Service.

Although Florida has experienced two hurricanes this year – the first to affect the state since 2005 the Cat Fund remains in its "best financial shape ever," said financial advisor Kapil Bhatia with Raymond James & Associates Inc.

The Cat Fund's on-hand liquid financial resources total $17.5 billion, while its obligation to pay the claims of participating insurers totals $17 billion, he said.

In addition to funds on hand, the fund could also go to the municipal bond market and issue debt to pay claims.

The Cat Fund can expect $7.28 billion in bonding capacity to be available under current market conditions, according to combined estimates of the fund's five underwriters – Bank of America Merrill Lynch, Citi, JPMorgan, and Wells Fargo.

In addition to Hurricane Matthew, Florida also saw Hurricane Hermine make landfall in early September on the state's northwest coast as a category 1 hurricane.

To date, Hermine-related damage loss claims filed with private insurers have totaled $95 million, according to data collected by the Office of Insurance Regulation.

The Florida Hurricane Catastrophe Fund is a tax-exempt state trust fund created by the Legislature in 1993 to stabilize the property insurance market.

The FHCF has a private-letter ruling from the Internal Revenue Service and can issue tax exempt bonds to pay reinsurance claims after a hurricane hits.

The Bond Buyer

By Shelly Sigo

October 20, 2016go

October 20, 2016

Chicago Readies $1.1 Billion O'Hare Refunding.

CHICAGO – Chicago heads into the market next week with nearly $1.1 billion of O'Hare International Airport paper.

The airport paper is one of the city's more digestible revenue-backed credits because it is generally insulated from the city's pension and budget ills.

The general airport revenue bond senior lien refunding issue is tentatively scheduled to price mid-week and would be followed the week of Nov. 28 with $1.2 billion of senior lien new money GARBs.

Bank of America Merrill Lynch is running the books on the refunding, which was approved by the Chicago City Council in September.

"Overall the city expects to achieve significant present value savings currently estimated at $111 million from this transaction," the city's deputy chief financial officer, Kelly Flannery, said in an investor presentation released this week. Frasca & Associates LLC and Columbia Capital Management LLC are advising the city on the deal.

The sale offers three series.

A $28.6 million series that matures in 2037 is subject to the alternative minimum tax and refunds 2006 paper.

A second series for $479.1 million of non-AMT bonds matures in 2041 and will refund 2008 and 2011 bonds.

A third series for $548.1 million of non-AMT bonds matures in 2038 and will refund 2008 bonds. The third series carries an additional backing of passenger facility revenue charges through 2018.

The bonds are rated A with a stable outlook by Fitch Ratings and S&P Global Ratings. The city did not ask Kroll Bond Rating Agency or Moody's Investors Service to rate the new issue.

Kroll assigns a higher rating of A-plus to existing O'Hare bonds. Moody's rates existing O'Hare bonds A2.

The ratings are more solid than the city's general obligation credit and recent O'Hare deals have seen minimal penalties in line with those typically imposed on any Illinois-based paper.

"We really look at the airport credit as a stand-alone credit that is independent" of the city's GO struggles, said Robert Miller, senior portfolio manager at Wells Capital Management.

The deal, however, faces general market headwinds that make a prediction on pricing or penalties difficult.

"There is a lot of supply and the market is sloppy with new deals struggling and a general cheapening," Miller said.

The city's finance team, Aviation Commissioner Ginger Evans, and advisors used the investor presentation to highlight the airport's role in the national and international air system and progress in its modernization program.

The airport is the second largest nationally, behind Atlanta, with more than 34 million passengers and 875,000 flights last year. It enjoys dual hub status, accounting for 18% of United Airlines revenues and 10.7% of American Airlines' revenue.

The two account for about 80% of passengers traveling through the airport. Nearly 1,100 departures daily serve 166 non-stop destinations.

"The O&D [originations and destinations] market provides the strong foundation for O'Hare that makes it such an attractive hub in part," Evans said.

Passenger levels rose 9.9% in 2015 and are up 2.5% for first eight months of 2016 after years of flat growth. "Our growth has been driven by both new carriers and new routes," Evans said.

Airport consultant Ricondo & Associates said in the presentation that O'Hare's compounded growth assumptions are conservative at less than 1% through 2025, compared to the Federal Aviation Administration's 2.5% national estimate. The city must maintain 1.1 times debt service coverage and narrowly meets the requirement with coverage projected at about 1.13 times through 2025.

Cost per passenger rises to $25.50 in 2025 from $17.49 this year. The city currently has a $420 million O'Hare commercial paper program with no outstanding balance and plans to establish a $180 million credit agreement note program.

The city and key O'Hare airlines reached agreement earlier this year on the next $1.3 billion phase of the O'Hare Modernization Program, which includes a final runway and new gates.

About $1.6 billion of projects remain under the roughly $10 billion OMP unveiled more than a decade ago.

"Future requirements are still significant and rely heavily on future debt borrowings for funding," Fitch Ratings said.

The primary purpose of OMP is to redesign and expand the airport's runways, shifting to a parallel design from an intersecting layout that forces the closure of runways during poor weather, as well as provide additional capacity if needed.

The city has completed four of six new runways.

The airport also has a $1.8 billion five-year capital improvement program. "We are continuing to take significant steps to reconfigure and modernize our airport for long term growth," Evans said.

Projects that will receive funding from the new-money sale include a runway, new hangars, a centralized de-icing pad, and taxiway improvements. The OMP also called for a new terminal on the western edge of the airport. That has been put on hold without airline support.

Fitch Ratings in May upgraded O'Hare's $6.4 billion of senior lien general airport revenue bonds rating to A from A-minus. The rating reflects O'Hare's "strong local market, the strategic location of Chicago as a hub, and the demonstrated importance" to United and American, Fitch wrote in its new report.

Leverage is high compared to most large-hub airports at the A level but is expected to taper off and align with A level rated counterparts. Rating risks include changes in the airport's traffic base influenced by hubbing operations and higher debt costs.

Fitch said overall GARB debt levels are projected to rise to about $8.5 billion over the next five years. Coverage levels on overall airport debt are expected to remain largely at the minimum required 1.10 times level but will require substantial increases in airline fees to cover higher debt costs.

"The ratings incorporate our view of O'Hare's steady financial performance, relatively high traffic levels, generally stable demand characteristics, local economy that we consider deep and diverse, and status as one of the world's largest and most important connecting hub airports," S&P analyst Joseph Pezzimenti wrote in the new report.

Challenges include the significant additional debt needs, exposure to connecting traffic, and moderately high air carrier concentrations.

The city acknowledges future debt demands and the 2018 expiration of the existing airline use agreement under "investment considerations." It also warns of substantially higher pension contributions should two of the city's four pension funds become insolvent in the next decade.

The city has proposed restructurings that call for higher contributions but final approval is needed from state lawmakers. The city's pension burden has dragged its general obligation ratings down as low as junk.

O'Hare enterprise revenue accounts for $18 million of the city's $267 million municipal fund payment scheduled for 2017; $2.3 million of the city's $36 million laborers fund contribution; and $18.3 million of the city's $727 million police and fire contribution, according to the offering statement.

"The stable outlook on the GARBs reflects our expectation that GARB debt service coverage will continue at or above 1 times, ORD's liquidity position will stay near current levels, and enplanements will be relatively stable," S&P wrote.

Morgan Stanley will run the books on the November new money GARB issue.

The city also is planning later this year to issue up to $500 million of new money and refunding PFC backed bonds with Loop Capital Markets selected as the bookrunner. About $600 million of existing PFCs carry A-level ratings.

The Bond Buyer

By Yvette Shields

October 19, 2016

California Finds Wells Fargo Absence Doesn't Dent Demand.

California Treasurer John Chiang's decision to ban Wells Fargo & Co. from underwriting state debt isn't interfering with demand for the securities of the municipal market's biggest issuer.

Citigroup Inc., Morgan Stanley and Jefferies LLC each bought portions of California's $1.65 billion general-obligation bond deal Tuesday, with 10-year tax-exempt securities priced to yield 1.93 percent, according to data compiled by Bloomberg. That's about 0.2 percentage point more than benchmark securities, a gap that's narrower than the 0.24 percentage point difference for debt issued by Washington, which is ranked two steps higher than California.

In a deal in which Loop Capital replaced Wells Fargo earlier this month, 10-year lease revenue bonds were priced to yield 1.94 percent, or about 0.19 percentage point less than an index of similarly-rated revenue securities, data compiled by Bloomberg show.

While politics are at the forefront, what's got investors' attention is the state's economy. Tax collections beat projections in September for the second straight month, according to the state controller. A real-estate market revival and an economy driven by Silicon Valley's technology industry, coupled with measures such as automatic allocations into reserves, have helped turn around a spate of deficits into surpluses.

"We like what's going on there," said Nathan Harris, senior analyst in Boston for Appleton Partners, which manages $7 billion in municipals and will consider buying some of the debt. "They certainly have the economic tailwind."

Even through the extra yield on California 10-year debt over top-ranked securities is creeping up, it's far short of the 0.67 percentage point high most recently reached in June 2013.

Although Wells Fargo is barred from underwriting negotiated bond offerings for a year, the firm could have won Tuesday's competitive deal because of laws requiring the state to pick the lowest bids, said Chiang's spokesman Marc Lifsher. Gabriel Boehmer, a spokesman for Wells Fargo, said he couldn't comment before the sale, which Lifsher said is likely the last general-obligation one for the year.

The winning banks should find eager buyers. High tax rates on the wealthiest residents boost the value of the tax exemption of the securities. Even with lower yields, "if you're a California resident and you're in the one of the top tax brackets, it can still be attractive for you," Harris said.

At the same time, headwinds loom. With income-tax revenue dominated by the wealthiest, who tend to own stocks, California is highly susceptible to equity-market swings. Temporary increases in sales and income taxes approved in 2012 — which helped the state rebound from the recession — will expire. Governor Jerry Brown's administration expects that the loss would help create a $4 billion budget gap by fiscal 2019-2020.

A November ballot measure asks voters if the income-tax hikes should continue through 2030. But even its rejection wouldn't necessarily set back the state, said Ben Woo, senior analyst in Minneapolis for Columbia Threadneedle Investments, which manages $24 billion in local debt. He said it might deter lawmakers from spending beyond their means, which would boost the state's creditworthiness. The firm may consider buying the new securities, he said.

"With the low double A rating and the strong economic recovery in the state in general, it gives a reasonable level of comfort to investors," Woo said.

Bloomberg Business

by Romy Varghese

October 18, 2016 — 2:00 AM PDT Updated on October 18, 2016 — 11:02 AM PDT

San Franciscans Turn to Bonds to Dodge 75 Hours Stuck in Traffic.

A key part in San Francisco's economic engine is sputtering.

The San Francisco Bay Area Rapid Transit District, which runs trains connecting San Francisco to two nearby counties, transports about 20 percent of the local payroll. While the region's tech-fueled economy is booming, the agency is struggling to handle the record ridership that has grown by more than 25 percent in five years.

To keep pace, officials are asking voters in San Francisco, Alameda and Contra Costa counties on Nov. 8 to authorize the sale of $3.5 billion in general-obligation debt, part of an overall $9.6 billion capital plan. The agency wants to replace original rails and power cables and modernize stations in a bid to cut delays now estimated at more than 400 hours annually.

Without a fix, commuters could abandon the service called BART — exacerbating clogged freeways, undermining new corporate relocations and setting back the area that's already straining under the most expensive residential real-estate market in the country. Drivers in the San Francisco area wasted an average of 75 hours last year sitting in traffic, tying it for the second-worst congestion behind Los Angeles with Washington, D.C., according to analytics firm Inrix.

Voter Outlook

"Having a wider economic growth in the Bay Area requires a reliable mass transportation infrastructure," said Ben Woo, senior analyst in Minneapolis for Columbia Threadneedle Investments, which manages $24 billion in local debt, including the agency's bonds. "If BART becomes unreliable, and whether that would have any implications to the economic growth in the Bay Area, that for us is a valid question we have to ask and answer if the ballot is not passed."

No independent polls have gauged support for the measure, which voters are facing along with a record number of local initiatives and 17 statewide ones. The sheer volume creates uncertainty over which ones will pass, said Howard Cure, head of municipal research in New York at Evercore Wealth Management. At the last presidential election, about 58 percent of county measures such as the district's that require approval of two-thirds of the electorate passed, according to Michael Coleman, fiscal policy adviser for the League of California Cities.

The agency started in 1972 with 12 stations and carried 100,000 passengers its first week. Now, trains with cushioned seats and hanging straps rumble by 45 stations and pick up more than 400,000 people on an average weekday. Jobs in the region number 1.8 million, according to Fitch Ratings.

Officials expect daily ridership to increase to 500,000 by 2025 and 600,000 by 2040 — if they can maintain the system in good working order. As is the case with many transit agencies across the country, BART found more federal funding — and more eager local politicians — to expand lines rather than to invest in the existing nuts and bolts of the system. The average age of rail cars is 30 years, compared with 26 in Chicago and 21 in New York, according to an agency presentation.

Earlier this year, the district acknowledged to commuter outrage that 70 percent of the cameras in trains were decoys. New trains will have working surveillance.

BART officials say they have invested in capital projects with more operating revenue than is typical for a transit agency, with $500 million over the past five years. But repairs can no longer suffice as parts and technology become obsolete.

Employment Boom

"We just couldn't get enough money and get this done fast enough to keep up with the failing infrastructure," said Dennis Markham, manager of financial programs and planning for the agency. At the same time, the regional job boom continues. Employment in the three counties served by the rail will grow by about 30 percent over 19 years and the population by 18 percent, bond documents show.

It was general-obligation debt that funded the first tracks, with $792 million issued from 1963 through 1969. Voters last approved general obligations in 2004 for earthquake safety. If they sign off on this measure, the annual property tax bill on average would increase by 80 cents to about $17.50 per $100,000 of assessed value, according to district estimates.

"It's really unsexy infrastructure stuff, but it's core in keeping us a safe and reliable system," said Alicia Trost, a spokeswoman.

If the ballot measure fails, it won't "cripple" the system since it generates enough to fund repairs, said Eric Friedland, director of municipal research in Jersey City, New Jersey, for Lord Abbett, which manages $20 billion of local debt including the agency's. More than 70 percent of the operating expenses of the district, which S&P Global Ratings grades at the top AAA rank, is covered by fares compared with about 40 percent for many transit agencies, Friedland said.

Still, at some point they need to find a significant source of revenue, he said. Fitch Ratings, which ranks the district the second-highest step of AA+, said any failure to sustainably address its backlog of projects could lead to a downgrade.

"There's just nothing else that's as big a risk to them as consumers thinking that they are not a reliable way to get to work on time," said Andrew Ward, a Fitch analyst in San Francisco. "They need to address this, period. The longer they delay, the more it will cost them."

Bloomberg Business

by Romy Varghese

October 21, 2016 — 2:00 AM PDT Updated on October 21, 2016 — 12:10 PM PDT

Atlantic City Approves Airfield Sale in Bid to Avoid Takeover.

Atlantic City's council voted to approve a proposal to sell a closed municipal airfield to its water authority, part of strategy hatched by local lawmakers to avoid a state takeover after failing to comply with the parameters of an aid agreement with New Jersey.

The city council voted five to four in favor of the $110 million sale of Bader Field to the water utility. In September, Atlantic City breached the terms of a $73 million state loan when it failed to dissolve the utility, which serves as collateral for the agreement. Proceeds from the sale could cover the $62 million already advanced by the state.

"You'd rather deal with us, like us or not, than have Chris Christie or his administration come in here and wreck havoc on the town," Council President Marty Small said while discussing the upcoming five-year plan.

The airfield sale still needs approval from the New Jersey Department of Community Affairs in order to proceed.

Wednesday's city council meeting is just over two weeks before Atlantic City's five-year budget plan is due to the state. Mayor Don Guardian released details of the plan on Monday, projecting that it could save roughly $73 million by 2021. Should New Jersey reject it, the state could sell its assets and change labor contracts.

Bloomberg Business

by Katherine Greifeld

October 19, 2016 — 3:15 PM PDT

Connecticut Fiscal Strain Adds to Yield Premiums on Bonds.

Connecticut is paying a price in the municipal-bond market for the state's lingering financial stress.

The state sold $650 million of general-obligation bonds in a negotiated sale Tuesday that saw the yield premiums demanded by investors rise on some maturities compared with a similar bond offering in August, according to data compiled by Bloomberg.

"There's pessimism in the market based on their financials," said Michael Hamilton, who runs a $284 million Connecticut open-end mutual fund at Nuveen Asset Management. "The state just can't seem to put it together yet."

In the series E portion of the securities, the 5 percent bonds maturing in 2026 were priced to yield 2.45 percent, or about 72 basis points over benchmark securities, according to data compiled by Bloomberg. In August, a bond with a similar maturity and the same coupon were priced to yield 2 percent, or 51 basis points over its benchmark.

"Connecticut had a lot of company this week with $15 billion of supply in the municipal market," Treasurer Denise Nappier said in an e-mail. "Despite this heavy volume, we successfully sold $650 million of general-obligation bonds at an attractive overall interest rate of 3.01 percent."

Connecticut has grappled with issues such as a pension fund that is about 50 percent underfunded, a growing deficit and high taxes driving corporations out of state, according to Hamilton.
S&P Global Ratings and Fitch Ratings cited persistent revenue shortfalls when both companies downgraded Connecticut by one level to AA- in May, each company's fourth-highest investment grade rank.

About $65 million of Tuesday's offering were green bonds, meaning that the debt is dedicated toward financing an environmentally beneficial project. Such debt has the potential to attract investors who otherwise might not have looked at Connecticut, according to James Dearborn, head of tax-exempt securities at Columbia Threadneedle. Dearborn said that he's still in the process of looking at the debt.

"We do appreciate that they're using green bonds, but we do focus on what are the proceeds for, and how is it different than what you would have done otherwise?" said Dearborn, portfolio manager of Columbia's U.S. Social Bond Fund, which seeks to fund "socially beneficial activities and developments," according to its website.

Bloomberg Business

by Katherine Greifeld

October 18, 2016 — 2:11 PM PDT Updated on October 19, 2016 — 6:18 AM PDT

Puerto Rico Court Rulings Favor Bondholders.

Puerto Rico bondholders have reason to be optimistic about overturning the island's debt payment moratorium in court, based on rulings by the judge handling most of the litigation.

"If you're reading tea leaves there seems to be an indication that the court may not agree with the moratorium," said James Spiotto, managing director at Chapman Strategic Advisors.

Nearly all the Puerto Rico debt cases are being heard in the United States District Court for the District of Puerto Rico. The court is assigning all the cases to Judge Francisco Besosa, who is currently handling at least 11 of them.

Besosa issued a ruling last week that opens the door to declaring Puerto Rico's moratorium unconstitutional, Puerto Rico attorney John Mudd said.

Gov. Alejandro García Padilla signed the law that he says gives Puerto Rico the right to declare a debt moratorium in April, and invoked it to justify nonpayment of debt in May. The governor introduced the law after taking steps to increase revenues and cut spending to deal with Puerto Rico's debt and deficit problems. Puerto Rico, its public corporations, and municipalities have about $69 billion in outstanding debt.

A directive from the Puerto Rico Department of the Treasury in December 2015 changed the government's payment priority and this "may still constitute a violation of the Equal Protection, Due Process, Takings, and Contracts Clauses as asserted by plaintiffs," Besosa wrote. He went on to write about the governor's executive orders invoking the moratorium law on debt payments, implying that these also may have violated these constitutional provisions.

Besosa wrote this in a joint ruling on two cases, one filed by Assured Guaranty Corp. et al. and another filed by Financial Guaranty Insurance Co.

In these cases Puerto Rico argued that the 11th Amendment to the U.S. Constitution barred the litigants' claims. Besosa rejected this argument, saying there is an exception to it for injunctive relief. The decision "eliminated a defense that Puerto Rico has," Spiotto said.

The Puerto Rico Oversight, Management and Economic Stability Act allowed for a stay on litigation concerning the debt to continue until at least Feb. 15 and, depending on how one reads the law, possibly as late as June 15.

This has not prevented several parties from filing lawsuits and, in some cases, saying that the PROMESA stay doesn't apply to their claims.

"I believe the judge will lift the stay on at least one, but probably two of the cases and rule on the constitutionality of [Puerto Rico's] Moratorium Act, which is also an issue on the Assured/Ambac cases," Mudd wrote in a blog post on his site controlboardwatch.org.

In the Assured and FGIC decision Besosa wrote that in "cases of an unbalanced budget, the commonwealth constitution establishes a priority system detailing in what order appropriations will be paid." Under the Puerto Rico constitution, he wrote, "first priority is assigned to 'interest on the public debt and amortization thereof.'"

Mudd said this passage could be a "harbinger of Judge Besosa's position on these issues."

In 1976 in the Flushing National vs. Municipal Assistance Corp. a New York State court struck down a moratorium on debt payments by New York City because the court said it violated the state's constitution priority on debt payment. While Besosa is a federal judge and not a state one, Spiotto said it is quite possible that he will be influenced by this earlier ruling.

Mudd said that PROMESA currently allows the extension of the litigation stay until not later than May 1. It is unlikely that the Puerto Rico Oversight Board will have completed approval of a five year fiscal plan by then. And without this plan, the oversight board will to be able to petition a court for a bankruptcy process. So even if the courts don't overturn the litigation stay before May 2, at that point the commonwealth may have to deal with a court order to pay all or part of the due debt.

The Bond Buyer

By Robert Slavin

October 12, 2016

New California Law Requires Increased Private Fund Fee And Expense Disclosure.

Recent state legislative developments in California will require disclosure of certain information by private investment fund managers, primarily in the area of fees and expenses incurred by state and local pension and retirement plans.

On September 14, 2016, the Governor of California approved a bill adding Section 7514.7 to the

California Government Code, which imposes significant new disclosure requirements for private funds with investments by California state and local public pension and/or retirement systems, including the University of California's retirement plan (Public Plan Investors).

Section 7514.7 will apply to Public Plan Investors investing in private investment funds (defined to include private equity funds, venture capital funds, hedge funds and absolute return funds) on and after January 1, 2017. The Public Plan Investor will be required to obtain assurances that the fund will make specified disclosures regarding fees, expenses, carried interest and portfolio company fees, in addition to other specified information. Section 7514.7 also will require the Public Plan Investor to disclose such information, as well as the gross and net rates of return of the fund since inception, at least once annually at a meeting open to the public.

Specifically, every Public Plan Investor will require each private investment fund in which it invests to make each of the following disclosures to the Public Plan Investor at least annually:

(i) The fees and expenses that the Public Plan Investor pays directly to the private investment fund, the fund manager (including the general partner) or related parties1.

(ii) The Public Plan Investor's pro rata share of fees and expenses not included above that are paid from the private investment fund to the fund manager or related parties. The Public Plan Investor may independently calculate this information based on information contractually required to be provided by the private investment fund to the Public Plan Investor. If the Public Plan Investor independently calculates this information, then the private investment fund will not be required to provide the information identified in this item (ii).

(iii) The Public Plan Investor's pro rata share of carried interest distributed by the private investment fund to the fund manager or related parties.

(iv) The Public Plan Investor's pro rata share of aggregate fees and expenses paid by all of the portfolio companies held by the private investment fund to the fund manager or related parties.

(v) The following information that under the California Public Records Act is required to be disclosed upon request:

- The name, address, and vintage year of the private investment fund;
- The dollar amount of the commitment made to the private investment fund by the Public Plan Investor;
- The dollar amount of cash contributions made by the Public Plan Investor to the private investment fund since inception;
- The dollar amount, on a fiscal year-end basis, of cash distributions received by the Public Plan Investor from the private investment fund;
- The dollar amount, on a fiscal year-end basis, of cash distributions received by the Public Plan Investor plus remaining value of assets attributable to the Public Plan Investor's investment in the private investment fund;
- The net internal rate of return of the private investment fund since inception;
- The investment multiple of the private investment fund since inception;
- The dollar amount of the total management fees and costs paid on an annual fiscal year-end basis by the Public Plan Investor to the private investment fund; and
- The dollar amount of cash profit received by the Public Plan Investor from the private investment fund on a fiscal year-end basis.

Additional disclosure requirements may also be required by specific Public Plan Investors themselves. Section 7514.7 will apply to new contracts entered into on and after January 1, 2017, and for existing contracts for which a new capital commitment is made on or after January 1, 2017. Section 7514.7 also will require Public Plan Investors to undertake reasonable efforts to obtain the above-mentioned information with respect to contracts in place prior to January 1, 2017.

Similar legislation may be introduced in other states, including legislation currently pending in Illinois, seeking to require increased transparency around public investments in private investment funds. These efforts may include a private investment fund being required to provide a report to a state or local pension or retirement plan investor using a template developed by the Institutional Limited Partners Association, which to date has been endorsed by a significant number of state and local pension and retirement systems.

While these requirements may only apply to contracts entered into (or investments made) after a certain future date, they also may require pension or retirement plan investors to use “best efforts” (or a similar standard) to obtain this information in connection with existing private fund investments. Accordingly, sponsors of private investment funds should be vigilant for potential disclosure requirements that could apply in connection with investments secured from state and local retirement and pension plans and consult with counsel versed in these areas to ensure that provisions in fund governance documents do comply with statutory requirements.

Footnote

1. The definition of a related party includes (i) any current or former employee, manager, or partner of any entity owned 10% or more by related persons (as defined in Section 7514.7) that is involved in the investment activities or accounting and valuation functions of the general partner, investment adviser or separate carried interest vehicle (each a “relevant entity”), and (ii) any operational partner, senior advisor, or other consultant or employee whose primary activity for a relevant entity is to provide operational or back office support to any portfolio company of any private investment fund or account managed by a related person.

Last Updated: September 29 2016

Article by David T. Jones, Michael F. Mavrides, Christopher M. Wells and Anthony M. Drenzek

Proskauer Rose LLP

[Puerto Rico Commission Raises Red Flags on PREPA's 2013 Bond.]

A Puerto Rico government commission report raised concerns over debt-service coverage, illegalities, disclosures and accounting issues regarding $673 million of bonds issued by the island’s power utility in 2013.

Puerto Rico Commission for the Comprehensive Audit of the Public Credit raised concerns over the 2013 Puerto Rico Electric Power Authority bonds in its second report under its mandate to look into the legality of the island’s $70 billion of public debt. The report focused on the Aug. 7, 2013 sale of 2013A power revenue bonds. It also looked at the role of Morgan Stanley, Ernst & Young, and URS Corp. in the sale and the period leading up to the sale.

The bonds have several maturities, with the longest, 2043, having sold with a 7.15% yield to maturity. The bonds were sold as callable at par in 2023.

Reports from the commission will "be the base for negotiating with the bondholders," said David Rodriguez Ortiz, president of the Puerto Rico Chamber of Commerce and a certified public accountant. The commission will find invalid debt, he said. The work of the commission may also let bond holders file claims against those that prepared official statements or others involved with the bond issues.

The commission released its first report in June, a review of documents connected with the commonwealth's $3.5 billion general obligation bond sale and $1.2 billion tax and revenue anticipation note in 2014. Through the earlier review it raised doubts on the legality of much of Puerto Rico's bond debt, now due to be restructured under the supervision of a federally appointed control board that had its first meeting last week.

In the commission's latest report, released at the end of September, the commission looked at the next-most-recent Puerto Rico municipal bonds. Since the commission didn't have funding to hire auditors, it couldn't determine if the sale met with U.S. General Accounting Standards, and dubbed the document a pre-audit survey report.

The pre-audit raises six groups of questions about PREPA and the others involved in the sale.

Puerto Rico covenanted in its trust agreement to adjust electrical rates so that net revenues would provide at least 120% of the aggregate principal and interest due in the following fiscal year. During some years PREPA included uncollected electricity charges in net revenues. This practice helped make the authority's debt service coverage appear higher than it was.

If one excluded uncollected revenues, the authority met or would meet the 120% requirement only once in the five years prior and five years following the 2013 bond sale.

The report says an auditor would be needed to determine with certainty if the uncollected revenues should have been included in PREPA's debt service calculations.

The pre-audit states that SEC Rule 15c2-12 bars underwriters from selling bonds unless they know that the issuer will provide the Municipal Securities Rulemaking Board with annual financial statements in a timely fashion. Yet PREPA repeatedly published financial statements after the due date. The commission asked if the underwriter, Morgan Stanley, should have known that the authority was unlikely to have met its disclosure obligations.

PREPA's performance auditor, URS Corp., was involved with the sale of the bonds. The report says that the Sarbanes-Oxley Act "provides that it is unlawful for auditors to provide services outside the scope of practice of auditors."

The report says that PREPA may have used unrealistically optimistic assumptions in the sale. For example, the authority projected sales increases for all the following five years, without describing the assumptions for this forecast. The projection may have been unrealistic given the island's prolonged economic contraction and population decline.

The bond's official statement also projected that PREPA could sell an additional $1.1 billion worth of bonds for its five year capital improvement program.

Finally, the report raises questions about the performance of PREPA's auditor, Ernst & Young. The authority's 2012 Audited Finance Statement prepared by Ernst & Young didn't adjust the authority's

$6.5 billion plant property and equipment for the effects of environmental regulations. The report states that the Government Accounting Standards Board Pronouncement 42 appears to require the value to be offset by the roughly $1 billion regulatory impact.

Additionally, the Ernst & Young opinion failed to include a "going concern" warning "despite recurring severe liquidity stress that PREPA was encountering at the time the 2012 audit report was issued."

"Less than six months after [Ernest & Young] issued its opinion on PREPA's 2012 financial statements, PREPA was technically in default of its bond covenant," the report states. Yet in Ernest & Young's 2013 audit report on PREPA, released in January 2014, Ernst & Young continued to not include a "going concern" statement, the report notes.

PREPA, Ernst & Young, and URS, through its new parent company AECOM, didn't respond to requests for comments. Morgan Stanley declined to comment.

The Bond Buyer

By Robert Slavin

October 3, 2016

From Hundreds to Thousands of Inspections: How Pittsburgh Is Winning the Permit Game.

It was once practically impossible to get a building inspected in the city. Now it's easier than ever.

Government agencies are always talking about ways to make their operations more efficient and less frustrating to deal with. But very few have managed a change in culture as dramatic and expansive as the one that's taken place in Pittsburgh's building inspection department.

When Bill Peduto was elected mayor in 2013, the department was known as a backwater. Inspectors didn't have cellphones. Or computers. Or even email addresses. Contractors and residents hoping to arrange an inspection would have to play telephone roulette, hoping to find someone at a desk who could pick up the phone. Given the nature of the department's work — going out and inspecting things — this was often an exercise in futility. Developers sometimes waited up to 12 weeks just to make an appointment.

Now Pittsburgh's inspectors are equipped with modern communication tools, and the department is moving toward online permits. Just being able to send text messages to inspectors makes an "amazing" difference, says contractor Chad Sipes. "Before, the system was terrible," he says. "They were so out of touch, it would hold up the project. I'm not saying the system has changed to the point where they'll be there the next day, on demand, but at least you have the chance to schedule something."

In addition to communicating with the outside world, the department has revamped its internal use of technology. Not that long ago, enforcement work was all done on paper. An inspector would take a form out into the field and then jot down some notes that might get typed up later. Now the entire system is mechanized, with complaints logged and tracked in a database. Where the department used to perform a couple of hundred inspections a month, referring about 30 cases to the courts, it now handles thousands per month, with 800 cases sent to the courts. “It’s dramatically more efficient, while using the same amount of people,” says Maura Kennedy, who directs the department.

Maybe it’s the same number of people, but it’s a different cast of characters. There’s been 50 percent turnover since Kennedy took over three years ago. Every job description in the agency has been changed, with employees old and new undergoing extensive training. Employees have received more than 150 additional certifications over the past two years. That means that instead of having to send five different people out to check on various aspects of a project, the department can now send out one person who holds five certifications. Because the agency had been known in the past as a black hole for training, the Pennsylvania Department of Labor and Industry happily provided a $37,000 grant to help the process along.

All of these improvements make the department run more smoothly. More important, they aren’t getting in the way of the city’s building boom. Thanks to Pittsburgh’s recent emergence as a tech center and a magnet for millennials, the number of building permit applications has been growing by 20 to 30 percent during each of the three years Peduto has been in office.

If applicants were still having to stalk inspectors, countless projects would have been delayed. “The old building inspection bureau never would have been able to handle this growth,” says City Councilman Dan Gilman. “It wasn’t set up to do it.”

GOVERNING.COM

BY ALAN GREENBLATT | OCTOBER 2016

Pennsylvania State Senate Passes Municipal Debt Reform Bills Born of Harrisburg Incinerator Fiasco.

The state Senate Wednesday passed a series of municipal debt reform bills designed to prevent a repeat of the problems created by former Harrisburg Mayor Stephen R. Reed’s aggressive use of bond financing for pet projects and budgetary needs.

Reed’s actions, executed by municipal authorities that effectively served as rubber stamps for most of his 28 years in office, ultimately left Harrisburg facing a $300 million-plus debt load that forced the capitol city into state oversight.

Harrisburg’s home senator, Rob Teplitz, D-Dauphin County, called the bills the logical conclusion of a forensic audit kicked off in 2010 by a post-Reed Harrisburg Authority.

That audit, and a follow-up investigation by the state Attorney General’s office, has resulted in a pending criminal case against Reed.

Teplitz applauded prosecutors for those efforts at accountability, and Gov. Tom Wolf and lawmakers for ongoing fiscal assistance to the Capitol city’s recovery through the Act 47 process.

But he said it’s just as vital to pass these bills as a preventive measure for other municipalities.

Sen. John Eichelberger, R-Blair County, who helped steer the current package of bills to the Senate floor in his role as former chair of the Senate’s Local Government Committee, agreed.

“It was bad practice (in Harrisburg), it was done by people who are still operating in Pennsylvania, and we’ve got to make sure that something like this doesn’t happen anywhere else again.”

Each piece of the three bill package passed on a 50-0 vote. The bills, which still require action in the state House, would:

* Clarify that a performance bond or equivalent security must cover 100 percent of the construction cost for any major public works project entered into by local government entities.

Lack of a performance bond caused major issues for Harrisburg’s incinerator project when the contractor hired for a major upgrade in 2003 couldn’t complete the project, forcing the Harrisburg Authority into subsequent borrowings both to finish the original project, and to make additional fixes when it failed to work.

* Prohibit one government body from charging a fee to another to provide a guarantee of bonds, something both the City of Harrisburg and Dauphin County did in exchange for backing Harrisburg Authority loans on its incinerator upgrades.

Cross-government guarantees could still be extended to solidify a borrowing; but the guarantor would no longer be able to use its backing as a money-maker, thereby driving up the overall costs of the borrowing.

* Seek to build more transparency throughout the bond process, including clarifications that any proceeds from bond issues or similar borrowings can only be used for the original, specified purposes.

This was also a problem in Harrisburg, state prosecutors allege, when vague administrative fees charged by the Harrisburg authority were used to support Reed’s agenda of economic development projects.

* Clarify that no borrowing can include more than one year of “working capital,” or funds intended to keep certain revenue-generating enterprises afloat through its start-up period.

This change is intended to prevent repeat refinancings on bad projects that show little chance of becoming self-sufficient.

* Create new enforcement provisions for willful violations of the state’s debt act, and adds members of municipal authorities to the list of public officials covered by the state’s Ethics Act.

* Beef up state review of local government borrowings by requiring filings with the state Department of Community and Economic Development prior to, instead of after, final votes by local officials.

It was not immediately clear if the municipal debt reform package will be considered in the House before the end of the current legislative session. Only a handful of session days are scheduled between now and the Nov. 8 election.

Steve Miskin, spokesman for the majority House Republicans, could only say that “we will look at the Senate bills and give them due consideration.”

Eichelberger, however, said after Wednesday’s votes he will try to help close the sale in the House by explaining the package to anyone with questions, highlighting its unanimous passage, and noting that the Wolf Administration and numerous other stakeholders have thoroughly vetted it.

Penn Live

By Charles Thompson | cthompson@pennlive.com

on September 28, 2016 at 4:25 PM, updated September 29, 2016 at 7:09 AM

Election Will Test California Voters' Attitude on New Bonded Debt.

No one knows exactly how much Californians owe to holders of state and local government bonds – but it's a lot, at least several hundred billion dollars.

The state alone is on the hook for $75 billion in "general obligation" bonds of various types, with another $27.6 billion authorized but unissued, according to the State Treasurer's Office.

That doesn't count billions more in "revenue bonds" for public works projects, including squirrelly "lease revenue bonds" meant to evade voter approval.

The state stopped monitoring local government debt many years ago, but it's generally believed that cities, school districts, counties and other local governments have at least $250 billion more in outstanding bond debt.

Whatever the total, it doesn't count interest, and as a rule of the thumb, repaying long-term government bonds doubles their face values. Nor does it include non-bond debt, such as hundreds of billions of dollars in "unfunded liabilities" for retiree pensions and health care.

But back to bonds.

Among other things, the Nov. 8 election will tell us whether Californians' long-standing willingness to increase public debt remains strong, even though more bond issues translate into either higher local property taxes or a bigger share of the state budget for bond service.

There is one big statewide bond issue (Proposition 51) on the ballot, a $9 billion measure for school and college construction that education groups and developers are pushing over the objections of Gov. Jerry Brown, who contends the system for allocating school bond money is fatally flawed and needs reform.

And there is another measure, Proposition 53, that would subject state revenue bond issues of $2 billion or more to voter approval, curbing the power of officials to incur certain kinds of huge bond debts on their own.

Meanwhile, according to CaliforniaCityFinance.com, a website devoted to California government finance, local Nov. 8 ballots will carry $25.3 billion in local school bond proposals and another $7.3 billion in other local government bonds.

Californians have been willing to incur hundreds of billions of dollars in debt because they believe it will pay off in better schools and other public facilities and because they don't fully grasp the effects, such as higher taxes or shifts of money from other needs.

The advocates of local bond issues often are self-serving – firms that hope to get construction contracts, for example – and their campaigns downplay, or even misstate, the financial consequences.

We know now that many school districts issued “capital appreciation bonds” that have only light repayment obligations initially, but require immense balloon payments decades later.

In recent months, we’ve also had revelations of pay-to-play schemes in local bond issues, in which those who put up campaign money are secretly promised no-bid contracts. An FBI investigation is underway on one such scheme in Fresno, and the Legislature this year was compelled to partially crack down on the smarmy practice.

In brief, we Californians have placed ourselves on the hook for hundreds of billions of dollars in debt without really understanding how the money is being spent or what its ultimate cost will be.

Given that, Proposition 53, while widely opposed by the political establishment, might be a wake-up call. Requiring bond promoters to justify their big plans to voters – Brown’s twin water tunnel and bullet train projects, for example – isn’t such a bad idea.

THE SACRAMENTO BEE

BY DAN WALTERS

Dan Walters: 916-321-1195, dwalters@sacbee.com, @WaltersBee

OCTOBER 9, 2016 1:00 AM

City Says 'Strong Demand' for First-Ever Green Bonds.

The City and County of Honolulu has sold its first-ever green bonds, with the money raised to be used to refinance debt that was originally sold to pay for the Honolulu Program of Waste Energy Recovery, or H-POWER, in Kapolei.

The city said this week the green bonds were well received by the market with more than $475 million in orders from individual and institutional investors including dedicated green investment funds that had never before purchased city bonds.

The green bonds sale was part of a larger effort by the city that sold about $379 million of tax-exempt and taxable general obligation bonds.

The majority of the funding will be used to refinance existing debt and save more than $22.5 million with the rest going to finance new capital improvement projects and equipment, according to the city.

The average interest rate on the tax-exempt bonds for new projects was 2.89 percent, the lowest rate in modern history, and 1.38 percent for new equipment.

The city said it was able to sell its bonds despite facing a large number of competing bond issues nationally.

“Strong demand for the city’s bonds resulted from a comprehensive marketing plan instituted well in advance of the bond sale,” the city said. “This included an internet-based credit presentation directed at major institutional investors and a print and digital advertising campaign targeting individual investors. City officials also conducted a series of meetings and conference calls with potential investors in Hawaii and on the Mainland.”

Bank of America Merrill Lynch served as the lead underwriter for the offering with Piper Jaffray & Co. as the co-manager.

A one-day retail order period generated more than $70 million of orders from Hawaii and Mainland investors. Local financial institutions were active participants in the bond issue, the city said.

Duane Shimogawa covers energy, commercial real estate and development for Pacific Business News.

Oct 7, 2016, 2:39pm

Illinois' $1.3 Billion Bonds Fetch Hefty Yields.

With Illinois' political and fiscal problems showing no sign of abating, investors on Thursday demanded fat yields for the low-rated state's $1.3 billion of general obligation refunding bonds.

The state's so-called credit spread over Municipal Market Data's benchmark triple-A yield scale widened from 162 basis points before the sale to 200 basis points for bonds due in 10 years, according to MMD, a unit of Thomson Reuters.

The wider spread indicates growing investor unease over Illinois' ability to pass a balanced budget and address its huge unfunded pension liability.

Dan Heckman, national investment consultant at US Bank, which did not purchase any of the bonds, said the municipal market is telling Illinois, "You need to get your act together."

"This is a very large deal and the market to a degree is running out of patience," he said, adding that the pricing signals it is time for Illinois "to get past the stand-still on the budget."

Illinois, the lowest-rated U.S. state, is limping through its second straight year without a complete budget. A political impasse, along with a $111 billion unfunded pension liability and a growing pile of unpaid bills, have pounded Illinois' credit ratings into the low investment-grade level of triple-B.

Republican Governor Bruce Rauner told reporters in Springfield, Illinois, on Thursday that he was "cautiously optimistic" the Democrat-controlled legislature would take up key issues such as pensions after the Nov. 8 election.

The refunding of outstanding bonds to take advantage of lower market rates resulted in a present value savings of $106 million, according to Rauner's office.

"Today's bond sale shows public finance investors continue to see long-term potential in Illinois," said Rauner spokeswoman Catherine Kelly in a statement.

Despite a repricing by underwriters led by Bank of America Merrill Lynch, yields in most maturities of the bond issue did not budge from preliminary pricing levels. Bonds due in 2026 were priced to yield 3.63 percent with a 5 percent coupon.

The deal's longest maturities – 2030 through 2032 – were insured by municipal bond insurer AGM, which is rated A2 by Moody's Investors Service and AA by S&P.

Ahead of the sale, Illinois warned potential bond buyers that the state's ongoing cash crunch could delay pension payments. It also reported progress in reducing risks related to $600 million of variable-rate bonds.

REUTERS

Thu Oct 13, 2016 | 5:29pm EDT

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Chicago Ends Business With Wells Fargo as Fallout Grows.

Chicago is severing business ties with Wells Fargo & Co. for a year after the bank paid penalties to settle claims that employees opened accounts without customers' consent to meet sales goals.

A measure, approved by the city council Wednesday with support from Mayor Rahm Emanuel, will freeze the bank out of any work with Chicago, including underwriting its bonds. Chicago Chief Financial Officer Carole Brown said she would move quickly to terminate any deals the city has with Wells Fargo that it can without paying large penalties, including trustee agreements.

"We do need to send the message that the city does business with those people who perform with integrity, transparency, and who hold themselves accountable for best practices because as a city we have to do that," Brown said in an interview at City Hall.

Chicago is part of a widening political furor that's emerged since Wells Fargo last month agreed to pay $185 million to resolve claims that employees opened accounts consumers didn't know about to boost sales tallies.

The settlement prompted hearings in Congress and led both Illinois and California to suspend work with the bank.

Wells Fargo is "disappointed" that Chicago moved to end its "relationship with one of the nation's safest and strongest financial institutions at a time when the city needs access to dependable financial partners,'' Gabriel Boehmer, a spokesman for the San Francisco-based bank, said in an e-mailed statement.

Emanuel responded during a press conference at City Hall after the vote. "The city's disappointed in Wells Fargo,'' Emanuel said.

Brown noted that while other financial institutions worked with Chicago after Moody's Investors Service downgraded the city to junk in May 2015, Wells Fargo was the only bank that demanded payment to cancel derivative trades and wouldn't negotiate a forbearance agreement, according to Brown. While the bank hasn't been an underwriter since 2014, the city has chosen not to use them since the Moody's cut, Brown said.

"Wells Fargo doesn't believe in the city right now,'' Brown said. "So we're going to work with those firms that do.''

Chicago has a interest-rate swap agreement with Wells Fargo for Midway International Airport that officials will monitor, according to Brown, who noted the city won't do anything to disrupt that or risk a large termination payment.

Banking Fees

City Treasurer Kurt Summers is working to divest $25 million from Wells Fargo. For his office, which manages Chicago's $7 billion investment portfolio, this move is "probably the most punitive action that we can legally take," Summer told the finance committee on Wednesday as he testified in support of the city's ban.

Wells Fargo has collected about $19 million in fees from Chicago over the last decade, according to Alderman Edward Burke, chair of the city's finance committee.

"This kind of conduct by a huge financial institution in America simply can't take place without some negative implications with municipalities that have done business with it in the past,'' Burke told the council. "I'm further quite certain that municipalities around the nation will follow suit after they learn about what we have done.''

Bloomberg Business

by Elizabeth Campbell

October 5, 2016 — 9:21 AM PDT Updated on October 5, 2016 — 12:05 PM PDT

Hedge Funds Holding Puerto Rico GOs Sue Over Sales-Tax Bonds.

Hedge funds holding Puerto Rico's general-obligation bonds are asking a court to stop the commonwealth from directing sales-tax revenue to repay other debt backed by that money because it violates the island's constitution.

It is the first legal action for the U.S. territory that pits general-obligation bondholders against investors of sales-tax debt. Puerto Rico's constitution states its general obligations must be repaid before other expenses. A portion of the island's sales-tax revenue is dedicated to repaying bonds, called Cofinas by their Spanish acronym.

Entities managed by Aurelius Capital Management, Autonomy Capital, Covalent Partners, FCO Advisors, Monarch Alternative Capital and Stone Lion Capital Partners in July sued Governor Alejandro Garcia Padilla in U.S. District Court in San Juan to stop the administration from transferring funds away from bondholders. The hedge funds say it violates a federal law, called Promesa, which prohibits the island from enacting new legislation to divert revenue or assets that would go against its constitution.

The hedge funds filed an amended complaint Friday. It adds the Puerto Rico Sales Tax Financing Corp., issuer of the Cofina bonds, as a defendant.

The commonwealth defaulted on almost $1 billion of principal and interest on July 1, including $780 million for general obligations. It's the largest such payment failure in the $3.8 trillion municipal-bond market.

Puerto Rico continues to repay Cofina bondholders on time and in full and allocates sales-tax revenue to the bond's trustee every month.

General Obligations

Puerto Rico needs to follow its constitution and repay its general obligations, especially since Cofina bonds were sold as a way to avoid the commonwealth's debt ceiling, the hedge funds said. Puerto Rico owes almost $13 billion of general obligations and about $15.2 billion of Cofinas.

"Cofina's primary purpose is to serve as a vehicle for the commonwealth to borrow large sums of money in a way that circumvents the carefully prescribed debt limitations and priorities contained in the Puerto Rico constitution," according to the amended complaint.

In a separate legal case, a federal board charged with overseeing Puerto Rico's finances is seeking more time to weigh in on whether certain lawsuits against the commonwealth should be postponed, according to a court filing Friday.

The seven-member control board, which met for the first time last week in New York, is asking U.S. District Judge Francisco Besosa to allow the panel until Oct. 21 to file its position on a legal stay, which halts creditor lawsuits against Puerto Rico seeking repayment. The provision is part of the Promesa law, which created the control board to restructure the island's $70 billion debt load and help end a decade-long trend of borrowing to fill budget gaps. It's the first instance of the panel seeking to intervene in a court case.

Besosa last month heard testimony from bondholder advisers and bond-insurance companies on why the court should lift the stay, which lasts through mid-February. Outside consultants for the commonwealth argued that Puerto Rico needs a temporary suspension from such legal battles while it restructures its debt.

Bloomberg Business

by Michelle Kaske

October 7, 2016 — 3:48 PM PDT

Alaska Risks Another Downgrade With Record Bond Sale.

Alaska, whose finances have been roiled by the oil-price crash, is issuing the biggest bond in its history and letting the proceeds ride in financial markets.

Governor Bill Walker is using money from next week's $2.4 billion sale — the equivalent of $3,186 for every resident — to pay down the state's debt to public-employee retirement funds, wagering it can earn more on stocks, bonds and other investments than it will cost to borrow. The scale of the offering may trigger another downgrade to Alaska, with S&P Global Ratings saying last week that it anticipates cutting its general obligations by one step to AA, the third-highest investment grade, after the deal closes.

The state's move comes as government pension funds deal with setbacks brought on by turmoil in equity markets and low interest rates that have cut returns on fixed-income investments. U.S. retirement systems in the year through June posted the smallest gains since the 2008 credit crisis, according to the Wilshire Trust Universe Comparison Service, putting pressure on governments to pour more cash into the funds to make up for lost ground.

Fitch Ratings said Alaska's plan will curb its pension-fund bills, though it also exposes the state to risks if investment returns falter. S&P said the state may raise as much as $3.3 billion for its retirement plan by issuing securities.

“If I like to borrow money and take it to Vegas, it can be a problem if I’m living pay check to paycheck,” Elizabeth Kellar, president of the Center for State and Local Government Excellence, said of bond deals like Alaska’s. “If your finances are fragile and you go in at the wrong time it can create major difficulties.”

Alaska’s $6 billion pension-fund shortfall is adding to the financial strain on the state, whose revenue was cut by more than half in 2015 as oil prices fell. Moody’s Investors Service, S&P and Fitch all had their top ratings on the state until this year, when they downgraded it because of the energy-industry rout.

With interest rates in the municipal-bond market holding not far from more than half-century lows, Alaska officials anticipate that they can profit by reinvesting the borrowed money. The bonds will carry a higher yield than typical state and local debt because the interest is subject to the federal income tax. Even so, Honolulu sold taxable securities this month for a top yield of 3.2 percent on debt due in 2034.

“At rates of 4 percent or below it becomes compelling,” said Deven Mitchell, Alaska’s debt manager. “The state faces increasing payments and that’s what we want to equalize over time.”

While Alaska’s retirement plans lost 0.4 percent in the year through June, Mitchell said the state’s rolling 5-year return has been 6.5 percent. The pension borrowing, which won’t be paid off until 2039, will save the government about $2.5 billion if “historical returns are met,” Revenue Commissioner Randall Hoffback said in a Sept. 15 memo to lawmakers.

The strategy has been used by other state and local governments. Kansas sold $1 billion of pension bonds in August 2015, and officials in Houston and Oregon have proposed considering similar steps.

Whether it pays off depends on timing, according to a July 2014 study by the Center for Retirement Research at Boston College. While the tactic proved profitable after the recession because of low interest rates and a rebound in the stock market, governments who employed it before the 2000 and 2008 market crashes lost money.

Detroit’s pension-fund borrowing in 2005 and 2006 contributed to the biggest municipal bankruptcy in U.S. history, while New Jersey, Illinois and Puerto Rico borrowed only to see their retirement systems continue to struggle. Former New Jersey Governor Jon Corzine, a one-time Goldman Sachs Group Inc. co-chairman, in 2008 called such bond deals the “the dumbest idea I ever heard.”

“The question is whether this is the best alternative when your hands are tied and you behind the eight-ball,” said Jean-Pierre Aubry, associate director state and local research at the Center for Retirement Research. “The big thing is that it still doesn’t absolve the government of the debt.”

Bloomberg Markets

by Darrell Preston

October 11, 2016 — 2:00 AM PDT

[Wells Fargo's Sloan Expects to Regain Lost Business With States Within a Few Years.]

Wells Fargo & Co. Chief Operating Officer Tim Sloan expects to make up lost business with state and local government agencies within a few years after some suspended dealings with the firm when it was caught opening legions of unauthorized accounts for customers.

"Our goal is to win back all of that business and more," Sloan said in a telephone interview on Monday. "Maybe it's a year, maybe it's two years, maybe it's longer than that. But we're going to win it back. There is no question in my mind."

California, Illinois and cities including Chicago and Seattle halted some dealings with Wells Fargo, such as using the bank to sell municipal bonds, after it agreed Sept. 8 to pay $185 million to resolve claims that employees sought to meet sales targets by opening accounts without customers' permission. Federal prosecutors in New York and San Francisco have initiated their own inquiries. The bank faces a raft of lawsuits by fired or demoted workers, customers and investors.

Sloan said he was disappointed by some municipalities' decisions to suspend business or put the bank "on probation," but that it was also understandable. The firm's business with government entities "is the best in the industry," had been growing, "and we're going to work hard to win that business back," he said.

California's Push

California, the nation's largest issuer of municipal bonds, barred Wells Fargo last month from underwriting state debt and handling its banking transactions for a year. State Treasurer John Chiang, a Democrat who's running for governor in 2018, called on Chief Executive Officer John Stumpf to quit and threatened a "complete and permanent severance" of dealings if the firm doesn't change practices. He urged other states to follow suit.

Illinois's treasurer and Chicago's city council soon announced their own bans. And last week, Seattle said it's removing Wells Fargo from a $100 million bond sale for its public utility, Seattle City Light, that was due to close this month.

Wells Fargo's government and institutional banking business accounted for about 3 percent of the almost $26 billion of revenue generated by the firm's wholesale banking division last year, according to a May presentation. Governments make up a little less than half of the business, the presentation shows.
The company's stock has slid about 8 percent since last month's penalties were announced. It traded in New York at $45.65 at 4 p.m. on Monday.

House Testimony

Last month, House Financial Services Committee Chairman Jeb Hensarling asked Wells Fargo executives including Sloan to sit for transcribed interviews as the panel examines the bank's sales practices. While the lawmaker requested that talks happen in September, Sloan said on Monday that intermediaries are still working on the schedule and that he assumes a meeting may occur "in the next month or so."

"I'm happy to sit down with them whenever they want to, for certain," he said.

Bloomberg Markets

by Laura J Keller

October 10, 2016 — 12:02 PM PDT Updated on October 10, 2016 — 2:15 PM PDT

[Puerto Rico Gubernatorial Candidate Seeking to Pay Bond Interest.]()

Puerto Rico gubernatorial candidate Ricardo Rossello wants to pay investors interest on their bonds if they're willing to suspend principal payments.

The pro-statehood candidate has been meeting with bondholders and believes there is an opportunity to renegotiate a portion of the commonwealth's $70 billion of debt. That would give the island some breathing room as it seeks to repair its finances and turn around an economy that's shrunk in the past decade.

"We feel that there is an environment for us to have principal payment deferred with paying interest going forward," Rossello on Thursday told bondholders and creditors via teleconference at an Association of Financial Guaranty Insurers conference in Manhattan.

Puerto Rico agencies began skipping debt service payments in August 2015 and the island defaulted on nearly $1 billion of principal and interest on July 1, including on its general-obligation bonds. It's the largest payment failure in the $3.8 trillion municipal-bond market.

Rossello has asked a seven-member federal control board to review the island's current budget because it doesn't include debt-service payments, which means that spending plan is unconstitutional, he said during the conference. Governor Alejandro Garcia Padilla in April enacted a debt moratorium to preserve cash for essential services.

The panel was created out of a federal law, called Promesa, and is tasked with addressing the island's obligations and ending the use of borrowing to fill budget deficits. Garcia Padilla is expected to present to the control board Friday his updated fiscal and economic plan.

If he wins on Nov. 8, Rossello said he would begin negotiations with creditors immediately before taking office on Jan. 2. In an El Nuevo Dia poll released this week, 43 percent of participants said they plan to vote for Rossello, compared with 28 percent who said they support opponent David Bernier.

Bloomberg Markets

by Michelle Kaske

October 13, 2016 — 2:12 PM PDT

[Detroit Defeats Pensioners' Appeal Over Bankruptcy Cuts.]()

(Reuters) – A divided federal appeals court on Monday rejected claims by Detroit retirees that their pensions were unfairly cut to help the city end the largest U.S. municipal bankruptcy.

The 6th U.S. Circuit Court of Appeals in Cincinnati said restoring the pension cuts would “unavoidably” unravel Detroit’s reorganization plan, which helped the city shed $7 billion of debt and end its 17-month bankruptcy in December 2014.

“This is not a close call,” Circuit Judge Alice Batchelder wrote for a 2-1 majority.

“The harm to the city and its dependents – employees and stakeholders, agencies and businesses, and 685,000 residents – so outweighs the harm to these appellants that granting their requested relief and unraveling the plan would be impractical, imprudent, and therefore inequitable,” she added.

Thousands of retired Detroit city workers were subjected to 4.5 percent pension cuts, the end of cost-of-living increases, and reduced insurance coverage to help the city close a $1.88 billion pension plan funding gap.

Cuts could have been deeper had Detroit not set up a $816 million fund financed by taxpayers, charities and private donors, in what became known as the “Grand Bargain.”

Monday’s decision upheld a September 2015 ruling by U.S. District Judge Bernard Friedman in Detroit.

The appeals court, like Friedman, said the retirees’ claims were subject to “equitable mootness,” a legal doctrine intended to prevent some bankruptcy reorganizations from being undone, which could harm those who agreed to them in good faith.

Circuit Judge Karen Nelson Moore dissented. She said the retirees deserve their day in court, and questioned the wisdom of applying equitable mootness to municipal bankruptcies.

“I fear that using such a justification to brush aside the retirees’ legal claims will leave them with the impression that their rights do not matter,” Moore wrote.

Jamie Fields, a lawyer for many retirees who challenged the pension cuts, said his clients may ask the full appeals court to reconsider the decision.

“Being a split decision, I feel somewhat vindicated,” he said in a phone interview. “I think we were on good legal footing.”

Lawyers for Detroit did not immediately respond to requests for comment.

By REUTERS

OCT. 3, 2016, 2:42 P.M. E.D.T.

(Reporting by Jonathan Stempel in New York; Editing by David Gregorio and Tom Brown)

$1.6 Million Bill Tests Tiny Town and ‘Bulletproof’ Public Pensions.

Until the certified letters from Sacramento started coming last month, Loyalton, Calif., was just another hole in the wall — a fading town of just over 700 that had not made much news since the gold rush of 1849. Its lifeblood, a sawmill, closed in 2001, wiping out jobs, paychecks and just about any reason an outsider might have had for giving Loyalton a second glance.

“It’s a walking ghost town,” said Don Russell, editor of the 163-year-old Mountain Messenger, a local newspaper that refuses, fittingly, to publish on the web.

But then came those letters, thrusting Loyalton onto center stage of America’s public pension drama. The California Public Employees’ Retirement System, or Calpers, said Loyalton had 30 days to hand over $1.6 million, more than its entire annual budget, to fund the pensions of its four retirees. Otherwise, Loyalton stood to become the first place in California — perhaps in the nation — where a powerful state retirement system cut retirees’ pensions because their town was a deadbeat.

“I worked all those years, and they did this to me,” said Patsy Jardin, 71, who kept the town’s books for 29 years, then retired in 2004 on an annual pension of about $48,000. Now, because of Loyalton’s troubles, Calpers could cut it to about $19,000.

“I couldn’t live on it — no way,” she said. “I can’t go back to work. I’m 71 years old. Who’s going to hire me?”

Public pensions are supposed to be bulletproof, because cities — unlike companies — seldom go bankrupt, and states never do. Of all the states, experts say, California has the most protective pension laws and legal precedents. Once public workers join Calpers, state courts have ruled, their employers must fund their pensions for the rest of their careers, even if the cost was severely underestimated at the outset — something that has happened in California and elsewhere.

Across the country, many benefits were granted at the height of the 1990s bull market on the faulty assumption that investments would keep climbing and cover most of the cost. And that flawed premise is now hitting home in places like Loyalton.

There and elsewhere, local taxpayers are paying more and more, and some elected officials say they want to get off the escalator. But Calpers is strict, telling its 3,007 participating governments and agencies how much they must contribute each year and going after them if they fail to do so. Even municipal bankruptcy is not an excuse.

The showdown in Loyalton is raising the possibility that California’s pension promise is not absolute. There may be government backstops for bank failures, insurance collapses and pensions owed to workers by bankrupt airlines and steel mills — but not, apparently, for the retirees of a shrinking town.

“The State of California is not responsible for a public agency’s unfunded liabilities,” said Wayne Davis, Calpers’s chief of public affairs. Nor is Calpers willing to play Robin Hood, taking a little more from wealthy communities like Palo Alto or Malibu to help luckless Loyalton. And if it gave a break to one, other struggling communities would surely ask for the same thing, setting up a domino effect.

Some see a test case taking shape for Loyalton and for other cities with dwindling means. “Nobody has forced this issue yet,” said Josh McGee, vice president for public accountability for the Laura and John Arnold Foundation, which focuses in part on sustainable public finance, and a senior fellow of the Manhattan Institute.

When Stockton, Calif., was in bankruptcy, for instance, the presiding judge, Christopher M. Klein, said the city had the right to break with Calpers — but it could not switch to a cheaper pension plan without first abrogating its labor contracts, which would not be easy. Stockton chose to stay with Calpers and keep its existing pension plans, cutting other obligations and pushing through the biggest sales tax increase allowed by law.

Loyalton — which sits in a rural area of Northern California near the Nevada border, less than an hour's drive from Reno — severed ties with Calpers three years ago. It has no labor contracts to break. Though the town is not bankrupt, its finances are in disarray: It recovered more than $400,000 after a municipal employee caught embezzling was fired. But a recent audit found yet another shortfall of more than $80,000.

"If a city doesn't have the funds to pay, it's just completely unclear how the legal plumbing would work," Mr. McGee said. "I don't know what would happen if the retirees sued."

The retirees say they are open to filing a suit but cannot afford to hire lawyers for a titanic legal clash with Calpers.

"Nobody does squat for you with Calpers," said John Cussins, Loyalton's retired maintenance foreman, who now serves on the City Council. "I contacted every agency possible. To me, it's just unbelievable that there isn't some kind of help out there with the legal side of things. It leaves us at the mercy of the city and Calpers."

Mr. Cussins said he had a severe stroke last year and was recently told he had Parkinson's disease. He needs continuing care and said he might not be able to afford his health insurance if his pension were cut. Every time the pension issue comes up at City Council meetings, he is told to leave because, as a retiree, he is deemed to have a conflict of interest.

"I'd like to see somebody go to jail for this," he said.

Calpers has total assets of $290 billion, so an unpaid bill of $1.6 million would hardly be a deathblow. But if Calpers gave one struggling city a free ride, others might try the same thing, causing political problems. Palo Alto may have lots of money, but its taxpayers still do not want to pay retirees who once plowed the snow or picked up the trash in far-off Loyalton.

"I think this is all about precedent setting," Mr. McGee said.

In September, Calpers sent "final demand" letters to Loyalton and two other entities, the Niland Sanitary District and the California Fairs Financing Authority. The Niland Sanitary District has struggled with bill collections, and the fairs financing authority was disbanded several years ago when the state cut its funding. Both entities stopped sending their required contributions to Calpers in 2013 but have continued to allow Calpers to administer their pension plans.

In Loyalton, the City Council voted in 2012 to drop out of Calpers, hoping to save the $30,000 a year or more that the town had previously sent in, said Pat Whitley, a former mayor and a City Council member. (She is not one of the four Loyalton retirees but earned a Calpers pension through previous work on the Sierra County Board of Supervisors.)

"All our audits said that our benefits were going to break the city," Ms. Whitley said. "That's exactly why we decided to withdraw. We decided it would be a perfect time to get out, because everybody was retired."

Loyalton did not plan to offer pensions to new workers, she said. And it had been paying its required yearly contributions to Calpers, so officials thought its pension plan must be close to fully funded.

But Calpers calculates the cost of pensions differently when a local government wants to leave the system — a practice that has caught many by surprise. If a city stays, Calpers assumes that the pensions won't cost very much, which keeps annual contributions low — but also passes hidden costs into the future, critics say. If a city wants to leave, Calpers calculates a cost that doesn't rely on any new money and requires the city to pay the whole amount on its way out the door.

That is why Calpers sent Loyalton the bill for $1.6 million.

“I never dreamed it was going to be that, ever. Ever!” Ms. Whitley said. “It defies logic, really.”

Loyalton’s expenditures for all of 2012 were only $1.2 million, and much of that money came from outside sources, like the federal and county governments. Local tax collections yielded just $163,000 that year, according to a public finance website maintained by the Stanford Institute for Economic Policy Research.

Ms. Whitley said Calpers had snared Loyalton in a Catch-22. The agency would not tell the town the cost of terminating its contract until the contract was ended, she said. But once that was done, it was too late to go back.

“We were very confused about why we owe $1.6 million, and why didn’t they tell us that before we signed all the papers,” she said.

Mr. Davis, the Calpers spokesman, said that since 2011, Calpers had been giving its member municipalities a “hypothetical termination liability” in their annual actuarial reports, so there was little excuse for not knowing.

Ms. Whitley disagreed. “It’s just too confusing,” she said. “I looked at what’s been happening with all the other entities, and I saw that eventually it’s got to collapse. It’s almost like a Ponzi scheme.”

The bill was due immediately, but Loyalton did not pay it. It has been accruing 7.5 percent annual interest ever since.

Meanwhile, Calpers has continued to pay Loyalton’s four retirees their pensions. But at a Calpers board meeting in September, some trustees said it was time to find Loyalton in default and cut the pensions. The board is expected to make a final decision at its next meeting, in November.

In Loyalton, Mr. Cussins, the retiree and City Council member, said he was so frustrated about being barred from the council’s pension discussions that he and another former town worker drove to Sacramento to attend Calpers’s last board meeting.

The trustees were cordial, he said, but they held out little hope.

“We had a bunch of them come and shake our hands,” he said. “I said, ‘We need some guidance.’ They told us the city could apply to get back into Calpers next spring. But they made it very clear that they will not allow the city to get back into Calpers until that $1.6 million is paid.”

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

OCT. 9, 2016

Vermont Wind Project Needs Support, So Company Offers to Pay Voters.

WINDHAM, Vt. — To many residents in this tiny town in southern Vermont, the last-minute offer of cash was a blatant attempt to buy their votes.

To the developer that offered the money, it was simply a sign of how attentively the company had been listening to voters' concerns.

The company, Iberdrola Renewables, a Spanish energy developer, wants to build Vermont's largest wind project on a private forest tract that spans Windham and the adjacent town of Grafton. The project would consist of 24 turbines, each nearly 500 feet tall, and generate 82.8 megawatts of power, enough to light 42,000 homes for a year if the wind kept blowing, though the houses could be in Connecticut or Massachusetts.

Residents of the two towns will vote Nov. 8 on whether to approve the project, which has pitted neighbor against neighbor. No one knows which way the vote will go.

That same day, residents statewide will be voting for governor. Wind development has become an issue in that race, which The Cook Political Report rates a tossup, and sentiment here could be decisive in the outcome.

Facing the possibility that voters here may reject the proposal, putting a damper on large-scale wind development in Vermont, Iberdrola last week put cash on the table for individual voters.

Many residents called the offer an attempt at undue influence, if not an outright bribe. But after a review, the state attorney general's office said that the offer did not appear to violate state law.

Still, the individual payments — a total of $565,000 a year to 815 registered voters in both towns, or $14.1 million over 25 years — on top of millions more to the towns, suggest how much is at stake for the company. Iberdrola has been trying to persuade voters here for more than four years to approve the project, in a state that is actively seeking clean-energy development.

Vermont's energy goals are among the most ambitious in the country: to derive 90 percent of its power from renewable sources by 2050.

Gov. Peter Shumlin, a Democrat who is not seeking re-election after nearly six years in office, has been the state's chief proponent of clean energy.

"There's nothing I'm more proud of than my legacy of having helped to get Vermont off of oil and coal and moved us more aggressively than any other state in the nation to renewables," he said.

The state has 20 times as much wind power as it had when he took office and 11 times the number of solar panels. Electricity rates in Vermont have dropped while soaring in the rest of New England.

Yet the push toward renewables has been a tough sell in some quarters despite Vermont's reputation as a progressive, environmentally conscious state — or perhaps because of it.

Critics of commercial wind power consider themselves every bit as environmentally conscious as the governor. They say he is doing more harm than good by promoting developments on the state's ridgelines, among Vermont's most important assets, where turbines, roadways and infrastructure are destroying habitats, increasing flood risks and scarring the landscape much the way mountaintop mining has scarred West Virginia. They also complain about noise, lower property values and blighted views.

Critics are appalled that Mr. Shumlin is backing another Iberdrola project, a 15-turbine development under construction on two ridgelines in the Green Mountain National Forest that would be the first commercial wind project in a national forest.

All of this development, they say, is doing little to stave off climate change.

“These handful of turbines won’t do anything to offset the documented scampering increase in the mining and use of coal in India and China,” said Frank Seawright, the chairman of the Windham Selectboard and an opponent of the project.

Mr. Shumlin counters by saying that climate change is easily the most important issue facing the planet and that everyone has a responsibility to curb it. While he says he would never favor turbines on Vermont’s most iconic mountains, naming Mansfield and Camel’s Hump, he adds that they have to go on ridgelines because that is where the wind is.

The state’s environmental groups are with him. Paul Burns, the executive director of the Vermont Public Interest Research Group, said that a vote against the wind project here “would demonstrate an unwillingness to be part of a solution to what is recognized as an incredibly serious problem.”

Vermont’s battle over wind has been brewing for years, and is playing a role in the race to succeed Mr. Shumlin. Phil Scott, the Republican nominee, who opposes further industrial wind development, faces Sue Minter, the Democratic nominee, who is backed by the wind industry and favors it. The issue was a factor in her winning the Democratic nomination.

Statewide support for wind turbines has been relatively high, but appears to have ebbed in recent years, according to polling by Castleton University, dropping to 56 percent this year from 69 percent in 2013.

Windham and Grafton generally vote Democratic, but most lawn signs here proclaim support for Mr. Scott and are paired with signs against the wind turbines.

“A lot of Democrats in this room will be voting for a Republican governor for the first time,” Sally Hoover, 72, a retired accountant in Windham, said last week as Iberdrola hosted a meeting, where residents first learned of the cash offer.

At the meeting, which drew more than 100 residents, the developer shared its new plan. It reduced the number of turbines to 24 from 28 and increased the money paid to Windham to $1 million from $715,000 a year for the 25 years. The payments would cut property taxes in half and provide $150,000 a year for charities, fire departments and educational scholarships.

The company said it would also set aside $350,000 each year for direct payments to Windham’s 311 registered voters — $1,125 apiece annually, or $28,135 over 25 years, which a voter could accept or not.

In Grafton, the company set aside $215,000 for voter payments. The town’s 504 registered voters would each receive $427 a year, or $10,665 over 25 years. (Windham would have 16 turbines and Grafton eight.)

Asked if the company was trying to buy votes, a spokesman, Paul Copleman, said that Iberdrola was merely responding to what residents had said they would need to win approval, and that the developer would abide by the result.

In an email later, he added, “Our current proposal is based on feedback from community members who are frustrated that the tax relief from the project would give a larger break to those with more expensive properties.”

Kathy Scott, 74, a retired bookkeeper and one of the Windham residents who negotiated the package, said residents, not the company, came up with the idea of payments.

She said her group saw them as a way to "level the playing field" with second-home owners, many of whose homes have high assessments and who would benefit more from the tax cuts. (Although second-home owners pay 60 percent of the town's taxes, they cannot vote here, a sore point for them.)

Opponents were outraged at the payments, perceiving them as an attempt to buy votes, and complained to state officials.

But Michael O. Duane, senior assistant attorney general, said the payments did not violate state law. The proposal "doesn't say that the funds go only to those people who signed a sworn statement that they had voted for it," he said.

Still, the payment proposal has left a sour taste. As The Rutland Herald put it in an editorial on Sunday, "The naked offer of money to individual citizens may be even more corrosive to the civic life of the town than the potential environmental effects of the wind turbines."

THE NEW YORK TIMES

By KATHARINE Q. SEELYEO

CT. 12, 2016

[California's New Fee Disclosure Law For Public Pension Plans Investing In Alternative Investment Vehicles.]

On September 14, 2016, California Governor Jerry Brown signed into law a bill intended to provide transparency with respect to fees and expenses paid by California public pension or retirement systems ("PPPs") to private equity funds, venture funds, hedge funds and absolute return funds (each, a "Fund") in which they invest. This alert seeks to answer some of the key questions regarding the new law (the "Fee Disclosure Law") that we believe will be of particular interest to our clients.

Continue reading.

Last Updated: September 23 2016

Article by Ropes & Gray LLP's Private Investment Funds & Hedge Funds Practice Group and Ropes & Gray LLP's Investment Management Practice Group

Ropes & Gray LLP

[Pennsylvania State Senate Passes Municipal Debt Reform Bills Born of Harrisburg iIncinerator Fiasco.]

The state Senate Wednesday passed a series of municipal debt reform bills designed to prevent a repeat of the problems created by former Harrisburg Mayor Stephen R. Reed's aggressive use of bond financing for pet projects and budgetary needs.

Reed's actions, executed by municipal authorities that effectively served as rubber stamps for most of his 28 years in office, ultimately left Harrisburg facing a $300 million-plus debt load that forced the capitol city into state oversight.

Harrisburg's home senator, Rob Teplitz, D-Dauphin County, called the bills the logical conclusion of a forensic audit kicked off in 2010 by a post-Reed Harrisburg Authority.

That audit, and a follow-up investigation by the state Attorney General's office, has resulted in a pending criminal case against Reed.

Teplitz applauded prosecutors for those efforts at accountability, and Gov. Tom Wolf and lawmakers for ongoing fiscal assistance to the Capitol city's recovery through the Act 47 process.

But he said it's just as vital to pass these bills as a preventive measure for other municipalities.

Sen. John Eichelberger, R-Blair County, who helped steer the current package of bills to the Senate floor in his role as former chair of the Senate's Local Government Committee, agreed.

"It was bad practice (in Harrisburg), it was done by people who are still operating in Pennsylvania, and we've got to make sure that something like this doesn't happen anywhere else again."

Each piece of the three bill package passed on a 50-0 vote. The bills, which still require action in the state House, would:

* Clarify that a performance bond or equivalent security must cover 100 percent of the construction cost for any major public works project entered into by local government entities.

Lack of a performance bond caused major issues for Harrisburg's incinerator project when the contractor hired for a major upgrade in 2003 couldn't complete the project, forcing the Harrisburg Authority into subsequent borrowings both to finish the original project, and to make additional fixes when it failed to work.

* Prohibit one government body from charging a fee to another to provide a guarantee of bonds, something both the City of Harrisburg and Dauphin County did in exchange for backing Harrisburg Authority loans on its incinerator upgrades.

Cross-government guarantees could still be extended to solidify a borrowing; but the guarantor would no longer be able to use its backing as a money-maker, thereby driving up the overall costs of the borrowing.

* Seek to build more transparency throughout the bond process, including clarifications that any proceeds from bond issues or similar borrowings can only be used for the original, specified purposes.

This was also a problem in Harrisburg, state prosecutors allege, when vague administrative fees charged by the Harrisburg authority were used to support Reed's agenda of economic development projects.

* Clarify that no borrowing can include more than one year of "working capital," or funds intended to keep certain revenue-generating enterprises afloat through its start-up period.

This change is intended to prevent repeat refinancings on bad projects that show little chance of becoming self-sufficient.

* Create new enforcement provisions for willful violations of the state's debt act, and adds members of municipal authorities to the list of public officials covered by the state's Ethics Act.

* Beef up state review of local government borrowings by requiring filings with the state Department of Community and Economic Development prior to, instead of after, final votes by local officials.

It was not immediately clear if the municipal debt reform package will be considered in the House before the end of the current legislative session. Only a handful of session days are scheduled between now and the Nov. 8 election.

Steve Miskin, spokesman for the majority House Republicans, could only say that "we will look at the Senate bills and give them due consideration."

Eichelberger, however, said after Wednesday's votes he will try to help close the sale in the House by explaining the package to anyone with questions, highlighting its unanimous passage, and noting that the Wolf Administration and numerous other stakeholders have thoroughly vetted it.

Penn Live

By Charles Thompson | cthompson@pennlive.com

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On the KC Front-Burner: Infrastructure and an $800 million Bond Proposal.

Kansas City's big airport debate is on the back burner.

A streetcar expansion election for Main Street has been postponed.

So what is the City Council up to?

The focus for the rest of this year is likely to be on one of the city's most formidable challenges. It's also the never-ending source of griping from residents: inadequate streets, sidewalks, bridges, flood control and public buildings.

"Basic infrastructure has to be paramount," Mayor Sly James says. "We have to take care of some immediate needs."

City Manager Troy Schulte agrees the city's massive deferred maintenance backlog can't wait any longer. He's proposing an $800 million bond authorization that voters would decide next spring. It's believed to be the largest general obligation bond proposal in city history.

"There aren't any conversations about an airport, about streetcar or light rail or anything like that," Schulte told an audience of about 60 residents at a recent neighborhood gathering. "What I'm talking about is the very basic infrastructure that we need to continue to operate in the city."

Schulte and the City Council aren't pretending they can address the problem in a financially painless way.

“It would require a property tax increase,” Schulte bluntly told the crowd.

Critics say that could make it hard to pass, especially on the East Side where people already struggle financially. And a grass-roots proposal for a different tax is in the works that would be targeted just to East Side improvements rather than citywide ones.

The signature project to build support for the citywide bond package could be a new animal shelter at Swope Park to replace a horribly outdated facility for Kansas City’s four-legged friends. But the bulk of projects would be street and sidewalk fixes all over the city. So, as city spokesman Chris Hernandez said, one slogan for this initiative could be “puppies and pavement.”

James and Schulte said they’re trying to keep the bond financing as affordable as possible, which is why the target dollar amount is about $800 million, not $1 billion or more.

This is a work in progress, and much could change. But as initially conceived, the bonds would be issued in $40 million increments annually over 20 years and paid off with property tax proceeds.

The Finance Department calculates that, for the owner of a $140,000 home and a $15,000 car, the increase in the first year would be $7.50 on a city property tax bill that’s currently about $500. That’s not much more than the price of a McDonald’s Double Quarter Pounder meal and large Coke.

However, the tax increase would compound each year as more bonds are issued, amounting to about $150 more per year for the average homeowner at the end of 20 years.

The election would be April 4, 2017, because, under the vagaries of Missouri law, voter approval for bonds in that election requires a 57 percent supermajority. If the election were held later next year, it would require an even higher majority, 66.7 percent.

The council must approve ballot language in January, so that means hashing out details in the next few months.

“That’s the conversation this fall at City Hall,” Schulte said, citing low interest rates and job creation as other pluses for the program. “There’s no better time like the present to just bring this forward.”

Huge needs

James says he realized Kansas City had a massive deferred maintenance problem when he first took office in 2011. At that time, he proposed a possible $1 billion bond package.

The idea fizzled, in part because the Fitch credit rating agency put the city on a “negative” watch. Kansas City already had a high debt load from guaranteeing several hundred million dollars in bonds for projects like the downtown Power & Light District, various hotels and parking garages, and other economic development ventures.

But the city has continued to pay down debt over the past five years, and its credit rating has improved. In the next decade, Schulte said, more principal should come off the books each year in $80 million increments. Meanwhile, the city would be adding about $40 million per year in general obligation bond debt, which has the best interest rates and can be its own economic development engine.

Right now, Kansas City spends money in relatively paltry amounts on many infrastructure projects, because dollars are spread thin among so many needs. So it can take forever to complete big projects. The Blue River channel project, just completed, took 50 years. The Turkey Creek tunnel restoration project has already taken years and still needs $15 million more. Brookside flood control is a $30 million problem.

“It delays things because we do it $1 million at a time,” Schulte said.

The council may also ask next April to renew the city’s 1-cent sales tax for infrastructure, set to expire in 2018. That sales tax raises about $70 million per year, but it too is spread thin among too many projects. If the bond money could pay for big-impact projects, Schulte suggested, the sales tax dollars could provide a consistent, sustainable funding source for basic maintenance.

Without this extra money, Kansas City will just keep falling farther and farther behind on crucial repairs, said Public Works director Sherri McIntyre. She points out that, according to a recent pavement analysis, only 55 percent of the city’s roads were rated in good to fair condition, while 45 percent were rated poor or worse.

Currently, the city spends about $10 million per year resurfacing about 170 miles of roadway. But with 6,600 lane miles of roads, Kansas City should spend $40 million or more per year to fix 600 miles per year, she said.

Among possible street projects:

■ Wornall Road from 79th Street to 47th Street, which should be fully rebuilt.

■ Blue River Road, which is sliding into the Blue River in several locations.

■ Holmes Road in south Kansas City.

■ Two-lane Northland roads that need widening like North Brighton from Pleasant Valley Road to 76th Street, and Parvin Road.

Schulte also hopes to use bond money to fix crumbling sidewalks in low-income neighborhoods, where costs exceed what residents can afford. But both Schulte and James acknowledge a challenge with that strategy.

Until now, Kansas City has required homeowners to pay for sidewalk upgrades with their own money, which can be $5,000 or more, although financed over 15 years. What do city officials tell people who have paid for their own sidewalks and now have to pay a property tax increase for other people’s sidewalks?

“Unfortunately, this is an issue of the collective good,” Schulte said, pointing out that property values in affluent areas can support a homeowner’s $5,000 sidewalk investment, but not in depressed areas. “From an urban revitalization standpoint … I think curbs and sidewalks are the best way to do it.”

Neighborhood reaction

Council members believe voters will support the plan, since citizen satisfaction surveys every year give top priority to streets.

“The issue I hear about probably more than any other is infrastructure,” said 6th District Councilman Kevin McManus. “I would put it up with public safety and economic development as things that people care about.”

But longtime South Kansas City neighborhood leader Carol Winterowd reminded the council that some significant development projects are tax abated, meaning owners pay little or no property tax into city coffers. If this involves a property tax increase, she said, everyone should pay a fair share.

The Finance Department is gathering data on how much property is abated but does not yet have that information.

The Rev. Sam Mann, spokesman for the Urban Summit, which advocates for the East Side, said his group is working on its own ballot proposal for next spring: a one-eighth-cent sales tax that would raise money specifically to benefit the Prospect Corridor from Ninth Street to Gregory Boulevard. He said the group wants something more targeted than a citywide general obligation bond package.

“It’s going to be a hard sell, because it’s too general,” Mann said of the bond proposal.

But 5th District Councilwoman Alissia Canady, who represents part of east and south Kansas City, thinks residents will see its job creation and economic benefits.

“This council will be reviewing that information to make sure it makes sense and it is fair,” she said. “Fair is not going to be allocated by council district but based upon the needs, making sure our infrastructure is addressed and making sure we’re doing that wisely.”

THE KANSAS CITY STAR

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Read more here:
http://www.kansascity.com/news/politics-government/article103734806.html#storylink=cpy

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[Governor Brown Signs Bill Strengthening PACE Program For Consumers.]

SACRAMENTO, Calif., Sept. 26, 2016 /PRNewswire/ — Governor Jerry Brown today signed legislation establishing uniform disclosures for consumers of the Property Assessed Clean Energy (PACE) program. The Governor’s action is expected to increase adoption of PACE at a time when his Administration is encouraging more Californians to conserve water and become more energy efficient in response to climate change. The action completes months of negotiations between Ygrene and other PACE industry providers, the California Association of Realtors, the California Mortgage Bankers Association and other stakeholder groups.

PACE enables local governments to give property owners, who may be unable to afford the up-front costs of energy improvements such as solar panels and rainwater catchment systems, an alternative to short-term, high interest rate loans. AB 2693, authored by Assemblymember Matt Dababneh (D-Encino), accurately identifies important consumer issues with the program and prescribes on-point solutions that preserve PACE’s unique structure and benefits, while improving consumer disclosures and safeguards.

Among its provisions, the new law will prevent homeowners from taking out more financing than they can afford. It will require that PACE administrators provide consumers with important disclosures such as notice of a special tax lien, the total amount of interest charged, and notification that some lenders may require the homeowner to pay off the total amount of the assessment if refinancing or selling. Homeowners will also be guaranteed new contract safeguards such as a three-day right to cancel.

“Consumers will now be able to evaluate the terms and conditions of PACE financing in a similar fashion as they can with other lending products,” said Mike Lemyre, senior vice president of government affairs at Ygrene Energy Fund. “This new consumer protection policy is consistent with the Consumer Financial Protection Bureau’s ‘Know Before You Owe’ form.”

By strengthening the PACE program, AB 2693 is critical to advancing the state’s climate change agenda and can serve as a model for the effective administration of PACE programs across the country. California is on track to meet its renewable energy, energy efficiency, and water conservation goals in large part because PACE helps make financing for these types of projects available to homeowners who may not otherwise qualify for a bank loan.

PACE has helped over 100,000 California property owners save money on their energy and utility bills while contributing to the state’s reduction of greenhouse gas emissions and water usage. The program accounts for 2.5 million tons of reduced emissions and for the creation of over 13,000 local jobs. Residential PACE improvements in California to date will save:

9.1 billion kilowatt-hours (kWh) of energy;
3.4 billion gallons of water; and
$2.5 billion in utility bills.

AB 2693 would take effect on January 1, 2017. The full text of the bill can be found here.

About Ygrene Energy Fund

Ygrene Energy Fund is the nation’s leading provider of residential, multifamily and commercial property assessed clean energy financing. The award-winning, privately funded YgreneWorks program provides immediately accessible financing with no upfront payments for energy efficiency, renewables, water conservation, and, in certain areas, hurricane protection, electric vehicle charging stations and seismic upgrades. Ygrene is committed to making it easy for property owners to invest in their future and a healthier environment. Over the next five years, YgreneWorks is expected to create tens of thousands of jobs and invest billions of dollars into local economies. Learn more at ygreneworks.com.

Burlington Wins ‘Neighborly Bonds Challenge’

Award projected to save up to $185,000 in costs related to anticipated bonding; Neighborly’s innovative, technology-based platform seeks to democratize tax-exempt bond market with bonds as small as $100, reducing City interest rates + allowing Burlingtonians + others to invest in local projects

Burlington, VT: The City of Burlington is one of five winners of the “Neighborly Bonds Challenge,” a contest that called on public agencies interested in offering their communities the opportunity to invest directly in local projects through the purchase of municipal bonds. The five Neighborly Bonds Challenge winners, announced on September 22 at the Bond Buyer Conference in Los Angeles, are Austin, TX, Somerville, MA, the Housing Trust of Silicon Valley, and Lawrence, KS. Winners of the

Neighborly Bonds Challenge receive an innovative issuance platform, which provides the same services typically provided by City underwriters, bond counsel, and financial advisers, with issuance fees waived, as well as free marketing financing.

By winning the competition, the City could save up to $185,000 in lower transaction costs on anticipated bonding. The Neighborly technology-based platform is expected to make the municipal bond market accessible to a wider range of investors, potentially reducing the long-term interest rates for Burlington bonds and saving taxpayers hundreds of thousands of dollars over the life of the bonds. Those savings are expected to lower the cost of the City's Sustainable Infrastructure Plan for the 21st Century, approved unanimously by the City Council on September 19, 2016 and coming to the voters on the November ballot.

"This award is welcome news at a time when the City is focused on infrastructure investment," said Mayor Miro Weinberger. "I am excited about the potential for this award and this new technology-based platform to bring down the cost of our Sustainable Infrastructure Plan for the 21st Century. I hope voters will see in this news another example of how the City is using innovation and hard work to bring down the cost of necessary, responsible local government investment. It is also exciting that winning this competition will create a new civic opportunity for Burlingtonians to directly invest in the City's future."

Neighborly selected Burlington as one of its winners because of the City's focus on financial and environmental sustainability, one of Neighborly's primary interests when choosing projects. Other measures used to evaluate the participating cities included community impact, credit quality, civic engagement of local residents, and the innovative nature of proposed projects. Winners were drawn from more than $100 million of proposed issuances.

"We are honored to work with such esteemed issuers," said Jase Wilson, CEO and Founder of Neighborly. "As a broker-dealer, the opportunity to issue bonds for cities so committed to improving the lives of citizens fits directly with our mission to modernize public finance."

Neighborly is a San Francisco-based firm that provides municipal bonds issued in a lower denomination chosen by the issuer and sold through the firm's innovative technology platform. The platform offers document generation services, expert bond counsel opinion, investor marketing assistance, data driven pricing, sale and closing functions, as well as continuing disclosure and investor relations. Traditionally, state and local governments have issued municipal bonds to finance long-term public projects. Bonds are typically $5,000 or more, a cost that can be prohibitively expensive for average community members, but is attractive to larger institutional buyers as bond interest is often exempt from federal income tax (and in some cases from state and local taxes as well).

Using the Neighborly platform, cities can now limit the cost of employing bond counsel, financial advisors, and underwriters, which for Burlington can total up to about $185,000 with a major bond issue. In addition, cities can propose projects and open investment opportunities to smaller retail buyers by issuing bonds as low as $100. By working with Neighborly, Burlington will join a Vermont tradition going back to 1996, when the State of Vermont began selling lower denomination Citizen Bonds.

In the coming weeks, the City will work with Neighborly to determine the amount it wishes to bond for on the platform, and other transaction terms and details.

News Release — Mayor Miro Weinberger
September 26, 2016

In Cash-Strapped States, Voters Could Protect Transportation Funds.

Chronic budget problems in Illinois and New Jersey prompted lawmakers to shortchange their transportation funds. But voters could make sure legislators in the future keep their hands off.

Should transportation revenues — things like gas taxes and vehicle registration fees — be set aside and used only to fund transportation expenses? Most states say yes. And ballot initiatives in November could add two more to the list.

Voters in Illinois and New Jersey will determine on Election Day whether money raised from transportation-related activities should be protected from the general budget.

The ballot measures would change both states' constitutions to make the transportation set-asides permanent. The Illinois amendment would create a so-called lockbox, while New Jersey's measure would expand the types of revenue that are designated for transportation purposes.

Both states have gone more than 25 years without raising their fuel taxes, the primary source of transportation funds. Political gridlock in the two states has stymied other attempts to raise more money for infrastructure improvements.

In Illinois, new transportation revenue is nowhere on the horizon because the Republican governor and Democratic legislature have barely been able to pass a budget to keep the state government open.

In New Jersey, Republican Gov. Chris Christie and Democratic legislators have clashed repeatedly over transportation funds, as they have drained the pool of transportation money nearly dry. Things got so bad that Christie ordered a statewide shutdown of construction projects in July, and prospects of reaching a compromise soon to end the standoff are bleak.

So instead, lawmakers in both states overwhelmingly sent the lockbox measures to voters, even though the measures would tie the hands of legislators in the future.

"Illinois politicians have wasted millions of tax dollars on bureaucracy and mismanagement," said Frank Manzo of the Illinois Economic Policy Institute, pointing to $6.8 billion of transportation money lawmakers diverted since 2002. That cost the state 4,700 jobs, he says. "Requiring transportation money to be spent on transportation would improve the Illinois economy."

Although the Illinois amendment has not received a lot of publicity, a broad array of groups are supporting it, including labor unions, business groups and transportation advocates. To pass, the amendment must receive the support of either 60 percent of those voting on the question or a majority of those voting in the election.

The strongest criticism of the proposal has come from Chicago's two largest newspapers.

"No one doubts that transportation projects are in a sorry state in Illinois, with roads and highways in need of billions of dollars of repairs even as money collected from a gas tax, tolls and license fees is spent elsewhere. But the solution is a budget, not a shell game," wrote the editorial board of the Chicago Sun-Times. "A lockbox is nothing but an admission of failure, and we urge you to vote the idea down in November."

The Chicago Tribune said the measure should have been called "The Illinois Crony Protection

Amendment of 2016." Its editorial board argued, "The diabolical effect is that contractors, and the unions whose members they employ, would have constitutionally guaranteed dibs on future billions of state and local revenue dollars."

The debate has been more subdued in New Jersey, where the main attention has been on what mix of taxes should be raised and lowered to replenish the Transportation Trust Fund. But Christie has pushed the amendment, even as he's negotiated with lawmakers on a tax deal.

"Vote yes on that because otherwise that increase will be able to be spent on anything, and if you leave an unguarded pot of money in Trenton — bad move, everybody. Bad move," the governor said in a radio interview.

Thirty states have constitutional restrictions on how the revenues in transportation funds can be spent, according to the Council of State Governments. Maryland and Wisconsin became the most recent two to add those restrictions, when voters in those states added lockbox protections in 2014. Maryland voters approved the new rules shortly after lawmakers there passed a major transportation funding package. Wisconsin passed its amendment amid a long search for new transportation revenues, an issue that continues to divide its Republican governor and GOP-led legislature.

GOVERNING.COM

BY DANIEL C. VOCK | SEPTEMBER 23, 2016

NY Updates Levels of Municipal Financial Stress.

ALBANY, N.Y. — New York's comptroller reports eight municipalities were under "significant" fiscal stress last year, with low fund balances and operating deficits, while another 14 were under moderate stress and 18 were considered susceptible.

The eight are the counties of Monroe, Broome, Franklin and Rockland; the cities of Port Jervis and Albany; and the towns of Tuxedo and Parish.

Comptroller Thomas DiNapoli says the fourth annual report shows it can be difficult for localities to overcome problems years in the making.

Each year, 19 municipalities have been designated.

The 2015 financial information was provided by nearly 1,000 municipalities whose fiscal year ended Dec. 31.

That includes the counties and towns, 44 cities and 10 villages, though 62 failed to file information in time to be scored the past three years.

Associated Press

Updated Sept. 27, 2016 12:41 p.m. ET

Obstacles Abound as 2 Poor U.S. Cities Consider Merging.

CLEVELAND — Two of the country's poorest cities are talking about a merger they say could help both. But Cleveland could need a sizeable boost in taxpayer dollars to absorb East Cleveland, a place so impoverished that some residents fill their own potholes.

Cleveland officials are looking at development possibilities that exist in its struggling neighbor East Cleveland. But Cleveland has its own problems. The warm glow of positive publicity after its successful turn hosting the Republican National Convention cannot gloss over its big-city ills — a shrinking population, entrenched poverty and neighborhoods beset with decay and violent crime.

In East Cleveland, City Council members had long balked at the idea of dissolving their city. But with no viable solution short of an economic miracle in sight, they agreed last month to pursue annexation without a list of demands — such as continuing to receive their salaries as members of an "advisory council" after annexation — originally submitted to the dismay of Cleveland officials.

"Without a revenue stream, I don't know how we would exist," said Thomas Wheeler, president of East Cleveland City Council. He and mayor Gary Norton agreed their city is out of options and needs money now.

East Cleveland has millions in unpaid bills and hasn't been able to borrow money on the municipal credit market for years. The city can barely make payroll even after deep cuts in its workforce. Wheeler said only five firefighters were available to respond to a recent house fire.

East Cleveland residents tired of crumbling streets, abandoned buildings and anxious waits for emergency services appear ready to be absorbed by Cleveland in the hope they will receive basic city services long in short supply.

"They don't fix anything around here," Robert Occhionero said.

Occhionero said residents on Savannah Avenue have been filling potholes as best they can to avoid being awakened by the sound of vehicles rattling through them.

Nearby, abandoned homes line the street that Morris Glenn and Anthony Donner call home. Donner cuts the grass on one of the vacant lots across Northfield Avenue because the city doesn't. Donner said he also clears storm sewer grates to try stopping their street from turning into a riverbed during heavy rains.

The men said East Cleveland has become so dangerous that people have armed themselves, knowing it could be a long wait for police. Call 911, they said, and there's a chance you'll be put on hold.

"Nobody wants to live here," Glenn said. "I'm only here by necessity."

Despite these problems, some Cleveland politicians are enthusiastic about the possibility of a merger, citing development possibilities along a main thoroughfare that connects East Cleveland with Cleveland's fastest-growing neighborhood, University Circle, the home of research hospitals, Case Western Reserve University and most of the city's cultural institutions.

Negotiations by a commission consisting of three members from both cities could begin sometime in the next few months. One thing officials from both cities agree on is the state of Ohio needs to provide millions of dollars to repair East Cleveland's crumbled infrastructure and to stanch the city's financial bleeding.

“It’s a small city with big city problems,” Kevin Kelley, Cleveland council president, said of its poor neighbor. “We don’t have the resources to deal with what problems they’ve got.”

There are few signs Ohio is willing to help. Ohio Auditor Dave Yost this year asked the Legislature to approve $10 million to help East Cleveland, a request that lawmakers summarily rejected. Gov. John Kasich isn’t in a giving mood, either, despite the state’s $2 billion rainy day fund that has been bolstered by deep cuts in funding to Ohio communities since he took office in 2010.

“The city of East Cleveland’s complicated financial struggles have spanned decades and despite everyone’s best efforts, little progress has been made to pull the city out of fiscal emergency,” Emmalee Kalmbach, a Kasich spokeswoman, said in a statement.

Cleveland voters are being asked to raise the income tax from 2 percent to 2.5 percent in November to close a projected $40 million budget deficit and to cover the cost of implementing a federal court-monitored consent decree aimed at reforming the Cleveland police department.

“We have a lot of balls in the air in Cleveland,” Kelley said. “We have to approach this responsibly to make sure this is in the interest of all parties.”

By THE ASSOCIATED PRESS

SEPT. 24, 2016, 11:39 A.M. E.D.T.

S&P Cuts Illinois' Credit Rating on State's 'Weak' Management.

CHICAGO — S&P Global Ratings dropped Illinois’ credit rating one notch to BBB on Friday and warned it could fall further absent a long-term solution that deals with the state’s chronic structural budget deficit and pension woes.

“The downgrade reflects our view of continued weak financial management and increased long-term and short-term pressures tied to declining pension funded levels,” said S&P analyst John Sugden in a statement.

Illinois, the lowest-rated U.S. state, is in its second straight fiscal year without a complete budget due to an impasse between its Republican governor and Democrats who control the legislature.

The impasse, along with a $111 billion unfunded pension liability and a growing pile of unpaid bills have pounded Illinois’ credit ratings into the low-investment grade triple-B level.

S&P said another downgrade could follow “should the state continue to demonstrate a lack of ability or willingness to adopt a long-term structural budget solution that also incorporates a credible approach to its long-term liabilities.”

The credit rating agency added that continued political gridlock could affect Illinois’ ability to pay off its debt.

“Although we don’t foresee this in the immediate

future, challenges to the state’s debt payment priority could emerge should liquidity dwindle to the point where it affects the state's ability to provide essential services," S&P said.

The downgrade to just two notches above the junk level came as the nation's fifth-largest state prepares to sell as much as $1.7 billion of new and refunding general obligation (GO) bonds in October despite having to pay a hefty penalty in the U.S. municipal market.

Governor Bruce Rauner's office said S&P's report underscores the need for "tangible" pension reform.

"It's time for the super majority in the legislature to recognize the current pension system is fatally flawed and requires immediate action," his office said in a statement. "Governor Rauner continues to fight for pension reform and other fundamental, structural reforms that will free up resources to help balance the budget."

The Illinois Supreme Court in 2015 voided on state constitutional grounds a 2013 law aimed at curbing pension costs.

Earlier this week, Illinois' GO ratings were affirmed at Baa2 by Moody's Investors Service and BBB-plus by Fitch Ratings, which warned of a downgrade should the state fail to take comprehensive action in January towards solving its fiscal problems.

By REUTERS

SEPT. 30, 2016, 10:54 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Christian Schmollinger)

KBRA Comments on the City of Chicago, IL's Water-Sewer Utility Tax.

Last week the Chicago City Council passed a newly created utility tax. The tax is a key part of the City's strategy to address and stabilize the chronically underfunded Municipal Employee's Annuity and Benefit Fund (MEABF). The tax is one piece of a multilayered strategy that combines new dedicated revenues, amended employee contribution rates and eligibility requirements, and a movement towards actuarial pension funding, as opposed to statutorily determined pension funding. Ultimately, the strategy is intended to achieve actuarially required funding levels for the MEABF by 2022 and a funded ratio of 90% by 2057. The newly codified utility tax will appear on the combined water-sewer utility bills of Chicago residents and businesses beginning in 2017.

Kroll Bond Rating Agency (KBRA) views adoption of the new revenue source as positive, since it establishes a path to addressing MEABF funding insufficiency. Some elements of the larger plan will require the approval of the Illinois General Assembly, which the city intends to seek during the fall of 2016.

Click here for the full report.

California Voters Will Decide Hundreds of Tax and Bond Measures.

We Californians cough up about $250 billion in state and local taxes each year, one of the nation's highest tax burdens at 12-plus percent of our personal incomes.

Nevertheless, it will get a bit heavier if the state's voters embrace the hundreds of state and local tax measures on their Nov. 8 ballots.

The biggest, by far, is Proposition 55, which would extend temporary tax hikes on the highest-income Californians for an additional 12 years, generating as much as $9 billion a year for schools and health services for the poor and sponsored, not surprisingly, by those with direct interests in spending the money.

Gov. Jerry Brown persuaded voters in 2012 to impose the surtaxes and a small sales tax hike to bail out the deficit-ridden state budget and promised they would be temporary.

Brown remains silent on efforts by unions and health care providers to extend them, and polls indicate Proposition 55 is favored, especially since there is no well-financed opposition.

Proposition 56, which would increase cigarette taxes, is another likely winner, polls say.

Both encompass a political axiom – cited by Brown, in fact – that taxes most acceptable to voters are those they don't pay. Only a few hundred thousand Californians would pay the extra income taxes – unless they decamp for Nevada or some other tax haven – and scarcely one in seven Californians smokes.

If the saying, "Don't tax you, don't tax me, tax the fellow behind the tree," prevails in state-level proposals, it's a different story on local tax measures, which would mostly affect voters themselves.

On Tuesday, the California Taxpayers Association released a lengthy report on 228 local tax measures and another 193 local bond measures, totaling $32 billion, that would require property tax increases to service. Tax or bond measures will be on the ballot in 50 of the state's 58 counties.

Cumulatively, Cal-Tax says, the local tax measures would generate more than $3 billion a year, a roughly 3 percent increase in the approximately $100 billion in local taxes now levied.

More than two-thirds of the new revenue would be sales taxes, Cal-Tax calculated, which means they would be paid by everyone buying taxable goods in the city or county seeking voter approval. In some, they would push state and local sales taxes to or even beyond the 10 percent mark.

Other proposals include parcel taxes (a form of property tax), utility user taxes, hotel taxes and, interestingly, 37 measures to tax marijuana sales.

To persuade voters to approve new taxes on themselves, local governments are pitching improvements in local streets and roads, transit services, libraries and police and fire protection – in other words, the most popular services that governments provide.

An unspoken factor, however, is that many of the proposed taxes that purport to improve public safety are actually needed to satisfy rapidly increasing demands of pension funds, particularly the California Public Employees' Retirement System, for more "contributions" to cover pension costs not being met by moribund trust fund earnings.

THE SACRAMENTO BEE

BY DAN WALTERS
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SEPTEMBER 20, 2016

Schilling 38 Studios Deal Could Push First Southwest to Settle.

Rhode Island's settlement with former major-league baseball pitcher Curt Schilling and three other executives of 38 Studios leaves First Southwest as the lone defendant in the state's civil suit over losses from the failed video-game company.

Retired Superior Court Judge Francis Darigan, who mediated the settlement, said he hopes to bring holdout First Southwest back to the table.

The Rhode Island Economic Development Corp. – now RI Commerce Corp. – sold $75 million in bonds in 2010 to entice 38 Studios founder Schilling to relocate his company to downtown Providence from Maynard, Mass. The company folded two years later, sticking the state with the bond debt.

First Southwest was the advisor to the Rhode Island EDC for the deal.

Settling would be practical for First Southwest, said Anthony Sabino, a Mineola, N.Y., white-collar legal expert.

"Yes, there is pressure. You never want to be the last defendant and get left holding the bag, so to speak," said Sabino, a St. John's University law professor.

Earlier this week, 38 Studios founder Schilling, along with fellow executives Thomas Zaccagnino, Richard Wester and Jennifer MacLean, agreed to pay $2.5 million to end their dispute.

The placement agents on the 38 Studios deal, Wells Fargo Securities and Barclays Capital, agreed in August to settle for $25.6 million.

"The settlements with Schilling and the others now provide a yardstick for First Southwest to measure itself against, and then settle on relatively reasonable terms close to what the others did," said Sabino. "Speaking more broadly, cases such as these settle far more times than they go to trial. Trial is a risky proposition for both sides."

"It is encouraging that more of the responsible parties have agreed to a settlement that helps recover some of the cost to taxpayers," said state General Treasurer Seth Magaziner, who in November fired First Southwest as the state government's financial advisor and replaced it with Public Resources Advisory Group.

Magaziner hopes First Southwest "will do the right thing and agree to a settlement that helps Rhode Islanders recover more of the money lost in the terrible 38 Studios deal," he said in a statement. "Otherwise, the state remains prepared to go to trial."

First Southwest attorney Gerald Petros, a partner with Hinckley, Allen & Snyder LLP in Providence, said it would be inappropriate to comment further. "First Southwest has participated in each round of settlement talks. We respect the confidentiality of those discussions," he said.

Rhode Island Superior Court Judge Michael Silverstein must approve the settlement with Schilling and the three other executives, which after legal fees would net upwards of $2 million for RI

Commerce.

"As I've said from the very beginning, 38 Studios was a bad deal for Rhode Islanders and I was against it from the start," Gov. Gina Raimondo said in a statement. "My team and I remain focused on recovering as much taxpayer money as possible."

The firm's demise led to heated debate among state lawmakers about whether Rhode Island should pay the debt, which carried Rhode Island's moral obligation. That prompted bond rating agencies to threaten to downgrade Rhode Island GOs.

Rhode Island still owes on the debt, to which it has made annual payments. Moody's Investors Service rates the state Aa2. Fitch Ratings and S&P Global Ratings assign AA ratings.

The Securities and Exchange Commission filed a complaint against various parties in the deal, alleging fraud. Rhode Island said last month it won't file criminal charges.

Schilling had expected to cash in on his celebrity from having helped the Boston Red Sox win the 2004 World Series — their first in 86 years — and another in 2007.

"At least when Schilling lost a game, Red Sox fans could say they enjoyed hot dog and a nice day at the ballpark. However, in the case of 38 Studios, Rhode Island taxpayers are left with a bitter taste and $75 million in debt," said Anthony Figliola, vice president of Empire Government Strategies in Uniondale, N.Y.

"Mr. Schilling blames the state for not doing enough to save his business. Anyone who has run a business from dog groomer to Fortune 100 knows it's not the government's responsibility for the success or failure of a business that rest solely on those in executive management."

The settlement requires Schilling to testify against First Southwest if called.

"After this is completed, what's stopping me from telling the whole story to the taxpaying citizens of Rhode Island?" Schilling wrote on Twitter.

According to Figliola, Rhode Island should concentrate on its economy. Its 5.6% unemployment rate in August was above the nationwide 4.9%.

"A key industry the state should be looking at is renewable energy which can help provide new jobs and an infusion of new dollars into the economy," he said.

First Southwest is now part of Hilltop Securities following a merger with Southwest Securities.

The Bond Buyer

By Paul Burton

September 21, 2016

S&P: After Passing The Test, California's School Districts Can Expect Credit Resilience To Continue.

Broadly measured, California has ranked among the nation's top-performing states throughout the past several years. Despite many difficult decisions–some particularly challenging for the state's school district's–the economic recovery from the Great Recession has helped strengthen the state's finances and correspondingly, made for a more stable fiscal environment for school districts throughout California.

With declining debt ratios, improved alignment between general fund revenues and expenditures, and with a budget reserve in place, the state is adequately positioned to accommodate a modest slowdown. Because state funding is critical to funding education throughout the state, credit quality in the kindergarten to 12th grade (K-12) and community college district sectors should remain stable or perhaps improve somewhat during the next two years, in our opinion. However, while the state's institutional advantages and fiscal condition are both important determinants of credit quality for school districts in the state, each district's individual economy, management, and finances provide essential context for determining creditworthiness.

Overview

- Prudent management encouraged by strong oversight helped California's school districts weather significant funding uncertainty during the Great Recession.
- Institutional advantages within the state help minimize effects of significant distress.
- Despite nascent indications of slowing growth, we believe the state's strong recent economic and budgetary performance will help the districts maintain credit quality.
- While state funding environment is important, key financial, management, and pension metrics are essential determinants of school district credit quality.

Continue reading.

19-Sep-2016

S&P: After a Strong Run, California's Budget Stability is Likely to be Tested.

Governor Jerry Brown's emphasis on fiscal reform in the midst of an economic expansion has brought about a turnaround in California's finances that is unmatched among the states since the Great Recession. In the span of five years, S&P Global Ratings has raised California's general obligation debt rating three notches, to AA-/Stable from A-/Negative. The rating upgrades have corresponded with the state's strengthening fiscal condition, aided in our view by improved budget management. Among the key contributors to a stronger financial position have been spending restraint, policy reform, debt repayment, reserve capitalization, and revenue growth.

But given California's boom-and-bust budgetary history, one might be forgiven for wondering if its fiscal recovery will persist. Partly this is because the state's budget has been repaired more by the increased revenues generated by economic growth and stock market gains than by tax reform. In our view, while California's new budget stability reflects more than a cyclical upswing, those old vulnerabilities related to revenue volatility remain. Its recent credit rating progression illustrates our thinking: despite moving a full category up the scale, it is still lower than the ratings on 41 other states.

Overview

- The turnaround in California's finances since 2011 is unmatched among the states.
- Its recovery is the result of structural reform, economic recovery, and the administration's budget

management.
- Some of the fiscal reforms will continue to benefit state finances even after Gov. Brown's term ends in 2018.
- California's fiscal recovery represents more than a cyclical upswing, though vulnerabilities related to its propensity for revenue volatility remain.

Continue reading.

19-Sep-2016

Puerto Rico Control Board Set to Meet Sept. 30 to Pick Chair.

The seven-member control board, set to gather in New York, has until the end of the month to pick a leader after President Barack Obama on Aug. 31 formed the panel, a step required under federal legislation that aims to halt the island's financial decline. The board also plans to adopt bylaws and start a process to search for an executive director and other staff, Governor Alejandro Garcia Padilla's administration said in a statement.

The board is set to meet again in mid-October and in Puerto Rico in mid-November.

Puerto Rico has been defaulting on debt since August 2015 and in July missed nearly $1 billion of principal and interest, marking the largest payment failure in the $3.8 trillion municipal-bond market.

The federal government stepped in after Governor Alejandro Garcia Padilla was unable to strike a deal with creditors to reduce Puerto Rico's debt, in large part because the island wasn't able to file for bankruptcy if negotiations failed. The U.S. law gave the control board the authority to oversee any debt restructuring, which can now be ordered by a court if bondholders resist.

The next major debt-payment deadline for the island is Jan. 1, when $940 million is due on bonds sold by Puerto Rico and its various agencies, according to data compiled by Bloomberg.

The debt crisis stems from a legacy of government borrowing while the island was mired in recession. Puerto Rico's economy has shrunk by an estimated 16.5 percent since 2007 and is forecast to contract by 2 percent in the year ending June 30, 2017, according to the island's Planning Board, which calculates economic growth. A record number of Puerto Ricans have left the island to find work on the U.S. mainland.

Bloomberg Markets

by Michelle Kaske

September 23, 2016 — 11:14 AM PDT Updated on September 23, 2016 — 12:12 PM PDT

Puerto Rico's Market-Beating Bonds Still Leave Holders Guessing.

Puerto Rico bonds have outperformed U.S. stocks, corporate debt and every other corner of the municipal-securities market since the Caribbean island's financial crisis precipitated an unprecedented federal takeover. Yet investors still don't know how much of what they're owed they'll get back.

The rally, which pushed the S&P Dow Jones Puerto Rico index up nearly 14 percent since mid May, came after a series of defaults led President Barack Obama to enact a law in June aimed at halting the collapse. The resolution will now largely be up to a seven-member federal control board, which is entrusted with overseeing talks with creditors to restructure the island's $70 billion of debt. If investors balk, Puerto Rico now has the power to have debt written down in court, as is routinely done in bankruptcy.

While the control board was formed late last month and is set to hold its first meeting on Sept. 30, investors still have no clear indication of how much of their debt they'll recoup — or when. One of Puerto Rico's most frequently traded securities, general obligations due in 2035, last traded for an average of 65.6 cents on the dollar.

"There's still lots of uncertainty about what's going to happen, how long it's going to take and what the eventual agreements will be," said Daniel Solender, head of municipals in Jersey City, New Jersey, at Lord Abbett & Co., which manages $20 billion of state and local debt, including Puerto Rico bonds.

Given the various tax and legal pledges that back the securities, not all investors stand to be treated equally, and not all of the debt has gained in price. With Puerto Rico's July 1 default on general obligations, some of those securities have fallen this year. But electric-power bonds and debt secured by sales taxes — neither of which have missed payments — have climbed, data compiled by Bloomberg show.

Puerto Rico has been allocating funds to cover payments due on the sales-tax debt in this fiscal year and has already struck a restructuring agreement with the power company's creditors.

Investors must now gauge what their potential recovery might be and how long it will take for a deal to emerge.

"Even if you knew you were going to get a higher price, you have to be confident it's not going to take so long that you're going to give up too much on the time value of money," Solender said.

If Puerto Rico's last offer were accepted, some bondholders stand to see further gains. The recovery rates that the commonwealth proposed in June are higher than where the securities are trading, with 83.5 cents on the dollar proposed for general-obligations. That's nearly 18 cents more than the 2035 bonds, which have an 8 percent coupon, and 24 cents more than those paying interest at a rate of 5 percent.

No new offer has emerged since the federal control board was created, and the panel won't formally begin its work until its meeting next week. Its first task is working with Governor Alejandro Garcia Padilla's administration on a fiscal plan that will serve as a baseline for negotiations. Puerto Rico has some breathing room: The next major round of debt payments don't come until Jan. 1, when $940 million is due, according to data compiled by Bloomberg.

Bloomberg Markets

by Michelle Kaske

September 23, 2016 — 2:00 AM PDT Updated on September 23, 2016 — 11:21 AM PDT

Helping Rural America Catch Up.

The latest economic data show the largest growth in real income and the greatest drop in poverty in years. But the biggest gains have been in the large metropolitan centers, and millions of Americans in rural communities and small Rust Belt towns still feel left behind. As Ralph Kingan, the mayor of Wright, Wyo., put it: That economic growth "ain't out in the West."

What can be done to invest in the rural communities where the economy is still stagnating?

Read the discussion.

THE NEW YORK TIMES

SEPTEMBER 19, 2016

Municipal-Bond Week in Review: Mixed News for Yields.

NEW YORK (AP) — Municipal bond yields jumped in the early part of this past week, only to give back some of the gains after reports showed weakness in U.S. economic growth.

The 10-year yield on the AP Municipal Bond index sat at 1.875 percent, as of 5 p.m. Eastern Time on Friday, up from 1.811 percent a week earlier, but down from its mid-week high of 1.886 percent. That peak represents the highest yield on the 10-year since early June.

Yields on 30-year municipal bonds, meanwhile, rose steadily through the week, climbing to 2.425 percent from 2.307 percent. Yields on muni bonds maturing in two years also tracked higher, to 0.794 percent from 0.741 percent.

The 10-year yield pared its gain after reports showed that U.S. retail sales and industrial production last month were both weaker than expected. That raised expectations even higher that the Federal Reserve will hold off on raising interest rates at its upcoming policy meeting.

Since bond prices fall when yields rise, investors who already own munis took a slight hit this week: The iShares National Muni Bond ETF, the largest municipal-bond exchange-traded fund, saw a one-week loss of 0.4 percent.

In other muni bond news:

— A wider gap

Long-term bonds generally see greater price drops when interest rates rise, so investors typically reap higher yields for owning 10-year versus two-year bonds. That gap, or spread, between two and 10-year munis widened early in the week, hitting 1.1 percentage points, then narrowed as yields fell, ending the week at 1.081 percentage points. That's still a wider gap than it was a week earlier, 1.070 percent.

— A win for active managers

According to a new report by S&P Dow Jones Indices, New York and California muni bond fund managers had some of the best track records when it came to beating their benchmark indexes for the 12 months through June.

Only 28 percent of California municipal debt funds and 30 percent of New York municipal debt funds failed to match the performance of their benchmark index. That compares with 85 percent of fund managers atop large-cap U.S. stocks. The numbers are even worse for other kinds of U.S. stocks, with 88 percent of mid-cap managers and 89 percent of small-cap managers falling short of their indexes.

Associated Press

By Cybele Weisser, For The Associated Press | Fri, Sep 16, 2016 22:11 BST
