Stifel to Acquire Indiana-based City Financial.

Stifel Financial (SF) has entered into a definitive agreement to acquire 100% of the equity interests in City Financial Corporation, and its wholly owned subsidiary City Securities Corporation, according to an announcement the firm made on Tuesday.

"We have known the management team at City Financial for a long time and have always been impressed with their leading market position in the public finance and wealth management businesses within the state of Indiana," said Ronald J. Kruszewski, chairman and CEO of Stifel, in a statement. "We believe the addition of City and its growing and profitable business to the Stifel platform further enhances the Company's growing presence in these two attractive businesses."

City Securities, established in 1924 and headquartered in Indianapolis, Indiana, is an independent investment bank focused primarily on offering wealth management and public finance services across the Midwest and Indiana.

The firm's primary business lines include the private client group and the public finance group. The private client group has 40 financial advisors across eight Indiana offices with roughly $4 billion in client assets, and its public finance group is the leading underwriter of Indiana municipal bond issues.

As of July 1, Stifel had about 2,300 advisors and $226 billion in client assets – which represents an average of about $98.5 million in client assets per advisor. Of its total advisor force, roughly 2,170 are employee reps and 130 are independent advisors.

According to Mike Bosway, CEO of City Financial, City Securities' partnership with Stifel Financial will enhance its position in increasingly competitive markets.

"We are excited about the opportunities that this transaction will provide to our clients as Stifel provides City Securities the resources to elevate our Wealth Advisory and Public Finance platforms," Bosway said in a statement. "I am also pleased that my entire team of top managers and all of our financial advisors and bankers have committed to this transaction by signing continuation agreements with Stifel, confirming their long-term belief in the combined organization."

City Financial Corporation's two other wholly owned subsidiaries, City Securities Insurance and City Real Estate Advisors, are not part of this transaction. Closing is expected in Q1 2017.

Terms of the transaction were not disclosed.

THINK ADVISOR

EMILY ZULZ

SEPTEMBER 14, 2016

S&P: Houston's Preliminary Pension Plan: Panacea Or Prolonged Predicament?

DALLAS (S&P Global Ratings) Sept. 15, 2016–S&P Global Ratings believes that the pension reform framework described in a statement by mayor of Houston, Texas yesterday is a step in the right direction for the city. The city's efforts to come to an agreement, even if preliminary, that includes improved funding discipline, more conservative assumptions, and benefit reform demonstrates management's efforts at improving the retirement system's sustainability and is no small feat. However, we also recognize that there is a long road ahead before negotiations are finalized and the full impact of the proposal can be fully evaluated.

We downgraded the city to AA/Negative in March 2016 based in part on our opinion of its large unfunded pension liability that has been exacerbated by what we consider optimistic rate-of-return assumptions and a history of lower-than-actuarially determined contributions. The framework announced by the mayor, which is still preliminary and subject to additional negotiations, lays out a set of agreed-to goals without details about how these would be achieved. Although some elements of the proposed plan point to greater conservatism in assumptions, others bring along increased risk, and none are free of implementation risk.

In our view, the more conservative measures include the adoption of a 30-year closed end amortization; a reduction in the assumed rate of return to 7%; improved funding discipline; and reduction of one-third of the liability through cost containment measures related to changes in benefits. We understand the Mayor's plan also calls for an additional $1 billion of pension obligation bonds (POBs) which could add some risk. From a credit perspective, issuing POBs increases leverage and fixed costs. The decision to utilize debt
for this purpose is tantamount to deficit financing–funding an operating expenditure with bonds. The POB bond proceeds would need to provide a return equivalent to the assumed rate of return (7%) plus the cost of borrowing the funds for the pension funding to keep track with assumptions. This is particularly important as a trend of lackluster investment returns, together with forecasts of lower expected market returns over the next 10 years, has brought on renewed calls from some financial economists for lower rate-of-return and discount rate assumptions (see our report, "U.S. State Pensions: Weak Market Returns Will Contribute To Rise In Expense," published Sept. 12, 2016).

Additionally for Houston, which has a front-loaded debt service schedule, we would have to evaluate how this issuance would play into its ability to meet future capital needs and if it will be structured in a way that provides reduced pension funding early on in exchange for higher, less sustainable contributions in the future. Even measures that reflect increased conservatism are not without risk. For example, we view full funding of actuarially determined contributions as positive, but that practice could place significant stress on the city's budget and be difficult to execute should investment returns fall short of assumptions or savings not materialize as expected. We understand this plan is nascent and that the final elements are still subject to substantial negotiations. Furthermore, like any pension reform effort, this one could be subject to litigation, which could delay or derail implementation. Ultimately, the impact of this proposal will rest on the mix of elements that make their way to an adopted and final plan, what level of savings they provide, and on the city's ability to execute the plan once adopted.

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 Rescue Law to Face First Court Test From Creditors.

The new federal law that shields Puerto Rico from bondholder lawsuits will have its day in court next week.
U.S. District Judge Francisco Besosa has scheduled a hearing on Sept. 22 in San Juan on whether investors should be temporarily blocked from suing over the Puerto Rico's debt defaults, a protection Congress extended through legislation enacted in June. That federal law has given Puerto Rico time to resolve the crisis brought on by its $70 billion of debt.

Hedge funds and insurance companies have filed suits to block Governor Alejandro Garcia Padilla's ability to skip payments to investors and use money pledged to bondholders for other purposes. While Besosa placed some of these cases on hold because of the federal law, he's scheduled a hearing for creditors and the commonwealth to weigh in.

Puerto Rico began defaulting on debt a year ago and on July 1 missed nearly $1 billion of interest and principal that was due, marking the largest payment failure in the $3.7 trillion municipal-bond market. Puerto Rico has been in a recession for the past decade and a record number of islanders have left to find work on the U.S. mainland.

Bradley Meyer, a partner at Ducera Partners LLC, the financial adviser to hedge funds holding Government Development Bank bonds, is set to testify in favor of allowing the lawsuits to proceed, according to a court document filed Tuesday. Meyer is expected to speak about the impact Puerto Rico's debt-moratorium law is having on creditor negotiations, according to the court document.

Adam Bergonzi, chief risk officer at National Public Finance Guarantee Corp., which insures $3.9 billion of Puerto Rico securities, plans to testify on the effect a court-case delay will have on the insurance company.

Laura Moran, vice president at U.S. Bank Trust National Association, the bond trustee for University of Puerto Rico debt, is also set to testify. The trustee in August sued the university for redirecting revenue away from paying debt and is seeking a reprieve from the stay.

Anticipated witnesses for Puerto Rico include Elizabeth Abrams, managing director at Millstein & Co., the commonwealth's financial adviser. Abrams is set to testify on negotiations with creditors and the anticipated debt-restructuring process. Yaime Rullan Cabrera, assistant secretary of the commonwealth's Treasury Department, may speak on the island's projected financials. Andy Dillon, executive director at Conway MacKenzie, which has analyzed the island's available cash, is set to give information on the commonwealth's liquidity and financial status.

Bloomberg Markets

by Michelle Kaske

September 14, 2016 — 2:20 PM PDT

Billionaire Rescues Michigan City With Cash to End Fiscal Plight.

In Kalamazoo, Michigan, a city besieged by poverty and state aid cuts, Mayor Bobby Hopewell had few options left. The city had already thinned the ranks of the police force and halted work on aging infrastructure, only to keep spending millions more than it brings in.

Then, in July, he landed an unheard-of lifeline. William Johnston, the husband of billionaire Ronda Stryker, and William Parfet, whose great grandfather founded Upjohn Co., agreed to give the city $70.3 million — a first step toward creating a $500 million endowment that Kalamazoo will use to put an end to chronic budget shortfalls and pay for a property-tax cut aimed at drawing residents to the 76,000-person city.

"The state of Michigan has not helped us," Hopewell said. "A philanthropic approach might make sense."

More than seven years after the U.S. emerged from the worst recession since the Great Depression, cities are turning increasingly to charity, if only for modest relief from pressure caused by swelling pension debts, declining populations and limits on their ability to raise taxes.

After Detroit in 2013 became the biggest city ever to go bankrupt, private donors stepped in to help keep the city's art collection from being auctioned off and shelter retired city workers from potentially devastating cuts to their pension checks. Flint, Michigan, reeling from a lead-tainted water supply, received philanthropic aid. Even relatively well-heeled cities, including Los Angeles, Jacksonville, Florida, and Boise, Idaho, have boosted staff devoted to raising money for parks, libraries and schools.

"Like all cities, there are definitely limited resources," said Dawn Lockhart, who was named Jacksonville's director of strategic partnerships this year. "There is unlimited demand placing an incredible amount of strain on both nonprofits and on the city."

Nowhere has pushed it quite as far as Kalamazoo, a city 140 miles (225 kilometers) west of Detroit where more than a third of the residents live in poverty.

Since 2009, the city has cut about $12 million from its general fund, which had operating revenue of almost $53 million in the 2016 budget year, city documents show. That's resulted in the elimination about 120 jobs over the past five years, which means it may take residents longer to pay a bill or receive approval for a new building, said City Manager Jim Ritsema.

The initial $70 million donation, to be used over three years, will be used to close Kalamazoo's budget deficit and lower the general city property tax by about a third over that time. If the city succeeds in increasing the endowment to between $300 million and $500 million, officials plan to cut taxes even more.

"That's the only strings that have been attached to this, to do greatness for everyone," Ritsema said. Parfet and Johnston did not respond to requests for comment.

The donations could help pay for city improvement projects that have been on the shelves without funding, such as lead pipe removal, roadwork, public art, or entrepreneurial programs, Mayor Hopewell said.

Kalamazoo's donation is "quite unusual" because it's being used to solve a budget deficit instead of underwriting specific civic projects, said Robert Collier, chief executive officer of the Council of Michigan Foundations, which is made up of philanthropic organizations in the state.

The financial needs are high for cities in Michigan, where the state constitution limits their power to raise and collect real-estate taxes. And with the state contending with its own financial strain, lawmakers cut revenue-sharing to municipalities by about $5.5 billion between fiscal 1998 and fiscal 2016, according to an April report by Great Lakes Economic Consulting, a nonpartisan group based in Eaton Rapids. The impact has rippled out to cities including Flint and Detroit, said Daniel Greer, a member of the Michigan Municipal League's trustees.

"We all face the same problems," said Greer, who is a city council member for Jackson, Michigan. Private money has helped to fill the breach. Foundations or philanthropy groups in Michigan donate about $1.5 billion a year to various organizations, said Collier.

Kalamazoo could solve its budgetary problems without relying on donors, said city commissioner Matt Milcarek, though it would be political challenge. He said it should still pursue instituting a city income tax — a step that voters have rejected twice — in case the endowment is unable to be fully funded or its investments do poorly.

"You could fix the structural problem with an income tax so you're never at a crisis point, and you could still take donations and use the foundation for additional new growth and projects and all the aspirational stuff," he said.

With money scarce, even mundane civic works have been scaled back. When Milcarek moved to Kalamazoo in 2008, he said the city used to the pave roads and streets and replace trees that the city cut down.

"Now, a tree comes down and nothing gets planted in its place," he said.

Bloomberg Markets

by Amanda Albright

September 15, 2016 — 4:00 AM PDT

California Backs $9 Billion School Bonds Blasted by Brown.

California is poised to take advantage of near-record low rates and its highest credit rating since 2001 by borrowing to fix crumbling schools. Democratic Governor Jerry Brown, who helped lead the turnaround to surpluses from deficits, doesn't want it to.

Voters in the most-indebted and populous state will decide in November whether to approve $9 billion in general obligations for school construction and modernization, the first statewide education-debt measure in a decade. They have approved about $40 billion of such bonds since 1998, and an April poll showed most respondents support the latest one, which would also aid community colleges and technical programs.

A coalition of education advocates and building industry representatives, with backing of politicians across the Golden State, pushed for the proposition and raised $8.9 million. While Brown has characterized it as a "developers'" bond that would deepen inequities in a state where high rates of poverty collide with Silicon Valley riches, no money has been donated to oppose it.

The measure is just one of 17 statewide questions Californians will consider on Election Day, and it comes after the state used budget surpluses brought on by the growing economy to pay down debt, helping win credit-rating upgrades. Other questions include extending a tax increase on the wealthy and requiring statewide approval for revenue bonds exceeding $2 billion.

"In the scheme of what the state needs to do, I don't consider this a pressing need and there are other ways to finance it," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $6.3 billion of investments. "It's another potential burden that if the economy gets weaker and income and capital gains revenues go down, it could put some additional pressure on the state."

Now, California is reaping gains as turmoil in financial markets and negative interest rates overseas help keep the extra interest on its bonds over benchmark securities close to record low levels.

Those focusing on the industry's support miss the point that the measure supports children's education, said David Walrath, a consultant for the Coalition for Adequate School Housing, which helped put the question on the ballot.

"This bond is about kids having safe, clean, quality classrooms," said Walrath. "Yes, somebody's going to build it. If you don't build it, the kids don't have it."

Under the program, school districts raise local dollars and apply for matching state aid for projects. Low-income communities can also request grants. The state's bond-funded pot has been depleted, and advocates estimate at least $2 billion in projects await financing.

The new measure would add about $500 million annually in debt service for about 35 years, the Legislative Analyst's Office said. The governor's office questions the need. Enrollment is expected to decline over the next decade and the threshold for voter approval of bonds issued by the districts has been lowered, unlike in 1998 when the current state program started.

"Larger school districts, relative to their smaller counterparts, have greater resources to work through what's an unquestionably convoluted and multi-layered system," said H.D. Palmer, a spokesman for Brown's finance department.

Brown has said the measure "squanders money" that low-income communities could use. In a state whose economic recovery has been propelled by the technology industry, about one in five live in poverty. At the same time, California accounts for more billionaires among the world's 400 richest people than any other U.S. state, according to the Bloomberg Billionaires Index. If it were a country, it would have more billionaires than anywhere else.

Scores of communities are experiencing influxes of students, said Walrath. Noting that enrollment is declining statewide without acknowledging the growth in those districts "assumes we can bus kids from L.A. to the Central Valley," he said.

And some districts' needs dwarf their ability to raise funds locally, he said. He pointed to Twin Rivers Unified School District, which can currently only sell $52 million in bonds but has $2.6 billion in projects through 2040, documents show.

Under the measure, $3 billion would go to new construction, $3 billion to modernizing facilities, $2 billion for community colleges and $500 million each to charter schools and career technical education programs.

In the campaign, supporters point to the need to retrofit classrooms for earthquake and lead safety, upgrade technology so students can compete globally, and help people hone skills to garner jobs. The top 10 contributors are the associations for the building industry, school housing, and Realtors, as well as D.R. Horton Inc., Lewis Pacific Partners and the Irvine Company, state election records show.

A group called California Taxpayers and Educators Opposed to Sprawl and Developer Abuse registered to oppose the proposition but has yet to raise any money.

"The governor has his priorities and we believe that the people of the state have theirs," said Dave Cogdill, chief executive officer of the California Building Industry Association. "They should have an opportunity to weigh in and determine how they want the money spent."

Bloomberg Markets

by Romy Varghese

September 16, 2016 — 2:00 AM PDT Updated on September 16, 2016 — 9:56 AM PDT

Puerto Rico Extends Millstein Pact as Federal Oversight Looms.

Puerto Rico, which triggered the biggest default in the municipal-bond market by skipping nearly $1 billion of debt payments in July, is set to pay Millstein & Co. as much as $8.4 million in the next year to provide outside restructuring advice.

The commonwealth extended its contract with Millco Advisors LP, an affiliate of Washington-based Millstein, through June 30, 2017, according to a review of the agreement provided by the island's Office of the Comptroller. The commonwealth's Fiscal Agency and Financial Advisory Authority is set to pay the firm as much as $8.4 million, according to the contract.

Jane Vris, general counsel at Millstein, didn't immediately return an e-mail seeking comment on the extension.

Millstein has been advising Puerto Rico since February 2014 on how the commonwealth and its agencies can reduce its $70 billion of debt and has been negotiating on the island's behalf with creditors. A seven-member federal control board will begin overseeing any restructuring of Puerto Rico's obligations and help end its reliance on deficit borrowing to fill budget gaps. President Barack Obama in June enacted a law, called Promesa, which means promise in Spanish, to create the control panel and establish a framework allowing the commonwealth to reduce its debt load.

Millstein has a separate $3 million contract with Puerto Rico that runs through December and would compensate the firm if a restructuring deal is finalized.

Puerto Rico has effectively been shut-out of the capital markets since Governor Alejandro Garcia Padilla in June 2015 said it couldn't repay all of its obligations. To conserve cash to keep the government running, it has since defaulted on a growing share of its debt, including nearly $1 billion of principal and interest due in July, the largest ever in the U.S. municipal market. Unlike many local governments, Puerto Rico isn't authorized to file for bankruptcy to reduce what it owes.

Millstein contracts totaled $17.6 million through July 31, 2016, according to the Office of the Comptroller.

Bloomberg Markets

by Michelle Kaske

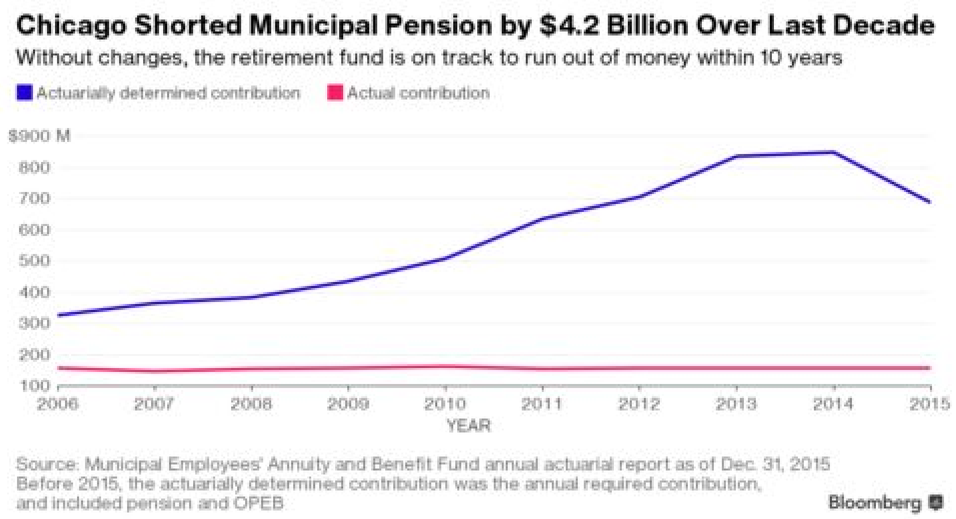
September 13, 2016 — 9:50 AM PDT

[Chicago Raises Water and Sewer Taxes to Fund Pension Deficit.]

Chicago moved to save its largest and most indebted pension from insolvency by raising the city's water and sewer taxes to shore up the municipal fund that serves more than 70,000 workers and retirees.

The city council on Wednesday voted to approve Mayor Rahm Emanuel's plan to hike the levies by about 33 percent over five years. The plan boosts the city's contributions so the pension reaches 90 percent funded in 40 years. Chicago will pay about $3 billion to the fund over the next six years. That's up from the $1 billion under the previous funding schedule. The higher utility taxes will help cover this through 2022, and after that, the city will need to find new revenue to meet the stepped-up payments.

"This year marks the year, 2016, where every one of those funds went from insolvency to solvency," Emanuel told reporters at a news conference. "Every one of those funds now can meet its obligations to retirees."



Without the tax increase, the municipal fund was set to run out of money within 10 years. As of Dec.

31, it only had 20 cents for every $1 owed to beneficiaries. For decades, the city failed to put aside enough money to cover the cost of rising benefits for retirees, leaving Chicago with $34 billion of retirement debt across its four pension systems. The higher levies follow a record property tax hike that Emanuel pushed through in October to fund the public-safety pensions and a telephone charge to bolster the laborers' fund.

A portion of the city's taxable debt, which matures in 2042, traded for an average of 90.7 cents on the dollar, compared to 87 cents on Aug. 3, the day Emanuel outlined his plan. The debt yields 6.1 percent, down from 6.5 percent.

The council also approved borrowing as much as $3.5 billion to refinance debt and pay for projects at O'Hare International Airport. The deals' proceeds will help pay for construction projects like terminal upgrades and runway improvements. The bonds are expected to price in the fourth quarter.

Chicago sold about $2 billion in bonds for O'Hare in October 2015, the city's biggest bond issue ever at the time.

Bloomberg Markets

by Elizabeth Campbell

September 14, 2016 — 9:43 AM PDT Updated on September 14, 2016 — 11:42 AM PDT

Bloomberg Brief Weekly Video - 09/15

Amanda Albright, a reporter for Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

September 15, 2016

Chicago City Council Passes Tax for Pensions, Airport Bonds.

CHICAGO — The last piece of Chicago's pension funding puzzle fell into place on Wednesday with final approval of a tax on water and sewer usage to save the largest of the city's four retirement systems from going broke.

The tax, passed in a 40-10 city council vote, is projected to raise an estimated $240 million a year once it is fully phased in over five years, helping Chicago gradually increase contributions to its municipal retirement system, which is projected to run out of cash within 10 years.

"Your acts today changed the course of the city's finances from insolvency to solvency," Mayor Rahm Emanuel said, praising aldermen for their "collective courage."

Credit ratings for the nation's third-largest city have tumbled into the low investment grade to junk levels due largely to an unfunded pension liability that stood at $33.8 billion at the end of fiscal 2015 for the four retirement systems.

Chicago has already authorized a phased-in $543 million property tax for its police and fire retirement systems and a telephone surcharge increase for its laborers' pension fund.

For the municipal fund, an actuarially required funding level would be reached in 2023, when the payment would spike to nearly $879 million from $577 million in 2022, according to city documents. The aim of the plan is to bring the retirement system's funded level to 90 percent in 2057.

Some aldermen have raised concerns that even with the new tax revenue, the city will be short $300 million in 2023.

The city's next step involves the Illinois Legislature, which will be asked in November to approve the new funding schedule for the municipal system, as well as one for the laborers' fund.

The Democratic-controlled legislature in May overrode Governor Bruce Rauner's veto of a new funding schedule for Chicago's police and fire retirement systems.

In a 26-21 vote on Wednesday, the city council authorized the sale of up to $3.5 billion of bonds for O'Hare International Airport.

The city will refund up to $1.5 billion of general airport revenue bonds (GARBs) through Bank of America Merrill Lynch to save an estimated $187.2 million, according to a city briefing document. Another batch of GARBs worth as much as $1.5 billion will be sold through Morgan Stanley to fund a runway and air field improvements.

Loop Capital Markets will price up to $500 million of new and refunded passenger facility charge (PFC) bonds.

By REUTERS

SEPT. 14, 2016, 2:48 P.M. E.D.T.

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Judge Refuses to Stay Puerto Rico Bondholder Suit.

WASHINGTON – A federal judge in Puerto Rico has refused to temporarily halt a lawsuit in which bondholders claim Gov. Alejandro García Padilla violated PROMESA by declaring a moratorium on constitutional debt payments after the law was enacted but before a control board was established.

The lawsuit, which was filed on July 20 by Delaware-based Lex Claims LLC and other companies that hold Puerto Rico's constitutionally backed debt, focuses on three actions the government took that allegedly violated PROMESA after President Obama signed it into law on June 30. They are seeking a declaration that the government violated PROMESA as well as an injunction halting the violations.

Puerto Rico fought the lawsuit claiming it should be stayed or temporarily halted under PROMESA. But Judge Francisco Besosa ruled on Sept. 2 that the stay doesn't apply to this lawsuit.

John Mudd, a Puerto Rico lawyer who has closely followed PROMESA, said the decision against the stay on litigation may be a first step toward an ultimate ruling that García Padilla and the government infringed on PROMESA. The case will likely continue into October, he said, and there is a chance the seven-member oversight board created under the law could also weigh in on the government's cited actions before a ruling is handed down.

The plaintiff companies charge in their complaint that the governor's Executive Order 2016-30, which was also issued on June 30, violated a section of PROMESA that prohibits Puerto Rico from enacting new laws that either permit the transfer of any funds or assets outside the ordinary course of business or that are inconsistent with the constitution or laws of the territory between the date of the law's enactment and the time the oversight board and its chair have been appointed.

The complaint also claims that the commonwealth's fiscal year 2017 budget violates that section because it "makes huge transfers outside the ordinary course of business and diverts vast resources to purposes that apparently enjoy political favor but are indisputably junior to constitutional debt." The companies cite a roughly $800 million contribution to the pension system in the budget as well as about $250 million from the territory's general fund to "prop up its insolvent Government Development Bank."

"All of this is well outside the 'ordinary course of business' and flouts the Puerto Rico constitution, which expressly requires appropriations for full payment of constitutional debt," the companies said in their complaint.

They also allege that a commonwealth law enacted on July 20 that allows the commonwealth, without approval of the oversight board, to take on responsibility for debts owed to the GDB by other, independent entities violates Section 207 of PROMESA. That section says Puerto Rico cannot "issue debt or guarantee, exchange, modify, repurchase, redeem, or enter into similar transactions with respect to its debt" without getting the oversight board's approval.

The commonwealth responded to the complaint by arguing it triggered a provision of PROMESA that puts an automatic stay on debt litigation against the commonwealth.

"This is, in short, precisely the sort of bondholder litigation against Puerto Rico that PROMESA sought to halt for a temporary period to allow the commonwealth to stabilize its financial situation and to give the oversight board time to set up and review," the commonwealth said in a document filed with the court.

But Besosa's ruling that the stay did not apply was based mostly on considerations regarding the timing of the suit and whether the plaintiffs' requested relief claims could be considered monetary relief.

The first way a stay could be triggered is if the judicial actions "against the government of Puerto Rico … [were] or could have been commenced before the enactment of [PROMESA]," Besosa wrote in his order. He found that because the plaintiffs' complaint seeks an injunction enjoining commonwealth action that took place after PROMESA's enactment, the plaintiffs could not have brought the case before the enactment of the law and the case did not meet that requirement necessary to trigger the stay.

A suit could also be subject to the stay if it is a judicial action to recover a "liability claim" against the government of Puerto Rico that arose before the enactment of PROMESA, the judge said. The law associates "liability claim" with monetary relief, defining it as a claim that relates to liability, right to payment, or right to an equitable remedy for breach of performance if such breech gives rise to a right to payment, he said.

"In their amended complaint, plaintiffs expressly state that their lawsuit 'does not seek to compel payment on plaintiffs' bonds.' Rather, plaintiffs seek only declaratory and injunctive relief," Besosa wrote. “Thus, plaintiffs do not seek to recover a right to payment that arose before PROMESA’s enactment” and the suit does not meet that requirement for a stay.

The Bond Buyer

By Jack Casey

September 7, 2016

Privately Sold Junk-Rated Chicago School Bonds Could Go Public.

Municipal bond investors may get a shot at $150 million of junk-rated bonds issued by the Chicago Board of Education if the bank that purchased the bonds in July decides to launch a public offering amid financial uncertainties for the school district.

Brian Marchiony, a spokesman for J.P. Morgan Securities, which acquired the bonds in a private placement, declined to comment on Tuesday beyond the disclosure in an official statement released by the school board on Friday that the bank may sell the bonds.

The 30-year general obligation bonds were sold with a 6.5 percent coupon and 7.25 percent initial yield, which was 513 basis points over Municipal Market Data’s benchmark triple-A scale. The wide spread was indicative of the big market penalty paid by the cash-strapped Chicago Public Schools (CPS) to sell debt.

The bonds’ official statement showed that the nation’s third-largest public school system, which began its new school year on Tuesday, remains under fiscal stress, projecting to end fiscal 2017 on June 30 with a slim cash balance of $30.5 million.

That balance takes into account that the district’s $5.46 billion operating budget will include $215 million from Illinois that is tied to the uncertain enactment of state-wide pension reforms. It also relies on $31 million in savings if the Chicago Teachers Union (CTU) reverses its opposition to a CPS plan to have teachers pay more toward their pensions.

The district is struggling with escalating pension payments that will jump to $720.2 million this fiscal year from $676 million in fiscal 2016, as well as drained reserves and debt dependency.

CPS expects to begin short-term cash flow borrowing of about $325 million this week, followed by $150 million in early October, according to the official statement. The board of education in August approved up to $1.55 billion of short-term debt in fiscal 2017.

The document also warns of a possible teachers’ strike that could affect state aid revenue if the school year is shortened.

CTU President Karen Lewis said in her back-to-school message on Monday that teachers will not work another year without a contract and that negotiations are a priority. The union’s contract expired on June 30 of last year. Its last prolonged strike occurred in 2012.

REUTERS

Tue Sep 6, 2016 12:46pm EDT

(Reporting by Karen Pierog; Editing by Matthew Lewis)

[Philadelphia Financial Management Of San Francisco buys $30,811,255 Stake in Assured Guaranty Ltd. (AGO)]()

Assured Guaranty Ltd. (AGO) : Philadelphia Financial Management Of San Francisco scooped up 212,292 additional shares in Assured Guaranty Ltd. during the most recent quarter end , the firm said in a disclosure report filed with the SEC on Aug 15, 2016. The investment management firm now holds a total of 1,134,435 shares of Assured Guaranty Ltd. which is valued at $30,811,255.Assured Guaranty Ltd. makes up approximately 6.64% of Philadelphia Financial Management Of San Francisco's portfolio.

Other Hedge Funds, Including , First Trust Advisors Lp boosted its stake in AGO in the latest quarter, The investment management firm added 108,312 additional shares and now holds a total of 386,023 shares of Assured Guaranty Ltd. which is valued at $10,654,235. Assured Guaranty Ltd. makes up approx 0.03% of First Trust Advisors Lp's portfolio. Sg Americas Securities sold out all of its stake in AGO during the most recent quarter. The investment firm sold 4,038 shares of AGO which is valued $108,340.Quantbot Technologies Lp reduced its stake in AGO by selling 305 shares or 2.27% in the most recent quarter. The Hedge Fund company now holds 13,111 shares of AGO which is valued at $351,768. Assured Guaranty Ltd. makes up approx 0.04% of Quantbot Technologies Lp's portfolio.Nordea Investment Management Ab boosted its stake in AGO in the latest quarter, The investment management firm added 36,765 additional shares and now holds a total of 119,870 shares of Assured Guaranty Ltd. which is valued at $3,151,382. Assured Guaranty Ltd. makes up approx 0.01% of Nordea Investment Management Ab's portfolio.

Assured Guaranty Ltd. closed down -0.18 points or -0.65% at $27.59 with 4,84,081 shares getting traded on Thursday. Post opening the session at $27.89, the shares hit an intraday low of $27.34 and an intraday high of $27.89 and the price fluctuated in this range throughout the day.Shares ended Thursday session in Red.

On the company's financial health, Assured Guaranty Ltd. reported $1.03 EPS for the quarter, beating the analyst consensus estimate by $ 0.50 according to the earnings call on Aug 3, 2016. Analyst had a consensus of $0.53. The company had revenue of $372.00 million for the quarter, compared to analysts expectations of $284.76 million. The company's revenue was down -42.7 % compared to the same quarter last year.During the same quarter in the previous year, the company posted $1.83 EPS.

Assured Guaranty Ltd. is a holding company. The Company provides through its operating subsidiaries credit protection products to the United States and international public finance including infrastructure and structured finance markets. The Company markets its financial guaranty insurance directly to issuers and underwriters of public finance and structured finance securities as well as to investors. It conducts its financial guaranty business on a direct basis from the following companies: Assured Guaranty Municipal Corp. (AGM) Municipal Assurance Corp. (MAC) Assured Guaranty Corp. (AGC) Assured Guaranty (Europe) Ltd. (AGE) and Assured Guaranty Re Ltd. (AG Re). The Company insures obligations issued in the United States. It also offers credit protection through reinsurance. The Company insures and reinsures various types of United States public finance obligations and various non-United States public finance obligations.

By: Robert Richardson

Last Updated: September 7, 2016

Christopher Brogdon Bond Investors Seek Recovery of Their Investments: New Lawsuit Filed.

CLEVELAND, Sept. 10, 2016 /PRNewswire/ — Christopher Brogdon municipal bond investors have retained the Peiffer Rosca Wolf securities attorneys and are pursing claims to recover money they invested with Brogdon. Recently, the Peiffer Rosca Wolf law firm filed a lawsuit on behalf of investors seeking to recoup their investments from third parties that assisted the Brogdon bond programs according to allegations in the complaint. Brogdon bond investors may contact Alan Rosca or James Booker at 888-998-0520 for more information about the case.

Christopher Brogdon organized a series of municipal bond offerings that sought money for investments in retirement housing, nursing homes, and assisted living facilities that would be managed by Brogdon-controlled companies. Bonds were sold to raise money for projects related to the purchase, renovation, construction, leasing and managing of nursing homes and assisted living.

In November 2015, Brogdon and a number of related entities were sued by the Securities and Exchange Commission ("SEC"). The SEC alleged that Brogdon committed fraud by making misrepresentations in offering documents provided to investors, commingling investor funds, and not disclosing from where investor payments were derived. Specifically, instead of directing investor funds for their intended purposes, Brogdon was accused of diverting some of those funds to other uses, including his family's personal expenses and facilities unrelated to the offering for which the funds were raised.

While testifying under oath, Brogdon refused answering questions about his bond programs and invoked his Fifth Amendment right against self-incrimination.

What Investors May Do

The Peiffer Rosca Wolf attorneys have been investigating this matter and have filed a lawsuit on behalf of investors against third parties that allegedly assisted the Brogdon bond program, with the goal of recovering money for those investors. They continue to explore additional recovery options from third parties that may have assisted the Brogdon program.

If you purchased any bonds that were a part of any of the various Brogdon offerings, you may have options to recover your investments. If you would like to learn how you might be able to recover your money, you should contact Peiffer Rosca Wolf securities attorneys Alan Rosca or James Booker at arosca@prwlegal.com or by phone at 888-998-0520.

The Peiffer Rosca Wolf law firm prosecutes cases on behalf of investors throughout the United States. For more information and updates about Christopher Brogdon's offerings and this matter, please visit www.brogdoninvestors.com.

Attorney advertising. Prior results do not guarantee a similar outcome. Please visit our website, www.securitieslitigators.com, for important disclosures, office locations, and attorney admissions. The SEC's allegations are not proof of liability and anyone should be presumed innocent until and unless otherwise found liable or guilty in a court of law. Peiffer Rosca Wolf Abdullah Carr & Cane, A Professional Law Corporations ("Peiffer Rosca Wolf").

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Eds and Meds, Plus Labs and Govs: Partnering to Bring Innovation in Albuquerque.

To say a lot is going on in Albuquerque, New Mexico, is an understatement. “We’ve got $157 million in projects coming out of the ground downtown right now. That’s unprecedented,” says Gary Oppedahl, director of economic development for the city. “We’re changing the skyline of downtown Albuquerque, and we were told when we got here that there was no money for any development.”

New buildings are only a small part of Albuquerque’s transformation. “It’s really about culture change here,” Oppedahl says, and he’s not referring to New Mexico’s unique heritage. Instead, it’s attitudes toward entrepreneurship, collaboration, and development. “What I’m doing here is making a platform city with an operating system that is inclusion, infrastructure, and innovation. And quite frankly, innovation is the result if you do inclusion and build an environment which supports it as well.”

At the heart of this vision is entrepreneurship facilitated by an innovation district that covers a two-mile (3.2 km) radius. The hub—named Innovate ABQ and located on 7.2 acres (2.9 ha) in the center of downtown—is the result of a public/private partnership spearheaded by the city of Albuquerque, the University of New Mexico (UNM), and the broader business community. The most important component was getting people to connect, communicate, and collaborate, says Oppedahl. Central New Mexico Community College and UNM, which are typically adversaries in the fight for dollars from the legislature, are working together, prompting a reaction from the community, which Oppedahl describes as, “If these two can get along, maybe I should get out of my silo and start thinking of ways I can collaborate.”

The headquarters of all the major health institutions including Molina Healthcare, Lovelace, and Presbyterian are downtown. Both the Air Force Research Lab and Sandia National Lab are committed to a presence in the innovation district, cementing another important component of Oppedahl’s formula to get “eds, meds, labs, and govs” downtown and collaborating

The involvement of Albuquerque’s research facilities was important. “They have their principal investigators outside the gates mixing with our entrepreneurs,” Oppedahl says. “I’m telling everybody, ‘We’re a laboratory city,’ and it’s a double-entendre. We certainly have national labs, which gets us to the point where we have more PhDs per capita than any other community in the world. But we’ve never been able to translate that into jobs, so now we’re starting to do that.”

To spark and support new businesses, Innovate ABQ also fosters six accelerators, including the first accelerator in the United States focused on painters, sculptors, and other artists. Two years ago, there were no accelerators in New Mexico. “We don’t care what your status is. If you’re an entrepreneur and you want to do some stuff, we’re here,” says Oppedahl, emphasizing the focus on inclusion.

Innovate ABQ might be a catalyst, but it is only a small part of the changes taking place in Albuquerque. The city has pledged more than $24 million in projects, including a retractable 1,000-

seat arena added to the convention center. An existing plaza in the center of downtown got improved lighting, a water feature, and shading, and that is only one facet of endeavors to infuse new life into the Civic Plaza. A Heart of a Community grant for placemaking from Southwest Airlines sparked the Civic Plaza Presents initiative to bring performance arts, bands, art installations, outdoor movies, even a synthetic ice rink during the holidays to the venue. The downtown now has a full-service grocery store, which is part of a new four-story mixed-use project with rental apartments, retail, and parking. A large percentage of the apartments will be workforce housing. Another public/private collaboration is the creation of a destination entertainment district, which will also include residential units, adjacent to Innovate ABQ.

Another project focuses on transportation and creating a walkable and bikable downtown, including a proposed 50-mile (80 km), multiuse trail and bikeway. Plans call for a new transit-oriented district, but, instead of light rail, Albuquerque Rapid Transit will use electric buses, making it the first gold-rated bus rapid transit (BRT) system in the country. Implementation will cost substantially less than light rail. Still, the buses travel in a dedicated lane and platforms are raised to facilitate entry. Mayor Richard Berry has described it as “a game-changer for Albuquerque.”

The ten-mile (16 km) system runs along a stretch of old Route 66. According to the plan, historic buildings will be preserved. Todd Clarke, chief executive officer (CEO) of New Mexico Apartment Advisors, estimates that almost $100 million is being invested in transit-oriented development in addition to the investment in the new transit system. Oppedahl says he sees this as another opportunity. “Each of our little enclaves and neighborhoods should have [its] own personality, and I’m creating an economic development center in each one of them.”

Albuquerque’s reputation as a tech center is just beginning. Already it has been included on the Rise of the Rest tour and cited as one of the top five cities to get in on the ground floor for a tech startup and one of the top five cities for women in tech. “In the end,” Oppedahl says, “I’ve got five strategies: business development, workforce challenge development, community development, cultural entrepreneurship development, and capital development. I know [that] if I do those five things, we will markedly change our economy, and it’s working. So it’s those five strategies, 36 performance indicators, and 138 projects that we’re going to accomplish and transfer all of those things into the community.”

The Urban Land Institute

By Camilla McLaughlin

August 29, 2016

Ask Colorado Whether Infrastructure Spending Works.

Here’s something all of divided America should be able to agree on: Smart infrastructure investment works. For evidence, look at Colorado, where elected officials of both parties trace an economic boom to a decision 27 years ago to spend more than $2 billion on a new Denver airport.

The Denver International Airport was the brainchild of Federico Pena, who was elected mayor in 1983 and who would become the Secretary of the Transportation and Energy departments in the Clinton administration. It was assailed as a boondoggle by some local businessmen in a campaign led by Roger Ailes, then a Republican media consultant and later the impresario of Fox News.

The airport was financed by revenue bonds, which proved to be among the best performers in the market for state and local government debt. Today it is the linchpin of Colorado's transition to a global 21st-century economy flush with high-paying jobs and enhanced by daily nonstop flights to Asia, Central America and Europe.

Colorado has many economic advantages, from shale to ski resorts and beyond, but state officials say the new airport was the catalyst needed to set off the boom. "It's foundational," Governor John W. Hickenlooper said in an interview last month in his statehouse office. "I mean we look at infrastructure" as the central element "to build our new economy around."

JOB GROWTH TOOK OFF …

The airport is seven times the size of Stapleton Airport, which it replaced in 1995 as the largest public-works project in Colorado history. It still is the only major new U.S. airport since Dallas-Fort Worth in 1974. Even though the plan for the new airport was approved by 65 percent of Denver voters in 1989, some airline executives resented its cost and didn't think it was needed. Robert L. Crandall, the chairman of American Airlines, told Time Magazine in October 1991 that the facility was "a field of dreams" where "a lot of money is being poured into building a great big airport way out in the boonies," 24 miles from downtown. "There is no need for a new airport in Denver," he said.

On the contrary, the DIA's annual economic impact today exceeds $26 billion, more than eight times Stapleton's in 1984, according to George Karayiannakis, the airport's director of financial risk and analysis. It has generated more than 270,000 jobs, almost twice the comparable figure for Stapleton 32 years ago, and $295 million in concession gross revenue, compared to $45 million for Stapleton in 1994 (about $73 million after adjusting for inflation). Passenger traffic was a record 27.5 million for the six months through June, up 6.8 percent from 2015. Stapleton had 33.1 million passengers in all of 1994.

Denver's population during the past five years surged 10 percent to about 700,000 as the fastest-growing major American city after Austin, Texas, overtaking Baltimore, Boston, Detroit and Washington as it climbed to No. 19 from No. 22 in 2010, according to data compiled Bloomberg. As the Denver population booms, the city's and state's unemployment rates remain among the lowest at 3.8 percent, more than a percentage point below the national average of 4.9 percent, according to Bloomberg data.

The DIA's success helped put Denver at the top for U.S. homeowners with above-average growth and below-average price fluctuations. During the past 30 years, the housing market for Denver produced the second-best return after Portland, Oregon, adjusted for price swings of the 20 major cities in the U.S., according to data compiled by Bloomberg. Denver, unlike any other major city, has been among the top five performers over 10 years and 5 years, reflecting its capacity for both fast and steady growth. During the past year, mortgage delinquency in the state declined 22 percent, the fourth-best result after Florida, Oregon and the state of Washington.

… AND SO DID HOME VALUES

Colorado's economy, meanwhile, is leaving behind its reliance on mining and energy. Since 2012, the accommodations and food services industry grew 22.5 percent, faster than in any other state except Texas and California, according to Bloomberg data. Health care and social assistance companies expanded 17.4 percent, the most for any state. Wholesale trade grew 17.7 percent, the fourth best in the U.S. since 2014, and finance and insurance grew 7.4 percent, bettered only by Utah and Nevada. Today, material and energy make up less than 30 percent of the total market capitalization of Colorado's publicly traded companies, down from 53 percent in 2010.

Colorado's bet on infrastructure has been a bonanza for investors as well. The DIA's bonds during the past five years provided a total return (price appreciation and income) of 19 percent, better than Atlanta, Orlando and Houston, according to data compiled by Bloomberg. Municipal bonds sold by Colorado have the sixth-best return of any state and returned 8.8 percent the past 12 months, a percentage point more than the U.S. average. Bonds sold by the E-470 Public Highway Authority returned 23 percent the past year.

Back in 1984, "a year into my administration, we fell into a major recession," Pena recalled in a telephone interview last month. "Our unemployment rate was two points above the national average. We had a 30 percent office vacancy rate in downtown Denver. The state of Colorado actually had a net loss of population which had never happened before. Every sector of the economy imploded." He said shrinking city revenues persuaded local politicians that "we had to invest."

"We had Republicans, Democrats and Independents coming together to get the airport approved, financed and built," Pena said. "We understood we had to diversify from what for the past 90 years was referred to as the boom and bust economy."

The 2016 presidential election is 62 days away and both candidates have urged a greater commitment to national infrastructure. Colorado shows why this national priority could be the gift that keeps on giving.

Bloomberg View

By Matthew A. Winkler

SEP 6, 2016 5:00 AM EDT

(With assistance from Shin Pei)

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.

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China's Reviving the American Heartland — One Low Wage at a Time.

For six years, the General Motors factory that used to make Chevy Trailblazers in Moraine, Ohio, sat abandoned, a rusting monument to the decline of the American auto industry.

These days, the plant is humming again, fueled by a resurgent U.S. consumer — but now under Chinese management. On the shop floor, Chinese supervisors in sky-blue uniforms that carry the logo of the new owners, Fuyao Glass, teach American employees how to assemble windshields.

Drive along Interstate 75, through America's industrial heartland, and you'll find no shortage of

Chinese-owned firms like Fuyao. They're setting up shop in states such as Ohio and Michigan, key voter battlegrounds in November, where traditional manufacturing has been hollowed out — in many cases, by trade. With China.

It's those losses that shape election headlines. Republican candidate Donald Trump excoriates China as an unfair trading partner, and blames a whole class of American politicians — including his Democratic rival Hillary Clinton — for selling out U.S. workers to Beijing. It's an aggressively America-first brand of capitalism. Clinton's whole career suggests she's more comfortable with globalization, though lately she's been drawn into the China-bashing and trade-skepticism too.

Open Arms

But away from the sound and fury of the national campaign, state and municipal governments of both stripes have welcomed Chinese firms with open arms. When it took over the GM plant, Fuyao got a $9.7 million tax credit from the Republican-run state of Ohio, which also kicked in a $1-million grant for road work.

"This is an example of international capital choosing to locate here in Dayton, Ohio," said Republican Congressman Michael Turner, who represents Moraine, about a 10-minute drive southwest of Dayton. "And that international capital happens to be Chinese."

For a quick wrap of the free-trade debate, click here.

And there happens to be a lot of it about. This year has seen $75 billion of Chinese acquisitions across the U.S., more than double the previous record — ranging from luxury hotels to aluminum-foil makers. Since 2008, Chinese companies have invested $4.1 billion in Ohio and Michigan alone, according to the Rhodium Group, a research firm.

Fuyao acquired roughly half the old GM plant in 2014, spending $450 million to buy and remodel it. For a company that started out as a small producer of covers for water-meters and is now the world's second-biggest auto-glass supplier, the acquisition capped a decade-long push into U.S. markets.

For the Dayton area, it meant employment: the city, hometown of the Wright brothers, was hit hard by the shutdown of the GM plant two days before Christmas in 2008. The following year another big local name, NCR Corp., announced it was moving to Atlanta after pioneering the cash-register during more than a century based in Dayton.

So what do locals make of the changes? Clinton-friendly confirmation that the wheels of global capitalism are turning more or less as they should? Or vindication for Trump's dark vision of a declining America betrayed by its economic leaders?

A bit of both, it turns out.

'Sitting Empty'

"Hey, 1,700 jobs is 1,700 jobs," said Shawn Kane, a 28-year-old chef shopping at the Kroger grocery store in Moraine last month. "At least it's not sitting empty anymore."

They're jobs that tend not to pay as well as factory work once did, though — and there probably aren't as many of them. To keep its production in the U.S. viable, Fuyao uses more automation than it does in China, said John Gauthier, president of Fuyao Glass America Inc. "Our customers, all they care about is that their cost doesn't increase," he said.

A line worker at Fuyao starts at $12 per hour, equivalent to an annual salary of about $25,000. GM workers at the old Moraine plant could make at least twice that, topped off by perks like defined-benefit pensions, according to union officials and former employees.

“When you don’t have enough protections for American workers, and when you’ve got a globalized economy, this is what happens,” said Chris Baker, a 40-year-old sales rep based near Moraine. “This is the new normal. It’s very sad.”

Fearing Japan

Anyone wanting to defuse the tensions around economic competition from China could point to the 1980s version, featuring Japan as the feared rival. Those one-time bugbear companies seem like features of the landscape now: Toyota is the third biggest seller of vehicles in the U.S., ahead of Chrysler.

China’s carmakers are on the way too, said Paul Haelterman, managing director of automotive advisory services at IHS Markit in Southfield, Michigan. They’ll be “selling product in the United States before the end of this decade,” he said. (Chinese-owned Volvo already is, of course.)

For now, it’s the Chinese parts-makers that are taking the lead, and location is key to their investments. Fuyao’s factory in Moraine is close to Big Three plants in the Detroit area, as well as a Honda factory in Marysville, Ohio.

Saginaw, Michigan, where Nexteer Automotive makes power-steering systems, is plugged into the same geographic nexus. Seven years ago, Nexteer was part of Delphi, which was in bankruptcy protection. Its suitors included a private-equity firm that was considering “chopping the business up and marketing it off in pieces,” said Mike Richardson, interim president of Nexteer. “Within three years, we wouldn’t have existed as we did before.”

Patient Capital

Instead, the company was sold for $465 million to Chinese investors. It’s now majority-owned by state aircraft maker Aviation Industry Corp. of China. One of AVIC’s first moves was to ratchet up spending on research and development by 50 percent, Richardson said. Nexteer turned a profit of $205 million last year and is now worth $3.9 billion.

“When AVIC came along, we didn’t really think about them being Chinese,” Richardson said. “We did see them as an industrial purchaser that understood what we were going through and understood the value of a long-term view.”

That’s one China: a source of plentiful, patient capital for American companies. Then there’s the vast pool of cheap labor back home — and that’s what has made Chinese industrial expansion a bigger shock to American workers than the Japanese version ever was.

For free-trade advocates like Jagdish Bhagwati, author of “In Defense of Globalization,” the rise of a new economic power is a fact that has to be dealt with — “China’s not going to disappear down the ocean” — and autarky isn’t one of the options.

‘It Bugs Me’

“If we cut off China from coming in, as many people would like to do, you also deny yourself the gains from trade,” said Bhagwati, an economics professor at Columbia University. Instead, policy makers should be “helping those guys move from where jobs are being lost to where they’re being created."

Some of the new ones will be in Moraine, if Fuyao's plans work out. The company aims to be the world's biggest auto-glass plant, with capacity to equip 4 million cars a year, double the current level. That will require a workforce of 2,500 people, up from 1,700 now.

That current staff includes as many as 200 Chinese nationals sent over to train their U.S. co-workers. At lunch, a local restaurant delivers deep-fried prawns and chicken's feet for the Chinese employees, many of whom speak halting English. Near the plant's entrance, construction is underway on a Chinese restaurant.

It'll mostly cater to employees — but will also open its doors to the people of Moraine.

It's a cosmopolitan scene. But not everyone in America's factory belt has come to terms with that kind of change.

Up the I-75 in Saginaw, Cheryl Badger is a 62-year-old nurse who used to work at GM. "I take issue any time an American business is sold to foreigners," she said. "It bugs me. But ain't nothing I can do about it."

Bloomberg Business

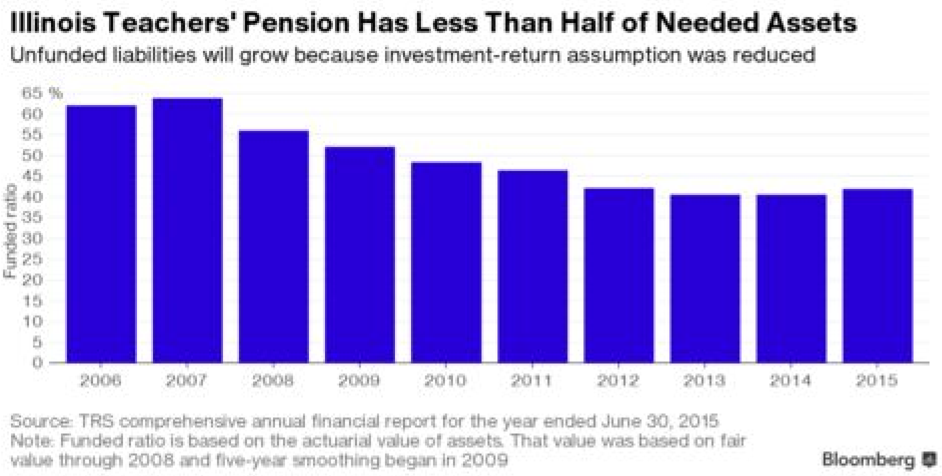
by Andrew Mayeda

September 8, 2016 — 4:00 PM PDT Updated on September 9, 2016 — 6:00 AM PDT

Illinois Pension Crisis Builds as Market Turmoil Deals a Setback.

Illinois's lackluster investment gains are making its most notorious problem — pension debt — even worse.

The state with the least-funded retirement system in the U.S. may see next year's contributions jump by nearly half a billion dollars after its largest pension, the Teachers' Retirement System, reduced the assumed rate of return on its portfolio. Because states count on such earnings to cover benefits checks, Moody's Investors Service said the change added $7.4 billion to Illinois's debt to the fund, a tab that it will have to chip away at year by year.



“There are no easy answers or financial or accounting tricks to stabilizing the state’s pension systems or the state’s finances,” said Laurence Msall, the president of the Civic Federation, a Chicago-based non-profit that tracks Illinois’s budget. “Pension funds have been allowed for decades to be dramatically underfunded and now — at a time when market returns are difficult for the fund — they need more and more contributions just in order to not lose ground from their already precarious financial position.”

The Land of Lincoln isn’t alone. Public pensions’ returns have dropped as central banks hold down interest rates, pushing bond yields to record lows, and global stock markets have been besieged by volatility. The under-performance has caused funds nationwide, including those in New York, Texas and Oregon, to roll back the returns actuaries use to determine how much governments need to save meet obligations to retirees.

In Illinois, the lowest-rated state, efforts to shore up its employee pensions have fallen victim to political gridlock. With the Democrat-led legislature and Republican Governor Bruce Rauner only able to agree on a stopgap budget, Illinois is on track to end the fiscal year $7.8 billion in the red, according to the Commission on Government Forecasting and Accountability.

It’s been more than 16 months since the Illinois Supreme Court threw out a pension restructuring that was projected to save $145 billion over three decades. The now-defunct plan cut benefits, a violation of the state constitution, according to the justices. Rauner and legislators haven’t been able to enact a new overhaul.

After posting a return of 0.1 percent in the year through June, the teachers fund decided late last month to cut the assumed rate of return to 7 percent from 7.5 percent, a step that will “significantly” affect how much Illinois will owe in the year that starts July 1, according to the retirement plan. While the magnitude hasn’t been determined yet, if the lower figure had been used for the most recent actuarial evaluation Illinois would have had to pay another $421 million this year, according to the fund’s actuaries.

Even with the short-term hit to the budget, the accounting change is a positive for Illinois by prodding it to put more into the cash-strapped fund, said Tom Aaron, a senior analyst at Moody’s.

“It’s reducing risk,” Aaron said. “It leads to better funding.”

Financial markets haven’t been helping pensions catch up, given declines in the U.S. stock market in August and January and equity-price declines overseas.

The impact led other Illinois pensions to pare their expectations. In July, the trustees for the judges’ retirement system lowered their return assumption to 6.75 percent from 7 percent. That same month, the board for the state employees’ system cut its estimate to 7 percent from 7.25 percent, according to member newsletters.

It’s “difficult or near impossible” for entities like pensions to meet current liabilities with these zero or near zero percent yields, Bill Gross, billionaire manager of the Janus Global Unconstrained Bond Fund, said on CNBC on Aug. 31. He said Illinois will “ultimately” have to raise taxes.

The yields on Illinois debt are the highest among states tracked by Bloomberg. The difference between Illinois’s 30-year bonds and top-rated securities widened to 1.7 percentage points on Sept. 2, a three-week high, according to data compiled by Bloomberg.

“It’s still tough to see how the state is going to be able to devote the resources that are necessary to get them where they need to be,” said Tom Schuette co-head of investment research and strategy at

Solana Beach, California-based Gurtin Municipal Bond Management, which doesn't hold Illinois debt among its $10.6 billion of state and local debt. "There's so much uncertainty."

Bloomberg Markets

by Elizabeth Campbell

September 7, 2016 — 2:00 AM PDT

Puerto Rico Failed to Make $9.9 Million Bond Payment on Sept. 1.

Puerto Rico's Government Development Bank, which served as the island's financial adviser and lender before being placed in a state of emergency, failed to pay investors $9.9 million of interest due Sept. 1., according to a regulatory filing.

The bank, whose regulator says is insolvent and faced a cash shortfall of as much as $1.3 billion in June, has been defaulting on debt payments since May. September's missed payment was disclosed in a filing Tuesday on the Municipal Securities Rulemaking Board's website, called EMMA.

President Barack Obama last week selected seven people from lists provided by congressional leaders from both parties to serve on a federal control board that will oversee any restructuring of Puerto Rico's $70 billion of outstanding debt and monitor the island's budgets.

Puerto Rico defaulted on nearly $1 billion on July 1, including $780 million on general-obligation bonds, the largest such payment failure in the $3.7 trillion municipal-bond market. The island's economy has shrunk in the past 10 years and residents are leaving at record levels to find work on the U.S. mainland.

Bloomberg Markets

by Michelle Kaske

September 6, 2016 — 7:44 AM PDT

BlackRock Says Bond Market Views Puerto Rico Board as Positive.

The bond market is viewing a new federal control board charged with overseeing Puerto Rico's finances as a positive for investors, according to BlackRock Inc.'s Sean Carney.

"Some of the better-secured bonds had a bit of a relief rally after the board was named," Carney, head of municipal strategy, said Wednesday after a media presentation at the company's headquarters in Manhattan. BlackRock manages about $124 billion of municipal debt, including Puerto Rico bonds.

President Barack Obama last week appointed seven members to the board from lists submitted by congressional leaders of both parties. The panel must curb the island's recurring budget shortfalls, oversee any restructuring of its $70 billion of debt and address a $43 billion unfunded pension liability.

“The names that were put on the board seem to be modestly friendly for bondholders, but it’s going to be a very long and drawn out process,” Carney said. “We don’t know what questions they’re going to have to answer or what hurdles they’ll have to clear. So there’s still a lot of unknown, but I think the market appreciated a little bit of certainty in an uncertain environment.”

Some Puerto Rico securities gained in price following the board’s formation on Aug. 31. Commonwealth general obligations with an 8 percent coupon traded at an average 66.7 cents on the dollar Wednesday, the highest average price since July 29 and up from 65.3 cents on Aug. 30, the day before Obama’s board announcement, according to data compiled by Bloomberg.

“We got a nice relief rally out of the board being put in place and we’ll look for some more answers, a little bit more clarity,” Carney said.

An index of commonwealth securities has gained every day in the past week, increasing by 1 percent since Aug. 31, according to S&P Dow Jones Indices.

Puerto Rico began defaulting on agency debt a year ago and missed nearly $1 billion of principal and interest due to investors on July 1, including $780 million on general obligations. It was the largest such payment failure in the $3.7 trillion municipal-bond market. The control board will manage any debt restructuring after island officials have been negotiating for months with bondholders to accept less than what they’re owed on their investments.

“There’s no income being generated on these bonds,” Carney said. “It’s somewhat of a recovery play. This is different than the traditional municipal market, so we have to view it that way. It’s more of an opportunistic holding.”

Bloomberg Markets

by Michelle Kaske

September 7, 2016 — 11:22 AM PDT

Tobacco Debt Is Addictive for Yield-Starved New York Muni Buyers.

In other times, state and local-government bonds backed by the legal settlement with cigarette makers might scare off would-be buyers, given the risk of default if Americans keep kicking the habit.

But with tax-exempt yields holding near the lowest on record, the securities have rallied, delivering returns of 12 percent this year, double the gain for U.S. stocks and more than any other segment of the municipal-debt market, according to Standard & Poor’s indexes. The demand led seven New York counties to offer $294 million of the bonds Thursday, this year’s first issue of securities once stung by speculation they’ll leave investors burned as smoking declines. The 10-year bonds were priced to yield of 2.11 percent, just 0.6 percentage points more than top-rated securities, according to data compiled by Bloomberg.

“The security is coming to market at a time when there isn’t a lot available offering any yield for New York investors,” said Ted Jaeckel, who co-manages the $5 billion BlackRock Strategic Municipal Opportunities Fund.

The bonds have been lifted in part because cigarette shipments, which determine the size of the annual settlement payments that back the securities, were little changed in 2015 as low gasoline prices gave consumers more money to spend. That marked a shift from prior years, when sales fell faster than expected, leaving much of the debt with junk ratings because of the likelihood that they won't be paid off when they come due.

"We still have a big allocation to the sector," said David Hammer, head of municipal bonds in New York for Pacific Investment Management Co., which has pared the share devoted to such bonds because of the price rise. "We see a lot of value in it compared to others."

Tobacco bonds were first issued more than a decade ago to allow governments to get an advance on the settlement, which was to help them pay for the health-care costs related to smoking. Since then, tobacco consumption has dropped more than some estimated, with the difficulty of accurately predicting the annual payouts driving Fitch Ratings in June to pull its ranking on the securities.

The New York counties, in offering documents circulated to investors ahead of the sale, said the timely repayment could be jeopardized by regulations, litigation, competition and tax increases, among other factors.

The bonds were sold for Broome, Dutchess, Onondaga, Rensselaer, Ulster, Oswego and Sullivan counties. Mark LeVigne, deputy director of the New York State Association of Counties, which worked with the borrowers, declined to comment.

The sale comes comes after New York Attorney General Eric Schneiderman struck a deal to end a long-running legal dispute over the 1998 settlement in October, freeing up money for the state, counties and New York City that had been held in escrow. S&P Global Ratings gave the new securities preliminary ratings from A on shorter maturities to BBB, two steps above junk, on those due as late as 2045.

"It's in a fairly robust ratings range, that could make it attractive for individual investors," said BlackRock's Jaeckel.

Bloomberg Markets

by Darrell Preston

September 8, 2016 — 2:00 AM PDT Updated on September 8, 2016 — 1:31 PM PDT

San Francisco Boom Spurs Record Debt Sale for Airport Expansion.

In San Francisco, almost everything is flying high: real estate, start-ups and now, the airport.

Serving a region whose economy is fueled by the technology industry, San Francisco International Airport is embarking on a $5.7 billion expansion as it grapples with traffic that has nearly doubled in nine years. The city's sale next week of $881 million in airport bonds, its biggest ever, is the first in a series that will draw demand from municipal investors who've snapped up airline-related debt, leaving the securities on pace to outperform the overall municipal market for a sixth straight year.

Overall, airports have benefited from lower fuel costs and the recovering U.S. economy, as higher numbers of passengers boost collections from parking fees and bar tabs. San Francisco's airport is seeing even more travelers, thanks in part to Silicon Valley.

“Traffic has been booming,” said Kevin Kone, the airport’s managing director for finance. “Here in the Bay area, the economy is strong. We’re responding to the needs of the traveling public.”

At San Francisco International, tourists, budding tech executives and professionals browse high-end boutiques and stretch in yoga rooms as they pass through the region or head to the Pacific Rim. Arrivals and departures total 51.4 million in the 2016 fiscal year, up from 33.9 million nine years ago, documents circulated among investors show. Moody’s Investors Service ranks the debt A1, the fifth-highest investment grade, pointing to the hub’s strong market position and ability to scale back expansion plans if needed.

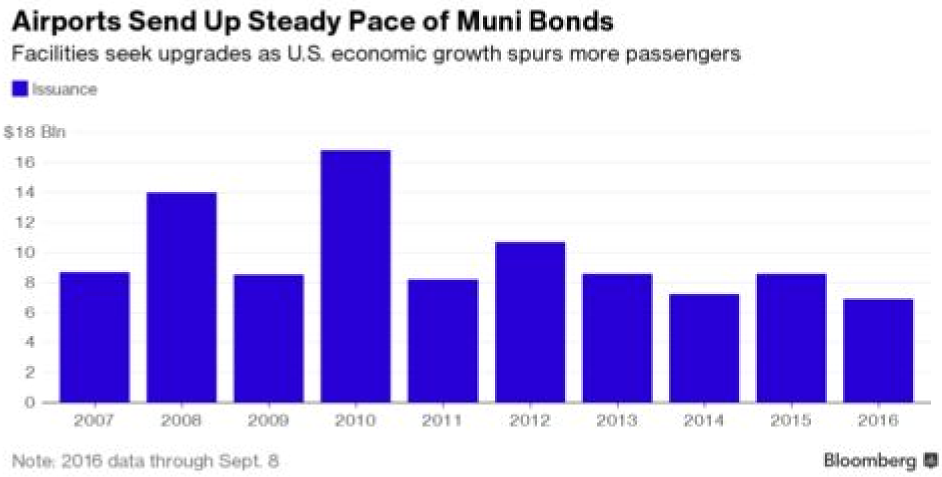
The sale comes amid a streak in airport bonds. In 2015, the securities gained 4 percent, beating the market’s 3.6 percent advance, marking the fifth straight year of outperformance, Bank of America Merrill Lynch data show. So far this year, the debt has continued to have an edge, albeit a smaller one: a 4.6 percent return to the market’s 4.5 percent through Sept. 7.

“The lower hanging fruit has been picked within the sector,” said Gabe Diederich, a Menomonee Falls, Wisconsin-based portfolio manager at Wells Fargo Asset Management, which manages about $40 billion of municipals. He may buy the San Francisco deal if the yields are high enough. “If you have a change that’s due to a slowing economy or yields moving up more broadly and that causes outflows from mutual funds, that could certainly change the performance.”

For now, airports are still reporting growth in passenger traffic. Moody’s has a positive outlook on the sector as it expects volume to grow as much as 4 percent this year.

“Although it’s notably a cyclical sector in general, the economic expansion seems to be hanging in there,” said John Miller, co-head of fixed income in Chicago at Nuveen Asset Management, which oversees $124 billion of munis. He’s looking to add more airport debt and will consider San Francisco’s. “It’s prolonged and extended.”

San Francisco International may sell bonds once or twice a year for the next five years – which will help keep the pace of such debt steady, as has been the case over the past few years. Similar issues have been easily placed: In May, a consortium sold $2.4 billion in bonds to finance a new terminal at New York’s LaGuardia Airport.



The San Francisco area is “at the vanguard of the national expansion,” with personal incomes growing by 21 percent since the first quarter of 2012 compared with the national 15 percent advance, according to Chris Lafakis, economist at Moody’s Analytics. That, coupled with demand from California residents for tax-free income, should make the deal “very successful,” Miller said.

The city through its airport commission is embarking on the five-year construction project to add six gates, renovate others to alleviate congestion and connect two terminals. The deal is almost twice as big as its second-largest sale of $500 million in 1998, said Kone, the airport finance official.

“There are more airplanes that want to come in than we have gates during peak periods. That would sometimes cause delays,” Kone said. “We’re really building to meet today’s demands.”

Bloomberg Business

by Romy Varghese

September 9, 2016 — 2:00 AM PDT Updated on September 9, 2016 — 8:48 AM PDT

Bloomberg Brief Weekly Video - 09/08

Amanda Albright, a reporter for Bloomberg Briefs, talks with Joe Mysak about this week’s municipal market news.

Watch video.

September 8, 2016

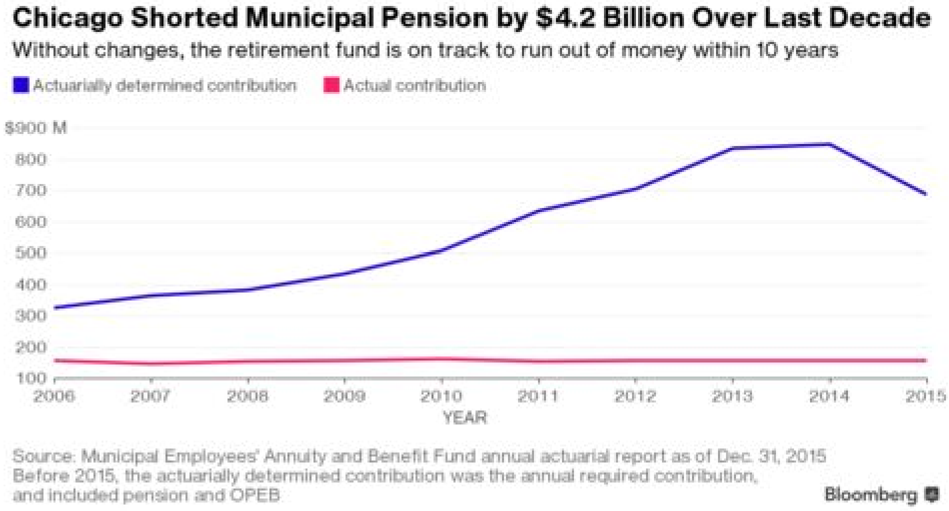
Chicago Moves to Increase Utility Taxes to Bolster Pension.

Chicago moved closer to keeping its largest pension fund from running out of money within the next decade.

The city council’s finance committee on Thursday approved raising the levy on water and sewer usage over the next five years to avert insolvency for the municipal pension, the most underfunded of the city’s four retirement systems. Last month, Mayor Rahm Emanuel outlined his plan to get the Municipal Employees’ Annuity and Benefit Fund of Chicago to 90 percent funded in 40 years. The hike still needs to be adopted by the full council, which next meets on Sept. 14.

“We are going from the potential of bankruptcy to the potential of solvency” for the pensions, Carole Brown, Chicago’s chief financial officer, said in response to questions from committee members. She acknowledged that the city will still need more revenue down the line. “It puts us on a path where we’re addressing the needs of not only this fund but every other pension fund.’’

Chicago shortchanged its pension funds for years, neglecting to put aside enough money to cover the rising cost of benefits for retirees. That failure has left the city with $34 billion of retirement debt across its four funds. The strain of the unfunded liabilities pressures its budget and led Moody’s Investors Service to slash Chicago’s rating to junk last year.



The city’s bonds have rallied since Emanuel outlined the plan to hike the utility tax on Aug. 3. That move follows a record increase in the property tax, pushed through by Emanuel in October, to bolster the police and fire pensions. A telephone tax will help shore up the laborers’ retirement system. If the plan for the municipal fund is approved, all four funds will be on a path to solvency, according to city officials. The four pensions are only 23 percent funded, according to an annual financial analysis.

A portion of the city’s taxable debt, which matures in 2042, traded for an average of 92 cents on the dollar Thursday, compared to 87 cents on Aug. 3, the day Emanuel outlined his plan. The debt yields 6 percent, down from 6.5 percent.

Emanuel’s plan for the municipal fund also ramps up the city’s payments. Chicago will pay about $3 billion to the fund over the next six years. That compares to only $1 billion under the current funding schedule. In 2022, the city will start making the actuarially-required payment to get to 90 percent funded in 2057.

Chicago plans to seek state authorization to increase its pension payments and alter the employee contributions.

The council has to approve the higher utility rates. Over five years, water and sewer charges will rise by about 33 percent with the new tax. The higher levies will help cover the city's municipal pension bills over the next six years. After 2022, the city will need to find additional revenue to cover the stepped-up payments.

Some council members expressed concern that the tax won't fully cover the revenue needed over the full 40-year period. Brown and Alex Holt, the city's budget director, acknowledged that the work isn't done.

"We're not going to ask taxpayers today to pay for an expense that's 40 years down the line,'' Holt said. "We need to work and put a sustainable plan into place that deals with the biggest increase, which is between now and 2023, and then we need to work towards putting additional sustainable revenues or additional reforms and savings in place to deal with this issue over the 40-year time period.''

Bloomberg Business

by Elizabeth Campbell

September 8, 2016 — 11:14 AM PDT Updated on September 8, 2016 — 12:08 PM PDT

City Parks Become Privatization Battlegrounds.

COLORADO SPRINGS, Colo. — A new conservation battleground is emerging in crowded cities, where proposals to convert municipal parkland to other uses have provoked public furor.

Here at the base of the Rocky Mountains, a citizens group in August filed a suit to overturn a deal approved by the city in May to trade 190 acres of historic North Cheyenne Cañon Park to a private resort controlled by Denver billionaire Philip Anschutz. As part of the deal, the city gets access to land in more remote terrain.

"This should not become a theme park for the rich," Sue Spengler, a nearby resident, said as she surveyed a pine-fringed meadow in the park known as Strawberry Hill.

Officials of the The Broadmoor resort said the park is used by few people, and said the opposition was motivated by neighbors who largely want to keep Strawberry Hill for their own use, such as for walking dogs. "The group that is opposed to this is small in number but loud in voice," said Jack Damioli, president and chief executive officer.

Municipal parks have long faced threats from new roads and other infrastructure development, but conservationists say cities are under added pressure to sell or trade them because of population growth on limited land.

Of 54 cities responding to a survey earlier this year by the Trust for Public Land, a conservation advocacy group, 14, including Dallas, Phoenix and Detroit, reported they were facing the loss of parkland; 18 said they had lost a total of 688 acres over the past five years.

Officials of the Trust for Public Land said there has also been an increase in organized opposition to park transfers fueled by social media.

“In the past, you would have one park defender with one voice,” said Adrian Benepe, former New York City parks commissioner and a director of Trust for Public Land. “Now because of the internet that defender potentially has a huge voice.”

In Memphis, Tenn., a grass-roots movement sprang up in 2014 to oppose a decades-old practice of the city allowing the Memphis Zoo to use a stretch of grass in Overton Park as a parking lot.

The group organized protests over Facebook, including a standoff last March when some lovers of the 110-year-old park held their arms out to police to be arrested. In July, the city council voted to restrict parking there, prompting cheers from residents packed into the meeting.

In Tulsa, Okla., residents are trying to overturn a sale by a city public trust of nine acres of 67-acre Helmerich Park to a real-estate developer. That part of the park, on a bank of the Arkansas River, is slated for a shopping center and was sold by the Tulsa Public Facilities Authority trust for $1.5 million in August last year.

Officials of the authority said that part of the park, which was first acquired in 1991, was never developed for recreation. But former Mayor Terry Young and a group of other residents who filed suit in state district court in July 2015 to invalidate the deal said the park is held in trust for the public and can’t be sold. The trust countersued in November, asking that a judge affirm its sale.

With the cases pending, opponents of the deal have held protest rallies and peppered local elected officials with emails and calls asking them to reconsider.

“Once you lose open space, you don’t get it back,” said Mr. Young, now 68.

The Colorado Springs issue started in 2014 when city officials approached The Broadmoor over gaining easements to use portions of the resort’s 5,000-acre property to help connect a popular hiking trail that the resort bisects. The resort turned its attention to adjoining Strawberry Hill, after discovering the city might one day open it to downhill bicycle racing and disrupt the solitude for guests, said Mr. Damioli, the resort president.

“We want to keep the land as pristine as possible,” he said.

The two sides agreed to a swap: Strawberry Hill for the resort, in exchange for access to about 500 acres of forest land for the city. The resort agreed to continue allowing public access on all but a nine-acre meadow of Strawberry Hill, where it plans to host barbecues and horseback riding for guests.

“It’s an absolute no-brainer for the city of Colorado Springs,” Mayor John Suthers said in an interview.
L
Some conservationists support the exchange. “At the end of the day, we end up with more acres of park, open space and more miles of trail,” said Susan Davies, executive director of Trails and Open Space Coalition, a local conservation group.

But some residents reacted with outrage when the city council approved the exchange, saying Strawberry Hill is part of a city park residents in 1885 voted to preserve.

“You’re going to have the wealthy elite having lavish parties in the center, with the plebes looking in from the perimeter,” said Dana Duggan, a media consultant who helped organize opposition to the deal.

Among other concerns by the residents is that much of the property being traded by the resort is far less accessible than Strawberry Hill.

“The bottom line is we get a bunch of junk and we trade a valuable piece of property,” said Michael Chaussee, a local resident and real-estate investor.

City officials declined to comment on the litigation.

THE WALL STREET JOURNAL

By JIM CARLTON

Sept. 9, 2016 3:14 p.m. ET

Write to Jim Carlton at jim.carlton@wsj.com

Puerto Rico Debt Fix Unlikely to Resemble Detroit's.

NEW YORK — The federal appointees tapped to help map Puerto Rico’s economic future are technocrats more than political actors, and that could make the U.S. territory’s fiscal turnaround look more like a corporate restructuring than a politically charged municipal bankruptcy in the vein of Detroit.

The law known as PROMESA, which created the board when it passed the U.S. Congress in June with bipartisan support, envisioned a pragmatic solution for an island combating $70 billion in debt, 45 percent poverty and a brain drain as residents bolt in droves for the mainland United States.

Its members, four Republicans and three Democrats appointed last week, were chosen by Republican and Democratic lawmakers and President Barack Obama. The board has broad powers to help stabilize the island’s economy, from investigating Puerto Rico’s government to working with that government on projects to spur economic growth.

It must also approve the island’s annual budgets, and will eventually facilitate debt-restructuring talks with creditors. In the latter endeavor, it will have to navigate a minefield of competing interests.

The island has 18 separate debt issuers, backed by different revenues streams, as well as $18 billion in so-called general obligation debt backed by the “full faith and credit” of the territory’s government. While that promise is legally weak in a bankruptcy setting, it is a sacrosanct pledge in municipal debt markets.

Holders of all that debt will jockey for payouts against government vendors and beneficiaries of the island’s public pensions, which have less than $2 billion in assets to cover some $45 billion in liabilities.

Detroit’s bankruptcy, which ended in December 2014, treated city pensions much better than its outstanding bonds, which were largely insured. Some Puerto Rico creditors, still suffering Detroit flashbacks, feared Puerto Rico could look similar – especially since Governor Alejandro Garcia Padilla has pushed big haircuts and railed against the idea of reducing government services.

But the makeup of the Puerto Rico board has offered some reassurance, said Nader Tavakoli, chief executive officer of Ambac, which insures $2.2 billion of Puerto Rican bonds and also insured some of Detroit's bonds. "These board members are technocrats, and it gives us confidence that this is not going to be overly politicized," he said.

Deal makers also feature prominently, with an ex-bankruptcy judge, a banker and a hedge fund operator in the mix.

Republicans, generally seen as creditor-friendly, nominated a bankruptcy academic who favors restructuring the island's debt, David Skeel. And Democrats nominated a banker, Jose Ramon Gonzalez, and a Democratic finance expert in Ana Matosantos who directed California's budget under former Republican Governor Arnold Schwarzenegger.

Experts see the group as likely to push a solution that sees all sides share a burden, a typical approach for companies restructuring under Chapter 11.

"There are no ideologues in the group," said Keefe Bruyette & Woods analyst Chas Tyson.

That does not mean there are not drawbacks. For one, the board will have to navigate a testy local political climate with residents who largely revile a panel they see as an extension of colonial rule. Island voters broadly unhappy with the Garcia Padilla administration in November will elect a new governor as well as members of the legislature and scores of mayors.

"There are still politics here," said veteran bankruptcy attorney Richard Levin, who is following the situation. "The governor and legislature retain some authority."

For Height Securities analyst Daniel Hanson, the board is short on expertise in economic development. Any real solution for Puerto Rico requires fundamental economic changes, including at its underperforming education department, and it's unclear whether the board can facilitate such change.

But from a financial perspective, at least, the board seems less inclined to promote a political agenda than figure out a collaborative fix and then get out, said Matt Fabian, partner at Municipal Market Analytics.

"The board is not being installed to fight with Puerto Ricans or to impose some kind of federal view," Fabian said. "They just want these troubles to be fixed."

By REUTERS

SEPT. 5, 2016, 7:21 P.M. E.D.T.

(Reporting and writing by Nick Brown; Additional reporting by Hilary Russ; Editing by Dan Burns and Andrew Hay)

MSRB Submits Recommendations for Puerto Rico to the Congressional Task Force.

Read the MSRB's recommendations.

San Antonio's Key to Economic Success: Immigrants.

The city demonstrates how to leverage foreign partnerships.

The typical view of an immigrant in this country is not far removed from the image of thousands of people pouring in to Ellis Island in the early 1900s — people with little money to their names and big dreams of making their fortunes in America. That view is still true in many ways, but it's also true that many of today's immigrants are well-to-do international elites. For instance, in Miami — long associated with Cubans arriving by raft — there are now a lot of rich South Americans. West Coast cities like Seattle and San Francisco have many affluent East Asians. Houston has wealthy Indians, New York City many Russian tycoons, and so on. These immigrants bring financial and human capital. But are cities leveraging their immigrants, and their broader connection with certain countries, to generate growth locally?

The answer varies, but one successful example has been the relationship between San Antonio and Mexico. Their ties run deep; Texas was a part of Mexico until its independence in 1836. Since then, San Antonio has attracted Mexican immigrants. But as crime has risen in Mexico in recent years, there's been a professional-class exodus of Mexican nationals to affluent northern San Antonio.

The influx also has to do with long-existing business partnerships that have been actively encouraged by San Antonio's political establishment. The relationship really blossomed in 1981, when Henry Cisneros was elected as the first Hispanic mayor of a major U.S. city. Cisneros wanted to connect local San Antonio businesses with Mexican consumers. So he established a relationship with the Mexican president, further bolstered existing sister city partnerships, promoted tourism and attended Mexico's trade fairs.

The relationship has grown ever since — getting a strong boost from the signing of the North American Free Trade Agreement in 1992. NAFTA made San Antonio a prominent stop on the Mexico-to-Canada trade route. All this has combined to spur growth in San Antonio, which according to the Milken Institute is one of America's best-performing cities economically. Various Mexican institutions, such as Cemex concrete and the University of Mexico, have opened branches there. According to the local Hispanic Chamber of Commerce, San Antonio exports more goods and services to Mexico than 42 U.S. states combined. Such commerce has encouraged the residential growth of Mexican nationals. "San Antonio is a platform for Mexicans and Mexican companies that want a halfway step [into the U.S.]," says Cisneros. "It's culturally comfortable; business is conducted in multiple languages."

San Antonio, which is 63 percent Hispanic and has been called "Mexico's northernmost city," may be an extreme example of this local-foreign alignment. But the concept is applicable elsewhere. It is common, after all, for municipal officials to travel nationwide recruiting companies and building partnerships. In cities with business-savvy immigrants and existing foreign ties, there is the potential to create lucrative international partnerships that generate growth locally.

GOVERNING.COM

BY SCOTT BEYER | SEPTEMBER 2016

The Metro Areas With More New Businesses.

Younger businesses and startups are often key to fueling future economic growth, so considering the age of employers can provide valuable insight into a local economy.

A Governing analysis of data released Thursday by the U.S. Census Bureau depicts sizable variation in the presence of employers that have been operating for no more than three years. In the largest metro areas, younger companies make up anywhere from 15 percent to 30 percent of employers. Nationally, they account for about 22 percent of businesses with paid employees.

The census estimates were published as part of the new Annual Survey of Entrepreneurs, which covers data collected in 2014 for states and the top 50 metro areas.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 1, 2016

Jobs Report: Local Government Employment Picking Up.

The latest job estimates from the Labor Department suggest a recent uptick in local government payrolls.

In August, the sector added 24,000 jobs, while July estimates were revised for a monthly gain of 43,000 positions nationally. Total local government employment, including education, has expanded by about 1 percent so far this year.

Growth in hiring among schools, in particular, appears to have accelerated after changing little over the first half of the year. Aggregate totals increased by 12,000 jobs last month and 35,000 in July.

Employment for all other areas of local government registered increases each month this year, albeit very slight gains some months. In all, local public employment (excluding education) has expanded by 68,000 positions since December, an increase of 1.1 percent.

Still, local government employment remains a long way off from pre-recession levels. The Labor Department's August estimate is more than 300,000 jobs below peak employment, a figure that rises substantially when population growth is taken into consideration.

By comparison, state-level public employment has showed little movement. Current estimates for total state government jobs, excluding education, are the same as they were in January.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 2, 2016

In Flint's Aftermath, Water Will Run by New Rules.

The water crisis in Michigan highlighted major problems with not just federal regulations but the way localities enforce them. That's all likely to change soon.

For years, Denver Water, like many other drinking water utilities, would refer its customers concerned about the lead content in their water to state-approved labs that could collect and analyze samples from the homeowners' faucets. This summer, Denver Water made the process much easier: Now if a resident is concerned, the agency will send out a testing kit, analyze the water in its own labs and report the results back to the customer — all for free. More than 100 homeowners used the new service in its first month.

Perhaps this should have been done earlier. But it wouldn't be happening now had it not been for Flint, Mich. The Flint water crisis, which exposed adults and children to dangerous levels of lead in their drinking water, is reverberating throughout the country.

The Denver agency, which serves 1.4 million people in the city and nearby communities, has also started automatically replacing lead service lines as it finds them in its normal maintenance work. The service lines, which connect water mains under streets to individual buildings, are the main source of lead contamination in water systems. But they usually have split ownership. In many cities, the utility owns everything up to the sidewalk, while homeowners and other landlords own everything on their property. The divided ownership makes it difficult to replace the pipes. In Denver, the property owner actually owns the entire service line. Nonetheless, Denver Water is offering to do the replacements for free, at least in places where it's already digging to do other work.

"Since the tragedy in Flint, people are more aware of what could be happening in their own plumbing and in their homes," says Travis Thompson, a Denver Water spokesman. "But now with people paying attention, how can we use that to get the lead completely out of our community?"

It's a clear-cut goal, but not an easy one to achieve. Just a handful of cities have actually eliminated all the lead in their drinking water systems, and then only through a years-long process. Local officials who want to replace lead pipes completely still have to ensure that the lead plumbing already in the ground is safe until the day, however distant, when those lead pipes are finally removed.

Lead in drinking water has been an issue for decades. Thirty years ago, Congress banned the use of plumbing that contained lead after research showed that any exposure to it can be dangerous, particularly to pregnant women and children. It can damage the brain, red blood cells and kidneys, and can cause lifelong developmental problems.

The disaster in Flint reminded the country, though, that lead pipes are still in operation in many water systems. There are approximately 7.3 million lead service lines throughout the U.S. that connect water mains to buildings. And service lines aren't the only source of lead in water. Lead can leach into the water supply from old plumbing fixtures and drinking fountains. Galvanized steel pipes, which were used frequently for service lines before the 1960s, can also cause lead poisoning. While national attention has focused on Flint, dangerous lead levels have surfaced, among other places, in schools in Newark, N.J., and Portland, Ore.; state homes for the disabled in Texas; and even the drinking fountains in the U.S. Capitol.

The reason why stories like those are not more common — with so many lead pipes still in use — is that water utilities treat their water with chemicals that form a protective layer on the surface of lead pipes. The chemical barrier prevents lead from leaching into the water. In fact, the federal government required drinking water systems to use that approach when the U.S. Environmental

Protection Agency (EPA) issued the regulations known as the Lead and Copper Rule in 1991. The rule requires drinking water utilities to take water samples from high-risk homes or buildings every six months. If 10 percent of those samples contain more than 15 parts per billion of lead, the utility must take steps to address it, including the use of anticorrosive chemicals.

The problem with this approach, though, is that the protective coating is fragile. It can be damaged when the pipe is moved or connected to another pipe made of a different metal, or when there is a change in the water source. In Flint, the water system and individual homes have had lead plumbing for decades. Residents didn't report anything out of the ordinary until April 2014, when the city, under a state-appointed emergency manager, switched the source of its drinking water from Detroit's Lake Huron to the Flint River. Because Flint failed to add anticorrosive chemicals to the river water — as required by the EPA — the new water source corroded the pipes, and the toxic metal entered the drinking water.

It's to prevent disasters like the one in Flint that the EPA requires water systems to conduct tests in homes regularly for high levels of lead. Local and state officials in Flint broke those rules. For example, the water samples are supposed to be taken from homes most at risk of lead poisoning, ones which the utility knows or suspects are served by lead service lines. But in Flint, more than half of the samples submitted by the city after the switch to river water were taken from homes with service lines made of copper, rather than lead. Flint's water utility also told customers to run their water for several minutes before taking a sample. The practice, known as "pre-flushing," can lower lead levels in samples submitted for testing.

The testing violations in Flint were particularly egregious, and three officials from the city and Michigan's Department of Environmental Quality face criminal charges for the apparent deception. But environmental and health activists have long complained that the EPA's testing protocol is too lax and ambiguous.

As news of the Flint water crisis spread, it became clear that utilities weren't all conducting their tests the same way. Some, as in Flint, recommended pre-flushing. Others told customers to remove aerators before collecting the sample. Most wanted samples of the water that first came out of the faucet; some asked for samples after the water changed temperature. "One thing that the water utility industry wants is specific instructions on how we do things," says Scott Potter, the director of the Nashville Metro Water Service and the president of the Association of Metropolitan Water Agencies. "If you have specificity, then the entire industry is doing it one way — the way scientists say is the best way — and we can all trust the data."

New rules to address these issues could come as soon as next year, as the federal agency wraps up a six-year effort to rewrite the Lead and Copper Rule. In light of Flint, the new rules could require major changes for water utilities. The federal government could require them to test homes more often. It could lower the threshold of lead in water that requires utilities to respond. And it could even push water utilities to replace lead service lines altogether.

Activists say it's not just the rules that matter, but the way they are enforced. They hope the EPA and the state agencies charged with administering its rules will become more aggressive in making sure they're followed. "Flint is an extreme example of governmental indifference and callousness," says Eric Olson, the director of the health program at the Natural Resources Defense Council. "But I do believe it highlights a more systemic problem with a lack of attention to and, frankly, political will for enforcement and for stepping in and insisting on compliance."

Only 11.2 percent of the 8,000 violations of the Lead and Copper Rule throughout the country resulted in any sort of enforcement action in 2015, according to Olson's analysis of EPA data. Even in those cases, which mostly involved small water systems, regulators operated with a soft touch, typically just prodding the utilities to fix their systems. It's the regulatory equivalent of being let off at a traffic stop with a written warning. Regulators sought or assessed penalties in only 3 percent of the reported violations. There is also evidence that suggests states are underreporting violations. Flint isn't even included in the list of Michigan water systems that broke the rule in 2015. Only government regulators, not individual residents, can start the enforcement process, so if the regulators fail to do their jobs, nothing happens. "There is," Olson says, "no cop on the beat."

Regulators don't usually penalize water utilities because state and federal regulators try to act as "partners" to the water agencies they oversee. "Yes, it's true, you want collaboration. You want partnerships if the folks are doing their jobs," Olson says. "But if the water utility is simply failing to comply with the law, that's where enforcement is legally required."

Diane VanDe Hei, the CEO of the Association of Metropolitan Water Agencies, admits that a "handful" of states have trouble regulating drinking water. "I don't think it's a secret that some states do not have the resources to do all of the things they're supposed to do," she says. "They have a lack of funds or personnel."

A slow response from utilities and their regulators — or no response at all — is another problem. About a decade ago, Virgil Bernero, then a Michigan state senator, grew increasingly frustrated when he and his office tried to track down information about lead levels in Lansing's water. Bernero started looking into it when a constituent raised the issue. It became more urgent when he learned about a major lead-in-water crisis in Washington, D.C., where the local water agency tried to minimize the extent of its problem. At a recent congressional hearing, Virginia Tech engineering professor Marc Edwards, one of the first people to identify the high levels in both Washington and Flint, said the crisis in Washington in the early 2000s had been "20 to 30 times worse" than that of Flint. As many as 42,000 children were affected before the crisis was resolved. The district's problems started when its water utility switched from using chlorine to chloramine as a disinfectant, making the water more corrosive.

Bernero — energized by what he learned about Washington's lead-in-water crisis — wasn't satisfied with the answers he was getting from his local water utility, so he set up a legislative task force that invited Edwards and others to testify about Lansing's water, and particularly about the utility's testing methods. Bernero said the utility's responses amounted to "patting us on the head and saying, 'We're the experts, don't worry about it.'" But Edwards had a different message, Bernero recalls: "Don't buy that. You can't leave this to the so-called experts."

So Bernero didn't. When he became mayor of Lansing, the city did what very few others in the country have done: It embarked on a decade-long program to replace all of the lead service lines in the city. By next year, all of the lead service lines in Lansing will be gone.

The reason so few cities have done what Lansing is doing, though, is that swapping out lead pipes isn't easy. Or cheap.

The first major task for many utilities is to find all of the lead service lines in their system. That sounds much simpler than it often is. It can require water operators to go back through old documents and make their best guess about what kinds of pipes are in the ground, based on historical records. That's because, until the last few decades, water utilities often didn't track what kind of materials their service lines were made of. It's especially true for the portion of the service lines on private property, which typically are the responsibility of the property owner rather than the utility.

The service lines are usually installed during building construction, explains David LaFrance, the CEO of the American Water Works Association, which represents 4,000 water utilities. “Just as the water utility doesn’t know whether a house has hardwood floors or linoleum, they wouldn’t naturally have an inventory of what the material is for the service line,” he says. “When the general public hears that the utility doesn’t know, it’s surprising. But for the utility it isn’t really part of the infrastructure that they put into the ground and they maintain. That’s where the problem comes.”

Incomplete and inaccurate information has already frustrated Flint’s efforts to replace its lead and galvanized steel pipes. When the crisis started, most of Flint’s records on the kinds of pipe it had were still on index cards. The state helped the city convert those records into a GIS database to track which properties had which types of service lines. More than half of the active service lines were made of copper pipe. But that still left nearly half of the lines as candidates for replacement: Eight percent of the lines were made of lead, 18 percent were made of galvanized steel and the remaining 21 percent were unknown.

And that’s assuming the records were even accurate. A contractor hired by the city to replace the service lines of 30 homes throughout the city, in order to gauge the feasibility of a much larger replacement program, found that the records of sites chosen for the new lines were correct only 64 percent of the time.

A second major hurdle for replacing service lines, of course, is cost. Estimates vary greatly on how expensive it is to switch out the pipes, but the most common estimate is near $5,000 a line. As Lansing replaced its pipes, it developed a method, which the city is considering patenting, that speeds up the process and lowers costs. Lansing crews can replace pipes without digging long trenches. They attach the new pipe to the back of the old pipe, and then pull the old pipe out to the street, leaving the new one in place. Lansing officials say the technique can lower the cost of replacing a service line to between $2,000 and $3,000. But that may not hold true for other cities. When Flint started replacing lines, even with help from Lansing crews, their average cost was $7,500 apiece.

Split ownership remains a financing complication for almost any locality trying to do line replacement. In Madison, Wis., which also removed all of its lead service lines, it was a major hurdle. State regulators blocked Madison from using taxpayers’ money to pay for the replacement on private property, so the city had to find other creative revenue sources — such as income from renting out space on its water towers to cellular providers — to help subsidize the water pipe replacement costs for homeowners.

Lansing paid for its program with rate increases, but that’s not an option for most cities. “We can’t just do that,” says Michael Deane, the executive director of the National Association of Water Companies, because private utilities — and some public utilities, like Madison’s — need to have their rate increases approved by state public utility commissions. “We have to work with our economic regulator on how we pay for it. How do we get the capital to make this? How do we earn a return on that capital investment?”

The list of thorny issues goes on, but it’s clear that an increasing number of communities are interested in getting rid of lead service lines, whether the EPA ends up requiring it or not. There is a growing consensus in the water industry, too. Even the American Water Works Association, which once blocked EPA regulations making it easier to replace the private portion of service lines, now supports the goal of taking out the lead service lines. To share their expertise with localities, major water industry groups have joined with environmental and public health groups to form an organization called the Lead Service Line Replacement Collaborative.

As sensible as it might seem to replace every single lead service line in the U.S., there are plenty of reasons to be cautious.

One is that replacing lead service lines doesn't always solve lead poisoning issues. The Flint water crisis first came to light in part because residents called on Edwards, the Virginia Tech professor, to investigate their situation. Through independent testing, he showed that lead levels in the industrial city were far beyond the federal thresholds. Of the 271 houses Edwards and his team tested, the worst belonged to Elnora Carthan, on the city's north side. Her water registered readings of 1,000 parts per billion of lead, or 67 times higher than the federal maximum of 15 parts per billion. But when crews in Flint came to replace the service line in Carthan's home, they found out the line was made of copper, not lead. The lead in her water had to be coming from somewhere else, likely her home's internal plumbing.

"I'm all for getting the lead pipe out," Edwards said when the discovery was made. "I want Flint to become the model for replacing lead pipe, but it's not necessarily going to get rid of the lead problem. We're still going to have a lead problem if corrosivity is not controlled."

And ultimately, there is the question of opportunity cost. How wise is it to prioritize lead pipe replacement over other water system needs? Water utilities have many other pressing concerns, such as removing other harmful, corrosive chemicals from drinking water or just trying to maintain and improve decrepit infrastructure. "If you spend $300 million on lead service lines," says VanDe Hei of the Association of Metropolitan Water Agencies, "what are you not doing? What are you not doing that has perhaps more risk?"

GOVERNING.COM

BY DANIEL C. VOCK | SEPTEMBER 2016

Kicking the Taxpayers to Boost a Soccer Stadium.

Los Angeles wants to use antipoverty funds for development around a private arena. Is that any way to help the poor?

Most people outside of the University of Texas at San Antonio have probably never heard of one of its professors, Heywood Sanders, but taxpayers across the country owe him a debt of gratitude. For years Sanders has shined light on questionable state and local investments in convention-center development. Now he's turned his attention to Los Angeles' effort to get low-interest federal loans for a private sports complex development.

In his work on convention centers, Sanders has highlighted a process that repeats itself across the country: State and/or local government officials propose to build or expand a convention center, claiming the tab will be picked up by hotel taxes and other fees paid by visitors. Consultants are engaged who invariably conclude that the project will be an economic windfall.

Yet once the center is built or expanded, its economic impact is almost always a fraction of what was projected. The next time the consultants are called upon to evaluate a similar project, they ignore the trail of past failures and again tout it as an engine of economic growth. Sanders' work is beginning to bear fruit. Last year, Massachusetts Gov. Charlie Baker pulled the plug on expanding the Boston Convention & Exhibition Center.

Now Los Angeles has applied for a $22.5 million Department of Housing and Urban Development loan to help develop a conference center, restaurants and a soccer museum as part of a project anchored by a major-league soccer stadium. The Section 108 Loan Guarantee Program is meant to fill small funding gaps in development projects in return for a promise to give up to 51 percent of jobs the project creates to low-income populations.

Of course, lost in this scenario is the basic premise that just building the stadium is what's supposed to attract businesses.

Section 108 loan guarantees are designed to be an anti-poverty program. But in this case, the loan appears to be a last-ditch effort to save a $250 million stadium project without blowing a hole in the city's debt capacity. If that strikes you as neither fiscally prudent nor an effective way to help the poor, you're not alone. "If you had a spare $25 million [in anti-poverty resources] laying around, would you put it towards a stadium?" Sanders told Equity Factor, a blog published by the nonprofit Next City.

As Roger Noll, an economics professor at Stanford University and former member of the President's Council of Economic Advisers, points out, the seasonal nature of sports means stadiums don't generate enough tax revenue to merit public investment. Economic impact also tends to be contained in a very concentrated area around the facility. Some argue that high-paid athletes will spend money in the community, but most tend to leave when the season is over.

Heywood Sanders' work has taught us, once again, that state and local government officials should approach stadium and convention-center developments with skepticism. If the goal is to promote economic development, with a particular focus on low-income populations, propping up sagging private developments is hardly the best way to achieve it. Among the many better approaches would be to focus investments on improving the poor condition of basic infrastructure that is choking off economic growth and making the hard decisions — financial and otherwise — needed to improve public education.

GOVERNING.COM

BY CHARLES CHIEPPO | SEPTEMBER 6, 2016

Broadband Law Could Force Rural Residents Off Information Superhighway.

WILSON, N.C. — On the first day of the harvest last week, a line of trucks brimming with sweet potatoes rolled into Vick Family Farms, headed for a new packing plant that runs on ultrafast internet.

The potatoes were tagged with online bar codes to detail the plots where they grew, their types of seed, and dates and times picked. On a conveyor belt, 50 flashing cameras captured and sent images of the spuds to an online program that sorted the Carolina Golds by size and quality and kicked them into boxes.

The Vick family built the plant only after the nearby city of Wilson agreed early last year to bring its municipal broadband service to the 7,000-acre farm. Since the plant opened in October, the farm's production and sales to Europe have jumped.

But now, after a legal battle between state and federal officials over broadband, the farm and hundreds of other customers in the eastern region of the state may get unplugged.

Continue Reading.

THE NEW YORK TIMES

By CECILIA KANG

AUG. 28, 2016

Bloomberg Brief Weekly Video - 09/01

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

September 1, 2016

Puerto Rico's Fiscal Affairs Will Be Overseen by 7 Experts in Finance and Law.

The White House said it had chosen seven experts in finance and the law to supervise Puerto Rico's fiscal affairs in the coming months under a law enacted this summer intended to help the island restructure its $72 billion debt.

Four of the supervisory board members are Republicans and three are Democrats, chosen from lists provided to the White House by the party leaders of both houses of Congress. And four of the members are Puerto Ricans, which is three more than required under the new debt-restructuring law.

The Republicans named to the board are:

■ Andrew G. Biggs, a resident scholar at the American Enterprise Institute.

■ José B. Carrión III, president of Hub International, an insurance brokerage in Puerto Rico.

■ Carlos M. García, founder and chief executive of BayBoston Managers, a private equity firm.

■ David A. Skeel Jr., a University of Pennsylvania law professor with expertise in bankruptcy.

Multimedia Feature: How Puerto Rico Debt Is Grappling With a Debt Crisis
The Democrats are:

■ Arthur J. Gonzalez, a senior fellow at the New York University School of Law and a former chief judge of the United States Bankruptcy Court for the Southern District of New York.

■ José Ramon González, president and chief executive of the Federal Home Loan Bank of New York.

■ Ana J. Matosantos, president of Matosantos Consulting and a former director of the California

Department of Finance.

In addition, the governor of Puerto Rico, Alejandro García Padilla, will hold a position on the board. He is not seeking a second term as governor, so whoever is elected to succeed him in November will take his seat on the board.

“These officials have the breadth and depth of knowledge that is needed to tackle this complex challenge,” President Obama said in a statement on Wednesday.

The board was created as part of a new legal framework to shelter Puerto Rico from creditor lawsuits while it seeks to reduce its debt as its financial crisis intensifies. The law was necessary because federal law prohibits Puerto Rico from entering bankruptcy, which is what mainland cities and counties could do in similarly dire straits. It gives the island some restructuring powers normally available only in bankruptcy, but it also requires it to submit to federal oversight. The board is intended to remain in place until Puerto Rico regains the ability to raise money in the capital markets, which could take years.

On the island, public opinion about federal oversight has been mixed, and protesters turned out in San Juan on Wednesday to call for repeal of the new law. Many Puerto Ricans resent Washington oversight, and see the board as an unwelcome vestige of colonialism. But at the same time, many Puerto Ricans have lost faith in their own elected officials, and they harbor some hope that the oversight board will help show the way out of the legal and financial maze in which they are lost.

Mr. Obama acknowledged their hopes and misgivings on Wednesday, saying that for the board to succeed, it “will need to establish an open process for working with the people and government of Puerto Rico.” He said the members would also “have to work collaboratively to build consensus for their decisions.”

Senior administration officials said the board’s first substantive task would be to review the multiyear fiscal plan that Governor García Padilla’s administration is preparing, make sure it meets all requirements under the law and propose revisions as needed. Ultimately the board must certify the soundness of the fiscal plan, which is to be the bedrock of Puerto Rico’s debt restructuring and other important measures to revive its economy.

“Time is of the essence,” Secretary Jacob J. Lew of the Treasury said in a statement on Wednesday. “The Puerto Rico government should bring together all of its resources to develop and submit a plan to the Oversight Board as soon as possible.”

Unsound fiscal policies in the past have contributed greatly to Puerto Rico’s oversize debt. The government failed for many years to balance its budget, and borrowed money to plug the holes. Even as its creditworthiness crumbled, it could still borrow with ease by issuing municipal bonds. As a United States territory, it could offer interest on the bonds that was exempt from federal, state and local taxes, in all 50 states.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

AUG. 31, 2016

The Story Behind San Bernardino's Long Bankruptcy.

Unlike Detroit or Stockton, this California city's insolvency can't be blamed on debt or pensions.

Four years ago this month, San Bernardino, Calif., filed for Chapter 9 protection. Today, it's still in Chapter 9 — the longest municipal bankruptcy in recent memory.

Why so long? Many blame it on San Bernardino's lengthy and convoluted charter, a document that gives so much authority to so many officials that it's completely ineffective. "It gets everybody in everybody else's business," said City Manager Mark Scott. "And it keeps anybody from doing anything."

As a result, officials have spent the last two years trying to ensure the current charter is not part of the city's future. A specially appointed committee is proposing to completely overhaul it.

At issue is that unlike many California cities that either have a strong mayor/council form of management or a strong city manager government, San Bernardino's is a hybrid, doling out authority to both sides. For example, fire and police chiefs are appointed by the mayor and subject to approval by the council, but report to both the mayor and city manager. This confusing structure played a role in the city's road to insolvency. "You'd have to say," Scott said, "the charter made it almost impossible to succeed."

The cause of the city's bankruptcy obviously can't be pegged to just one thing. But other municipal bankruptcies have tended to falter thanks to major ticket items. For instance, Stockton, Calif., can largely blame its bankruptcy on bond debt and retiree health-care costs. Detroit had loads of municipal and pension debt.

But in the case of San Bernardino, an inland city of about 200,000 people, insolvency was sneakier. "It was simply an accumulation of spending more than the revenues they had to support it," said Andrew Belknap, who is regional vice president of Management Partners and has worked with other struggling California cities.

Belknap said the city's overly complicated system of checks and balances in its 48-page charter and extreme turnover essentially created a stalled government: Between 2004 and 2014, the city cycled through five city managers, five police chiefs, four finance directors and five public works directors. The situation was so disorganized that by the time officials realized the full magnitude of the city's finances, it was too late to declare a financial emergency. Instead, San Bernardino officials had to declare insolvency or they weren't going to make payroll. "They didn't have the political and management systems in place to see this coming or act ahead of time," Belknap said.

About two years into the court proceedings, officials realized that they needed to address the management confusion in order to give the city a fighting chance after it emerged from bankruptcy. The current document needs so much explanation it has been supplemented over the years by more than 100 city attorney opinions. Even rules on personnel management had made it into the charter, like directions on how to compensate police and fire fighters and defining which public safety positions had to be filled in by sworn officers.

So for a little more than a year, a charter committee has been developing a new proposal based on the charters of similarly sized California cities and incorporating recommendations made by the National Civic League. The proposed charter– now whittled down to 11 pages — includes a key change: moving to a council-manager form of government. If approved, the city manager will have executive authority that's held in check by the council. The mayor will still be elected but will act as the legislative head of the council. The charter also would make the city clerk and attorney appointed positions instead of elected.

Residents will vote on the proposed charter this November. It's not a requirement that voters approve it for the city to exit bankruptcy. Even without that change, officials expect to emerge from Chapter 9 protection sometime in the spring. But some believe the city doesn't have much of a future in a post-bankruptcy world without it. "I don't foresee the city coming out of all this with this charter," said Scott. "Recruiters don't want to recruit anybody [here] until we fix it."

GOVERNING.COM

BY LIZ FARMER | AUGUST 25, 2016

Flood-Ravaged Louisiana Facing Biggest Cash Crunch Since 1980s.

Add a short-term cash squeeze to the list of woes besetting Louisiana, suffering already from historic flooding and the collapse of oil prices.

The state is considering the sale of as much as $500 million in revenue anticipation notes — its first cash-flow borrowing in nearly 30 years — because it no longer has reserves available that officials once tapped to pay its bills while awaiting tax collection. Such short-term borrowing gives the state money to pay bills until it collects enough tax revenue used for repayment.

"The state has used internal funds for liquidity in the past," said Sussan Corson, analyst with S&P Global Ratings in New York. "Now that they can't it's a sign of weakness and deterioration."

The state paid a price for its financial pressures when it borrowed about $275 million in April. Investors demanded yields of as much as 2.51 percent on 13-year securities, about a full percentage point more than top-rated debt, according to data compiled by Bloomberg. That gap was was 0.2 percentage point higher than it was when Louisiana sold similar bonds in May 2015, before Moody's Investors Service and Fitch Ratings cut their credit ratings. That premium has since declined as borrowing rates in the municipal-bond market dropped to generational lows.

The short-term borrowing is just the start. Louisiana plans to sell $186.7 million in bonds next week and another $265.6 million of general-obligation debt a few weeks later to repay bond-anticipation notes. The state's bond commission will consider final approval of the revenue-anticipation notes at its Sept. 15 meeting. The cash flow borrowing could be placed with a bank, though a final decision hasn't been made, said Lela Folse, director.

The state has about $3.25 billion of outstanding general-obligation debt. Louisiana may further boost borrowing in coming years as the increased tax revenue approved by lawmakers this year raises the state's debt capacity, which is limited to 6 percent of revenue.

Louisiana, like other states dependent on energy production, has been forced to cut spending and raise taxes to close $2 billion of budget deficits in its current fiscal year as the price of oil has fallen to less than half the value it was two years ago, reducing state revenue. Alaska, Oklahoma and North Dakota are are among those contending with budget deficits since prices tumbled.

Crude Collapse

But Louisiana's pressures began building before the oil price collapse as lawmakers used one-time revenue sources, including reserves, to balance its budget and put restrictions on some internal borrowing. The state is rated AA with a negative outlook by S&P, AA- by Fitch with a stable outlook and Aa3 with a negative outlook by Moody's.

"The amount of money available for borrowing is a lot less," said Treasurer John Kennedy at a state Bond Commission meeting last month. "It's gone."

Meanwhile, the state still faces revenue pressure as fiscal year 2016 receipts through June 30 were $388 million, or 5 percent, below the same period a year earlier, according to S&P. When the numbers for fiscal 2016 are in the state may end the year with a deficit, which could force midyear spending adjustments in fiscal 2017, S&P said.

The state balanced its $9.6 billion fiscal 2017 budget with about $1.4 billion of new tax revenue and cutting expenses, according to S&P. The state's negative employment growth and slowing income growth have contributed to weakness in sales and corporate tax revenue, S&P said. S&P said the amount of available cash in the general fund for internal borrowing had declined to $1.2 billion as of June 30, 2016, from more than $1.7 billion in November 2015.

Revenue Collections

"It wouldn't take a very big error in the forecast to need these funds," said Renee Boicourt, managing director with Lamont Financial Services Corp., the state's financial adviser, at the July bond commission meeting.

Though revenue collections did strengthen in July, according to Kennedy, it's too soon into the new fiscal year to know how much borrowing may be needed, though the flooding of thousands of homes and businesses in and around Baton Rouge may put additional financial pressures as the state absorbs some recovery costs.
President Barrack Obama is visiting the flood zone in the state Tuesday, four days after Republican Donald Trump toured the area and nearly 11 years after Hurricane Katrina struck the state. Federal support for the victims has reached $127 million, Obama said.

Two feet of rain that began Aug. 12 in some areas led rivers and creeks to back up, causing flooding in at least 20 of the state's parishes and damaging an estimated 60,000 homes and contributing to the deaths of 13 people. The storm closed businesses and government offices and forced thousands of people to relocate to shelters and hotels. The storm has been called the worst since Hurricane Sandy in 2012.

"We view the use of such borrowing to be a negative credit event which should place pressure on the state's already low ratings," wrote Court Street Group Research LLC in its weekly municipal market newsletter Aug. 19.

Bloomberg Markets

by Darrell Preston

August 23, 2016 — 2:00 AM PDT Updated on August 23, 2016 — 11:23 AM PDT

Rhode Island Reaches Settlements Over Curt Schilling Bonds.

Rhode Island struck a settlement with Wells Fargo & Co. and Barclays Plc, agreeing to accept about $26 million to drop litigation over a municipal-bond sale that benefited the video-game startup led by former baseball pitcher Curt Schilling that later failed.

The deal with the banks, who deny wrongdoing, must be approved by Rhode Island Superior Court, according to a statement by the state's Commerce Corporation. The economic development agency is still pursuing lawsuits with other defendants over the $75 million bond offering.

This settlement is the biggest and brings the total garnered through such deals to more than $42 million, the agency said.

"It's our job to be as aggressive as we can in recovering as much taxpayer money as possible," Governor Gina Raimondo said in a statement. "Rhode Islanders understandably feel hurt by this deal — and I do too — but I want everyone to know that we are demanding accountability, getting money back, and moving the state forward."

SEC Litigation

The Commerce Corporation, formerly known as the Rhode Island Economic Development Corp., and Wells Fargo still face a lawsuit by the U.S. Securities and Exchange Commission. The SEC said in March that the agency and bank mislead investors about how much money was needed by Schilling's video-game company, called 38 Studios LLC, after his Boston Red Sox uniform number.

In 2010, Schilling's company was developing a multi-player online game that it estimated it would need at least $75 million to complete, according to an SEC statement in March. When 38 Studios couldn't obtain additional financing following the bond sale, it failed to produce the game and defaulted on the loan.

The state had sold the debt for 38 Studios as a way to lure the company to Providence from Massachusetts. 38 Studios entered bankruptcy in 2012, leaving taxpayers on the hook.

"We are pleased to have reached an agreement in this case. We are not admitting liability, nor did we do anything improper," Gabriel Boehmer, a spokesman for Wells Fargo, said in a statement. "It is simply in our shareholders' best interest to minimize the risk that accompanies lengthy litigation."

Barclays spokesman Marc Hazleton declined to comment.

Bloomberg Business

by Romy Varghese

August 23, 2016 — 12:46 PM PDT Updated on August 23, 2016 — 2:21 PM PDT

Lowest-Rated State Now Has $573 Million of AAA Bonds to Issue.

Illinois's next big bond deal sounds like a municipal-market oxymoron: the worst-rated state in the nation is offering more than half a billion dollars of AAA debt.

The $573 million of securities the state plans to sell Thursday are secured by a stream of sales-tax revenue that's diverted to investors, earning the deal the highest ranking from S&P Global Ratings. That's seven steps above the state's general-obligation debt, which is backed only by the government's guaranty to pay what it owes.

"We expect the state of Illinois's sales-tax bonds to fare better than the state of Illinois's GO bonds, primarily due to the substantial support from the designated sales tax," said Richard Ciccarone, the Chicago-based president of Merritt Research Services LLC, which analyzes municipal finances. "However, they will suffer. It will extract a higher borrowing penalty than would normally be expected for such a high-rated bond issue because of the chronic financial pressures."

Governor Bruce Rauner, a Republican, and the Democratic-led legislature only recently emerged from a record-long fight over the budget, agreeing on June 30 to a six-month plan that will avert a shutdown through the end of the year. Without revenue increases or deep spending cuts needed to eliminate the government's deficit, Illinois is still on track to end the fiscal year at least $5.5 billion in the red and even the top-rated debt has a negative outlook from S&P — indicating it's not immune to a downgrade.

The political discord has cast ripples throughout Illinois, leaving universities and other municipal borrowers there with more downgrades in the second quarter from Moody's Investors Service than those in any other U.S. state. Illinois's rating was slashed to Baa2, two levels above junk, the lowest Moody's has graded a state since 1992. Moody's isn't rating Thursday's deal.

Despite the fiscal strain, Illinois has continued to pay investors on time and its law provides for "an irrevocable and continuing appropriation" for bonds, according to disclosure documents for the sale. The primary source of payment for Thursday's deal is a share of Illinois's 6.25 percent sales tax, which provides even more security.

"It's one of the strongest revenue streams that the state has," said Dennis Derby, a money manager in Menomonee Falls, Wisconsin, at Wells Fargo Asset Management, which holds Illinois bonds among its $39 billion of municipal debt and may buy Thursday's deal. "It'll be interesting to see where these price. Almost every issuer in the state of Illinois has some type of issuance penalty."

While investors demand yields on Illinois bonds that are higher than any of the other 19 states tracked by Bloomberg, the interest penalty has fallen since the stopgap budget was passed. Illinois's 10-year debt yields about 3.1 percent, or 1.7 percentage point more than benchmark securities, according to data compiled by Bloomberg. That gap was 1.9 percentage point on June 30.

The agreement between Rauner and Democrats failed to eliminate the deficits that were left after temporary tax hikes expired last year. And Rauner wants his agenda, including curbs on labor unions and property taxes, to come with any budget fix — something Democrats have steadfastly resisted.

With municipal-market interest rates holding near the lowest in more than half a century, the political turmoil is likely to prove a draw to investors looking for higher yields, said Dan Heckman, a senior fixed-income strategist in Kansas City at U.S. Bank Wealth Management, which oversees $133 billion and may buy some of the AAA securities. He said the yields will likely be higher than other top-rated bonds.

"There's been a real lack of quality issuance in Illinois," Heckman said. "There's a lot of pent-up demand. You'll see that if it's priced right."

Catherine Kelly, a spokeswoman for Rauner, declined to comment on speculation about how the bonds will be priced.

It won't be the last chance for buyers looking for highly rated Illinois debt. The Illinois Finance Authority plans to sell $500 million of bonds next week for the state's clean-water program, which makes loans to local governments for projects. The grade from S&P and Fitch Ratings? AAA.

Bloomberg Business

by Elizabeth Campbell

August 24, 2016 — 2:00 AM PDT

Bloomberg Brief Weekly Video - 08/25

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

August 25, 2016

Municipal Utility Districts in Texas Have Sweeping Power to Sell Bonds, Levy Taxes.

MUD 187 came to be when a Houston developer arranged for two people to move their trailer onto a 519-acre site on the edge of Richmond in Fort Bend County, which at the time was an empty field.

As the only "residents" within the municipal utility district's boundaries, the couple headed for the polls in November 2008. The ballot asked whether the state's approval of MUD 187 should be confirmed and whether the district should be authorized to sell up to $188 million in bonds for water and sewage systems, drainage, parks, recreational facilities, roads and a fire station.

The vote was unanimous – 2-0.

"That's not how democracy is supposed to work," said Clifford Gay, a retired construction superintendent who now lives in Del Webb Sweetgrass, a retirement community that owes its existence to MUD 187 – and the taxes it is levying to pay off $24 million in bonds.

Gay and his neighbors wonder how high those taxes might go as more bonds are sold, especially with extraordinary bond issuance costs of 9 percent, according to IRS documents. MUD 187's bonds are rated Baa3 by Moody's, which says they may have "certain speculative characteristics."

Across bright-red Texas, where many politicians tout small government and low taxes, MUDs and other so-called special purpose districts are proliferating – and selling bonds – at a rate many experts inside and outside government find increasingly problematic. They cite high indebtedness, insufficient state oversight, cozy relationships with developers, a lack of responsiveness to citizens and potential conflicts of interest. MUDs can be created either by the Texas Commission on Environmental Quality or the Legislature.

Continue reading.

The Houston Chronicle

By James Drew

August 20, 2016 Updated: August 21, 2016 1:38pm

Puerto Rico's Rescue Plan Represents a Troublesome Trend, Economists Say.

It's the latest government to rewrite the rules for getting out of fiscal distress.

While many in Puerto Rico are no doubt relieved that Congress struck a deal to save the U.S. territory from total financial breakdown, economists are worried that recent rescue plans are creating a potentially troublesome precedent.

PROMESA, the Puerto Rico Oversight, Management and Economic Stability Act that President Obama signed last month, is the latest debt restructuring that takes unprecedented measures to get out of fiscal distress. For one, it calls for the creation of a control board to oversee the restructuring — something that's never occured beyond the municipal level. It also offers a layer of protection that technically shouldn't be available to a state or territory, many economists say, because neither is legally allowed to file for bankruptcy.

"One of my concerns as a credit analyst is I rely on the structure of a contract," said Steve Winterstein, chief municipal strategist at Wilmington Trust, an investment management firm. With PROMESA, he said, "all of a sudden the rules of the game can get changed."

But Puerto Rico isn't the only government to recently take unconventional steps to get out of financial trouble.

Detroit, the largest U.S. municipality ever to file for bankruptcy, created a restructuring plan that prioritized pension holders over general obligation bondholders. Those bondholders received about 80 cents on their dollar, but pensioners averaged around a 90 percent recovery rate.

San Bernardino and Stockton, Calif., which both filed for Chapter 9 in recent years, followed a similar trend. The cities opted to improve their finances by cutting retiree health benefits instead of pensions — an untraditional move in bankruptcy filings.

These unconventional restructurings worry creditors because they may set a new precedent in future cases: If other states and territories are given bankruptcy protection, that would negatively impact bondholders. Bondholders had hoped to sue the island for the $2 billion in bond payments they were owed, but PROMESA protects Puerto Rico — at least for now.

Economists say it's become unpredictable what states are able to do to avoid and recover from financial insolvency. Illinois, for example, has more than $7 billion in unpaid bills. It recently saw its credit rating downgraded to the lowest level of any state since 1992, and it has one of the least-funded pension plans in the country.

In the months and years to come, Puerto Rico hopes to model itself after Detroit's recovery, according to Gov. Alejandro García Padilla. Just a few years after filing for bankruptcy, the Motor

City has started to see a revitalization. Up to 1,400 apartments are set to open in the heart of the city this year and more businesses — including dozens of start-ups — have opened downtown.

Puerto Rico's recovery may be tougher, Padilla admits. The fiscal downturn has caused many residents to leave the island — the population of children under five is half of what it was in 2000. And the Zika virus, which has been declared a public health emergency in Puerto Rico, offers a new challenge.

"It's going to take some time to reverse the drain that's been ongoing," said Padilla.

GOVERNING.COM

BY MATTIE QUINN | AUGUST 17, 2016

Kansas Board of Regents May Increase Oversight of University P3s.

The Kansas Board of Regents may expand its oversight and control over building projects state universities pursue through P3s in response to legislators' objections to the University of Kansas's unorthodox way of obtaining financing for a mixed-use project.

The project in question is the Central District development — consisting of a science building, student housing, a student union, a dining hall, a utility plant and parking — which will be built on its sprawling main campus in Lawrence. A team headed by Edgemoor Infrastructure & Real Estate reached an agreement with the university to develop, finance, build, operate and maintain the project, which is scheduled for completion by summer 2018.

The university agreed to lease the property to the corporation for up to 40 years. Once construction is complete, the corporation will sublease the facilities back to the university, which will make an annual sublease payment of about $21.5 million plus operating costs, reported the Lawrence Journal-World last year.

However, the university decided not to go through the state's bonding agency to obtain its portion of the financing, which would have required legislative approval. Instead, the school formed a private, nonprofit corporation, which issued $320 million in bonds through a Wisconsin public financing agency, the Journal-World reported Aug. 14.

Legislators criticized this move, expressing concern over the lack of legislative oversight and arguing that, because the project is being built on state property, taxpayers would be on the hook if it fails financially. Some lawmakers also expressed concern that the university might raise student tuition fees to pay for the debt the university has incurred, reported The Wichita Eagle.

These concerns led Rep. Mark Hutton to introduce a bill (HB 2703) that would have prohibited state universities and agencies from borrowing or entering into a range of agreements without legislative approval or a hearing. Although the bill died in committee, the legislature attached a proviso to the university's 2016 budget limiting the amount it can spend from previously unrestricted fee funds.

The university dismissed the legislators' concerns, pointing out that the corporation had assumed responsibility for paying the bond debt over a 30-year period using lease payments it will receive from the university. The school also noted that it has been told by the governor and other policymakers over the past few years to act more like a business than it has in the past, in view of the tight budgets the state is confronting.

“We were creative. We operated like a business and we did what institutions across the nation have done: partnered with a private entity and bundled projects together to get a great deal for the families and students of the University of Kansas and for the state of Kansas,” said Tim Caboni, the university’s vice chancellor for public affairs.

The Board of Regents responded to the controversy by stating it would consider classifying P3 projects as capital improvement projects and as part of each institution’s capital projects plan, both of which require board approval, and by requiring universities to obtain board approval when they lease property from an outside entity.

NCPPP

August 19, 2016

Nuveen, OppenheimerFunds Lose Gamble on Sonoma County Casino.

Nuveen Asset Management and OppenheimerFunds Inc., among the municipal-bond market’s biggest high-yield fund managers, gambled on a casino 80 miles from San Francisco, and lost.

In 2013, two years after the money managers acquired more than $50 million in bonds following a debt restructuring by the River Rock Casino’s owners, the Dry Creek Rancheria Band of Pomo Indians, another tribe opened a gambling resort 30 miles (48 kilometers) closer to the city. River Rock suffered a 50 percent decline in revenue and defaulted in 2014.

Native American tribes, sovereign nations under federal law, have issued about $4.5 billion of municipal bonds, more than half of it in the 2000s, according to data compiled by Bloomberg. About $1.5 billion defaulted, including more than $1 billion issued by the Mashantucket Western Pequot Tribe in Connecticut to finance the construction of the Foxwoods Casino.

Earlier this month, the tribe offered the firms 30 cents on the dollar for their debt plus an unspecified amount of cash. If bondholders agree to the terms, River Rock plans to borrow $50 million from Benefit Street Partners, the credit arm of Providence Equity Partners, to pay off bondholders.

“If you rely on San Francisco traffic to feed your business and you have a bigger, newer casino that opens up halfway between you and where the population is, that will certainly hurt you,” said Alex Bumazhny, a Fitch Ratings analyst.

As a sovereign, Native American governments can’t file for bankruptcy. Chapter 9 of the U.S. Bankruptcy code is reserved for municipalities.

With bankruptcy unavailable, tribes typically restructure their obligations by issuing new debt to existing creditors in a debt exchange. In this case, River Rock found a new creditor, Benefit Street, and the tribe will use loans proceeds to pay off existing creditors, which isn’t typical, said Bumazhny.

“It’s unique to see a cash payment,” said Bumazhny. “In these situations where there’s stress, it’s typically difficult to find a lender to lend quite a bit of money in a distressed situation.”

Recovery Rates

A 2015 Fitch analysis of defaults by seven tribes involving corporate and municipal bonds found a par weighted recovery rate of 54 percent. Given the small sample size, the variance in recoveries is high.
John Miller, co-head of fixed income for Nuveen in Chicago, declined to comment. Meredith Richard, a spokeswoman for OppenheimerFunds, declined to comment.

OppenheimerFunds's $5.6 billion Rochester High Yield Municipal Fund is the best-performing high-yield open-end municipal fund this year, returning 9.35 percent, according to data compiled by Bloomberg. Nuveen's $14.6 billion high-yield municipal bond fund is third-best, returning 8.2 percent.

David Fendrick, chief executive officer of the Geyserville, California-based River Rock Entertainment Authority, which issued the bonds, didn't respond to a request for comment. Chris Wright, chairman of the board of the Dry Creek Rancheria Band of Pomo Indians, didn't respond to a request for comment.

Terms of New York-based Benefit Street's loan to the tribe couldn't be determined. Benefit Street declined to comment, according to Kelsey Markovich, an outside spokeswoman.

Prior Exchange

The Dry Creek Rancheria Band of Pomo Indians, federally recognized in 1915, live on a 75-acre reservation in Sonoma County, California. The casino, which opened in 2002 and is located in the Alexander Valley, has 1,100 slot machines and 114 tables, according to its website.

In 2003, the River Rock Entertainment Authority issued $200 million of 9.75 percent corporate notes maturing in 2011 to fund the construction of three parking garages, reservation and casino infrastructure improvements and to fund a settlement with a former developer.

The tribe was unable to refinance the notes before they matured and restructured them in a debt exchange.
In November 2011, River Rock offered existing noteholders the option to exchange old notes for either new 9 percent corporate notes due 2018, new 8 percent tax-exempt bonds due 2018 or a combination, according to Fitch.

Bondholders holding $196.4 million tendered their securities and received $190 million in new notes — $97 million in 9 percent senior notes, $93 million of 8 percent tax-exempt bonds and $18.6 million in cash, according to Fitch.

The tribe filed a notice Aug. 12 saying that they plan on making a $479,000 distribution to bondholders on Aug. 26. Since defaulting May 2014, bondholders have received $17.3 million in distributions, according to the notice.

Listed Holdings

Nuveen reported holding $41.5 million of the tax-exempt bonds in the first quarter of 2012, according to data compiled by Bloomberg. OppenheimerFunds reported holding $29.6 million.

At the end the second quarter 2016, Nuveen reported holding $32 million and OppenheimerFunds $21.7 million.
While a 30 percent recovery rate is on the "low end," it seems reasonable given River Rock's new

competition, Bumazhny said.

“It’s not a bad thing for existing creditors, because obviously cash is a lot safer than new securities,” he said.

Bloomberg Business

by Martin Z Braun

August 16, 2016 — 2:00 AM PDT Updated on August 16, 2016 — 5:35 AM PDT

Anthony Bourdain Culinary Alma Mater Serves Up Municipal Bonds.

The Culinary Institute of America is betting that the country’s food obsession is here to stay, and that investors want seats at the table.

The school that trained famed chefs such as Anthony Bourdain and Cat Cora is selling $15 million of tax-exempt municipal bonds Tuesday to raise cash for renovations at its California facilities, one of which it bought late last year. In September, the non-profit educator will sell $42 million for improvements to its Hyde Park, New York, headquarters and, in a bit of fiscal housecleaning, retire more expensive debt and finance payments to end derivative contracts.

As more traditional universities struggle to attract students amid rising costs, the Culinary Institute, which calls itself the “world’s premier culinary college,” has seen steady enrollment. The school says it wants to expand its programs to all facets of the food business as its almost 50,000 alumni have helped create a landscape where even chain restaurants cite the provenance of their ingredients.

“The CIA’s reputation and market-driven program offerings will continue to support stable enrollment,” Moody’s Investors Service analysts Susan Shaffer and Dennis Gephardt wrote in a report. Still, it is in a niche market and is highly reliant on student charges’ for revenue, said the credit arbiter, which ranks the bonds Baa2, two steps above speculative grade.

The institute’s sale through the California Statewide Communities Development Authority will finance construction at a downtown Napa center that will open next month. The school is also expanding its St. Helena, California, campus called Greystone.

“We’re looking to provide more than just great chefs,” said Maria Krupin, the college’s vice president for finance. “We’re looking to encompass and advance the industry in health and wellness, sustainability, food ethics and food policy– this is all coming to the forefront now. ”

Next month’s sale through New York’s Dutchess County Local Development Corporation will fund renovations in Hyde Park, where the college moved in 1972 after it outgrew the Connecticut site that in 1946 was the first institute of its kind. School officials will also refund existing bonds and terminate one of four swap agreements at a cost of around $4 million. That helps reduce the risks to the non-profit, which is on the losing end of the transactions and has to post collateral to the banks as a result.

Budding chefs this year pay $40,690 a year in tuition and housing fees. During the previous academic year, 2,940 students enrolled compared with 2,785 five years ago, when fees totaled $35,965, documents circulated among investors show. The institute also has campuses in Texas and

Singapore.

The school's reputation and programs help it compete among both traditional four-year universities and hospitality centers, Moody's said in the report.

Krupin said the school is selective with applicants to maintain its prestige and doesn't try to boost admissions for revenue. "We're growing at a pace in which we can maintain quality education that we're known for," she said.

Bloomberg Business

by Romy Varghese

August 15, 2016 — 2:00 AM PDT

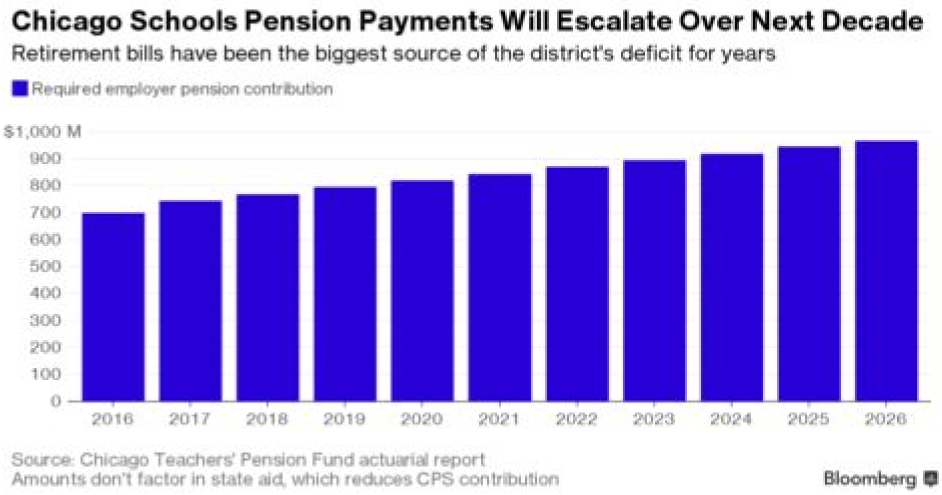
Chicago Schools Step Back From Brink Ahead of Bond-Market Return.

A year after being cut to junk by all three major bond-rating companies, Chicago's school system has won an influx of state aid, secured extra tax money for its pensions and quieted speculation that the crisis is so severe that bankruptcy is inevitable. Its bonds have rallied.

But as the Chicago Board of Education seeks permission to borrow as much $945 million, the nation's third-largest district is far from in the clear. This year's budget will only balance if teachers agree to pay more into their retirement plan and the gridlocked Illinois legislature passes an overhaul of the state pension system. School officials are still trying to secure needed credit lines to help pay bills and borrowing costs have ballooned after repeated downgrades, adding to the financial squeeze.

"They've put together a credible budget, although there's some significant risk factors," said Paul Mansour, head of municipal research at Conning, which oversees $11 billion of state and local debt, including some Chicago Board of Education securities. "They enter fiscal year 2017 with few, if any, reserves. They don't have a line of credit in place, and they have uncertain market access."

The system with almost 400,000 students is struggling to address one of the biggest crises in the $3.7 trillion municipal market, one that's been decades in the making. For years, officials borrowed to pay bills, skipped pension payments and drew down savings, leaving the schools with nearly $10 billion of unfunded retirement liabilities and $7.6 billion of debt. The interest and principal alone will consume more than 10 percent of the budget.



“The financial position of the district is precarious,” said Mark Lazarus, who follows the Chicago schools for Moody’s Investors Service, which rates the board B2, five steps below investment grade. “There are a lot of uncertainties that are built into the budget that we’re going to be watching to see how they play out.”

The proposed spending plan counts on savings from phasing out the district’s practice of paying the bulk of the annual retirement-fund contributions that teachers are supposed to make. That cost $130 million last year, but the union has called rolling it back a pay cut and threatened to strike to stop that from happening.

Moody’s has a negative outlook on the board, signaling more downgrades are possible. That could raise interest costs in the future.

On Aug. 16, the board posted a notice for a public hearing to discuss the sale of as much as $945 million of general-obligation bonds for school-improvement projects. The board plans to vote on the budget and bond authorization at its Aug. 24 meeting.

“CPS is making great strides in improving the district’s financial stability, and we have a path forward to fiscal soundness in the years to come,” Emily Bittner, a district spokeswoman, said in an e-mailed statement.

That school district may benefit from rising demand for high-yield municipal bonds, which has buoyed the returns on debt issued by financially struggling governments including Puerto Rico.

When the Chicago school district last publicly sold bonds in February, it paid yields of as much a 8.5 percent, or three times the rate of a top-rated issuer, after Governor Bruce Rauner repeatedly called for allowing it to file for bankruptcy, which currently isn’t permitted under state law.

The bonds have since rallied. A portion of the federally tax-exempt bonds maturing in 2044 traded at an average of 106 cents on Aug. 17 to yield 6.1 percent, according to data compiled by Bloomberg. That’s up from 84 cents in February.

While the proposed budget doesn’t completely solve the district’s structural budget gap, it’s a “big step forward,” said Molly Shellhorn, vice president and senior research analyst at Nuveen Asset Management, which owns about $410 million of the bonds issued in February. The firm will look at future offerings, said John Miller, Nuveen’s co-head of fixed-income.

"It's an essential service," Miller said. "It has to stay open. The security, the essential service, and the credit spread within the context of a — we think — improving single B credit does make us feel fairly optimistic."

As part of a six-month, stopgap budget reached in June, Rauner and lawmakers authorized a $250 million property-tax levy for the Chicago teachers' pension and provided $131 million of additional state aid. The district gets another $215 million if Illinois passes a pension fix. That may prod both sides to work toward an agreement, said Eric Friedland, director of municipal research in Jersey City, New Jersey, for Lord Abbett & Co.

"Where in the past, there's been a deadlock, now at least we're reaching sort of a breaking point," said Friedland whose firm holds $20 billion of municipal debt, including some of the board of education's. "That's certainly a better spot to be in than last year, when there was no momentum at all."

Bloomberg Business

by Elizabeth Campbell

August 19, 2016 — 2:00 AM PDT Updated on August 19, 2016 — 6:52 AM PDT

Bloomberg Brief Weekly Video - 08/18

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

Bloomberg Business

August 18, 2016

Treasury Didn't Tell Puerto Rico to Default, Lawyer Says.

U.S. Treasury officials didn't tell Puerto Rico to default on general-obligation bond payments, according to a lawyer representing the island in its $70 billion debt restructuring.

"At least in my experience, U.S. Treasury doesn't say to the commonwealth 'do x or y,' " Richard Cooper, a partner at Cleary Gottlieb Steen & Hamilton LLP, said Tuesday during a Puerto Rico conference at the CUNY Graduate School of Journalism in New York. "That is ultimately, I think fueled, by creditors speculating for their own purposes."

Puerto Rico skipped paying nearly $1 billion to bondholders on July 1, including $780 million of principal and interest on general obligations. It was the largest default in the $3.7 trillion municipal-bond market and the first time a state-level borrower failed to pay on its direct debt since the 1930s.

Cleary Gottlieb is Puerto Rico's legal adviser as it seeks to reduce a $70 billion debt load. The firm has been in discussions with U.S. Treasury staff, commonwealth officials and creditors as the parties negotiate on a how to restructure the island's debt.

"Anyone who is seriously looking at this situation could tell you there wasn't enough funds on July 1 to make those payments," Cooper said.

U.S. Senator Orrin Hatch sent a letter in June to the Securities and Exchange Commission, asking the agency to investigate the information shared between some investors, Puerto Rico and U.S. government officials about the island's fiscal state.

Hatch's letter asks SEC Chair Mary Jo White to look into "whether information asymmetries, including asymmetries between public investors and government officials of Puerto Rico and the U.S. government have led to acts, actions and activities in violation of laws designed to protect investors and the integrity of the municipal-debt market."

Bloomberg Business

by Michelle Kaske

August 9, 2016 — 9:12 AM PDT Updated on August 9, 2016 — 9:52 AM PDT

Detroit Schools Split Raises Risk of Default on State-Aid Debt.

Michigan's plan to bail out the troubled Detroit public schools is putting debt backed by state aid at risk of falling into default if the bonds aren't refinanced by mid-October.

Ratings have been slashed twice by S&P Global Ratings since late June on the district's debt by a total of six levels to junk. Michigan's restructuring of the district's finances diverts state payments on about $370 million of bonds sold in 2011 and 2012 to a newly created school district that doesn't have any responsibility for the old debt. The state still lacks a plan to refinance the bonds, and S&P said absent a plan, it would likely consider this a distressed exchange that would merit being labeled as a default.

"S&P was in its rights to downgrade," said Tamara Lowin, director of research at Rye Brook, New York-based Belle Haven Investments, which oversees $5.3 billion of municipal debt and doesn't own any district debt. "There was debt outstanding for which the revenue stream has disappeared. That is in itself alarming."

The restructuring approved by state lawmakers and Governor Rick Snyder was designed to the give Detroit's schools, reeling from the same population decline that bankrupted the city, a "clean slate," Snyder said when he signed the bill June 21. Moody's Investors Service, in a report issued a week later, said the restructuring was "credit positive" for bondholders "given that the district was teetering on bankruptcy and was reportedly unable to make payroll absent an immediate infusion of revenue."

The restructuring separates the district into two entities, with a new district responsible for the education of about 46,000 students and funded with state aid. The existing district would continue to pay off the district's old debt, including about $2.2 billion of bonds and pension liabilities from property taxes. The state will provide about $467 million to help repay the old debt.

The Michigan Finance Authority, which issued the debt cut by S&P for the district, is putting together a plan to refinance the debt by Oct. 20, said Danelle Gittus, spokeswoman for State Treasurer Nick Khouri. She declined to provide any additional details.

"We're still in the middle of preparing, so there's nothing else we can say," said Gittus.

Negative Outlook

Since the legislation was signed, the dollar price of the 2012 bonds maturing in four years has fallen to par from about 108 cents on the dollar. S&P cut the 2011 bonds to BB from A and the 2012 bonds to BB- from A-. Moody's doesn't rate the bonds S&P cut, but has a Caa1 rating with a negative outlook on the district, seventh in the junk category.

"It's a surprise that it was in the A category, then it's BB," said Bill Bonawitz, director of municipal research at PNC Capital Advisors, which oversees $6.5 billion in municipal bonds. "How do you go from being an A rated bond to a BB rated bond in a matter of five weeks? That's a huge difference."

S&P said it made its assessment based "on the lack of a formal plan regarding bondholder repayment terms" and the elimination of one of the pledged revenue streams in the fiscal year that begins Oct. 1.

The restructuring needs to be in place before Oct. 20, when state aid moves to the new district, leaving the bonds rated with S&P with just the property-tax pledge. Lack of specific details on the plan to refinance the two bond series creates uncertainty for bondholders, S&P said, raising the risk of default.

Eroding Value

"If they don't get it refinanced, the loss of the revenue stream is going to seriously erode bondholder value," said Jane Ridley, an S&P analyst, in a phone interview. "The bondholders will lose security."

S&P, the only firm that rates the 2011 and 2012 bonds, said in an Aug. 3 report that separating the state-aid payments from the bonds creates a more than 50 percent chance the debt could be cut again in the next two months. It warned that it could use its D, or default category, if repayment is less than originally promised. The bonds will keep a property-tax pledge under the new structure once state aid goes to the new district.

"As October approaches and ushers in the new fiscal year, it creates greater uncertainty as to whether bondholders will receive full and timely payment," S&P wrote. "If the actions taken through this process provide bondholders with anything less than the full promise of the original bonds, it is likely to be considered a distressed exchange and therefore a default under our criteria."

It appears the district will end up refinancing its debt, said Lowin, who noted there's questions about the strength of the security on the bonds.

"It'll be interesting to see what kind of market access the new debt will have," she said.

Bloomberg Business

by Darrell Preston

August 10, 2016 — 2:00 AM PDT

N.J. Approves $800 Million Bond Plan to Complete Mega Mall.

New Jersey's Local Finance Board approved a plan to use an out-of-state lending agency that specializes in risky securities to finance an $800 million bond sale to resurrect American Dream, the unfinished mega mall begun more than a decade ago.

The project in East Rutherford, about 10 miles (16 kilometers) west of Manhattan, has failed to fulfill several promised grand-opening dates as developers ran out of cash. It now anticipates opening in mid-2018.

The latest idea calls for public financing of $125 million more than the mall's latest owner, Triple Five Group of Canada, proposed in May. The bonds would be sold by the New Jersey Sports and Exposition Authority to the Wisconsin Public Finance Authority, according to agency documents. The Wisconsin pass-through operation charges a fee to market tax-exempt bonds for out-of-state entities.

Higher Costs

Triple Five expects the debt to be unrated and tax-exempt, and the offering made in September, according to Tony Armlin, vice president of development and construction. The deal swelled to $800 million, he said, because issuance and construction costs have increased.

"We've been working with Wisconsin for several years," Armlin told reporters after Wednesday's finance-board meeting in Trenton. He called it an "efficient, economical" issuer.

An agreement earlier this year had made the borough of East Rutherford the issuer of the so-called redevelopment-area bonds, a decision that is expected to be rescinded, according to Emike Omogbai, a spokeswoman for the Local Finance Board.

"The new sale structure of the RABs does further insulate the borough and the state, since neither will be involved in the public issuance and sale," Omogbai said in an e-mail.

Taxpayers Uneasy

East Rutherford Mayor James Cassella said homeowners had been uneasy with the notion of issuing hundreds of millions of dollars in debt. The borough has fewer than 10,000 residents and an annual budget of about $26 million. The sports authority, he said, was the more logical issuer, because it owns the land on which the mall is built.

Scott Carper, a program manager for the Wisconsin issuer, said the agency received details of the New Jersey deal from Triple Five on Tuesday.

"Staff is currently processing the application and in the process of receiving all of the application materials," he said in an e-mail.

The agency has had no contact with the New Jersey Sports and Exposition Authority, Carper said. That panel also must approve the bond issue.

Repayment Risk

Agencies like the Wisconsin entity sell securities and immediately lend the proceeds to borrowers whose projects qualify for federal tax exemptions for public works. The authorities aren't on the hook if the money isn't repaid. That makes the bonds among the riskiest in the municipal market:

They make up as much as 30 percent of outstanding debt but account for almost 60 percent of defaults, according to Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

The Wisconsin authority has had no payment defaults. Last year, when it was the most active conduit issuer in the U.S., more than half its issues were unrated, according to data compiled by Bloomberg.

“The Public Finance Authority can issue bonds in all 50 States and has assisted many eligible borrowers nationally to access tax exempt financing,” Carper said. “PFA partners with local governments to assist in the financing of public benefit projects that create temporary and permanent jobs, affordable housing, community infrastructure and improve the overall quality of life in local communities.”

A bond summary prepared by Goldman Sachs Group Inc., the underwriter, shows that total debt service would be $1.9 billion assuming a 2049 maturity, according to the application. Average annual debt service would be $59.3 million until August 2049, with $615.9 million due then.

American Dream’s multicolored exterior, with an indoor ski slope jutting above East Rutherford’s swampy meadowlands, is a garish landmark along the New Jersey Turnpike. Republican Governor Chris Christie called it “the ugliest damn building in New Jersey, and maybe America.”

Triple Five, based in Edmonton, Alberta, owns the Mall of America, ranked by Time magazine as the most-attended U.S. attraction with 40 million annual visitors. The New Jersey mall’s construction costs have reached almost $5 billion to include a theme park, the first U.S. indoor ski slope, retail and restaurants.

Bloomberg Business

by Elise Young

August 10, 2016 — 10:08 AM PDT Updated on August 10, 2016 — 12:37 PM PDT

Chapin Joins New York’s Exclusive Schools in Muni Borrowing Boom.

The Chapin School, the more than 100-year-old private girls’ school whose alumnae range from members of the Roosevelt family to fashion designer Vera Wang, is the latest of New York City’s elite educators to borrow in the tax-exempt bond market to expand.

Build NYC Resource Corp. sold $75 million in debt on Wednesday for the kindergarten-through-hi-h-school institution to help finance ongoing construction at its 100 East End Ave. location, including a new gymnasium, cafeteria and more classrooms. The three-story expansion will also provide additional space for its performing arts programs, a common area and a studio for the robotics program.

The Chapin sale follows simple municipally financed expansions by other New York preps schools such as the Brearley School and the Ethical Culture Fieldston School. Tuition at Chapin for the 2016-17 academic year is $47,500 for all 769 students across its lower, middle, and upper schools, an increase of 4.7 percent from the previous year, bond documents show. That doesn’t cover the cost for uniforms, books, supplies and other extracurricular activities, which families must pay for out of pocket.

In addition to rising tuition and the bonds, Chapin has also raised about two-thirds of its $90 million funding goal for its capital campaign. The school raised about $18.6 million in the most recent fiscal year, according to bond documents.

S&P Global Ratings assigned the offering a rating of AA-, the fourth-highest investment grade rank, with a stable outlook, reflecting the school's "very strong enterprise profile as evidenced by its very selective profile, solid matriculation, high retention and incremental enrollment growth," credit analysts said in a report.

Tax-exempt 10-year securities were priced at a yield of 1.66 percent, or 0.19 percentage point above benchmark debt, data compiled by Bloomberg show. Wednesday's sale also reduced some of Chapin's outstanding debt burden, which now only includes the $75 million of funds raised through the offering, S&P said.

Bloomberg Business

by Molly Smith

August 11, 2016 — 9:28 AM PDT

Barclays Center Owner Prokhorov to Refinance Arena's Debt.

Mikhail Prokhorov, the Russian-born billionaire owner of the Brooklyn Nets and the Barclays Center, is taking advantage of rock-bottom interest rates in the U.S. municipal bond market to refinance about $480 million of debt issued in 2009.

The bonds, which are backed by payments in lieu of taxes, were issued at a top yield of 8 percent and rated BBB- by S&P Global Ratings Inc., and Baa3 by Moody's Investors Service, the lowest investment grade. BBB rated revenue bonds maturing in 30 years yield 3.42 percent, according to data compiled by Bloomberg. The 17,732-seat arena, which is also home to the National Hockey League's New York Islanders, will generate operating profits of $46 million before paying debt service in 2016-2017, according to the preliminary offering statement.

Refinancing the 2009 bonds may reduce debt payments by $6 million annually, according to the statement. Net debt service for the proposed 2016 bonds will peak at an estimated $48 million in 2043.

Prokhorov, who has a net worth of $10 billion, according to the Bloomberg Billionaires Index, completed his acquisition of the National Basketball Association's Nets and the arena from developer Bruce Ratner's Forest City Enterprises Inc. in December 2015. Bloomberg News reported last month that the Islanders were in talks with the owners of Major League Baseball's New York Mets about building a hockey arena in Queens.

Prokhorov and the Islanders have the right following the upcoming NHL season to start talks regarding modifying their 25-year license agreement. If the parties can't reach an agreement by Jan. 1, 2018, either party has the right to terminate the agreement, according to the offering statement.

"Although the loss of the Islanders would result in the immediate availability of a minimum of 44 event dates, arena management could leverage the Advisory Board, its Los Angeles-based office, and other existing relationships to fill a portion of those dates with third party events," according to a consulting report included in the offering statement. The Advisory Board is made up of media, music, live entertainment and artist management "industry leaders" and advises the arena's event booking team.

Past Advisory Board-aided concerts include shows by Rihanna, Justin Bieber, and Ariana Grande. The Los Angeles office of the board has secured shows by Selena Gomez and Kygo.

In addition to the Nets, Islanders, and concerts, Barclays hosts family shows, boxing, college basketball and professional wrestling. Last year, the arena has the second-highest concert ticket sales of any arena in the U.S. and the eighth-highest worldwide, according to the consulting report. Third-party events generated $14.7 million in profits for the arena last year.

Bloomberg Business

by Martin Z Braun

August 9, 2016 — 8:14 AM PDT Updated on August 9, 2016 — 10:11 AM PDT

Hedge Funds Press Banco Popular for Puerto Rico Deposits.

Hedge funds that own Puerto Rico bonds are putting pressure on Banco Popular over commonwealth funds deposited at the bank that they say should go to them.

Lawyers representing the Ad Hoc Group of General-Obligation Bondholders sent a letter Thursday to Banco Popular de Puerto Rico in San Juan, notifying the bank of the group's rights and remedies regarding government funds redirected to meet other obligations.

The so-called clawback revenue should be used to help repay general-obligation debt because the island's constitution says those securities must be repaid before other bills, the group said. The commonwealth defaulted on about $1 billion of principal and interest due July 1, including $780 million for general obligations, the largest payment failure in the $3.7 trillion municipal-bond market.

Some members of the bondholder group, including Aurelius Capital Management, Autonomy Capital, Covalent Partners, FCO Advisors, Monarch Alternative Capital and Stone Lion Capital Partners last month sued Governor Alejandro Garcia Padilla, claiming that a federal law enacted on June 30, called Promesa, which means promise in Spanish, prohibits Puerto Rico from redirecting cash or assets that violates its constitution.

Revenue Redistribution

"Our clients reserve all rights and remedies with respect to the clawed back funds referenced in the pending lawsuit and any and all actions Banco Popular may take that are inconsistent with the constitution and laws of the U.S., as well as the constitution and laws of Puerto Rico and the debt obligations issued there under," Andrew Rosenberg, a lawyer at Paul Weiss Rifkind Wharton & Garrison, which is representing the hedge funds, said in the letter.

Teruca Rullan, a spokeswoman for Banco Popular in San Juan, declined to comment.

Garcia Padilla began clawing back agency revenue last year to help pay general obligations due Jan.

1. The administration redirected $289.2 million of revenue from January to June of this year, with $143.2 million deposited at Puerto Rico's Government Development Bank, according to the commonwealth's most recent audit.

Puerto Rico deposited the remaining amount at Banco Popular, according to the investor group.

Bloomberg Business

by Michelle Kaske

August 11, 2016 — 2:00 PM PDT Updated on August 12, 2016 — 6:24 AM PDT

Bloomberg Brief Weekly Video - 08/11

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

August 11, 2016

Court Overturns Ruling Allowing Municipal Broadband to Grow.

MEMPHIS, Tenn. — A federal appeals court on Wednesday overturned a Federal Communications Commission ruling allowing city-owned broadband services to expand into areas overlooked by commercial providers.

The decision comes as part of a dispute between the FCC and two states, Tennessee and North Carolina, about expanding superfast internet service in their respective cities of Chattanooga and Wilson to surrounding areas.

Both states had passed laws preventing such expansion. The FCC last year voted 3-2 to override those laws. The states then asked the 6th Circuit Court of Appeals to review the FCC's ruling.

The appeals court said that the FCC's order pre-empted the state laws and "the allocation of power between a state and its subdivisions." The court said the FCC's action requires a "clear statement" of authority in federal law, but the law does not contain a clear statement authorizing pre-emption of Tennessee's and North Carolina's laws.

State lawmakers have argued that private broadband providers will have difficulty competing with service subsidized by local governments. Attorneys for Tennessee and North Carolina had argued the issue is one of state sovereignty.

In a statement, FCC Chairman Tom Wheeler said the commission is reviewing the ruling. It is not clear if the FCC will appeal.

Wheeler said the ruling "appears to halt the promise of jobs, investment and opportunity that community broadband has provided in Tennessee and North Carolina." He said the FCC has a mandate to make sure that people have access to the best possible broadband.

“The efforts of communities wanting better broadband should not be thwarted by the political power of those who, by protecting their monopoly, have failed to deliver acceptable service at an acceptable price,” Wheeler said.

Tennessee Attorney General Herbert H. Slatery III said in a statement that he was pleased with the ruling. The case was not about access to broadband, but instead it was about preventing the federal government from exercising power over the states that it does not have, Slatery said.

“Today’s decision preserves Tennessee’s right to determine the authority and market area of a political subdivision organized under Tennessee law,” Slatery said.

Chattanooga markets itself as the “Gig City” for the widespread availability of gigabit-speed internet service. Such service is about 50 times the national broadband average — or enough bandwidth to download an entire movie in about two minutes.

Chattanooga’s utility provider, EPB, said in a statement that Tennessee has a “broadband gap” that is a problem for its residents. A survey of Tennessee residents and businesses by the state Department of Economic and Community Development found that about 13 percent do not have access to broadband internet service.

EPB and other municipal broadband providers had refrained from delivering services to a wider area while the appeal was pending.

“We will continue to work with the growing number of state legislators and grass-roots citizens interested in removing the barriers that prevent EPB and other municipal providers from serving our neighbors in surrounding areas who have little or no access to broadband,” said David Wade, president of EPB.

The appeals court said its ruling was a limited one, and it does not address other issues debated in the case, including whether the FCC has any pre-emptive power at all under the Telecommunications Act of 1996.

“We do not question the public benefits that the FCC identifies in permitting municipalities to expand Gigabit Internet coverage,” the ruling said.

By THE ASSOCIATED PRESS

AUG. 10, 2016, 6:19 P.M. E.D.T.

Buffett Exits Credit Derivatives, Pays $195 Million on Last Deal.

Warren Buffett just took another step to simplify Berkshire Hathaway Inc.’s stockpile of derivatives.

The company paid $195 million in July to wind down the last contract in which Omaha, Nebraska-based Berkshire provided protection against losses on bonds, according to a regulatory filing Friday that didn’t identify the counterparty. As of June 30, the maximum risk on that credit-default agreement was about $7.8 billion.

Buffett labeled derivatives “financial weapons of mass destruction” in 2003, but went ahead and entered a number of the contracts in the following years. The billionaire has argued that agreements he made were attractive because they gave him money up front that he could invest. Berkshire's derivatives also differed from contracts that brought down other financial institutions during the 2008 credit crisis, because he had less onerous collateral requirements.

Still, Berkshire's derivatives have been the source of some pain. In 2008, the U.S. Securities and Exchange Commission asked Berkshire to make "more robust disclosure" on how it valued the contracts, which the company eventually did. The following year, Moody's Investors Service and Fitch Ratings cited derivatives when the ratings firms stripped Berkshire of its top credit grade. Changes in the values of the contracts are reflected on Berkshire's income statement, sometimes causing wild swings in quarterly profit.

"That was a very interesting chapter for Berkshire and its shareholders," said David Rolfe, chief investment officer at Wedgewood Partners, a Berkshire investor that oversees about $7.8 billion. "And it looks like that chapter is winding down."

Sparing Successor

Berkshire's last credit derivative had such a long potential lifespan that it could've continued under the next chief executive officer. Buffett may have been thinking, "why even bother someone with that?" Rolfe said.

Buffett, 85, has told shareholders to look past the fluctuations from derivatives and focus instead on the underlying earnings for Berkshire's dozens of businesses, from railroad BNSF to ice-cream chain Dairy Queen.

On Friday, the company reported that operating earnings climbed 18 percent to $4.61 billion in the second quarter, driven by gains at insurance and manufacturing businesses.

The contract covered in the July agreement was written in 2008 and related to municipal debt issues with maturities from 2019 to 2054, according to regulatory filings. Buffett didn't respond to a request for comment outside normal business hours.

For years, the billionaire has been winding down derivatives or letting them expire. In 2012, he struck a deal to terminate contracts linked to municipal bonds. Others tied to corporate debt expired the following year.

'Minor Positions'

Concerns about derivatives holdings could prove inconvenient during market crises — times when Berkshire has typically used its financial strength to seize opportunities and make lots of money.

"When you have to mark these contracts to market in a downturn like 2008, it gives the appearance that Berkshire's fortress balance sheet is weakened," said Richard Cook at Cook & Bynum Capital Management, which oversees about $350 million including Berkshire shares. "I would prefer Buffett to have as much flexibility as possible when the tide rolls out."

Berkshire still has some derivatives tied to the performance of stock indexes. Potential liabilities on those agreements have narrowed in recent years as markets rallied. Liabilities on the equity index puts — which expire between June 2018 and early 2026 — stood at about $4.4 billion at the end of the second quarter.

Some of Berkshire's energy businesses also use derivatives to hedge fuel costs. But Buffett has been downplaying the role the contracts will play at his company when he’s no longer around.

“I don’t think there’ll be much of a derivatives book” under a new CEO, he said at Berkshire’s annual shareholder meeting in 2012. “There are a few operating businesses that will have minor positions.”

Bloomberg Business

by Noah Buhayar

August 8, 2016 — 2:00 AM PDT

Louisiana Amends P3 Legislation Granting Authority to DOTD.

The State of Louisiana has passed a public-private partnership (P3) law to help alleviate a $12.7 billion backlog in highway and bridge maintenance and construction needs across the state. The law authorizes the Louisiana Department of Transportation and Development (DOTD) to utilize P3s to finance projects for qualifying transportation facilities.

While a similar law exists for the Louisiana Transportation Authority (LTA), a public corporation placed within the DOTD, the enactment of the P3 law streamlines the process by eliminating the need for the DOTD to seek LTA authorization prior to solicitation of proposals for P3 projects.

In addition to the P3 law, Governor John Bel Edwards recently created a transportation infrastructure investment task force, an 18-member panel charged with identifying and making specific actionable recommendations to address transportation issues. In addition to P3 projects, the State is also considering a hike in the gas tax and tolls, and permitting local communities to finance transportation projects in their respective jurisdictions.

The P3 law, along with the creation of the task force, demonstrates the State’s desire to develop a comprehensive funding program that will allow Louisiana to finance transportation infrastructure projects which have long been in demand and under-funded.

With the approval of the State’s House and Senate, the P3 law permits the DOTD transportation, highways, and public works committees to solicit proposals for P3 projects for highway, limited access facility, ferry, airport, mass transit, rail or port facility, or similar facilities within the State. All proposals and contracts executed in connection therewith are subject to State law governing the solicitation and approval process of P3 projects by the LTA. In an effort to expedite the procurement process, proposals are exempt from public bidding laws and projects may be constructed utilizing design-build or other innovative project delivery methods.

Unsolicited proposals are specifically prohibited for DOTD P3 projects although they are allowed for the LTA, and at least 25 percent of the P3 projects must be located outside the boundaries of a metropolitan planning area.

Attorneys in Ballard Spahr’s P3/Infrastructure and Public Finance Groups will continue to monitor and report on new developments in public-private partnerships in Louisiana and other states. The Groups are recognized leaders in representing government and private sector developers, investors, and lenders in innovative public-private projects.

by the Ballard Spahr P3/Infrastructure Group

August 5, 2016

New Jersey's Pension Funding Push Is Collapsing.

The push to fully fund New Jersey government workers' pensions is in jeopardy amid a contentious clash between state employee unions and lawmakers that is leaving investors wondering what's next.

Lawmakers face a Monday deadline to authorize a ballot measure, which if approved by voters in November would require the state to pay what it owes to pension plans that have less than half of what's needed to cover obligations. Senate President Steve Sweeney, a Democrat and union official who sponsored the bill, said Thursday he won't put it up for a vote until he wins an agreement on transportation funding. He accused two unions of trying to illegally coerce the vote.

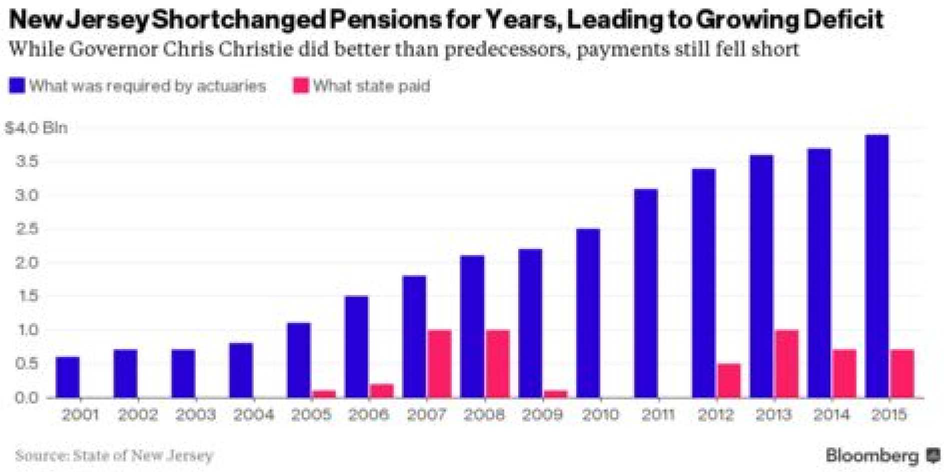
The constitutional amendment would put the state on track to make full actuarially required contributions by 2022 and cut the unfunded liability by $4.9 billion over three decades. The quarterly payments would strain the state's cash flow, Moody's Investors Service and S&P Global Ratings said. Republican Governor Chris Christie, whose signature isn't required, has called the measure a "road to ruin" that would mandate massive tax increases.

"Getting the funding up is going to be painful," said Tamara Lowin, director of research at Rye Brook, New York-based Belle Haven Investments, which oversees $5.3 billion of municipal debt. "Making it a forced, fixed expense and making it senior to appropriation debt is a credit weakness, despite the fact that it will eventually bring the state to fiscal stability."

New Jersey's borrowing costs, no matter the outcome on the pension measure by Monday, are likely to stay elevated. The Garden State pays the second-highest yield premium on 10-year bonds among 20 states surveyed by Bloomberg.

The state's mounting pension liabilities have pressured its borrowing costs and ratings, second lowest among U.S. states after Illinois. Over the past decade, New Jersey paid about $24 billion less than it should have into the funds, freeing up cash to close budget shortfalls, spend or ease taxes, according to data compiled by Bloomberg.

S&P in March changed its outlook on New Jersey's credit grade to negative from stable because of the pension tab and said that the ballot measure could result in limiting the state's flexibility during economic downturns.



The ballot measure had appeared on track to go before voters in November. But lawmakers and Christie failed to agree on a package to finance transportation projects through increasing the gas tax. Passing the measure to fully fund pensions could be risky depending on how the roadwork issue is resolved, Sweeney said.

That's raised the ire of public-employee unions. The New Jersey Education Association ran online ads Thursday featuring pictures of Sweeney that said "New Jersey Doesn't Need Another Politician Who Lies" and urged members to tell him not to break his promise.

On Wednesday, Sweeney called threats from the NJEA and the Fraternal Order of Police to withhold campaign contributions unless the Senate passes the pension legislation as clear-cut examples of extortion. He sent letters to the U.S. attorney and state attorney general asking for investigations of the NJEA warning as a violation of state and federal bribery laws.

Christie, who usually receives the brunt of the criticism from the public unions because of his push to restructure benefits, wants to cut the sales tax in exchange for the gas tax move. "Combining that with passage of the constitutional amendment to require quarterly pension payments would be a devastating blow to future budgets that would cripple the state's ability to fund much needed programs and services," Sweeney said in a statement Thursday.

The impasse from transportation to pensions is "frustrating" but par for the course for investors in New Jersey, said Dan Solender, head of municipals in Jersey City, New Jersey, for Lord Abbett & Co., which manages $20 billion of the debt.

"There's low expectation for major progress right now," he said.

Bloomberg Business

by Romy Varghese

August 5, 2016 — 2:00 AM PDT Updated on August 5, 2016 — 7:10 AM PDT

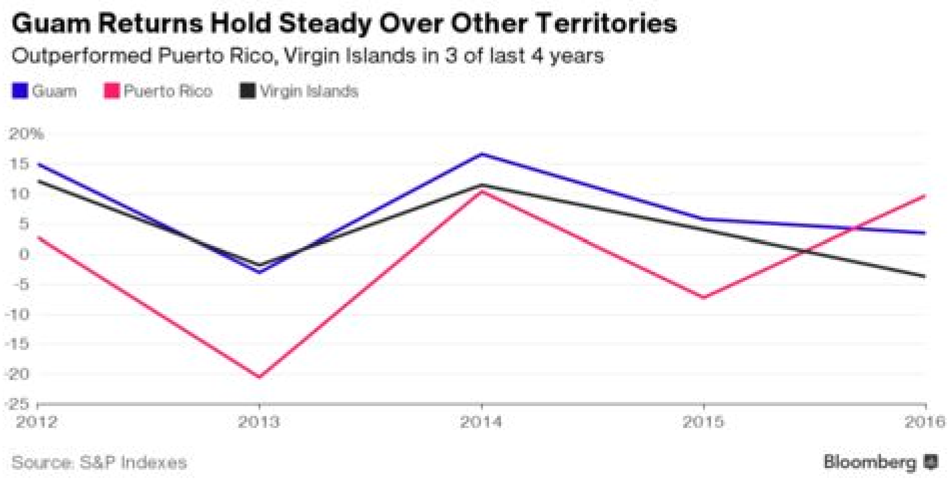
[Guam Downplays Puerto Rico Risk Amid Return to Muni Market.]

Guam, the U.S. territory in the Pacific more than 9,000 miles (14,480 kilometers) from Puerto Rico, is giving municipal bond investors stung by the Caribbean island's record default a reason to pause.

The 30-mile-long tropical island sold $237.9 million of limited-obligation bonds Thursday to refinance older, higher-yielding debt and to help fund improvements at the territory's public hospital. The securities, which are backed by revenue derived from federal income taxes collected on the island, carry an investment grade rating of BBB+ from S&P Global Ratings, five steps above the junk rating of BB- on Guam's general-obligations.

The limited-obligation debt, referred to as Section 30 bonds, stands to benefit from U.S. plans to expand its military operations on the island of about 165,000, which is the closest U.S. territory to potential hot spots in Asia. The U.S. is looking to double the size of its presence as it seeks to diminish its footprint on the Japanese island of Okinawa.

S&P kept its outlook on Guam unchanged following the passage of what's known as Promesa, the law enacted by President Barack Obama on June 30 to help Puerto Rico restructure its debt through a federal oversight board. The same approach could be extended to other territories beyond Puerto Rico based on the law, an idea that both Guam and the U.S. Virgin Islands have repeatedly rejected.



"It's the credit fundamentals that speak to the ability of a government to pay its debt in full and on time, not lingering or potential legislation," said S&P analyst Paul Dyson. "Relative to Puerto Rico, they're doing a lot better."

With an active military presence of about six thousand personnel already stationed on the island, Guam's financial resume reads a bit differently than its Caribbean territory counterparts of Puerto Rico and the U.S. Virgin Islands, both of which have been plagued with debt amid population declines and chronic budget deficits. Guam's $1.1 billion of debt, issued by various arms of the government, amounts to some $6,000 per person; far less than Puerto Rico's $20,000 and the Virgin Islands' $23,000. Guam has posted eight consecutive years of economic growth through 2014, according to the Bureau of Economic Analysis, as well as an expanding population, which could increase even more as military personnel and their families spill over from Japan.

Guam's bonds maturing in 2039 have rallied over the past year, coming off of a peak yield of 4.15 percent in September. The 10-year maturity of the issue sold Thursday was priced to yield 2.43 percent, or 0.93 percentage point above benchmark debt, data compiled by Bloomberg show.

Territory officials met with investors in the U.S. ahead of the sale to quell concerns. Jay Rojas, administrator of the Guam Economic Development Authority, said that they were delivering the message that Guam's economic outlook is strong and just because Promesa passed, the Pacific territory shouldn't be viewed negatively.

"Guam's story is good," Rojas said. "We are unique, we are different, we are alive."

Talks of the military relocation started back in 2006, when territory officials estimated that the move could bring in as much as some 19,000 people between the Marines, their dependents, and other government workers. That projection has since been scaled back several times, with Rojas now estimating an increase of 7,000 to 9,000 by 2028 once the 13-year, $8.7 billion project is complete.

"We're not speculating," said Ted Chapman, another analyst for S&P. "The final impact and deadline is just potentially a moving target."

Bloomberg Business

by Molly Smith

August 4, 2016 — 2:00 AM PDT Updated on August 4, 2016 — 11:52 AM PDT

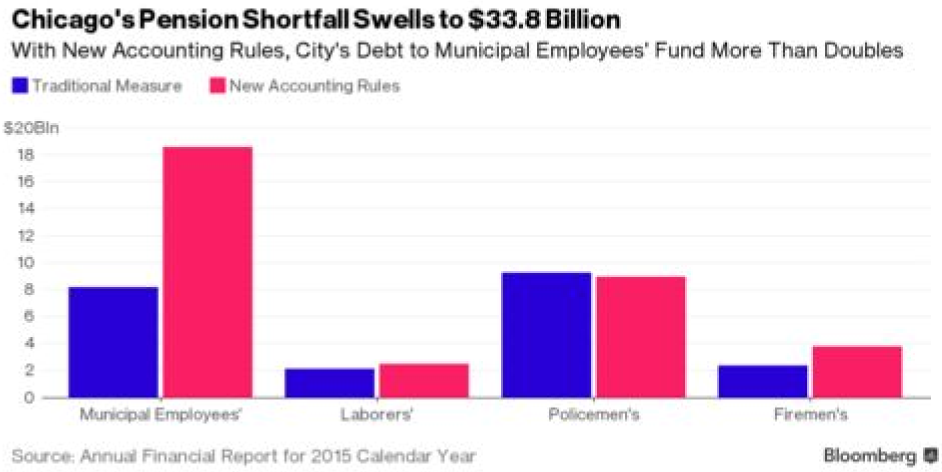
Chicago Bonds Gain as City Plans Tax Hike to Fix Biggest Pension.

Chicago debt rallied after Mayor Rahm Emanuel released his plan to increase water and sewer levies to shore up the retirement plan for municipal workers, a move to avert insolvency for the city's largest pension fund.

Without the fix, the fund that serves more than 70,000 workers and retirees is on track to run out of money within a decade. Less than a day after Emanuel laid out the plan at Chicago's investor conference, the municipal market applauded the proposal. The city's most-actively traded debt traded at 87.98 cents on the dollar Thursday, the highest average price since April 2015, according to data compiled by Bloomberg. The taxable debt that matures in 2042 yields 6.4 percent.

"This is exactly the type of plan we were looking for," said Ty Schoback, a senior analyst at Columbia Threadneedle Investments, which holds Chicago debt among its $26 billion of municipal securities. "If the tax is successfully ratified by City Council, it will be the last heavy political lift to get all the city's pensions on track to full funding over the long run."

Chicago hasn't paid enough to pensions for years. Over the last decade alone, the city shorted the municipal fund by more than $4 billion, according to an annual actuarial report. The fund has to liquidate assets to pay out benefits. Combined, the police, fire, municipal and laborers' pensions face $34 billion of unfunded liabilities. The strain is weighing on Chicago's ability to offer services to residents. More than 35 cents of every dollar of the budget goes to pay debt and pensions, according to Moody's Investors Service, which slashed Chicago's rating to junk last year because of the pension crisis.



To rebound to investment grade, Moody's wants Chicago to reverse the trajectory of its pension problem. The city would need to raise about $1 billion a year to see a reduction in retirement costs the following year, according to the credit rater. Moody's is reviewing the municipal plan, David Jacobson, a spokesman, said in an e-mail on Wednesday.

In October, Emanuel pushed through a record property tax hike to fund the police and fire retirement funds. In May, he released a plan, that's still subject to state approval, to get the laborers' pension to 90 percent funded by 2057.

Under Emanuel's proposal to investors on Wednesday, the city would increase its contributions to the municipal fund by no less than 30 percent over five years. New employees would have to pay 3 percent more to their retirement fund, and employees hired after January 2011 would have the option to retire earlier, but would pay more to their pensions.

While this is a very positive action, there's still work that needs to be done, said Paul Mansour, head of municipal research at Conning, which oversees $11 billion of state and local debt, including Chicago securities.

"It's a very dynamic challenge that needs to be adjusted or looked at annually based on investment returns, longevity risks, and any other plan changes," Mansour said. "It's encouraging that they're stepping up and raising revenue and addressing it. Will it be enough? Probably not. Until you meaningfully reduce the rate of growth in benefits, this is going to be a material credit concern for many years to come."

The City Council needs to approve the tax hike, and the state needs to authorize the change in city and employee contributions, but Emanuel expressed confidence that the plan will succeed.

"It's good to see some action taken," said Dan Solender, head of municipals in Jersey City, New Jersey, for Lord Abbett & Co., which manages $20 billion of the debt. "It's been a long wait."

Bloomberg Business

by Elizabeth Campbell

August 4, 2016 — 10:30 AM PDT

Bloomberg Brief Weekly Video - 08/04

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

August 4, 2016

Preston Hollow Hires Municipal-Bond Team From Mesirow Financial.

Preston Hollow Capital, a Dallas-based boutique firm specializing in economic development and affordable housing projects, hired three employees from Mesirow Financial Inc. to open a capital-markets group in San Francisco.

Preston Hollow, formed in 2014, hired Curtis Erickson, Peter Bianchini and Richard Akulich. Erickson, Mesirow's former head of high-yield municipal trading, will handle loan structuring, pricing and secondary-market trading. Bianchini and Akulich will manage credit research.

"Curtis is one of the most respected professionals in the municipal capital markets, and he brings an accomplished and well-known team in Peter and Richard," Jim Thompson, Preston Hollow's chairman and chief executive officer, said in a news release. "When coupled with PHC's recent increase in its permanent equity capital to $625 million, our new capital markets group will enable us to provide more efficient pricing and execution for the benefit of borrowers."

Preston Hollow has invested $30 million in a residential and commercial project developed by Related Cos. in Tuxedo, New York, about 40 miles northwest of New York City, according to its website. The firm also purchased $55 million in bonds issued by a San Antonio, Texas-based agency to redevelop a former Air Force base into a mixed-use community.

Before Mesirow, Erickson, 46, traded municipal bonds at JPMorgan Chase & Co. and Bear Stearns Cos. Bianchini, 53, served as Mesirow's senior municipal strategist, and before that was XL Capital Assurance's head of West Coast origination. He also worked as a credit analyst at S&P Global Inc. for 14 years.

Akulich, 35, a specialist in the tobacco-bond sector, served as managing director at Mesirow, and before that spent five years at JPMorgan.

Bloomberg Business

by Martin Z Braun

August 3, 2016 — 11:20 AM PDT

Puerto Rico Bondholders Devastated, but See Hope in U.S. Plan.

SAN JUAN, Puerto Rico — Attorney Santiago Mari sighed as he punched numbers into his calculator and saw the result.

The value of his retirement account has dropped 75 percent due to the collapse in Puerto Rican bonds that make up much of his personal portfolio, he said. He's long abandoned plans for an early retirement. And he's far from alone.

"You have a whole lot of Puerto Ricans who invested millions of dollars in bonds that they're unable to sell," said Puerto Rico financial adviser Jose Ivan Acosta.

While hedge funds hold much of Puerto Rico's troubled debt, individual investors own an estimated $15 billion in bonds — 22 percent of the island's overall $68 billion public debt. Many eagerly bought Puerto Rico bonds because they are exempt from state, local and federal taxes and were widely considered safe.

"They made it sound like it was the last remaining Coca Cola in a desert, that it was safe because it was backed by the government," Mari said.

That changed as the U.S. territory's government and its public utilities piled on debt to cover deficits during a 10-year economic slump. New taxes and higher utility rates pushed businesses to close and the tax base dwindled as more than 200,000 Puerto Ricans left for the U.S. mainland. With falling revenue, the government this year imposed a debt moratorium after a series of defaults on bond payments that began last year.

Prices for Puerto Rican bonds have plummeted, devastating many investors in Puerto Rico and on the mainland. Some have had to delay retirement, find alternative sources for their children's college funds or rejoin the workforce.

"My dream was to retire at 55 years old, and I worked hard for that," said 57-year-old Eduardo Rodriguez, a former maintenance worker who now works in a supermarket. "What can I do? They say men don't cry, but we do."

Many hold out hope that a new federal aid package signed by President Barack Obama in June will at least limit their losses. The measure creates a federal control board to oversee Puerto Rico's finances, supervise some debt restructuring and negotiate with creditors. Puerto Rico bonds rallied by some 20 percent that day and remained at that level even after the governor announced a moratorium on general obligation debt, Acosta said.

The news has encouraged Mari who, unlike some of his friends, has retained his bonds.

"I still have hope within my despair," Mari said. "The solution has to come from the outside. If it's left in local hands, they will plunder what little remains."

While it's too early to know what changes the control board will implement, a restructuring process of any kind would be positive, Acosta said.

"Honestly, anything is better than what we have right now," he said.

Some analysts cautioned about reading too much into the bond price rally, however.

"It was a momentary, reflex reaction as opposed to a market-moving event," said Jim Colby, who runs the $2.2 billion VanEck Vectors High Yield Municipal Index, an exchange-traded fund in New York.

He said Puerto Rico general obligation bonds, which many consider Puerto Rico's safest, are trading at around 65 cents on the dollar, and that future prices might be close to that. But "there's really no telling right now what kind of haircut, what kind of valuation is going to be given to any of the bonds of any of the series that are currently outstanding but not paying their interest.

"It's going to be a long time before we really have a clear picture," he added.

Of the estimated $15 billion debt held by Puerto Rico investors, $3.8 billion of the original $7 billion issued belongs to the Government Development Bank, which is operating under a state of emergency, and another $1 billion to the Public Finance Corporation, which was the first government agency to default. Only a small portion represents general obligation debt that is expected to receive top priority once the anticipated restructuring begins.

Raymond Watson, a former director of Puerto Rico's Highway Transportation Authority, bought general obligation debt because he believed it was the most secure. The 80-year-old said he was aghast when the governor last month declared a moratorium on that debt even though it is supposedly backed by the island's constitution.

"That is almost as sacred as the Bible," he said, adding that he and his wife face high medical bills and worry about being forced to declare bankruptcy. "We are not indulging in any kind of luxuries. We have cut back greatly on eating out, even if it's at Burger King. We used to take a cruise almost yearly. None of that. We are now prisoners in our own home."

Watson holds out hope that the federal aid measures will help.

At a minimum, they could repair Puerto Rico's credibility by stabilizing the island's finances and providing long-overdue transparency, which in turn could help it re-enter the market and allow people to recuperate some of their investment, Acosta said.

That's an encouraging prospect for Mari, who said some bonds he bought at $10 are now worth $1 or $2.

"I am holding on until the end," he said. "The uncertainty is killing me."

By THE ASSOCIATED PRESS

AUG. 1, 2016, 11:22 A.M. E.D.T.

Chicago Mayor's Plan to Fix Municipal Pension Fund Seeks Water, Sewer Tax.

CHICAGO — Chicago Mayor Rahm Emanuel unveiled a plan on Wednesday that he called "an honest approach" to save the city's biggest retirement system from insolvency with a water and sewer tax to be phased in over five years starting in 2017.

The municipal retirement system, which covers about 71,000 current and former city workers, is projected to run out of money within 10 years as it sinks under an unfunded liability of $18.6 billion.

The new tax would generate $56 million in its first year and increase to $239 million annually by 2020, the mayor's office said.

"Today, one of the big question marks that hung around the city because of past decisions – or past decisions that were not made – we have addressed," Emanuel told an investor conference in Chicago, adding that the city has now identified specific revenue streams to support each of its four retirement systems.

The plan requires city council approval, which Emanuel said he intends to seek in September. Chicago then needs the Illinois state legislature to approve a five-year phase-in of the city's contribution to the pension system to boost the funded level to 90 percent by 2057 from the current 32.9 percent.

The tax would follow an increase in water and sewer rates between 2012 and 2015 to generate money to repair and replace aging infrastructure. Revenue rose from $644.1 million in 2011 to $1.125 billion in 2015.

Pension contributions by new municipal workers would increase and not all affected unions have signed on to the plan. Anders Lindall, a spokesman for the American Federation of State, County and Municipal Employees Council 31, said the plan is under review.

The rescue plan for the municipal system follows previous action by the city to boost funding for police and fire pensions through a phased-in $543 million property tax increase, and its laborers' system through a hike in a telephone surcharge.

Chicago's big pension burden was a driving factor in the downgrade of the city's credit rating last year to the "junk" level of 'Ba1′ by Moody's Investors Service.

But in March, the task of fixing the city's pensions became harder after the Illinois Supreme Court threw out a 2014 state law that reduced benefits and increased city and worker contributions to the municipal and laborers' funds.

By REUTERS

AUG. 3, 2016, 4:03 P.M. E.D.T.

(Editing by Chris Reese, G Crosse)

Bloomberg Brief Weekly Video - 07/28

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

July 28, 2016

Cincinnati's Worst Stadium Deal Ever Seeks Lower Borrowing Costs.

The near record-low borrowing costs in the municipal-bond market may buy Cincinnati relief from what was labeled one of the worst stadium deals for taxpayers.

Hamilton County, Ohio, plans to borrow $322 million next week to refinance debt taken on more than a decade ago to build new home fields for the Bengals National Football League team and the Reds Major League Baseball team. It's projected to save about $65 million — freeing up money for promised property-tax cuts that were scaled-back as the cost of the project soared.

"We're going to restore as much of the tax cuts as we can," said Chris Monzel, president of the board of county commissioners.

Tumbling municipal bond yields are providing a financial perk to local governments, allowing them to cut the left-over bills from even long finished projects. Oakland, California-area officials last year refinanced debt for the home of the National Basketball Association's Golden State Warriors, which the team is planning to leave. Last month, El Paso, Texas, refinanced almost a third of the debt it issued for a minor league stadium three years ago, when the interest rates it had to pay prompted a political outcry.

The savings in Cincinnati are still just a fraction of the stadiums' costs, which more than doubled to over $1 billion. Most of the expense was covered by county taxpayers, who approved a half-percentage point sales-tax increase 20 years ago in return for a promise that real estate levies would eventually be cut. The Taxpayers Protection Alliance, a Washington group that opposes subsidies for professional sports arenas, said the Bengals's Paul Brown Stadium is among the most costly for taxpayers, given how much of the county budget it consumed.

"They're taking baby steps in trying to cut the cost to taxpayers," said David Williams, the alliance's president. "They've spent hundreds of millions of dollars on these stadiums and seen no economic benefits."

In recent years, the Cincinnati stadiums have cost the county some $70 million a year, or about 8 percent of its spending, according to financial statements. That includes debt service, costs for the teams, property-tax cuts and payments to schools in lieu of taxes.

Hamilton County voters approved the sales-tax increase in March 1996, with the stadiums promoted as a way to revive the area along the Ohio River. The county borrowed $623 million beginning in 1998 with municipal bonds, some of which was refinanced in 2006 and 2011. Some more will be refinanced next week.

Public Costs

The football stadium opened in 2000 and Great American Ball Park opened for the Reds in 2003. Stung by two recessions, sales-tax collections grew at about half the annual pace initially projected from 1999 to 2008, county documents show, while the population declined. To cope, the county fired workers, reduced the size of the property-tax cut and sold its hospital. Voters refused to approve more spending for a needed jail.

Public costs for the Cincinnati stadiums now exceed $1 billion in 2010 dollars, according to Judith Long, an associate professor of sports management at the University of Michigan, who who tabulated expenses for stadiums for a book titled "Public Private Partnerships for Major League Sports Facilities."

The stadiums are about a half-mile apart near a riverfront development called The Banks. The $2.5 billion development has grown more slowly than expected, but has revived the riverfront with restaurants, bars and residential space, spurred in part by subsidies paid for with the sales tax for the stadiums.

The question now for county officials is whether the savings on lower debt service is enough to restore any services after cutting taxes, said John Bruggen, county budget director. The decisions will be up to the county commission.

"They probably won't make any decisions immediately," he said. "This is a small piece of a big equation."

Bloomberg Business

by Darrell Preston

July 28, 2016 — 2:00 AM PDT

More Defaults Likely to Come: What Puerto Rico Owes on Aug. 1.

It's that time again for Puerto Rico bondholders.

The commonwealth and its agencies owe about $346 million in bond payments on Aug. 1, most of which goes toward repaying sales-tax supported debt. The deadline follows the island's July 1 default on nearly $1 billion of principal and interest, the largest such payment failure in the history of the $3.7 trillion municipal bond market.

While sales-tax investors are set to be repaid with funds already in the bond trustee's account, the Government Development Bank, which defaulted in May, faces another payment deadline. Some Puerto Rico entities started skipping payments a year ago, leading up to the commonwealth missing $780 million due on general obligations at the start of the month.

Puerto Rico and its agencies racked up $70 billion of debt after years of borrowing to paper over budget shortfalls. President Barack Obama on June 30 enacted a law to create a federal control board that will oversee any debt restructuring and monitor the island's budgets. It also prohibits creditors from suing the commonwealth for repayment of debt.

A breakdown of what's coming due:

Puerto Rico Sales Tax Financing Corp.: About $256 million of principal and interest. The bonds, called Cofinas because of their Spanish acronym, are repaid from the island's sales tax. When the commonwealth's fiscal year begins on July 1, the first collections are directed toward repaying the debt before flowing into the island's general fund. The bond trustee already has the funds to make the Aug. 1 payment, according to S&P Global Ratings. Cofina has $15.2 billion of debt outstanding.

Government Development Bank for Puerto Rico: $28.5 million of interest. The bank, which used to serve as the island's fiscal agent before its liquidity dwindled, defaulted May 1 on nearly $400 million that was due. The GDB is under an emergency period where withdrawals are limited to programs that provide essential services. It has $5.1 billion of debt outstanding.

Puerto Rico Pension-Obligation Bonds: $13.9 million of interest due each month. The taxable debt was sold to bolster the island's nearly depleted pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. Puerto Rico has yet to default on the $13.9 million monthly interest payment. It has $2.9 billion of bonds outstanding.

Puerto Rico Aqueduct and Sewer Authority: $2.5 million of interest. The island's main water provider, called Prasa, is looking to issue debt through a new agency to raise $900 million for capital projects and to repay contractors. Prasa may also restructure as much as $1.1 billion of existing bonds. It paid $135 million to investors on July 1 and negotiated with creditors to delay another $12.7 million due on commonwealth-guaranteed Prasa bonds. It has $4 billion of bonds outstanding.

General-obligations: $1.3 million of interest. Puerto Rico defaulted on its general obligations on July 1, the first time a state-level borrower skipped payment on its direct debt since the 1930s. The island's constitution stipulates that the government must repay general obligations before other expenses. Governor Alejandro Garcia Padilla has said the island must preserve funds to cover essential services. The commonwealth has $13 billion of general obligations.

Puerto Rico Infrastructure Financing Authority: $700,000 of interest. Called Prifa, the agency has sold the island's rum-tax bonds. Prifa defaulted on a Jan. 1 interest payment and $77.1 million of principal and interest on July 1. It has $1.9 billion of bonds outstanding.

Puerto Rico Highways & Transportation Authority: $600,000 of interest. The highway agency repays its debt with gas-tax receipts and toll revenue. The authority paid almost all principal and interest due on July 1 from reserve funds already held by the bond trustee. Future payment are uncertain because Puerto Rico has redirected a portion of the agency's revenue to the general fund, according to S&P. HTA has $6.4 billion of bonds and notes outstanding.

Bloomberg Business

by Michelle Kaske and Sowjana Sivaloganathan

July 29, 2016 — 11:22 AM PDT

Newport to Draft Ballot Measure Seeking Tighter Restrictions on Tax Increases and Bond Issues.

Newport Beach leaders took a step forward Tuesday on a charter amendment proposed for November's ballot that aims to tighten controls over tax increases and debt issuance.

The measure would ask local voters to consider whether the city charter should require at least five of the seven City Council members to vote in favor of a general tax increase before an increase could be placed on the ballot for voter consideration. Currently, four council members' votes are required.

Voters also would be asked whether they want to require voter approval before the city can use a certificate of participation, a financial instrument for issuing bonds to fund capital improvements. A COP was used in funding part of the Civic Center project.

The City Council voted 4-3 on Tuesday night to direct staff to craft the proposed charter amendment, known as the Newport Beach Taxpayer Protection Act, for placement on the Nov. 8 ballot. Council members Ed Selich, Tony Petros and Keith Curry dissented.

The council signed off last year on one aspect of the measure, requiring a supermajority council vote to approve tax increases, which Curry spearheaded.

However, on Tuesday, Mayor Pro Tem Kevin Muldoon asked his colleagues to also consider adding the restriction on capital improvement bonds.

“In this case, hypothetically, the Civic Center would not exist unless a majority of the people of Newport Beach said they wanted to do a certificate of participation,” Muldoon said. “It is meant to put the power back in the hands of our voters.”

Councilman Scott Peotter, who in June floated a similar proposal to restrict bond debt, supported Muldoon’s idea.

Certificates of participation are a common way that municipalities finance the acquisition of land and public infrastructure. COPs are paid for from a government’s existing revenue stream, unlike general obligation bonds, which result in tax increases and therefore require a public vote, according to city Finance Director Dan Matusiewicz.

Curry strongly opposed adding Muldoon’s proposal to the Taxpayer Protection Act.

“Three out of four cities in California have the provision that I proposed as law already; not a single California jurisdiction has the proposal that Mr. Muldoon has as part of their law,” Curry said.

Matusiewicz cautioned against Muldoon’s proposal during the council meeting, saying it would be an extremely bad idea to cut off that avenue of funding.

Muldoon said he wasn’t proposing to remove COPs altogether, and he accused Matusiewicz of being biased.

“I’m going to cut it there, because I see your bias and I understand,” Muldoon said. “The opposition does not want the voters to decide.”

Matusiewicz said Wednesday that requiring all COP plans to become ballot initiatives would add uncertainty to financial planning, as well as time and costs associated with ballot measures.

“Managing finances by ballot initiative … can hinder objectivity in financial decisions,” Matusiewicz said. “Ballot initiatives all too often become politically charged and unpredictable.

“We have a highly educated constituency, but they generally don’t have the time or interest to get into the minutia of mundane public infrastructure projects. Instead, people tend to rely too heavily on less-objective fliers on a given subject.”

The draft measure will go before the City Council on Aug. 9 for final consideration in an effort to make the Aug. 12 deadline to place it on the ballot.

The Los Angeles Times

by Hannah Fry

July 31, 2016

[Atheist Group Sues Kansas City, Missouri, Over Baptist Convention.]

(Reuters) – An atheist group has sued Kansas City, Missouri, charging that plans to use $65,000 in tourism tax dollars to assist in an upcoming Baptist convention violates guarantees in the U.S. Constitution separating church and state.

The lawsuit, filed on Friday in U.S. District Court by American Atheists Inc against officials including Kansas City Mayor Sly James, asks a federal judge to block the city from spending taxpayer dollars to support the event.

It contends that using tax dollars to help Modest Miles Ministries Inc, prepare for the National Baptist Convention USA Inc, would advance a religious purpose in violation of American Atheists' right to be of state-supported religion, as provided for under the "establishment clause of the First Amendment of the U.S. Constitution.

In April, the city approved to pay $65,000 in municipal funds from the Neighborhood Tourist Development Fund to the ministry to help transportation costs, the lawsuit said. The conventions is scheduled to be held Sept. 5-9 in Kansas City.

Kansas City spokesman Chris Hernandez declined to comment on the pending lawsuit. But a contact has not been signed for the funds to be released, and standard contract language excludes religious use of any funding, Hernandez said.

About 10,000 people are expected to attend the convention, which was previously held in the city in 2010, 2003 and 1998, the Kansas City Star reported.

By REUTERS

JULY 26, 2016, 5:33 P.M. E.D.T.

(Reporting by Justin Madden in Chicago; Editing by Scott Malone and Alan Crosby)

Chicago Deficit Narrows Despite Pension Uncertainty.

CHICAGO — Chicago's budget deficit could reach a 10-year low next year despite unresolved funding questions for its largest and most underfunded pension system, according to an annual financial analysis released by the city on Friday.

The report projected that fiscal 2017 expenditures will exceed revenues by $137.6 million, representing a 40 percent reduction from 2016 and the narrowest gap since 2007, when the city deficit stood at $64.5 million.

"This is the result of hard work and difficult decisions, which have put Chicago on path towards long-term financial stability after decades of mismanagement," Mayor Rahm Emanuel said in a statement.

Emanuel's administration attributed the improvement from the fiscal 2016 deficit of $232.6 million, in part, to "health-care cost reductions, lease consolidations and energy efficiency programs." An infusion of new dollars also will help cover 2017 obligations for three of the city's four pension funds.

Last fall, the city approved a record $543 million property-tax increase to be applied to Chicago police and fire pension funds, and won final approval last spring to spread out state-mandated payments despite opposition from Republican Governor Bruce Rauner.

In May, Emanuel reached an agreement with city laborers to steer $40 million per year from a 2014 increase in the Chicago's 911 telephone surcharge to save their pension fund from insolvency.

A plan to rescue the Municipal Employees' Pension Fund from insolvency has not been finalized. Covering more than 50,000 active and retired city workers, the municipal fund is forecast to run out of money within 10 years and carried $18.6 billion in unfunded liabilities at the end of 2015, up from $7.13 billion in 2014.

In June, Standard & Poor's warned the city, which had $33.8 billion in unfunded liabilities spread over all four pension funds, could face additional bond-rating downgrades unless it makes comprehensive changes to the municipal fund.

In a conference call with reporters, Chicago Budget Director Alex Holt predicted on Friday an announcement regarding a new revenue source for the municipal fund would be forthcoming within the next two weeks but declined to offer details, saying only "everything is on the table."

The 2017 financial analysis released Friday forecast that budget gaps would continue through fiscal 2019, when the city's deficit could range between $144.1 million and $780.1 million.

By REUTERS

JULY 29, 2016, 4:33 P.M. E.D.T.

(Reporting by Dave McKinney; Editing by Jonathan Oatis)

Cash-Strapped Chicago Schools Pay Big Premium in $150 Million Bond Deal.

CHICAGO — Chicago's cash-starved public schools borrowed $150 million to pay for capital projects in a privately placed deal with a yield of 7.25 percent, the nation's third largest school district announced on Friday.

The 30-year bonds were priced 513 basis points over Municipal Market Data's benchmark triple-A scale, indicating Chicago Public Schools continues to pay a big penalty to sell debt.

The system said the unlimited tax general obligation bonds that mature in December 2046 would not be used to balance CPS' budget.

J.P. Morgan purchased the bonds, which were sold under an existing authorization from CPS' school board.

"Today, CPS sold $150 million in bonds for capital projects at a significantly more favorable interest rate than its last issuance," Ron DeNard, CPS' senior vice president of finance said in a prepared statement. "These bonds will fund critically needed capital work."

CPS' last bond sale for $725 million in February represented one of the biggest "junk" bond offerings the municipal market has seen in years and carried an 8.5 percent interest rate.

That yield for bonds due in 2044 with a 7 percent coupon was slightly below the 8.727 yield for 21-

year bonds in the municipal market's last big junk bond sale – a $3.5 billion Puerto Rico issue in March 2014.

The district said it would make public a preliminary official statement on the deal announced on Friday by Sept. 2.

CPS faces a lingering $300 million deficit for the fiscal year that began July 1. The system also may lose an additional $215 million in state funding that was approved by Republican Governor Bruce Rauner and the Democratic-led state legislature in June on the condition a statewide pension-reform package pass by January.

There has been no tangible movement on a deal to reel in pensions for state government workers and retirees and teachers after a May 2015 Illinois Supreme Court ruling that invalidated a 2013 pension-cut law opposed by public-sector unions.

By REUTERS

JULY 29, 2016, 6:03 P.M. E.D.T.

(Additional reporting by Karen Pierog; Editing by Bernard Orr)

Bloomberg Brief Weekly Video - 07/21

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Bloomberg News reporter Brian Chappatta about this week's municipal market news.

Watch the video.

9:51 AM PDT
July 21, 2016

Sell Oppenheimer Funds on Puerto Rico Risk, Ameriprise Says.

Ameriprise Financial Inc., one of the world's biggest asset managers and financial planning firms, is advising clients to sell OppenheimerFunds municipal-bond funds that hold Puerto Rico debt in the aftermath of the island's record default.

Oppenheimer holds the most Puerto Rico debt among municipal mutual funds, according to Morningstar Inc. As the commonwealth works to reduce its $70 billion debt load through bondholder losses, Oppenheimer funds that hold commonwealth bonds may need to cut dividends or see changes in the value of their portfolios, Jeffrey Lindell, senior research analyst at Ameriprise, wrote in a Monday report.

"As Puerto Rico bond defaults accelerate, the mutual funds may have to cut dividend rates as bond interest payments are missed," Lindell wrote. "The net asset value of the mutual funds could also be volatile as the price of Puerto Rico bonds reacts to speculation and news, or as potential principal haircuts occur."

Oppenheimer held $3.5 billion of Puerto Rico securities across 19 funds, as of March 31, the most among municipal mutual funds, according to Morningstar Inc. Dan Loughran, who started the firm's Rochester funds in 1994 and oversaw its $24 billion of muni-bond funds, transitioned into an advisory role on July 1 and will retire from the company at the end of September.

Fund Strategy

Loughran's departure and the risk of losses on Puerto Rico debt led Ameriprise to advise clients to seek less risky options, Lindell wrote in the report.

"The Rochester team maintains a steady hand and constantly focuses on the long term," said Kimberly Weinrick, a New York-based spokeswoman for OppenheimerFunds. "With the passage of Promesa, it was an opportune time for Dan to retire and to pass responsibility for managing the Rochester team to his longstanding trusted colleagues," Scott Cottier and Troy Willis, she said.

OppenheimerFunds is known for its strategy of pouring money into the riskiest areas of the $3.7 trillion municipal market in pursuit of big returns. Over the years, its funds have purchased tobacco bonds, real-estate development deals roiled by the housing-market crash and debt issued by Puerto Rico. Its high-yield fund returned nearly 15 percent over the past year, beating 98 percent of its peers, according to data compiled by Bloomberg.

Debt Restructuring

Investors anticipate much of the commonwealth's debt will be restructured. President Barack Obama on June 30 enacted a law, called Promesa, that creates a federal control board to oversee any restructuring and monitor the commonwealth's budgets. The next day, Puerto Rico defaulted on nearly $1 billion of principal and interest, the largest such payment failure ever in the municipal bond market.

The price of commonwealth securities tumbled after Governor Alejandro Garcia Padilla in June 2015 said the island was unable to repay its obligations on time and in full. The island piled on debt through years of borrowing to paper over budget deficits as its economy failed to grow.

Minneapolis-based Ameriprise, which oversees $800 billion of assets, recommends clients sell their investments from 16 different Oppenheimer muni funds. Potential replacements include municipal portfolios of Nuveen Asset Management, Eaton Vance Management, BlackRock Inc. and Columbia Management Investment Advisers, the company said in the report.

The one Columbia fund that Ameriprise recommends, the Columbia AMT-Free New York Intermediate fund, is managed by Columbia Management Investment Advisers, which has a global brand name of Columbia Threadneedle Investments. Columbia Threadneedle is the global asset management group of Ameriprise.

Bloomberg Business

by Michelle Kaske

July 19, 2016 — 1:54 PM PDT Updated on July 19, 2016 — 2:49 PM PDT

Michigan Cities Team Up to Offset "Fundamentally Unsustainable" Municipal Finance System.

These are trying times for cities in Michigan, thanks in large part to big cuts in state revenue sharing and real estate values that cratered during the economic meltdown.

On top of all that, Proposal A and the Headlee Amendment limits local municipalities' ability to collect taxes.

As a result, many communities say they're out of options. They can't cut any deeper and they can't raise the money needed to provide operations.

Public finance expert Michael McGee has come up with a possible solution: a legal "toolbox" that could allow cities to band together and put up a millage to pay for essential services.

Two cities in Southeast Michigan, Hazel Park and Eastpointe, have teamed up this way. More cities are taking a closer look at this toolbox, including Wayne, where voters will decide in August whether to join up with Eastpointe and Hazel Park.

Listen to our conversation with Michael McGee.

GUEST
Michael McGee is principal and chief executive officer of Miller Canfield. His special area of expertise is public finance.

MICHIGAN RADIO

By STATESIDE STAFF • JUL 19, 2016

MBFA Chairman Steve Benjamin to Speak at DNCC at 8pm Tuesday, July 26th.

On Tuesday, July 26th at 8pm (EST) Columbia, SC Mayor and MBFA Chairman Steve Benjamin is slated to speak on behalf of the U.S. Conference of Mayors at the Democratic National Convention Committee (DNCC). Additionally, the Democratic Party released their platform which includes a section entitled "Building 21st Century Infrastructure." You can read more about it here.

Specifically, the party's platform includes three infrastructure-related provisions related to bonds, including:

- **Support for municipal bonds:** Democrats will continue to support the tax exemption for interest earned on municipal bonds
- **Support for Build America Bonds (BABs):** Democrats will work to establish a permanent provision for BABs
- **Support the creation of an infrastructure bank:** Democrats will create an independent, national infrastructure bank to support critical infrastructure improvements

It should be noted that the statements within the Democratic Platform are very broad and generally do not include a detailed plan for legislative action.

The MBFA will continue to engage with both political parties to advocate for the preservation of the tax-exemption for municipal bonds and stress caution for the implications of proposals that limit or eliminate the tax-exemption before the November election.

We hope this information is helpful. For further information on MBFA or issues raised in this update, please contact info@munibondsforamerica.org.

Municipal Bonds For America | info@munibondsforamerica.org |
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Missouri Expands Project Delivery Options For Public Works Projects: Thompson Coburn

The State of Missouri recently joined a majority of states allowing political subdivisions to make use of design-build and construction manager-at-risk contracts for public works projects. The new law, signed on July 1, 2016, permits political subdivisions (such as state agencies, counties, municipalities, school districts, hospital districts, and sewer districts) to utilize project delivery methods that are widely used in private construction projects.

History of Construction Delivery

Missouri political subdivisions (with some exceptions) are required to engage in traditional design-bid-build delivery of projects (i.e., the public body selects an architect based on qualifications, then picks the low-bidding contractor following completion of design). For more complex projects, public bodies could engage a construction manager, but the CM is not permitted to perform any construction or provide a price guarantee (this is commonly referred to as construction manager as agent).

New Law

The new statute allows political subdivisions to engage a construction manager-at-risk, where the contractor is engaged prior to completion of construction documents, provides preconstruction services for the owner during the design process, and typically provides a guaranteed maximum price or fixed price after the construction documents are complete. The new statute also permits design-build, where the contractor is responsible for both the design and construction of the project (and holds all of the design and engineering contracts). Public bodies now have increased flexibility in choice of delivery method, which they hope will result in time and cost savings for their projects.

Overview of New Parameters

Because the use of each construction method is only permitted under certain circumstances and procedures, we’ve created a chart that outlines the requirements of each construction method under the new statutes:

	Design-Build (RSMo 67.5060)	CM At-Risk (RSMo 67.5050)
Bidding	**Three Phases:** **Phase I –** Solicitation of qualifications of the design-build team, including list of required submissions **Phase II –** Technical proposal including conceptual design (2-5 firms) **Phase III –** Proposal of construction cost	**Two Steps:** **Step I –** Purely qualitative submission; no fees or pricing **Step II –** Five or less firms selected solely on basis of qualifications provide proposed fee and price for fulfilling general conditions
Award	**Phase II:** Qualifications: ≤ 20% of total points; Phase II must account for ≥ 40% of total point score as specified in the RFP **Phase III must account for** ≥ 40% of total point score as specified in the RFP	Qualifications: ≥ 40% of total points,Cost: ≤ 60% of total points
Timing for Evaluation of Bids	No requirement	Evaluation and ranking of bids must occur within 45 days after date of opening the proposals or qualification submissions
Publication of Request for RFP	Newspaper of general circulation in the county where the political subdivision is located once per week for two consecutive weeks prior to opening proposals.	Same
Thresholds for Use ($)	Civil Works: None Non-Civil Works: > $7 Million	Civil Works: > $2 Million Non-Civil Works: > $3 Million
Bid Stipend	Amount set in RFP (not less than 0.5% of total project budget) must be paid by political subdivision to each prequalified design-builder whose proposal is responsive but not accepted; bidder provides nonexclusive license to use design submitted without any liability for use of such design	None
Sunset	September 1, 2026	September,1, 2026

The full text of HB 2376 (2016) is available here.

Article by Paul M. Macon, David L. Orwick and William H. Metzinger IV

Last Updated: July 19 2016

Thompson Coburn LLP

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.

The Puerto Rico Problem Is On Its Way to Getting Bigger.

This is a good moment for any US political figure to do or say something that will outrage a substantial number of people, even people with money. The noises the victims make will be drowned out by the sounds of the political conventions or retweeted mobile phone recordings of street violence.

So when hedge funds with several billion dollars of Puerto Rican government bonds filed a lawsuit on Thursday against the governor of the commonwealth, along with several subordinate officials, they had to know that it would not get much notice. Even many people on the fixed income buyside have a hard time caring about their hedge fund colleagues. After all, the Republicans in Congress voted to give Puerto Rico a pass with that last minute deal, didn't they?

Not exactly. The Republicans thought they were making a compromise to avoid having to appropriate money for Puerto Rico in an election year. Politically, screwing hedge funds, or for that matter, other investors is OK. Taxpayer bailouts, not OK.

Unfortunately for Congress, its Puerto Rican problem is on its way to getting bigger over the next few months, rather than going away. The outgoing Padilla administration, with the support of senior US Treasury officials, is setting a series of precedents for how to handle future defaults in the US municipal bond world.

To begin with, the usual narrative that "Puerto Rico stopped paying on its bonds in July" does not describe what actually happened. The commonwealth government had about $2bn in interest and principal due on July 1, and chose to pay about half of that, but not according to the various bond issues' relative seniority.

Instead, Puerto Rico did not pay any interest or principal on the most senior, or general obligation bonds, but did make interest payments on more junior bonds. The government also paid its employees' pension funds $170m more than what was required for this year, despite the pensions supposedly being legally subordinated to bondholders.

According to the Promesa legislation the Republicans passed through Congress, this was not supposed to happen. But it did. And Governor Padilla and his fellow officials were not acting in defiance of the US Treasury and the administration. Treasury officials were at his side, advising him. Even Republican senators and members of Congress have not voiced objections to this unilateral reordering of debt priorities.

The intention of the law was for Puerto Rico to be given temporary protection from legal sanctions by creditors so it could restructure its obligations in an orderly way, and to maintain essential services. That makes sense. Nobody wants children to go without immunisation shots or water mains to shut down.

There could, though, be some reasoned debate over the essentiality of some of the spending incorporated in the budget the commonwealth government adopted after July 1. The mayors of all 78 municipalities will reportedly continue to have dedicated police escorts. And there is $2.488m appropriated for the "Office of the First Lady", who, along with her husband, will be leaving at the end of the year.

The last could be considered just a bad PR move, so to speak, on the part of a governor who will not be seeking a new elected office anytime soon . More significant, over the longer term, is the reordering of bonds' relative seniority, and overriding bondholders' previous ranking over pension obligations.

The bonds on which interest payments were made on July 1, such as the Puerto Rico convention center district and the Puerto Rico Highways and Transportation Authority, are disproportionately owned by bondholders on the island. Supposedly more-sophisticated mainland US investors had avoided these lower ranked issues on the misinformed premise that financial and legal analysis should outweigh political calculation.

Puerto Rican officials brush off objections to these spending priorities and to the inversion of the previous seniority ranking of the commonwealth's bonds. They point out that the Federal Oversight Board, set up under the Promesa law, can take back any inappropriate payments made by the commonwealth after July 1.

There are a couple of problems with that "solution". To begin with, the board's powers of "review and rescission" cannot be exercised until after it is appointed by the president, sometime in September, if not later. Then the board members have to agree on staffing, procedure, and office decoration. So it is likely not many "rescissions" will be demanded by the board before the governor leaves at the year's end.

Even then, it will be difficult to take back the flowers bought for the office of the First Lady, or recapture the gasoline bought for the mayors' escorts. Getting back interest payments from the convention center bondholders would be a legal and administrative nightmare.

Commonwealth bondholders probably put too much faith in the supposedly autocratic powers of the board. Despite Puerto Rico's colonial status, the board will find it difficult, if not impossible, to operate without the strong support of Governor Padilla's successor. Otherwise, it will be preoccupied with endless lawsuits and intermediating fights with a resentful Congress.

The Financial Times

John Dizard

July 22, 2016 8:59 pm

Massachusetts Senate OKs Municipal Finance Reform.

To most people, it hardly registers. But for the people who make small-town government work in Massachusetts, the municipal finance reform legislation in Massachusetts adds up to erasing a lot of longstanding headaches.

The comprehensive legislation to modernize finance and governance laws for cities and towns passed this week by the Senate includes provisions to eliminate or update obsolete laws, promote local independence, streamline state oversight and provide greater flexibility for cities and towns, according to Sen. Benjamin Downing, D-Pittsfield. It eliminates or updates obsolete laws, including the repeal of county government finance reporting requirements and changes to the civil motor vehicle infraction law to allow cities and towns to issue citations electronically.

The Senate measure, which now goes into a conference committee to reconcile with an earlier House version, includes a Downing amendment to let communities choose through a ballot question whether to institute a local tax surcharge to fund local and regional transportation projects.

"This amendment gives cities and towns the ability to control their transportation future," said Downing. "In the communities that choose to use it, residents will determine at the local level the subject, amount, and use of the transportation dollars raised. This process will ensure that tax dollars are spent in a way that most directly benefits each citizen and the infrastructure in their region."

In the face of declining federal support and mounting costs to maintain and expand infrastructure, states across the country have looked to local ballot initiatives to raise revenue at the municipal or regional level, Downing said.

The legislation also promotes local autonomy for cities and towns, allowing for more control over certain funding decisions and local regulations. It allows municipalities to enter into joint powers agreements to provide services regionally and reduces the state's role in regulating on-premise liquor license quotas.

It also streamlines state oversight of tax collection procedures to make the process more transparent and predictable for local officials. And it takes steps to provide municipalities with greater flexibility, including a study on double utility poles, changes to procurement laws to simplify, clarify and increase thresholds for construction contracts and updates to the way municipalities use parking revenues.

"The average taxpayer or citizen will not even know what these mean," said Greenfield Director of Municipal Finance and Administration Marjorie "Lane" Kelly, referring to the laundry list of municipal finance regulations, some of which are obsolete or contradictory though "we've had to live with them for 40 years."

But, she added, "It's an internal process that's being simplified. "Some of them I'll be grateful for, because they're cumbersome" — such as the requirement that towns get two or three approvals from the Department of Revenue, or have to get an OK for a procedure that's a daily occurrence."

The revisions should be even more important for small towns that have "single lone rangers doing the best they can to keep ahead of these regulations," Kelly said. Although the smallest of towns may be exempt, for those that have had to jump through the extra hoops, "it's a relief to them."

The Recorder

Combined Sources

Wednesday, July 20, 2016

[Puerto Rico's Warning for States, Cities: You Might Be Next.]

President Obama recently signed into law a highly anticipated — and much debated — rescue bill for debt-laden Puerto Rico. While the bill has its detractors, it marks a positive step toward the promise of recovery for the island. But the bill's impact could go far beyond the commonwealth's shores.

Puerto Rico, like states and many cities, can't legally declare bankruptcy. Saddled with $70 billion in debt, Gov. Alejandro Garcia Padilla's administration has spent the last few years unsuccessfully trying to reach an agreement with creditors. During that time, the commonwealth watched its tax base decline as residents fled stateside and Puerto Rican government entities defaulted on debt.

That's what life without bankruptcy protection is like for governments, Padilla said this week in a speech at the Brookings Institution in Washington, D.C. He went on to suggest that Puerto Rico, with its smaller economy and population size, might simply be farther along on a path other U.S. governments are also traveling. "We are only ahead of the curve — the curve that looms for many states and municipalities," he said. "We are forced to try the route that others have not tried before, to knock on the doors that others may need to approach in the not-so-distant future."

When asked to elaborate afterwards, Padilla explained that he was asked several times by Congress this year how a Puerto Rican rescue bill might also help troubled states. Padilla pointed to Illinois, for example, which has the lowest credit rating of any state and has struggled to find a long-term solution to its crippling debt, including its pension liabilities. "The fact is that if you go through the timeline [and look at] what's happening in other states … if they do not react in time they will face the same cliff we were facing two weeks ago," Padilla said.

At the start of this month, Puerto Rico defaulted on a $2 billion debt payment. But it did so under the protection of the rescue package referred to as PROMESA. Among other things, the law puts a temporary moratorium on litigation regarding Puerto Rico's debt and creates a seven-member financial oversight board with final say over the commonwealth's finance decisions. The board can also file debt restructuring petitions in federal court as a last resort if creditor negotiations fail.

Bankruptcy law allows states to decide whether their municipalities can file for bankruptcy — cities in about half of U.S. states are eligible — but states themselves are prohibited from declaring bankruptcy. Given the current laws, some worry that Puerto Rico's rescue plan will be used as a road map for a struggling state or city. It's not unprecedented — PROMESA's structure was inspired in part by rescue legislation for Washington, D.C., in the 1990s.

Speaking on a panel after Padilla's speech, Florida's bond director Ben Watkins called the legislation "troubling" because it sets a precedent of allowing the federal government to change how money is paid back. "You're loaning someone money for 30 years and you think you know what you'll get in return for that," he said, referring to bondholders. "And then courts come in or federal legislation comes in to trump that — which is in effect, what has happened. That's troubling to me because I'm a state's rights kind of guy."

Still, many believe that if Congress had not approved a rescue plan in time for Puerto Rico's default this month, it would have roiled the municipal market by creating uncertainty as to whether the island would ever find protection to restructure its debt.

GOVERNING.COM

BY LIZ FARMER | JULY 14, 2016

Puerto Rico Plotting Bond-Market Return After Its Record Default.

Puerto Rico just defaulted on about $1 billion due to bondholders, has declared its debts too crushing to pay and is about to undergo an unprecedented financial takeover by the U.S. government. So what's next on the agenda? Finding investors willing to lend it $900 million.

The Puerto Rico Aqueduct & Sewer Authority wants to issue the debt through a new agency to finance construction work delayed by the government's fiscal crisis. As an inducement to skeptics, the agency would give investors first claim on revenue it collects from water and sewer bills, according to Efrain Acosta, the director of finance for the utility. It may also exchange an additional $1.1 billion of securities for its outstanding bonds to investors willing to accept less than they're owed.

"The market is tough at this moment," Acosta said in an interview. "But we have to go forward with our plan and see if we can get new money to pay our contractors and try to restart our construction plan."

Puerto Rico faces considerable obstacles, even in a market where rock-bottom yields have left buyers willing to take on more risk for bigger returns. The U.S. territory hasn't sold bonds since it borrowed $3.5 billion in March 2014, a deal that was supposed to give it time to arrest the financial decline, and a planned $750 million offering by the water utility last year was subsequently shelved. Moreover, it's unclear how a federal oversight board, which hasn't been appointed yet, will treat bondholders as the island seeks to cut its debt.

"The whole situation's kind of confusing," said Daniel Solender, who oversees $19 billion, including Puerto Rico securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. "On the one hand, they're defaulting on bonds and they're declaring moratoriums and then they want to have market access for a new issue."

With an economy mired in recession, Puerto Rico has been defaulting on a growing share of its $70 billion debt, which Governor Alejandro Garcia Padilla says can't be paid without draconian budget cuts that would fall heavily on the island's 3.5 million residents.

After Puerto Rico made little progress in talks with creditors, President Barack Obama on June 30 enacted a law that will give a seven-member board power to review budgets and any debt restructuring. The next day, the island defaulted on nearly half of $2 billion of principal and interest that was due, marking the biggest payment failure ever in the U.S. municipal-bond market. The water utility, known as Prasa, negotiated with creditors to delay $12.7 million that it was supposed to pay. On Tuesday, S&P Global Ratings downgraded Prasa's bonds to as low as D, designating a default.

"Prasa's role and link with the commonwealth and the commonwealth's financial distress have caused a weakening in Prasa's financial risk profile, as evidenced by its diminished liquidity and large accounts payable," Theodore Chapman, an S&P analyst in Dallas, wrote in a report.

Other distressed borrowers, such as Detroit and Jefferson County, Alabama, have been able to return to the bond market, but only after going through bankruptcy to wipe out some of their debts.

Puerto Rico doesn't have recourse to Chapter 9 and its crisis is far from resolved. The federal board will help the commonwealth end chronic budget deficits, monitor any borrowings and will be able to force reluctant creditors to accept a deal in court. Obama has until Sept. 15 to form the panel.

The move to help rescue Puerto Rico has been welcomed by most bondholders because it promises to resolve the crisis. Prasa debt maturing July 2042, the utility's most actively traded, changed hands Monday at an average price of about 67 cents on the dollar, up from 62.7 cents at the start of 2016, data compiled by Bloomberg show. The yield was about 8.4 percent.

The bill passed by the legislature that would allow Prasa to issue debt has yet to be sent to Garcia Padilla for his signature. Any deal would probably happen after the board is in place, Prasa's Acosta said. To get cash in the meantime, the utility may try to sell notes that would be repaid after the bonds are sold.

In addition to selling new debt, the utility would offer investors a chance to exchange their securities at a 15 percent loss, Acosta said. The new bonds would be backed by a pledge of as much as 20 percent of the utility's revenue, he said. Prasa has about $4.7 billion of debt.

The Puerto Rico Electric Power Authority in December reached a similar agreement, with creditors accepting a loss in exchange for securities with stronger legal protections. It may be possible for Prasa to do the same, said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle

Haven Investments, which oversees $5 billion of municipal bonds, including insured Puerto Rico debt.

“If it’s iron clad, it’s locked up and it’s attractive, at the right price you can pull people out of the shadows,” Dalton said.

Whether that’s possible may depend largely on the oversight board. Investors will probably want to know how it’s going to treat bondholders first, said Molly Shellhorn, a senior research analyst in Chicago at Nuveen Asset Management, which holds $120 billion of municipal debt, including insured Puerto Rico securities.

“I just have a hard time seeing that go forward outside the oversight board,” Shellhorn said.

Bloomberg Business

by MichelleKaske

July 12, 2016 — 2:00 AM PDT Updated on July 12, 2016 — 10:28 AM PDT

Puerto Rico Governor Likely to Sign Water Utility Borrowing Bill.

Puerto Rico Governor Alejandro Garcia Padilla said he will probably sign into law a bill that allows the island’s main water utility to raise money through the capital markets.

The governor, who will leave office in January after serving one term, is reviewing the legislation that “will be more likely to be signed” than other bills sitting on his desk, Garcia Padilla said during a Bloomberg TV interview Tuesday.

The measure enables the Puerto Rico Aqueduct and Sewer Authority, called Prasa, to sell bonds through a new agency that will be repaid from up to 20 percent of the utility’s revenue collections. The bill allows for as much as $900 million of bonds for capital projects and another $1.1 billion that would restructure a portion of Prasa’s existing debt.

Puerto Rico is planning a water-bond sale after the commonwealth defaulted on July 1 on about $1 billion to investors, the biggest payment failure in the $3.7 trillion municipal-bond market. The day before the record default, President Barack Obama signed into law legislation, called Promesa, to create a federal control board to oversee any debt restructuring for the commonwealth and monitor its budgets. Promesa also halts any creditor lawsuits against the commonwealth seeking repayment.

Creditors should continue to discuss with Puerto Rico on how to reduce the commonwealth’s $70 billion debt load now that investors are prohibited from suing the island, Garcia Padilla said.

“Promesa is passed,” the governor said. “So now they have another reason to negotiate in a true voluntary process, something I’ve been trying to do for more than a year without the bill.”

Bloomberg Business

by Michelle Kaske

July 12, 2016

Bloomberg Brief Weekly Video - 07/14

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Joe Mysak about this week's municipal market news.

Watch the video.

11:55 AM PDT
July 14, 2016

Chicago Public Schools Prepare Budget With Eye on Bond Market Return.

CHICAGO — Chicago's cash-strapped public schools will be able to raise cash in the capital markets after the nation's third-largest public school system unveils a balanced budget in August, the district's top official said on Wednesday.

Forrest Claypool, Chief Executive Officer of Chicago Public School (CPS) was short on details to achieving a balanced budget but said the full spending plan would be out next month.

CPS, which must erase a lingering $300 million deficit for the fiscal year that began July 1, also faces the possibility that a $215 million boost in Illinois funding for teacher pensions may not happen.

Claypool announced the baseline per pupil would be $4,087, matching the level in place since February after a round of spending cuts.

"One of the reasons it was so important to balance the budget was to make it clear to the credit markets we are worth the credit risk," Claypool told reporters.

He said CPS would use proceeds from bond sales to repair and improve its facilities, but not for operating expenses. Claypool also said CPS could use a new $45 million property tax increase approved by the Chicago City Council in October to help pay off the debt. The "junk"-rated district paid a huge penalty for its last sale in the U.S. municipal bond market in February when investors demanded an 8.5 percent rate on most of the tax-exempt bonds.

The district will continue to rely on a bank line of credit for cash-flow purposes, according to Claypool, who said he was confident CPS will be able to renew for fiscal 2017 the $870 million credit line it fully tapped in late June for its pension payment.

The Illinois Legislature last month agreed to let CPS hike property taxes by $250 million and give the district a one-time $215 million state contribution exclusively for pensions. But enactment of the latter is contingent on the passage of major statewide pension reform, which was made increasingly difficult by recent Illinois Supreme Court rulings blocking retirement benefits cuts for public sector workers.

Another unknown for CPS is ongoing negotiations for a new teachers' contract. Claypool said it was time for teachers to be part of the solution for balancing the district's budget, but declined to discuss specifics.

The Chicago Teachers Union Vice President Jesse Sharkey said in a statement that CPS is relying on a short-term fix from the state instead of “sustainable, progressive revenue” to keep operating.

By REUTERS

JULY 13, 2016

(Reporting by Karen Pierog; Editing by Diane Craft)

U.S. Supreme Court Issues Two Significant Cases On Puerto Rico's Sovereignty.

In the first decision, on June 9, 2016, the United States Supreme Court affirmed the judgment of the Supreme Court of Puerto Rico that Puerto Rico and the United States are not separate sovereigns for purposes of the Double Jeopardy Clause contained in the Fifth Amendment of the U.S. Constitution in the appeal styled under the caption Commonwealth of Puerto Rico v. Sanchez Valle, No. 15-108. Opinion. Sanchez Valle was the first of two appeals heard by the U.S. Supreme Court this term involving Puerto Rico.

On June 13, 2016, the US Supreme Court also confirmed the decisions by the Court of Appeals for the First Circuit and by the United States District Court for the District of Puerto Rico that Puerto Rico’s Debt Enforcement & Recovery Act (DERA) was unconstitutional in the appeals styled under the caption Puerto Rico v. Franklin California Tax-Free Trust, 15-233, and Acosta-Febo v. Franklin California Tax-Free Trust, 15-255 (the “Franklin Fund Appeals”). Opinion. We previously covered the First Circuit’s decision here.

Puerto Rico Is Not a Separate Sovereign for Purposes of Double Jeopardy Clause

In Sanchez Valle, the US Supreme Court found that “the ultimate source of Puerto Rico’s prosecutorial power is the Federal Government–because when we trace that authority all the way back, we arrive at the doorstep of the U.S. Capitol—the Commonwealth and the United States are not separate sovereigns.” Op. at 17-18. Here, Puerto Rico’s authority to enact and enforce criminal law ultimately comes from Congress. Accordingly, the Double Jeopardy Clause bars both Puerto Rico and the United States from prosecuting a single person for the same conduct under equivalent criminal laws. The Supreme Court noted that “[t]he degree to which an entity exercises self-governance—whether autonomously managing its own affairs or continually submitting to outside direction—plays no role in the analysis.” Op. at 6-7. The test, the Supreme Court indicated, is “whether [the prosecuting entities] draw their authority to punish the offender from distinct sources of power. The inquiry is thus historical, not functional—looking at the deepest wellsprings, not the current exercise, of prosecutorial authority.” Op. at 7. The Supreme Court recognized that Congress authorized Puerto Rico to create the Puerto Rico Constitution. The Supreme Court also recognized Puerto Rico’s special relationship with the United States and its wide-ranging self-rule under its own constitution, but these facts do not factor into the analysis. While recognizing that “Congress has broad latitude to develop innovative approaches to territorial governance”, Op. at 16, “[b]ut … Congress … has no capacity … to erase or otherwise rewrite its own foundational role in conferring political authority. Or otherwise said, the delegator cannot make itself any less so—no matter how much authority it opts to hand over.” Op. at 16-17.

Bankruptcy Code Preempts Puerto Rico’s Recovery Act

In Franklin California Tax-Free Trust, the US Supreme Court found that section 903(1) of the Bankruptcy Code preempts the Puerto Rico Debt Enforcement and Recovery Act (the "Recovery Act"). Recognizing that the Bankruptcy Code had long included Puerto Rico as a "State," but in 1984 Congress amended the definition of "State" to exclude Puerto Rico "for the purpose of defining who may be a debtor under chapter 9." Op. at 1. Rejecting the Commonwealth's arguments that the 1984 amendments made the preemption provisions of section 903(1) of the Bankruptcy Code inapplicable, the Court stated that "Puerto Rico remains a 'State'" for other purposes related to Chapter 9, including that chapter's pre-emption provision. That provision bars Puerto Rico from enacting its own municipal bankruptcy scheme to restructure the debt of its insolvent public utilities companies." Op. at 1-2. The Supreme Court stated that "[b]arring Puerto Rico from 'defining who may be a debtor under chapter 9' is tantamount to barring Puerto Rico from 'specifically authorizing' which municipalities may file Chapter 9 petitions under the gateway provision. The amended definition of 'State' unequivocally excludes Puerto Rico as a 'State' for purposes of the gateway provision." Op.at 10. The Supreme Court held that the text of the definition extends no further. "The Code's pre-emption provision has prohibited States and Territories defined as 'States' from enacting their own municipal bankruptcy schemes for 70 years. Had Congress intended to 'alter this fundamental detail of municipal bankruptcy, we would expect the text of the amended definition to say so" Op. at 11. "Puerto Rico is no less a 'State' for purposes of the pre-emption provision than it was before Congress amended the definition." Op. at 10-11.

by Lorraine S. McGowen

Last Updated: July 5 2016

Orrick

A Stumble May Lead Puerto Rico Forward.

When an amorphous problem drags on without a solution anywhere near the horizon, it can be refreshing when something concrete happens, even if it's not particularly positive.This seems to be the case with Puerto Rico, which just had its biggest default ever by missing $911 million of payments due on July 1. While the move couldn't exactly be called good — defaults and insolvencies rarely are — it carried some kernels of optimism, especially for bond traders and insurers, if not for the commonwealth's residents.

For one, the default could be seen as a starting gun for the aforementioned elusive solution and a defining moment after antagonistic negotiations between Puerto Rico and its creditors. Also, it was smaller than it could have been. The island was on the hook for $2 billion of bond payments, which it was ill-equipped to pay. The fact that it paid any surprised some.

Puerto Rico made it clear last year that it has no intention of paying off its $70 billion debt load in full. Moreover, it dragged its heels about disclosing its true finances. Congress wasn't providing much assistance. And talks between Puerto Rico and creditors kept breaking down.

The hard July 1 debt payment deadline appeared to focus everyone's efforts. U.S. lawmakers expedited a bill giving the commonwealth tools to restructure its debt, passing it on June 29, just days before the payment came due. The island opted to disclose its 2014 finances right afterward.

The legislation didn't prevent a default or even map out specifically how Puerto Rico's debt would be restructured. But it started to clear a path forward and created a fiscal control board to oversee the island's finances, a move that has been welcomed by many investors.

By the time the default actually came to pass, investors took the missed payments in stride, or even as a good sign. Just take a look at prices on the bonds. They've largely risen, with some notes gaining considerably, as investors became more optimistic about their recoveries.As it became clearer that Congress would pass legislation to give restructuring tools to Puerto Rico, traders grew more confident and started transacting more frequently. Trading volumes have picked up in Puerto Rico bonds from the lackluster levels of March and April, when there was less certainty about anything having to do with the island's finances.

And at least one group of players is benefiting, at least for now: bond insurers. Check out the share prices of MBIA, Assured Guaranty and Ambac. They've hung in there despite the fact that they are on the hook to compensate investors for losses on billions of dollars of Puerto Rico debt.

These debt-insurance firms are getting a chance to prove their effectiveness. Two subsidiaries of Assured Guaranty paid an estimated $184 million in net claims in the wake of the default, albeit decrying the island's lack of payment as a violation of its constitution.

Assured Guaranty is capitalized well enough to cover these payments, given its $12 billion on hand to cover all claims, according to Mark Palmer, a BTIG analyst who covers the company. Its net insured exposure to Puerto Rico amounts to about $5 billion, he said.

"There's such a thing as a good loss for a municipal guarantor," Palmer said. "It underlines the value proposition associated with bond insurance." An orderly restructuring of Puerto Rico's debt is probably too much to ask for at this point, and in fact the turbulence is probably just shifting into a new phase.

Creditor squabbles and government recriminations are a given. But that blip way out there on the horizon might not be a mirage.

This column does not necessarily reflect the opinion of Bloomberg LP and its owners.

Bloomberg Business

By Lisa Abramowicz

Jul 8, 2016 6:41 AM PDT

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Breaking Down Puerto Rico's Historic Default.

Puerto Rico was poised to pay less than a fifth of the guaranteed debt due on Friday, with none of the payment going to the general obligation debt, according to sources.

About $1 billion in general obligation and commonwealth-guaranteed debt was due Friday, according to a written statement from the Government Development Bank for Puerto Rico and the Puerto Rico Fiscal Agency and Financial Advisory Authority. After the day was over the government would still owe over $800 million of this, the statement said. These statements indicated payment of somewhere between $100 million and $200 million of this debt on Friday.

The government owed $779 million for general obligation debt on Friday and planned to pay none of it, knowledgeable sources said. The $100 million to $200 million was going toward guaranteed but not GO debt.

Late on Thursday Puerto Rico Gov. Alejandro García Padilla invoked Puerto Rico's Moratorium Act on the payment of general obligation bonds and obligations of other public entities, opening the door to making partial and non-payments on about $2 billion of debt due Friday.

He also declared a state of emergency at the Puerto Rico Convention Center District Authority, the Employees Retirement System, the Industrial Development Company, and the University of Puerto Rico, to give these entities what he believed to be legal cover to debt defaults or other actions. The governor said this protection comes from the Moratorium, Financial Emergency and Rehabilitation Law, which passed in April, and is used by the central government to retain funds necessary for its operation.

All of these entities owed debt Friday.

Besides its guaranteed debt, Puerto Rico had other debt due on Friday. The Puerto Rico Electric Power Authority said Thursday it planned to make its $415 million payment.

The Puerto Rico Aqueduct and Sewer Authority was expected to make $134 million in payments. It was not expected to make a $12.7 million in rural development bond payment due to the U.S. Department of Agriculture, though it expected to have a forbearance agreement on the bonds by the end of Friday, PRASA president Alberto Lázaro Castro said. Nor would it make about a $22 million state revolving fund payment to the U.S. Environmental Protection Agency, an account that is also in forbearance. Neither non-payment would be considered a default under the 2008 and 2012 bond covenants, he said.

The Puerto Rico Highways and Transportation Authority was expected to make payments on a 1968 resolution, 1998 resolution seniors, and 1998 resolution subordinate 2003 issued bonds, according to knowledgeable sources. It would pay about $100,000 out of $4.5 million due on 1998 resolution subordinate 1998 issued bonds.

A knowledgeable source said the following entities would make full payment Friday: Municipal Finance Authority, Convention District Authority, Employment Retirement System, Sales Tax Finance Corp. (COFINA), Industrial Development Authority, and AFICA. The emergency declared Thursday for some of them may have allowed them to do other things besides a payment default.

The Public Building Authority, except for series L, was expected to pay $152 million of $177 million that was due. It was expected to pay the series L bond in full.

The Infrastructure Finance Authority was expected to continue non-payment of rum tax bonds. PRIFA was expected to pay $10 million towards its $10.7 million bond anticipation note payment.

The GDB was expected to pay all it owed, except for general obligation notes, on which it was expected to pay nothing. The Public Finance Corp. would continue to default.

The governor's executive orders stopped the transfer of cigarette tax revenues to the Metropolitan Bus Authority and authorized the suspension of rent payments from government entities to the Public Buildings Authority.

The government expected to end June with $200 million in its operating accounts and $150 million in a "clawback" account fed by funds shifted from certain public corporation and revenue streams. Through a combination of the executive orders and the use of other "extraordinary measures," the government's operating account is expected to remain below $95 million for the remainder of the year. "This is a dangerously low cash position for a government that funds services to millions of Puerto Ricans," the GDB and the Fiscal Authority said.

The extraordinary measures include delaying payments to vendors, delaying contributions to the retirement systems, extending financing from certain public entities to the commonwealth government proper, and delaying capital expenditures. The government already owes about $2 billion to its vendors.

The executive orders put a stay on creditor use of the legal system to remedy the defaults, the GDB and the Fiscal Agency said. On Thursday Pres. Barack Obama signed PROMESA, a bill that puts a stay on all Puerto Rico debt-related law suits retroactive to December 2015.

The Bond Buyer

By Robert Slavin

July 1, 2016

New Program Provides Property Assessed Clean Energy Financing for Home Improvements in Kansas City Area.

KANSAS CITY, Mo., July 5, 2016 /PRNewswire/ — Renovate America, the leading provider of residential Property Assessed Clean Energy (PACE) financing in the U.S., and the Missouri Clean Energy District (MCED) today announced a recruitment effort to register local contractors to offer new kinds of financing for Missouri homeowners to make energy-efficient and renewable energy improvements. HERO, Missouri's new residential PACE program, will give local contractors an important new tool for growing their businesses and reaching more customers with energy-saving technologies. The program enables clean energy upgrades to be paid for over time through local property taxes, at a fixed interest rate for terms of five to 20 years, based on the useful life of the product. The name HERO stands for Home Energy Renovation Opportunity.

"Every year, one in six homeowners replaces a system that consumes energy. Three-quarters of the time they choose inefficient technology that ends up costing them more over the long term in higher energy bills," said Joe Suggs, Vice President for Operations in Missouri for Renovate America. "HERO can solve that marketplace failure while helping homeowners save on energy bills, local contractors create clean energy jobs, and local governments reduce emissions."

"I'm very excited about the HERO program because it will make energy efficiency and renewable energy upgrades more affordable for homeowners — improving our customers' sense of comfort in their homes while reducing their energy bills over time. HERO can be a game changer for my business and my customers," said Steve Burbridge, co-owner of local contractors Anthony Plumbing, Heating & Cooling.

As a partner with local government, PACE financing includes additional requirements to protect consumers not found in other payment options like credit cards or home equity loans. For example, the HERO program will only pay a contractor after the homeowner signs off that the job has been completed to their satisfaction. Contractors must be in good standing with HERO; products and labor must meet competitive pricing standards; and homeowners select from products certified as efficient by local, state and federal government authorities.

Through Missouri law, HERO will enable thousands more property owners in jurisdictions that adopt the program to finance improvements such as energy-saving roofing, windows, and doors, a more efficient HVAC system, building insulation, or solar panels. Since these improvements stay with the home, PACE financing is repaid through the property taxes, interest may be tax deductible, and any remaining balance may be able to be passed to a new owner. HERO financing does not require upfront payments, so it may be a good solution when a system fails and or needs an upgrade for which a homeowner has not saved. Homeowners qualify based on equity in the property and a proven track record of on-time mortgage and property tax payments.

Contractors are able to create new, clean-energy jobs thanks to resources provided by HERO, such as an integrated software platform that helps connect contractors with homeowners and hundreds of thousands of eligible products, and makes financing seamless and straightforward. HERO also offers low-interest working capital and marketing resources to help small home improvement contractors expand their businesses.

HERO will be available within cities and counties that have joined the Missouri Clean Energy District. Local governments can join simply by passing a resolution. Contractors interested in offering HERO financing can register at https://register.renovateamerica.com/. Once the program officially launches in Jackson County this summer, homeowners in the county can begin using HERO to finance clean-energy improvements.

In California, where PACE financing began, HERO has been used by more than 66,000 homeowners since 2012 to make more than $1.5 billion in efficiency improvements, creating more than 13,500 local jobs and generating more than $2.7 billion in local economic activity.

In addition to residential PACE, HERO has already launched its commercial PACE program, financing a solar panel system on the Kansas City Scottish Rite Temple. The installation consists of 300 250-watt solar panels, and is projected to produce 105,000 kWh of renewable solar energy annually, enough to fully power eight average Missouri homes, and utility savings over $786,000 over the life of the system. The project also benefitted from a $75,000 rebate provided by Kansas City Power & Light. The Temple was originally constructed in 1930, and is of classic Greek design of the Ionic order. The contractor is Sunsmart Technologies, which has been serving the Kansas City area since 2012.

Prior to partnering with HERO, the Missouri Clean Energy District used PACE financing to make energy upgrades on multiple property types including multi-family, commercial office space, and public projects.

Jul 05, 2016, 11:59 ET

[Detroit’s Home County Steps Back From Abyss as Finances Improve.]()

Wayne County has cut retiree health-care bills, reduced pension benefits and lowered labor costs, turning once chronic deficits into surpluses. The improvements have caught the eye of rating companies, with Fitch Ratings last month raising it four levels to BB+ — one step below investment grade — and Moody's Investors Service and S&P Global Ratings improving their outlooks.

"There's some sun shining in Wayne County," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees $5 billion of municipal bonds, including some Wayne County general obligations. "But they still have a long way to go to keep the momentum going."

The nascent financial recovery shows the county of about 1.8 million residents is finding a way to adjust to the population declines and debt that pushed Detroit, its largest city, into bankruptcy three years ago.

When the fiscal year ends in September, the government expects to have $67.6 million on hand, compared with a deficit of $146 million in 2013.

"We had to agree on the size of the problem before we could agree on how to fix it," County Executive Warren Evans said in a phone interview. "We did a good job assessing our debt and making stakeholders aware of the situation."

Officials are still grappling with long-standing financial pressures, including the need to put more money aside for pensions, and it has a junk-level grade from all three major rating companies. The economy in the county, where Ford Motor Co. is the largest employer, remains challenged by a shrinking population and an unemployment rate in May that was 5.7 percent, a full percentage point more than the overall U.S.

Jail Fiasco

The county also faces new costs as it initiates a plan to sell debt for its jail. It's already paying debt service on $200 million of bonds sold in 2010 for a new facility that was halted midway through construction because of cost overruns. Some of that debt service is supported by a federal interest subsidy, which is under review by the Internal Revenue Service. Meanwhile a local judge has ordered improvements at its existing jail after finding the county neglected maintenance.

Even with the uncertainty of the unresolved audit, Wayne County may benefit from the lowest municipal-market yields in more than half a century, spurred in part by the flood of money into the safest assets after the U.K.'s vote last month to leave the European Union. The Bond Buyer's index of 20-year general obligation yields held at 3.18 percent last week, the lowest since 1965.

Yields Tumble

Wayne County general obligations due in 2039 last traded for an average of $1.07 on the dollar on June 29 to yield 4.5 percent, according to data compiled by Bloomberg. That yield, which moves in the opposite direction as the price, is down from about 7 percent in early November.

"With demand in the muni market it's a good time for weaker credits to issue," said Belle Haven's Dalton. "Anyone that has been thinking about coming to market should do it because this is the right time."

The county is in a better situation than it was a year ago, when it faced having a state manager appointed to oversee its operations or collapsing into bankruptcy.

Evans, a former sheriff who took office in early 2015, released a recovery plan — which included cutting future pension and health-care benefits for retirees and 5 percent across-the-board wage cuts — designed to save $230 million over four years. In August, the county entered a consent agreement with the state that left it in charge of its own destiny but required officials to work together to turn around the county's finances.

That agreement made it possible for Evans to reach deals with 11 employee unions that cut its unfunded liabilities for retiree health-care benefits, Evans said.

The county still faces challenges including what S&P called a "weak tax base" in its recent rating report. But if the county keeps up its improvements it may work its way back to investment grade.

"They're in much better shape but the question is whether they can keep up and stay there," said John Sauter, credit analyst with S&P, in a phone interview.

Bloomberg Business

by Darrell Preston

July 6, 2016 — 2:00 AM PDT

Parking System That Rescued Pennsylvania Capital Cut to Junk.

Bonds that financed the lease of the parking system for Harrisburg, which helped solve the fiscal crisis in the Pennsylvania capital, were cut to junk by S&P Global Ratings because of lower than expected revenue.

The ratings company Thursday lowered the grade on the Pennsylvania Economic Development Financing Authority's parking bonds two steps to BB+, the first level into speculative grade.

Although the system hasn't yet drawn on reserves, it has failed to make the required amount of revenue in excess of debt payments the past two years and will likely do so again this year, S&P said. The parking operations also provided Harrisburg less than half of its $2.5 million annual payment for fiscal 2015.

A consultant is preparing an updated financial forecast that "will provide clarity regarding the reasonableness of future parking rate increases and if the parking system can afford the city payments," S&P said.

The downgrade shows the difficulty in maintaining a long-term fiscal recovery plan for Harrisburg, which veered into insolvency from an ill-fated incinerator project. Under a court-approved blueprint, the Pennsylvania Economic Development Financing Authority took over Harrisburg's 9,100-space parking system in a long-term lease. Proceeds from the 2013 sale of about $285 million in bonds backed by parking revenue helped pay off creditors. While no longer under receivership, Harrisburg remains in a Pennsylvania program for distressed municipalities.

Bloomberg Business

by Romy Varghese

July 7, 2016 — 4:48 PM PDT

Cities Clash With State Governments Over Social and Environmental Policies.

RALEIGH, N.C.—When North Carolina lawmakers enacted a law governing transgender bathroom access in response to a Charlotte ordinance, they also spurred on a battle between conservative states and liberal cities over the right to have final say on everything from plastic bags to minimum wage.

The nation's 15,000 municipalities are lawmaking laboratories, particularly on the West Coast, where cities banned smoking and offered health benefits to domestic partners well ahead of most states.

Cities are strategically enacting new laws on social and environmental issues as the Republican Party exercises historic strength in state houses. The party controls the legislature and governor's office in 23 states including North Carolina, according to Ballotpedia, a nonpartisan organization that collects election data.

"We're just seeing kind of a mismatch of policy goals," said Brooks Rainwater, who directs the Center for City Solutions at the National League of Cities.

Lawyers say most states claim a right to exert control over cities because of a century-old legal doctrine known as Dillon's Rule, named for an Iowa judge, saying city governments are subdivisions of a state and should do only what is necessary. The Colorado Supreme Court in May found that the state had the right to pre-empt cities from banning hydraulic fracking, a decision cheered by business leaders as good for individual property rights and the state's economy.

"If there's a fiscal impact, if there's something that a state might perceive that's going to hurt the state, then states are going to be concerned about that," said Susan Frederick, senior federal affairs counsel of the nonpartisan National Conference of State Legislatures.

Lawmakers used pre-emption sparingly until the 1980s and 1990s, when the tobacco industry and gun lobby used state pre-emption laws to block local restrictions on smoking and weapons, said Mark Pertschuk, director of Preemption Watch, an Oakland, Calif., watchdog group largely funded by the health-focused Robert Wood Johnson Foundation. In 1998, the Centers for Disease Control and Prevention said the upswing in pre-emption laws on tobacco in North Carolina and a half-dozen other states posed an obstacle to its public-health goals.

GOP statehouse gains in 2014 led to an "unprecedented and historic" use of pre-emption on local environmental, social and public health policy, Mr. Pertschuk said. Last year, at least 29 states considered laws that would pre-empt cities from adopting policies that are stronger than state law on social, public health and environmental issues, he said.

Conservative lawmakers say they are using pre-emption to block policies pushed by special interests, such as environmental groups seeking bans on plastic products, and unions pushing an expansion of worker sick leave.

The American Legislative Exchange Council, a conservative group representing roughly a quarter of state legislators, maintains model legislation to help states pre-empt local policies on minimum wage, collective bargaining, the use of pesticide and other environmental issues.

As Republicans began gaining strength as state lawmakers about six years ago, special-interest groups switched their focus to changing local laws, said Jon Russell, executive director of the

American City County Exchange, whose group is a task force of ALEC.

“They lost control in the state house, so they’re trying to do a workaround by having local governments pass things that can’t get through,” Mr. Russell said. “It’s happening over and over and over again.”

The GOP has also aimed upward at the Obama administration. Texas and 25 other Republican-leaning states won a U.S. Supreme Court contest last month when the high court deadlocked, 4-4, in a case that killed President Barack Obama’s immigration plan.

A growing number of cities that restrict plastic bags are running into state opposition in places such as Arizona, where a law signed in March pre-empts towns and cities by saying they can’t impose taxes or other charges on “auxiliary containers,” including bags.

Florida lawmakers in March passed a bill preventing cities from restricting expanded polystyrene, the foam product behind lightweight cups and containers after Jan. 1, 2016. The state law didn’t affect earlier bans, such as Miami Beach’s restrictions on the foam product.

Sunbelt states like North Carolina have booming cities in states with traditions of fiscal and social conservatism. The divide is prompting a growing list of pre-emption laws seeking to restrain cities’ rule-making powers.

In North Carolina, the House speaker and Senate president hail from rural areas, still a powerful constituency in a state where 55% of the people live in unincorporated areas or towns of less than 10,000 people, according to the Carolina Population Center, a project of the University of North Carolina at Chapel Hill.

Since taking control of the state government in 2013, Republicans have adopted a law banning so-called sanctuary city policies, which instruct police to not ask people they detatin about their immigration status.

The legislature also gave control of Asheville’s water system to a regional authority, changed the organizational structure of Charlotte’s airport and redrew city council lines in Greensboro. The cities each sued and the court cases are continuing.

“It’s frustrating when you have a legislature, who instead of taking care of their business, is sticking their nose in our business,” said Greensboro Mayor Nancy Vaughan.
But Republicans say they are reining in cities that don’t represent the state’s prevailing values.

“The state government is the government that’s closest to the people,” said Lawrence Shaheen, a Republican strategist in North Carolina who supports the new bathroom law. “If you don’t like it, run for state government and try and change it.”

North Carolina state lawmakers in March enacted its bathroom law, known as HB2, requiring transgender people to use bathrooms in schools and public buildings corresponding to the sex on their birth certificate, in response to Charlotte’s ordinance protecting the rights of transgender people, enacted in February. The state law takes away the right of municipalities to pass their own bathroom rules while also limiting the ability of cities to raise the local minimum wage that businesses must pay workers.

The minimum-wage struggle has become a common battle around the U.S. as cities look to push beyond the $7.25-an-hour floor set by the federal government or specific state-set minimums. In Alabama, the GOP-controlled legislature passed a bill in February that bars cities from going beyond the $7.25 mark, nixing an effort in Birmingham, the state's largest city, to raise the level to $10.10.

Fast-food workers and civil rights groups in Birmingham are fighting back in federal court, arguing the bill was tainted with "racial animus" toward the predominantly African-American city.

THE WALL STREET JOURNAL

By VALERIE BAUERLEIN and JON KAMP

July 7, 2016 12:30 p.m. ET

Write to Valerie Bauerlein at valerie.bauerlein@wsj.com and Jon Kamp at jon.kamp@wsj.com

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Atlantic City, N.J., Hires Lawyers to Restructure Debt.

NEW YORK — Atlantic City, New Jersey's fiscally distressed gambling hub, has hired public finance attorneys to restructure some of its $240 million of outstanding bond debt, Mayor Don Guardian said on Tuesday.

New Jersey law firm McManimon, Scotland & Baumann will work on reducing the city's debt load, much of which it took on to pay back casinos that won property tax appeals.

City officials are meeting with the firm this week, Guardian told residents in a meeting Tuesday evening, which was livestreamed by the Press of Atlantic City.

The city's fortunes have faded as gambling competition in neighboring states cut into its casino industry and eviscerated its property tax base.

Under new state legislation passed in May, Atlantic City has until October to craft a recovery plan or face a possible state takeover.

Local resentment lingers, and some at Tuesday's public meeting wondered whether the city could avoid state control if it filed for municipal bankruptcy.

"Bankruptcy scares investors away. It chills financial markets. Bankruptcy doesn't solve our problems," said Councilman Kaleem Shabazz, who noted that New Jersey also controls whether its cities are allowed to file for bankruptcy.

"Atlantic City is a functional, contributing part of the economic engine of the state, so we have to work together," he said.

Guardian said the city will ask private companies for bids to see if they could save money on certain services, including trash and recycling, payroll and towing.

The city has also asked Atlantic County about sharing senior citizen transportation and some other services.

A number of fees have risen, including for parking meters, which are expected to bring in nearly $800,000 this year and $1.6 million in 2017. The city's fiscal year follows the calendar year.

Guardian said that since he took office in January 2014, the city reduced its workforce by 28 percent to 904 as of the end of April, with more employees leaving at the end of this week.

The city will also get $1.7 million for properties it auctioned off on June 23 and potentially another $5 million combined for two other properties.

By REUTERS

JUNE 28, 2016, 7:30 P.M. E.D.T.

(Reporting by Hilary Russ in New York; Editing by Leslie Adler)

Bloomberg Brief Weekly Video - 6/30

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week’s municipal market news.

Watch the video.

A School Construction Mess Proves Money Doesn’t Solve Everything.

Twice in the past eight years, San Diego school officials have convinced voters to support big bond measures to pay for construction. They have raised a total of $5 billion that way, and have already spent $1 billion. Despite all this, the school district’s buildings are now in worse shape overall than when they started.

A report by the district’s Independent Citizens’ Oversight Committee uses a standard measure called the facility condition index. It calculates how much would have to be spent to replace, repair or renovate buildings, compared to the cost of new construction. An index score under 5 percent is good; above 10 percent is poor. The latest report showed San Diego at 22.7 percent — up from 18 percent in 2012, when the most recent bond measure passed, and much higher than the 15 percent score when voters approved the first measure back in 2008.

School district officials have sought to play down the findings, saying essentially that they found more wear and tear because they started looking harder. But the same consultant performed each of the recent assessments, and the district has yet to show why the different sets of data shouldn’t be viewed as apples and apples. So why are buildings apparently in worse shape, despite pretty significant spending?

It’s because maintenance isn’t sexy. The district has simply devoted a lot more money to new initiatives than upkeep. “San Diego Unified has spent large swaths of bond money on things like wireless Internet and iPads,” reports the Voice of San Diego. It has also taken some of the bond money targeted for construction and used it for operations.

Meanwhile, some actual construction projects, such as new stadiums, haven’t done anything to strengthen or repair existing buildings.

That’s not just San Diego’s problem. Schools throughout the state seem to do a bad job assessing their maintenance needs. A recent study from the University of California, Berkeley, found that 62 percent of state districts are inadequate on upkeep. “Building is sexy, maintaining is not,” says Jeffrey Vincent, the study’s author.

Vincent notes that there’s no broadly recognized standard in the state for assessing school buildings. Some districts, such as Los Angeles, do sophisticated analyses annually. Others seem to play it by ear. Not knowing what the needs are, it’s impossible for them to target funding where it would do the most good.

That is something California voters might want to ponder as they consider a $9 billion statewide school construction bond that’s on the November ballot.

GOVERNING.COM

BY ALAN GREENBLATT | JUNE 2016

Congress Passes PROMESA to Address Puerto Rican Debt Crisis.

On June 29, the Senate voted to pass the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), 68 to 30, just two days before Puerto Rico would have been due to make a $2 billion payment to creditors. Among the bill’s provisions are the creation of a fiscal control board to oversee the island’s budgets and fiscal plans, as well as laying out a process for restructuring debt. The bill also institutes a stay on creditor lawsuits while the Puerto Rican government attempts to negotiate with creditors. The Senate moved the legislation forward despite objections from several Democratic members, and was strongly supported by the Department of the Treasury.

Bill Information.

Ambac Sued Over Losses, Exposure Tied to Puerto Rican Bonds.

Ambac Financial Group Inc. was sued by an investor who claims the company misled shareholders about its losses and exposure on its public finance bond portfolio, including $2.5 billion in Puerto Rican debt.

Joseph Pirinea sued in Manhattan federal court on Tuesday, alleging Ambac, one of several insurers that guarantee Puerto Rico’s municipal debt, had an inherently risky portfolio and was likely to become liable for material payments when the commonwealth defaulted on its debt obligation. Pirinea asks that the plaintiffs be allowed to sue as a group.

Ambac officials assured investors that “we have historically experienced low levels of defaults in our public finance insured portfolio,” according to the complaint. The insurer said that “high severity outcomes are unprecedented and would represent a paradigm shift in the municipal market,” the fund claimed.

The truth about the quality of Ambac’s guarantee portfolio was exposed after Puerto Rico Governor Alejandro Garcia Padilla announced in June 2015 that the commonwealth’s debt of more than $70 billion was “not payable” and Puerto Rico would likely default on future interest payments, according to the plaintiffs.

“Such news would send the company’s stock price careening downward, falling roughly 29 percent,” according to the suit. “Not surprisingly, since this announcement, Ambac has continued to record significant write-offs to account for the substantial undisclosed losses related to Puerto Rican bonds.”

Abbe Goldstein, a spokeswoman for Ambac, didn’t immediately return a call seeking comment on the suit.
The case is Pirinea v. Ambac Financial Group, Inc., 16-cv-5076, U.S. District Court, Southern District of New York (Manhattan).

Bloomberg Business

by Patricia Hurtado

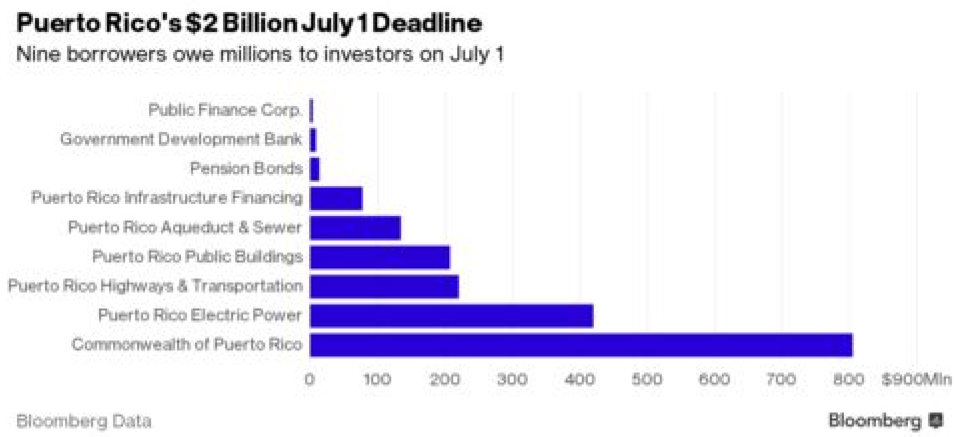
June 28, 2016 — 12:35 PM PDT Updated on June 28, 2016 — 1:38 PM PDT

[Puerto Rico Faces Record Default: A Look at the Bonds Due.]()

Puerto Rico Governor Alejandro Garcia Padilla says the island won’t pay general-obligation debt coming due on Friday even with President Obama poised to sign a bill that enables the commonwealth to restructure its $70 billion debt load.

Puerto Rico and its agencies owe $2 billion of principal and interest. It may mark the island’s biggest default yet and the first time it’s skipped payments on general-obligation bonds, which are given the first claim on the island’s funds. The federal bill, called Promesa, enables the commonwealth to restructure its debt through a control board that will also weigh in on its spending plans. The measure also shields Puerto Rico from creditor lawsuits seeking repayment. The island’s electric utility agreed Thursday to extend an agreement with creditors so it can make its July payments.

Following is a breakdown of what’s coming due on July 1, according to data compiled by Bloomberg:



General-obligations: About $816 million of principal and interest. Puerto Rico’s constitution stipulates that the government must repay general obligations before other expenses. Garcia Padilla said on Wednesday that the island won’t pay general obligations because there isn’t enough money to cover essential services and pay investors. The commonwealth has $13 billion of general obligations and a default on the securities would be the first payment failure from a state-level borrower on its direct debt since Arkansas in 1933.

Puerto Rico Electric Power Authority: $420 million of principal and interest. The island's main electricity provider, called Prepa, will avoid defaulting Friday after it reached an agreement with its creditors. Bondholders and insurers will buy bonds from Prepa in a similar arrangement to how the utility averted defaulting on Jan. 1.

Puerto Rico Highways & Transportation Authority: $220 million of principal and interest. The highway agency repays its debt with gas-tax receipts and toll revenue. The authority is expected to pay investors on July 1 from reserve funds already held by the bond trustee, according to S&P Global Ratings. Future payment are uncertain because Puerto Rico has redirected a portion of the agency's revenue to the general fund. HTA has $6.4 billion of bonds and notes outstanding.

Puerto Rico Public Buildings Authority: $207 million of principal and interest. The bonds are repaid with rents that public agencies pay for their office buildings and are guaranteed by the commonwealth. The authority has about $4 billion of bonds outstanding.

Puerto Rico Aqueduct and Sewer Authority: $135 million of principal and interest. Island lawmakers are working on legislation intended to allow the water agency to raise money by issuing debt through a newly created entity. If it can't, the authority has said it may redirect funds used to pay debt to cover overdue bills to contractors and suppliers. It has $4 billion of bonds outstanding.

Puerto Rico Infrastructure Financing Authority: $78 million of principal and interest. Called Prifa, the agency has sold the island's rum-tax bonds. Bond anticipation notes maturing July 1 are expected to default after Puerto Rico said it would instead use the revenue that normally repays Prifa debt to cover essential services instead. Prifa also defaulted on a Jan. 1 interest payment. It has $1.9 billion of bonds outstanding.

Puerto Rico Convention Center District Authority: $20.8 million of principal and interest. The authority has reserve funds with its bond trustee to make the July 1 payment, but those funds could dry up for the next payment due Jan. 1 because Puerto Rico is redirecting its revenue, according to S&P. The agency uses hotel-room tax receipts to repay debt. It has $397.7 million of bonds outstanding.

Puerto Rico Pension-Obligation Bonds: $13.9 million of interest. The taxable debt was sold to bolster the island's nearly depleted pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. It has $2.9 billion of bonds outstanding.

Government Development Bank for Puerto Rico: $9.1 million of interest. The bank has restricted withdrawals unless they are used for essential services. The bank defaulted May 1 on nearly $400 million that was due. It has $5.1 billion of debt outstanding.

Puerto Rico Public Finance Corp.: $4 million of principal. Since August the agency has failed to pay investors and was the first Puerto Rico agency to default after the legislature failed to appropriate needed funds. It has $1.1 billion of debt outstanding.

Bloomberg Business

by Michelle Kaske & Sowjana Sivaloganathan

June 30, 2016 — 9:39 AM PDT Updated on June 30, 2016 — 11:13 AM PDT

Puerto Rico’s Electric Utility Extends Pact to Pay Bonds.

Puerto Rico’s main electric utility reached an agreement with creditors to borrow more money and extend an existing debt-restructuring pact for six months, enabling it to make a $415 million bond payment due Friday.

The accord came as President Barack Obama signed legislation authorizing a control board to oversee a reorganization of the island’s overall $70 billion debt burden. The agreement reached in December with the utility known as Prepa was seen by analysts as a road map for other debt restructurings on the island.

A group of mutual-fund companies and hedge funds holding about 35 percent of Puerto Rico Electric Power Authority debt, and bond-insurance companies that guarantee repayment on some of the utility’s securities, agreed to buy $264 million of additional bonds from the agency, according to a statement from Prepa. The bond sale will free up cash to help Prepa make the July 1 payment.

“It keeps it alive,” Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, said about Prepa avoiding default and extending the restructuring accord. For the future control board, “it builds credibility for what they’ve done.”

S&P Global Ratings lowered Prepa’s rating to D from CC as the transaction constitutes a “distressed exchange restructuring, tantamount to default under our criteria,” Jeff Panger, an S&P analyst, wrote in a report Thursday.

Most Puerto Rico securities have been gaining in value as the bill know as Promesa, which is Spanish for promise, advanced through Congress. Prepa bonds maturing July 2040, the most-actively traded debt of the utility in the past three months, changed hands at an average price of 63.2 cents on the dollar, up from 61.3 cents on Wednesday, according to data compiled by Bloomberg.

“We are pleased to have reached an agreement allowing us to make the payment to bondholders and avoid a default,” Lisa Donahue, Prepa’s chief restructuring officer, said in a statement. “Today’s outcome is another step towards Prepa’s transformation. As a result of these agreements, we have preserved our cash position as we continue to implement an operational and financial restructuring.”

In the transaction, the investors known as the Ad-Hoc Group and the insurers MBIA Inc., Assured Guaranty Ltd. and Syncora Guarantee Inc. will buy the new power-revenue securities from Prepa. The July 1 agreement is similar to a deal the parties reached to avoid a miss payment on Jan. 1.

Prepa has registered to sell debt, according to MSRB’s website, called EMMA. Prepa Series 2016C, Series 2016D and Series 2016E will mature from 2018 through 2022 with a 10 percent interest rate, according to the website. Series 2016B bonds sold as part of the January deal carry a zero coupon and priced at 74.4 cents on the dollar to yield 10 percent, according to data compiled by Bloomberg.

Prepa struck a larger accord in December with the group and the insurers to restructure $9 billion in debt.

The parties on Thursday agreed to extend the expiration deadline for that agreement to Dec. 15, 2016, according to Prepa’s statement. The agreement was the first reached between a commonwealth entity and creditors. The U.S. Supreme Court on June 13 struck down an island law that would have let its public utilities restructure their debt over the objection of creditors.

Under the restructuring agreement, bondholders will take a 15 percent loss on their securities in exchange for new debt repaid with dedicated revenue that Prepa doesn't have access to and flows straight to the bond trustee. Last week, the island's energy commission approved a 3.10-cent per kilowatt hour surcharge that will repay the restructuring bonds.

Members of the Ad-Hoc Group include Angelo, Gordon & Co., BlueMountain Capital Management LLC, D.E. Shaw & Co., Knighthead Capital Management LLC, Marathon Asset Management LP, Franklin Advisers Inc., Goldman Sachs Group Inc. and OppenheimerFunds Inc.

Bloomberg Business

by Michelle Kaske

June 30, 2016 — 10:59 AM PDT Updated on June 30, 2016 — 2:09 PM PDT

Puerto Rico Crisis Enters New Phase as Obama Signs Debt Bill.

Puerto Rico's fiscal crisis reached a turning point as President Barack Obama signed bipartisan legislation Thursday that allows the island to escape from debts Wall Street once viewed as ironclad.

As Obama was signing the bill, Puerto Rico Governor Alejandro Garcia Padilla declared a moratorium on debt payments, one day before $2 billion are due, setting in motion its biggest default yet. It will be the first time the U.S. territory has failed to pay on its general-obligation bonds.

"We finally have legislation that at least is going to give Puerto Rico the capacity and opportunity to get out beyond its debt," Obama said at a signing ceremony. "People of Puerto Rico need to know they're not forgotten."

The legislation, which protects the island from creditors, creates a financial control board to help restructure Puerto Rico's $70 billion in debt and oversee the island's finances, marking the largest federal intervention ever into the U.S. municipal bond market. The Senate passed the bill Wednesday in a 68-30 vote.

The territory had continued to pay the securities even as it rapidly went broke. The bill signed by Obama doesn't provide any additional funding, but it allows Puerto Rico to turn to federal court to cut its obligations and protects the government from creditor lawsuits by putting them on hold.

In return, Puerto Rico is being forced to accept strict oversight by a control board that will have significant power over its day-to-day affairs. The legislation, S. 2328, also does little to alleviate the underlying economic conditions on the island that led to its vast accumulation of debt.

Ryan's Triumph

Enactment of the measure is a significant accomplishment for Republican leaders in Congress, particularly House Speaker Paul Ryan, who vowed late last year to address the burgeoning debt crisis. His promise came after demands for action by Minority Leader Nancy Pelosi, who also pushed Democrats to back the final bill.

"This bipartisan legislation addresses the fiscal crisis in Puerto Rico while protecting American taxpayers from a bailout of the territory," Ryan said in a statement after the vote.

The Obama administration also claimed victory after Treasury Secretary Jacob J. Lew worked hard to shape the bill and press lawmakers in both chambers to support it.

There were plenty of doubts along the way that Congress and the White House could come through with a serious plan to address the crisis, even as the territory's fiscal woes sparked migration from the island and took a toll on its public health services and economy.

Congressional leaders had to overcome strong opposition from conservatives to any kind of federal bailout, while many Democrats were unhappy about proposals they said would infringe on the sovereignty of a U.S.
territory. In addition, public advertising campaigns funded by hedge funds with stakes in Puerto Rico's debt targeted lawmakers who voiced support for a debt restructuring.

In the end, nobody in Congress was fully satisfied with the final bill. Democratic Senators Bob Menendez and Bernie Sanders blasted it as "colonial," while several Republicans wanted to impose even stricter discipline on Puerto Rico's government.

But Majority Leader Mitch McConnell waited until nearly the last possible minute to bring up the bill, presenting senators with the choice to reluctantly back the measure or risk triggering an even deeper crisis.

"Thanks to the stubbornness of the Treasury Department and lack of transparency from the government of Puerto Rico, it is the only option on the table, and delaying action would only hurt the Americans who reside on the island," Senate Finance Chairman Orrin Hatch of Utah said Wednesday on the Senate floor, explaining why he voted to advance the measure.

Breathing Room

In the short term, the bill does help give Puerto Rico some breathing room, which has some investors concerned.

With passage, "the governor has zero incentive to pay debt service and every incentive to divert debt service to his pet causes and to establish his own reputation as a populist warrior," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. Fabian said this is "the last easy time" for Puerto Rican officials to divert money for their uses before the board is established.

"The fiscal control board has its work cut out for it," Fabian said. "It not only will have to remediate Puerto Rico's finances, it's going to have to do so with Puerto Rico probably working against it from the shadows."

The legislation is the beginning of an effort to address a problem that has been years in the making.

Because Puerto Rico bonds aren't taxed anywhere in the U.S., the commonwealth was able to raise money for years from mainland investors, who were assured that — unlike many cities — the government wouldn't be able to escape from its debts in bankruptcy court. That assurance also left investors less willing to negotiate, calculating that the government had no choice but to pay.

The bill also places a stay on bondholder litigation, which is aimed at averting disorderly legal battles as Puerto Rico defaults on a growing share of its debts.

While the law gives the commonwealth some breathing room, “it’s not addressing the fundamental problems with the economy,” said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $6.3 billion of local debt.

‘Creates a Framework’

Some investors have been eager for the legislation to pass because creditors can begin negotiating with a control board after months of talks with Puerto Rico officials have failed to result in a deal, said Daniel Solender, who oversees $19 billion, including Puerto Rico securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey.

The bill “creates a framework to start negotiations, which have not really occurred so far in any real constructive manner,” Solender said. “So it’s a positive that there’s a mechanism in place, but the negative is it’s still uncertain what the objectives of the board will be.”

The island’s debt restructuring is by far the largest ever in the $3.7 trillion U.S. municipal bond market, a haven for buy-and-hold investors seeking tax-exempt income with little risk. With the island’s $70 billion in debt, this far surpasses the record $18 billion bankruptcy of Detroit in 2014.

Bloomberg Business

by Billy House, Michelle Kaske & Steven T. Dennis

June 30, 2016 — 1:40 PM PDT Updated on June 30, 2016 — 1:54 PM PDT

Puerto Rico Says $911 Million in Payments Missed in Default.

Puerto Rico is skipping a record $911 million of bond payments due Friday in the culmination of a more than year-long effort to force creditors into restructuring what island and federal officials have characterized as a crushing debt burden.

Governor Alejandro Garcia Padilla said during a press conference in San Juan that the biggest missed payment is for $780 million of general-obligation bonds. On Thursday, he evoked a local moratorium provision after President Barack Obama signed a bill into law that sets a debt restructuring in motion and shelters the island from liability. The commonwealth had about $2 billion in bond payments due Friday.

“Today, we complete a cycle,” Garcia Padilla said. “If anybody had any doubt as to whether we would continue providing public services or paying Wall Street bondholders, I choose to provide services to our people.”

The legislation, called Promesa, which means promise in Spanish, creates a seven-member federal board that will begin overseeing the island’s finances. It also postpones creditor lawsuits seeking repayment and allows the control board to force reluctant bondholders into court, if need be, to reduce the island’s roughly $70 billion debt load.

Obama has until Sept. 15 to appoint board members from Congress’s recommendations. The panel will then analyze the island’s finances and its debt structure.

The island’s crisis has been steadily building, with the economy continuing to shrink and the government effectively locked out of the bond market, where it routinely sold debt for years to paper over budget shortfalls. The concern about the consequences of the July 1 default triggered rare bi-partisan action on Capitol Hill, a step lawmakers decided was needed to avoid a financial bailout later.

Even with the risk of default, most Puerto Rico securities have gained in price as the bill moved through Congress and the possibility of federal oversight increased. General obligation with an 8 percent coupon and maturing 2035 traded Friday at an average price of 67.5 cents on the dollar, the highest since April 19 and up from 64.4 cents on Monday, data compiled by Bloomberg show.

An index of Puerto Rico securities has gained for 24 straight days through Thursday, the longest winning streak since May 2011, to the highest since the governor's announcement a year ago that the commonwealth was unable to repay all of its debt and would seek to restructure, according to S&P Dow Jones Indices.

Ownership Breakdown

Puerto Rico began defaulting in August on smaller payments on agency debt that have weaker repayment pledges. The missed payments affect traditional municipal-bond investors, hedge funds and bond-insurance companies that guarantee repayment in the event of a default.

Hedge funds own about one-third, or $23 billion, of Puerto Rico's debt, according to Antonio Weiss, a counselor to U.S. Treasury Secretary Jacob J. Lew, who helped Congress craft the Promesa bill. Municipal mutual funds hold almost $8 billion of commonwealth securities, according to Morningstar Inc. data. On-island investors hold about $15 billion, according to Backyard Bondholders, which is negotiating with Puerto Rico on behalf of residents.

Holders of bonds issued by the island's Government Development Bank said that they filed a motion to ensure that they may continue to pursue challenges to the moratorium. The plaintiffs are funds managed or advised by Brigade Capital Management, Claren Road Asset Management, Fir Tree Partners LP, Fore Research & Management and Solus Alternative Asset Management.

Missed Payments

Along with its general obligations, the Puerto Rico Infrastructure Financing Authority is defaulting on a $77.1 million payment on rum-tax bonds, the Puerto Rico Highways and Transportation Authority is skipping a $4.4 million payment and the Puerto Rico Public Finance Corp. is omitting $1.4 million, according to the GDB. The Puerto Rico Public Buildings Authority will make a partial payment of $151.8 million using reserve funds, leaving $25 million unpaid.

The Puerto Rico Aqueduct and Sewer Authority, the island's main water utility, will pay $135 million of principal and interest, according to the GDB. Puerto Rico and bondholders reached a forbearance agreement on another $12.7 million due on the water agency's rural development bonds, which are guaranteed by the commonwealth.

Puerto Rico's default is the first payment failure from a state-level borrower on debt backed by the full power to raise taxes since Arkansas in 1933. Because the commonwealth's crisis is unique, there hasn't been any broader impact on the municipal-bond market, a haven where prices have been rising as money floods into the safest assets.

Bloomberg Business

by Michelle Kaske and Alexander Lopez

July 1, 2016 — 9:31 AM PDT Updated on July 1, 2016 — 12:00 PM PDT

Puerto Rico Bill Passes Senate.

WASHINGTON—Senate approval of debt-relief legislation for Puerto Rico on Wednesday paved the way for President Barack Obama to sign the bipartisan bill into law before Friday, when Puerto Rico's government says it will default on some of its most senior debt payments.

The legislation, which the Senate passed on a 68-to-30 vote, creates a process to guide what could be the largest municipal-debt workout in U.S. history. The House approved the measure earlier this month.

Puerto Rico's government has begun defaulting on $70 billion in debts and says the territory will be unable to make $2 billion in debt payments due Friday. The legislation doesn't authorize or prevent a default, but it would provide the island with a stay against creditor litigation.

The bill won majorities within both parties in the House and in the Senate, and the White House strongly backed the bill.

The legislation has been a rare instance of bipartisan compromise on Capitol Hill, a feat made more remarkable by the fraught and technically complex subject matter. Congress, for example, deadlocked this week over how to approve funding to combat the Zika virus.

"In a world where people have given up on Washington to deal with technical, complicated, controversial things, it ought to be a moment of some encouragement," Treasury Secretary Jacob Lew said in an interview Wednesday.

Earlier this year, many observers doubted Congress would take swift action on Puerto Rico, but the measure emerged because of the strong backing of House Speaker Paul Ryan (R., Wis.), who negotiated the compromise with Mr. Lew after committing to finding a solution with House Minority Leader Nancy Pelosi (D., Calif.) at the end of last year.

In recent days, Treasury officials voiced alarm over a looming race to the courthouse that they said would be hard to stop if the bill wasn't approved by Friday, potentially forcing cuts in public services in Puerto Rico.

U.S. hedge funds that own the island's most senior bonds sued earlier this month to block a local debt-moratorium law, arguing that their bonds are "required to be paid first in times of scarcity, ahead of even what government deems 'essential services.'"

Treasury officials said the lawsuit hinted at the likelihood that investors would seek an injunction in the event of a default that would force Puerto Rico to cut public services to pay its constitutionally prioritized debts.

"If anyone had any doubt about what would happen on July 1, the lawsuit…puts those doubts aside," Antonio Weiss, a Treasury counselor, said last week.

Republicans have argued the measure was necessary to prevent a taxpayer bailout of the island down the road.

Some bond investors and outside political groups spent millions of dollars on a lobbying effort to kill the debt-relief bill, which could force them to accept larger upfront losses on their investments. Some bondholders say the island's government, with the blessing of the Treasury Department, has made Puerto Rico's difficulties worse by threatening to default on debt. They say the territory has exaggerated its financial difficulties.

Labor unions also opposed the bill.

The legislation authorizes a seven-member oversight board, appointed by Mr. Obama with input from Congress, to oversee the territory's finances and approve any court-supervised debt restructuring.

THE WALL STREET JOURNAL

By NICK TIMIRAOS

Updated June 29, 2016 8:03 p.m. ET

Write to Nick Timiraos at nick.timiraos@wsj.com

[Puerto Rico to Default on Constitutionally Guaranteed Debt.]

Puerto Rico will default on its constitutionally guaranteed debt for the first time Friday by failing to make most of some $1 billion in payments due, officials said on Friday.

The island's Government Development Bank said the territory faces an imminent cash crunch and that its cash balances have dropped to "dangerously low" levels. As a result, the government isn't likely to make any of the $779 million payment on general obligation bonds due Friday.

"Even if the commonwealth were to devote every last penny" in its operating account to Friday's debt payments, "it would still owe holders of the public debt hundreds of millions of dollars," the GDB said in a statement.

The government said Friday that even after it employs certain emergency measures to delay other payments to suppliers, which it has done in the past to scrape together the cash to pay bondholders, the island could still run out of money in August or September.

Puerto Rico's benchmark general obligation bond prices were up slightly Friday, with bonds selling for as much as 67 cents on the dollar compared with 65 cents on Monday. Analysts said the slight uptick in prices, which began Thursday, is likely a response not to Friday's default but to the enactment of federal restructuring legislation that authorizes the creation of a fiscal control board to oversee a debt work-out.

"I guess it's being viewed as a positive that Congress passed the bill," said Dan Solender, director of municipal bond management at Lord Abbett. "The big question is 'what is the control board going to focus on and how are they going to prioritize?'"

The restructuring legislation, which President Barack Obama signed Thursday, doesn't provide any mechanism to avoid such a default. Instead, it gives the island a stay against creditor litigation.

A default would force the three major insurers backing Puerto Rico's debt to pay out as much as hundreds of millions of dollars to bondholders. Ambac Financial Group backs $122 million in Puerto Rico debt due Friday, company disclosures show. National Public Finance Guarantee Corp. backs $173 million in general obligation debt coming due Friday, records show. Assured Guaranty Ltd. backs $428 million coming due in the third quarter, most of it also due Friday.

All three insurers have money set aside for such claims. Insurers agree to pay only the amount due on the day it is due, not to accelerate payment on the defaulted bonds.

The law signed by Mr. Obama on Thursday doesn’t commit any federal funding for the territory, meaning the bulk of any fiscal readjustment will fall on the island’s creditors, government and residents. It empowers a seven-member oversight board, appointed by the president with the input of congressional leaders, to supervise a financial overhaul with the authority to initiate debt restructuring.

Puerto Rico’s government for weeks has said that it would be unable to make debt payments, in part because it hasn’t been setting aside reserves. Still, some analysts have said the island would find a way to make the most senior payments, repeating a pattern seen over the past year in which the island said it couldn’t afford to pay debt but drew on reserves and took other emergency steps to make payments.

Nearly $2 billion in bond payments is due Friday, the majority of which are bonds protected by a constitutional lien on the island’s revenues. The territory is unlikely to make more than $900 million of the $2 billion in payments, including all of the interest and principal due on general obligation bonds.

The island has been in a recession for most of the past decade and has seen a large drop in its population as residents, who are U.S. citizens, leave for the mainland.

“The market has been waiting for this default for two years, but really it’s been 15 years in the making,” said Matt Fabian, partner at research firm Municipal Market Analytics. “These defaults now are essentially Puerto Rico impounding funds for working capital.”

Mr. Fabian said the defaults “will weigh on market psychology regardless of how prepared people are.”

Puerto Rico has amassed nearly $70 billion in debt across more than a dozen different issuers. The island had become “a colony of Wall Street,” said Gov. Alejandro Garcia Padilla at a news conference Friday in San Juan. With Friday’s default and the new federal legislation, “we are starting the process of putting it back in the hands of Puerto Ricans,” he said.

Creditors have raised concerns that the federal legislation removes any urgency for the territory to continue good-faith efforts to make payments.

But other officials, including at the Treasury Department, have warned that the island lacked the resources to make the payments.

Without the legal stay in place before Friday to prevent a court from ordering payments to be made ahead of essential services, the island’s debt crisis would have grown “much worse and might have been unsolvable,” said Treasury Secretary Jacob Lew on Wednesday.

THE WALL STREET JOURNAL

By HEATHER GILLERS and NICK TIMIRAOS

Updated July 1, 2016 1:53 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com and Nick Timiraos at nick.timiraos@wsj.com

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Puerto Rico's Options Dwindle as Senate May Delay Rescue Bill.

WASHINGTON – The Senate is expected to keep Puerto Rico waiting for progress on a House bill to help the island address its debt crisis, as other options for the commonwealth have continued to be eliminated.

Senate Majority Whip John Cornyn, R-Tex., said that the Senate is expected to take up the bill, called PROMESA, next week while the House is on a recess that ends July 5, according to media reports.

That announcement came a day after Federal Reserve Board chair Janet Yellen told the Senate Banking, Housing and Urban Affairs Committee that Puerto Rico's struggle with roughly $70 billion in debt and $46 billion in unfunded pension liabilities "is inherently a matter for Congress."

"Our authority is extremely limited. and it wouldn't be appropriate for us to give loans to Puerto Rico," Yellen said in answer to a question from Sen. David Vitter, R-La, on Tuesday. "We have very limited authority to buy municipal debt and the authority we have, if we were [able to] buy eligible debt, I don't think it would be helpful to Puerto Rico … Beyond that we have no ability to make emergency loans."

Her comments come a week after the Supreme Court eliminated another possible fix Puerto Rico had to address its debt. The Court ruled that a Puerto Rico law that would have allowed the commonwealth's utilities to restructure their debts in a similar way to what is allowed in municipal bankruptcies violated federal bankruptcy code and thus the Supremacy Clause of the Constitution.

The Senate leadership's decision to take the bill up next week means that if the Senate approves the bill with any amendments, the bill cannot move through Congress until after the House returns to consider the changes. The timing leaves Puerto Rico vulnerable to creditor lawsuits that would stem from an expected commonwealth default on a $1.9 billion debt payment due July 1. PROMESA contains a provision that would stay such suits, but the stay only becomes effective after the bill becomes law.

The commonwealth already faces several debt-related lawsuits, including one that hedge funds holding Puerto Rican general obligation bonds filed in New York on Tuesday after debt restructuring talks broke down.

Though PROMESA passed the House 297 to 127 on June 9, the measure has drawn criticism from senators on both sides of the aisle, leaving amendments a strong possibility. The bill would create a seven-member oversight board that would have the power to require balanced budgets and fiscal plans, as well as to file debt restructuring petitions on behalf of the commonwealth and its entities in a federal district court as a last resort if voluntary negotiations fail.

Senate Minority Leader Harry Reid, D-Nev., said on Tuesday that there are "some serious concerns" from Democrats about the bill and that the legislation will need some amendments. He didn't specify amendments, though he said one area of focus could be a provision that gives the governor discretion to allow employers to pay individuals under 25 years old a wage of $4.25 per hour instead of the federal minimum wage of $7.25.

Sens. Bernie Sanders, I-Vt., and Bob Menendez, D-N.J., have also been vocal opponents of the bill, comparing it to colonialism and critiquing, among other things, the lack of a say Puerto Rican officials get in choosing who will serve on the board.

The Bond Buyer

By Jack Casey

June 22, 2016

Alaska Gets No Relief From Oil Rebound as Downgrades Sting Bonds.

Not even an 86 percent increase in the price of crude oil since February is enough to right Alaska's finances.

The energy-rich state, which sold $128 million of bonds on Wednesday, had to pay up to borrow in its latest deal following the loss of its AAA rank from the three biggest credit-rating companies this year. Alaska is currently caught in a political standoff over how to close a $4 billion budget deficit — equivalent to about $5,400 for every one of its 738,000 residents. While the price of crude has climbed back to almost $49 a barrel, Alaska once counted on it holding above $100 and hasn't cut spending enough to make up for the drop, according to Moody's Investors Service.

"The rebound to $50 per barrel is nice, but it won't make up for the gap between revenues and expenditures," Moody's analyst Dan Seymour said. "It's ultimately an unsustainable situation."

The swing in the price of oil has put a squeeze on energy-industry states such as North Dakota, Oklahoma and Texas, where jobs and tax revenue disappeared as companies shut wells and cut back on exploration. But nowhere has it been as severe as in Alaska, which gets about 90 percent of its general revenue from oil and sends annual royalty checks to its residents. Last year, they were a record $2,072 each.

"We can't afford to pay dividends at the level we've been paying and keeping the government at a level that the people expect unless oil rises," said Jerry Burnett, deputy commissioner for Alaska's Department of Revenue. "We need to recognize other sources of revenue, but the legislature has been reluctant to put votes behind it."

Alaska Governor Bill Walker, an independent, and the Republican-controlled legislature are at an impasse over how to erase the shortfall for the year beginning in July. In the meantime, Alaska is burning through $11 million in savings a day.

To raise revenue, Walker proposed increasing taxes, cutting subsidies to oil companies and reducing residents' annual payouts. Lawmakers passed a $4.26 billion budget on May 31 that drew from an $8 billion savings account to close the deficit. Walker has yet to receive the measure and on June 19 called the legislature into a special session to reconsider his revenue-raising measures.

Without a fix in place, investors are demanding higher yields to hold Alaska's bonds instead of benchmark securities as borrowing costs in the $3.7 trillion market hold at the lowest since 1965. Wednesday's sale of $128 million of debt saw 10-year securities yielding 1.86 percent, 0.46 percentage point more than top-rated debt, according to data compiled by Bloomberg. In its March 2015 offering, similarly dated debt yielded 2.08 percent, 0.01 percentage point less than the benchmark.

The most-traded Alaska general obligations of the past month, which mature in August 2028, last changed hands on June 16 for an average yield of 1.97 percent, or about 0.62 percentage point more than AAA debt, data compiled by Bloomberg show.

If “they don’t come up with a fix for the deficit and adjust for what might be a more prolonged lower price of oil, this is a credit you have to price in a future downgrade,” Gabe Diederich, a Wisconsin-based money manager at Wells Fargo Asset Management, which oversees about $39 billion of municipal bonds.

Fitch Ratings was the latest of the three largest credit rating companies to strip Alaska of its top rank, dropping it to AA+ June 14. Moody’s Investors Service downgraded the state to Aa1 in February, a month after the cut by S&P Global Ratings.

Bloomberg Business

by Molly Smith and Jennifer Oldham

June 22, 2016 — 2:00 AM PDT Updated on June 22, 2016 — 11:26 AM PDT

Former Chicago Charter School Head Settles Muni Fraud Charges.

Juan Rangel, the ex-president of UNO Charter School Network Inc. and a former chief executive officer of United Neighborhood Organization of Chicago, approved an offering statement in 2011 that failed to disclose the schools’ $13 million contracts with two brothers of the organization’s chief operating officer, which “could have threatened UNO’s ability to repay bond investors,” the U.S. Securities and Exchange Commission said.

Rangel agreed to pay $10,000 and to be barred from participating in any future municipal-bond deals to settle the SEC complaint.

Bloomberg Business

by Romy Varghese

June 21, 2016 — 11:07 AM PDT

Puerto Rico Lawsuit Suggesting Split Among Creditor Groups.

A closer look at the hedge funds behind the lawsuit contesting Puerto Rico’s debt-moratorium law may suggest a widening division among the holders of the island’s general-obligation bonds.

While the suit was filed this week against the commonwealth by little known entities specifically set up to limit liabilities, the firms are Aurelius Capital Management, Autonomy Capital, Fundamental Advisors and Monarch Alternative Capital, according to a person familiar with the parties involved in the legal dispute. Representatives for the four hedge funds didn’t have any immediate comments.

“It’s not a monolithic investor class,” said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. “They all have different strategies and positions, so we’re seeing some of that diversity.”

Aurelius, for example, is one of several hedge funds that rejected Argentina’s debt-restructuring offers for years before finally agreeing in February to a deal. The moratorium law allows Governor Alejandro Garcia Padilla to suspend principal and interest payments on Puerto Rico’s $70 billion in debt through January.

Repayment Pledge

Some general-obligation holders have maintained that Puerto Rico’s constitution requires they be paid in full even though Congress is moving to pass a law that would allow the commonwealth to reorganize its finances under a control board. The suit was announced Tuesday, the same day Puerto Rico said that negotiations with creditors including general-obligation owners broke down after counter proposals were exchanged.

Other large general-obligation holders such as OppenheimerFunds, Franklin Resources, Goldman Sachs, Stone Lion Capital and Davidson Kempner Capital aren’t part of the lawsuit. The claim was filed by so-called special purpose vehicles identified in the filing as Jacana Holdings, Lex Claims, MPR Investors and RRW.

“It’s likely that these creditors wanted to file a lawsuit before, but held back in the name of broader negotiations and then once negotiations broke down, they felt like it was time to pursue their own strategy,” Fabian said.

The law suit claims that Puerto Rico is unable to impose its moratorium law against its general obligations, including its most recent sale in 2014, because the island’s constitution states that if the commonwealth’s resources are insufficient to meet all of its desired spending, then the public debt will be paid first, according to the complaint. The firms are “substantial” holders of the 2014 general obligations, according to the complaint.

Looming Default

Puerto Rico and its agencies racked up its debt burden by borrowing for years to paper over budget shortfalls as its economy shrunk. The commonwealth and its agencies owe $2 billion of principal and interest on July 1, including $805 million for general obligations that Garcia Padilla said Thursday the island couldn’t pay even if he shut down the government.

The bill under consideration by the Senate would also shield the commonwealth from creditor lawsuits through February. Bond insurance companies and investors, including holders of general-obligation debt, have lobbied federal lawmakers to make the legislation more favorable to creditors.

Congressional Action

Puerto Rico securities have plunged in price since Garcia Padilla announced in June 2015 that the commonwealth was unable to repay all of its obligations and would seek to restructure its debts. Whether an investor bought the bonds at par, a slight discount or a deep discount influences how the bondholder chooses to negotiate with Puerto Rico on repayment, said Brandon Barford, a partner at Beacon Policy Advisors in Washington.

The general obligations issued in 2014 carry an 8 percent coupon and were sold at 93 cents on the dollar.

Aurelius, Fundamental and Monarch bought a portion of the debt. The bonds climbed to as high as 96.6 cents in March 2014, before dropping to 66.6 cents in June 2015, according to data compiled by Bloomberg. The bonds dipped to an average 63.9 cents on April 6, the day Garcia Padilla signed the moratorium into law. They traded Thursday at an average 66.2 cents, to yield about 12.8 percent.

"The difference among the GO bondholders, it really depends on when you bought the bonds," Barford said about the different hedge funds and distressed-debt buyers.

The general-obligation holders not party to the suit may be choosing not to sue at this time because if the bill known as Promesa becomes law, any restructuring of debt would be determined by the federal control board and not Puerto Rico's administration, Barford said.

"The majority of funds are not engaged in litigation against the moratorium at this time because they assume if Promesa becomes law, then it's not worth the cost," Barford said.

Bloomberg Business

by Michelle Kaske

June 23, 2016 — 7:17 PM PDT Updated on June 24, 2016 — 4:31 AM PDT

Puerto Rico, Bondholders Remain at Odds.

Puerto Rico drew back the curtain on its talks with bondholders, underscoring how far apart the sides remain in a fight over the restructuring of $70 billion of municipal debt.

Puerto Rico's Government Development Bank on Tuesday disclosed terms of various restructuring proposals discussed in negotiations that have ended. The talks included a committee representing investors in the commonwealth's general obligation bonds, a group holding senior sales-tax-backed, or "Cofina," bonds, and a single investor with large holdings of general obligation bonds and junior Cofina bonds, according to the disclosure.

Uncertainty about a looming U.S. congressional vote on a restructuring framework for Puerto Rico has made it difficult for the island to come to terms with the various creditor groups, investors and analysts said. Neither the island nor its bondholders are likely to agree to a deal until rules are worked out on Capitol Hill, they said.

Meanwhile, some general obligation bondholders filed a lawsuit Tuesday challenging Puerto Rico's April debt moratorium law, which allows the commonwealth to suspend bond payments while it addresses its financial crisis. Plaintiffs in the suit are Jaçana Holdings, Lex Claims, MPR Investors and RRW I.

Puerto Rico has said it can't afford to make a $2 billion payment on its general obligation debt due July 1.

Grace Santana, chief of staff to Gov. Alejandro García Padilla, said the governor's office is reviewing the suit, but "the hedge funds' decision to litigate instead of continuing good-faith negotiations further demonstrates their continued refusal to acknowledge the reality of the commonwealth's fiscal crisis."

Puerto Rico presented investors on June 14 with a proposal that amended a previous restructuring plan by offering to give bondholders more of a new bond that would pay interest in cash, instead of additional debt.

The changes were most significant for holders of junior Cofina bonds, improving recoveries to 60 cents on the dollar from at least 43 cents under the government's previous deal, according to the disclosure.

Oppenheimer Funds Inc. and Franklin Templeton Inc. are two of the largest holders of the junior Cofina bonds, with combined investments of $3.1 billion. The two mutual-fund managers also own $6.6 billion of other Puerto Rico bonds.

An Oppenheimer spokeswoman said the firm didn't participate in negotiations but looks forward to working with other stakeholders "to help get Puerto Rico on a sustainable path forward while serving the interests of our shareholders." Franklin Templeton declined to comment.

Other stakeholders include hedge funds and insurance companies, which back more than $10 billion in Puerto Rico debt. The Government Development Bank said some insurers were involved in the discussions. The two insurers with the most debt, Assured Guaranty Ltd. and National Public Finance Guarantee Corp., a unit of MBIA Inc., declined to comment. They hold a combined $8.8 billion, according to documents posted on the firms' websites.

In Puerto Rico's latest proposal, the island would improve general obligation recoveries to 81 cents on the dollar from at least 72 cents and Cofina senior bond recoveries to 80 cents from at least 61 cents.

Creditors countered with a proposal that sought 95 cents on the dollar for senior Cofina bonds and 89 cents for general obligation bonds.

Gov. García Padilla said the counterproposals "fall short of what Puerto Rico needs to secure a prosperous future."

The island's general obligation bonds changed hands at about 66 cents on the dollar on Tuesday, reflecting investor doubts about Puerto Rico's offer and the island's substantial financial problems, investors and analysts said.

Current prices imply the new exchange bond Puerto Rico is proposing would trade at a yield of about 7%, much higher than the 5% yield the government proposed, they said. Bond yields rise as prices fall.

THE WALL STREET JOURNAL

By HEATHER GILLERS and MATT WIRZ

June 21, 2016 7:16 p.m. ET

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Nixon Signs Bill to Limit Missouri Cities' Profit From Fines.

JEFFERSON CITY, Mo. — Missouri Gov. Jay Nixon on Friday signed legislation he touted as further limiting cities' ability to profit from traffic tickets and fines, a policy goal that gained traction following the fatal police shooting of Michael Brown in Ferguson.

The measure builds on a law passed last year that caps profits that cities and other municipalities can keep from traffic tickets and court fines. The new law will expand that to include fines from ordinance violations. It takes effect Aug. 28.

The legislation also will lower maximum fines for minor traffic violations from $300 to $225. It limits fines for ordinance violations, ranging from at most $200 for a first offense to $450 for a fourth offense in a year.

Brown's shooting didn't involve a traffic stop; the black, unarmed 18-year-old was walking in the street when white police Officer Darren Wilson stopped him in August 2014. A U.S. Justice Department investigation cleared Wilson of wrongdoing in Brown's death, and a state grand jury declined to bring charges.

But Brown's death and the sometimes violent protests that followed drew attention to some residents' and legal advocates' concerns about the generally white police force's treatment of those in the predominantly black St. Louis suburb, including the use of police to collect revenue through traffic fines and court fees.

Bill sponsor Sen. Eric Schmitt, a Republican from Glendale, said Missouri residents are concerned with local governments that he described as "shaking down residents, especially poor and disadvantaged citizens."

"It is unconscionable cities would use fine money — whether from traffic tickets or silly violations like the location of one's barbecue grill or the way their blinds are hanging — to prop up bloated bureaucracies," Schmitt said in a statement.

Ferguson Democratic Rep. Courtney Allen Curtis, one of 48 House members to vote against the bill, said in a statement that the black community has been "victimized by these practices for too long." But he said the state needs to help communities grow economic opportunities, which he said would have made cities and towns less reliant on revenue from fines and fees.

He said the bill failed to ban attorneys from also working as judges, a practice he said could lead to conflicts of interest and allowed municipal court issues to go unaddressed.

St. Louis Democratic Rep. Joe Adams also voted against the bill and criticized it as adding to current law, which he said unfairly targets St. Louis County.

Lawmakers last year lowered the percentage of revenue most cities can collect from traffic fines and fees from 30 percent to 20 percent. Any extra money must go to schools, an attempt by lawmakers to take away incentives for local governments to overly rely on ticketing for funding.

Adams and other lawmakers have raised concerns with the lower limit for cities in St. Louis County, which are capped at 12.5 percent. Twelve towns in St. Louis County sued over that provision of the law, which was ruled unconstitutional by a Cole County judge and is in the appeals process.

By THE ASSOCIATED PRESS

JUNE 17, 2016, 7:31 P.M. E.D.T.

Detroit City Council Approves Bond Refunding, Pension Funding.

(Reuters) – The Detroit City Council on Tuesday unanimously approved the issuance of up to $660 million of refunding bonds to save an estimated $37 million and help pave the city's return to the municipal market after a trip through bankruptcy.

The council also agreed to put aside $30 million from a budget surplus to deal with a possible pension funding shortfall of nearly $500 million.

Mayor Mike Duggan disclosed the potential shortfall earlier this year, warning the city may sue consultants who worked on its bankruptcy exit plan which projected future pension payments using outdated mortality tables. Last week, the city council agreed to hire actuarial consultant Cheiron to work on a new pension funding model.

The plan to refund up to $275 million of unlimited tax general obligation bonds sold in 2014 and up to $385 million of limited tax GO bonds sold in 2010 and 2012 now heads to the Detroit Financial Review Commission for final approval. The city's post-bankruptcy oversight commission meets on June 27.

The bonds, backed by state revenue earmarked for Detroit, would be issued through the Michigan Finance Authority in a deal lead by underwriter Barclays in late July. It would mark Detroit's first GO bond issuance in the market since it exited the biggest-ever U.S. municipal bankruptcy in December 2014.

"We hope this leads to a better general obligation bond rating, which would help us in the future," John Naglick, Detroit's finance director, told the city council.

After defaulting on bond payments just prior to and during its historical bankruptcy that began in 2013, Detroit's GO bond ratings fell deep into "junk" territory and are currently B3 with Moody's Investors Service and B with Standard & Poor's. Ratings in the single-A or double-A level are expected for the refunded bonds due to an intercept mechanism that will send revenue earmarked for debt service payments directly to the bond trustee, according to a report by the city council's legislative policy division.

Detroit plans to take advantage of record-low yields in the muni market to refund the bonds, saving $15 million for the next two city budgets and about $20 million for property tax bills.

In its first post-bankruptcy public debt offering last August, the city restructured $245 million of variable-rate revenue bonds backed by city income taxes into a fixed-rate mode.

By REUTERS

JUNE 21, 2016, 2:24 P.M. E.D.T.

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

Dot-Govs Get a Much-Needed Facelift.

Several big cities are decluttering and redesigning their government websites to make them easier *to use.*

Is it time to give the government website a makeover? For years, city and state sites have been designed as portals through which the public could find as much information as possible. The motto was clearly, “the more, the better.” But the result has been an overwhelming hodgepodge of columns and boxes filled with tiny text, drop-down menus that run on and on, and buttons everywhere.

With so much information crammed on to a home page, visitors are lucky if they manage to find what they’re looking for, says John McKown, president of Evo Studios Inc., a Web design firm that works with municipalities. “The problem with so many government websites has been information overload.”

That’s certainly the case with the city of Philadelphia’s website, which contains more than 66,000 pages and documents, some of which have never been viewed, according to Aaron Ogle, the city’s former civic technology director.

Information overload is just one problem. Another is the way information is organized, typically around the name of an agency or department, rather than how it can help someone. And exacerbating the issue are the growing number of online services that cities and states have added. These and other new services, such as slideshows and videos, weigh down sites, making them slow and frustrating for users.

Perhaps the biggest problem is that these sites were built for PCs, but users are going mobile. Forty percent of people who visited a federal website in the first three months of this year used some kind of mobile device, according to the site analytics.usa.gov. This is a real concern since lower-income users tend to rely on their smartphones as their one and only device for accessing the Internet.

Aware of the issue, some states and localities have begun modernizing the look and feel of their websites. In 2014, New York state updated its 15-year-old site. In the redesign, the state emphasized ease of use, simple design and a more intuitive way to find information. The new home page uses a photo-rich design, with a high-resolution image dominating the screen and just a few buttons to direct the user to content. Gone is a typical photo of the state’s chief executive, Gov. Andrew Cuomo. The refresh has paid off: Page views jumped from 313,170 in 2013 to 1.1 million in 2014.

Boston and Philadelphia are redoing their websites as well. Both cities have launched beta versions of their new websites that users can visit and try out while the existing website is still up and running. The pilots will give the cities a way to test with actual users what works and what doesn’t.

Boston’s new pilot version went live in January. It’s far cleaner looking and more efficient. “It represents a cultural change around what a portal is,” says Lauren Lockwood, the city’s chief digital officer.

The biggest lesson that cities and states are learning is to make the new websites more reflective of the work that is done by the city and to present the information in a more readable fashion. Some of the information on Boston’s site was found to be written at a post-graduate school level. “Everybody is your audience,” says Lockwood, “so you want to humanize their experience.”

GOVERNING.COM

BY TOD NEWCOMBE | JUNE 2016

Puerto Rico Loss Is Bondholders' Gain With Congress's Path Clear.

Things are starting to look up for Puerto Rico's bondholders after the U.S. Supreme Court struck down an island law that would have allowed some agencies to turn to court to restructure their debt.

The U.S. territory's securities climbed, with some bonds backed by sales-tax revenue reaching their highest since 2014, as the decision Monday eliminated a risk that Puerto Rican authorities would treat bondholders worse in a debt workout than a federal oversight board. Congress is advancing legislation to empower such a panel to help chart a path out of the island's fiscal crisis.

"Investors will doubtlessly fair better in a federally-directed restructuring program," Height Securities analyst Daniel Hanson said in a report. "The court's decision essentially holds that Puerto Rico has no authority under U.S. law to take action outside the ultimate source of authority — the U.S. Congress."

The relationship between investors and Governor Alejandro Garcia Padilla has become increasingly adversarial since his administration began defaulting on some securities in August, saying it doesn't have enough money to repay its $70 billion debt without shutting off services crucial to its 3.5 million residents. The court decision Monday eliminated a way for Puerto Rico to escape from some debt on its own.

Puerto Rico enacted the Recovery Act in 2014 to give bankruptcy-like powers to some agencies that, unlike many U.S. local governments, can't file for court protection from creditors. If allowed to stand, the law would have affected more than $20 billion in debt and strengthened the commonwealth's hand in negotiations aimed at persuading investors to accept less than they are owed.

The court ruled 5-2 in favor of bondholders who argued that the measure was barred under the federal bankruptcy law, which doesn't apply to the territory. The decision upheld a lower court ruling against the Puerto Rico law.

"Our constitutional structure does not permit this court to rewrite the statute that Congress has enacted," Justice Clarence Thomas wrote for the majority. Justices Sonia Sotomayor and Ruth Bader Ginsburg dissented, saying that Congress didn't intend to leave the island without access to either a federal or local restructuring law.

The decision leaves Puerto Rico largely dependent on Congress, which is advancing legislation to extricate the island from its difficulties. The U.S. House on Thursday passed a bill, called Promesa, that would establish a seven-member board to manage a restructuring of the commonwealth's debt and oversee its finances. The panel could ask a judge to order a forced restructuring if the government can't reach a deal with bondholders, ensure that the budget is balanced and recommend sales of assets to produce cash.

The Senate plans to take up the measure in the next several weeks, before July 1, when Puerto Rico owes $2 billion on a variety of securities.

Promesa is likely a "much better outcome" for creditors than the Recovery Act, according to Charles Tyson, an analyst at Keefe Bruyette & Woods who follows municipal-bond insurers. The local law had "some provisions even more draconian" than those in Chapter 9 bankruptcy, according to Mark Palmer at BTIG LLC.

The outcome of the crisis, which has been building over the past year, is far from certain and bondholders are still unlikely to recoup the full value of their investments. Garcia Padilla has said the government can't afford to cover all that it owes next month, which may mark its first default on general-obligation bonds. In December, holders of Puerto Rico's electric utility debt agreed to accept a 15 percent loss on their investments, though aspects of that deal are still in flux.

The verdict was welcome news to investors because reinstating the law would have injected fresh uncertainty just as Congress is moving to address the crisis. The most-traded fixed-rate senior sales-tax bonds, known as Cofinas, climbed to 64 cents on the dollar Monday, after last changing hands at 55 cents in April. Zero-coupon Cofina bonds due in 2047 traded on the highest volume since February at 13.3 cents, the highest since June 2013.

Securities due in 2038 from the Puerto Rico Aqueduct and Sewer Authority, which would have been included in the local Recovery Act, climbed from an average of 68.8 cents Friday to as much as 72.3 cents, the highest price since September.

Puerto Rico's benchmark general obligations, which have an 8 percent coupon and are due in 2035, were little changed after the ruling, trading Tuesday at the highest average price since May 24, Bloomberg data show. Three of the five other general-obligation securities with at least $1 million worth of trades on Monday increased in price.

While the federal control board could ultimately force creditors to accept a restructuring in court if the parties failed to reach consensus, the Supreme Court's decision makes it less likely for Puerto Rico to use the legal system to reduce its obligations, Hanson said.

"This idea that Puerto Rico's going to go to court and make some persuasive police-powers argument that gets them out of paying debt seems somewhat less persuasive in the context of the Supreme Court ruling," Hanson said in an interview.

Bloomberg Business

by Brian Chappatta and Michelle Kaske

June 14, 2016 — 2:00 AM PDT Updated on June 14, 2016 — 8:20 AM PDT

[Bloomberg Brief Weekly Video (06/16)]

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

[Watch the video.]

June 16, 2016

[Supreme Court Ruling on Puerto Rico Debt Seen Positive for Investors.]

The U.S. Supreme Court's invalidation of a Puerto Rican law giving the island's public utilities access to a bankruptcy-like process isthe latest twist on the path to an eventual restructuring of the

U.S. territory’s $70 billion debt load.

Monday’s decision closes off one avenue for Puerto Rico to revamp some of its obligations and means any workout would depend on Congress, which is considering federal restructuring legislation.

Few public utility bonds changed hands Monday following the court decision. Some fifteen-year bonds issued by Puerto Rico’s Aqueduct and Sewer Authority in 2012 traded at 72 cents on the dollar Tuesday morning after hovering in the low- to mid- 60s for much of the year. Benchmark general obligation bonds traded at between about 65 and 67 cents on the dollar Monday afternoon, just as they did Friday.

Bondholders and investment funds had asked the courts to strike down the law, which would have made at least $16 billion of Puerto Rican debt eligible for bankruptcy-like protection.

“We view the ruling as incrementally positive for investors, since the Court has enjoined the Commonwealth from taking unilateral action to force a restructuring,” said Daniel Hanson of Height Securities in an analysis of the court’s decision. The ruling affirmed a lower court finding that Puerto Rico lacks the authority to make bankruptcy protection available to its agencies.

Momentum on the federal restructuring legislation has already buoyed investors. Bond prices rose after the U.S. House on Thursday approved a restructuring package, with yields on the Barclays Puerto Rico Municipal Bond Index falling about 10 basis points to 4.06% Friday. The measure awaits action in the Senate.

Puerto Rico has more than a dozen debt-issuing entities, with each set of bonds carrying different legal protections. Many stakeholders fear that without a restructuring framework, the island’s financial crisis could devolve into a lengthy and expensive legal battle.

The local bankruptcy law struck down Monday would have given the commonwealth more authority to renegotiate its debt on its own than would the U.S. House bill, which envisions a federally appointed financial control board.

Unlike the local bankruptcy law, the congressional measure means that “a lot of discussion and negotiating have to happen before they can force an outcome on creditors,” said Daniel Solender, director of municipal-bond management at Lord Abbett & Co., which holds some Puerto Rican debt in its portfolio.

Howard Cure, director of municipal research at Evercore Wealth Management, which also holds some Puerto Rican debt, said creditors “would rather take their chances with a financial control board than to have the commonwealth decide how much of its outstanding debt to pay.”

Puerto Rico Gov. Alejandro Garcia Padilla had no immediate comment on the decision. But in a statement Thursday, he criticized an earlier Supreme Court decision that underscored Puerto Rico’s dependent status and limited authority.

THE NEW YORK TIMES

By HEATHER GILLERS

Updated June 14, 2016 11:05 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

New Jersey Top Court Sides With State in High-Stakes Pension Case.

(Reuters) – The New Jersey Supreme Court ruled on Thursday that retired public employees do not have a contractual right to receive increasing cost-of-living adjustments, a decision that saves the state $17.5 billion.

Governor Chris Christie's administration suspended the COLA payments, which are tied to inflation, as part of 2011 reforms aimed at curtailing the ballooning cost of public pensions.

Despite running a heavily Democratic state, Christie, a former Republican presidential candidate now stumping for presumptive nominee Donald Trump, has notched several victories against the public sector, beginning with his ability to garner bipartisan support for the pension reforms.

He was even allowed to go back on promises he made in those same reforms when, in 2014, he slashed the state's pension contributions, saying a surprise revenue gap left him no choice. The state Supreme Court vindicated that move last year.

"State taxpayers have won another huge victory, one that spares them from the burden of unaffordable benefit increases for public employee unions," Christie said of Thursday's ruling, citing the billions saved.

Credit rating agencies rank New Jersey the second-worst U.S. state partly because of its growing pension costs and narrow reserves.

Thursday's ruling "eliminates a major threat to the state's fiscal stability," said Moody's Investors Service analyst Baye Larsen in a statement.

The status of the state's roughly $83 billion pension system has never been worse. The state's aggregate funded ratio for all plans is 48.6 percent.

Retired prosecutor Charles Ouslander and others sued when the reforms froze COLAs at 2011 levels, saying they had as much right to that benefit as their base pensions.

"The ramifications of a contract of that sort are harsh" because it binds the legislature "to a policy choice and surrenders the power of future elected representatives to cut back," Justice Jaynee LaVecchia wrote in the 6-1 opinion.

She cited a 2014 federal appellate decision upholding Maine's suspension of COLAs, agreeing that legislatures must use unmistakable language when creating contracts.

Ouslander, who argued the appeal himself, said after the decision that "all public employees should be gravely concerned that their remaining pension benefits have any legal protections left."

The only fix now, Ouslander said, is a potential November ballot initiative to fully fund annual state pension contributions, which Christie opposes.

Wendell Steinhauer, president of the New Jersey Education Association, a teachers union, said the benefit freeze is "theft, plain and simple."

New Jersey Justice Barry Albin dissented from the majority, saying he did not agree that the statutes lacked clarity.

In deciding when to retire, “public employees relied on the legislative promise that COLAs would protect their pensions from the ravages of inflation,” Albin wrote.

However, the United States has not had significant inflation in more than a decade and it likely will not for years to come, said municipal bond expert Richard Ciccarone, CEO of Merritt Research Services.

“To keep COLAs as a rigid right provides public servants with an advantage that surpasses what most taxpayers can earn on a parallel basis,” he said.

By REUTERS

JUNE 9, 2016, 2:54 P.M. E.D.T.

(Reporting by Hilary Russ in New York; editing by Phil Berlowitz, Bernard Orr)

Michigan Lawmakers Approve Detroit School Rescue Package.

(Reuters) – Legislation approved by Michigan lawmakers on Thursday to bail out the Detroit Public Schools (DPS) will keep the district operating, but falls short on funding to fix its crumbling buildings, according to school officials.

The bill package, approved over objections by Democratic lawmakers, creates a new, debt-free district governed by an elected school board, while leaving the current district in place solely to levy property taxes to pay off outstanding debt.

DPS, which has nearly 46,000 students, has been under state control since 2009 because of a financial emergency.

The American Federation of Teachers-Michigan and Detroit Federation of Teachers criticized the lack of a bipartisan compromise in a joint statement on Thursday.

“These bills are a statement by non-Detroit Republicans that they know what is best for Detroit, a city that is overwhelmingly people of color,” the groups said. “It has been this attitude that resulted in Detroit Public Schools’ massive debt, low academic performance and a ‘wild west’ system of school openings.”

Under the measures approved on Thursday, Michigan would commit $617 million from the state’s share of a tobacco settlement in annual increments of $72 million for the new Detroit Community School District. An emergency state loan for transition costs was capped at $150 million, with only $25 million of that amount available for capital improvements, less than the overall $200 million sought by DPS.

“We also look forward to working creatively with the governor’s office, the state superintendent, and the Michigan Department of Education to identify the remainder of the critical resources necessary to educate our students,” DPS state-appointed transition manager Steven Rhodes said in a statement.

A smaller bailout passed by the House in May raised concerns that DPS would run out of cash later this summer.

Republican lawmakers contended the final $617 million bailout legislation would prevent DPS from filing for municipal bankruptcy even though Rhodes, a former federal bankruptcy judge, has said such a move would be ineffective because much of the district's debt is guaranteed by the state.

Democrats objected to the absence of a Detroit Education Commission to oversee the opening and closing of public and charter schools in Detroit.

The House and Senate approved the package with a series of votes late Wednesday and early Thursday, sending the legislation to the desk of Republican Governor Rick Snyder, who signaled in a statement that he supports it.

By REUTERS

JUNE 9, 2016, 3:03 P.M. E.D.T.

(Reporting by Brendan O'Brien in Milwaukee and Karen Pierog in Chicago; Editing by Dominic Evans and Matthew Lewis)

Supreme Court Rejects Puerto Rico Law in Debt Restructuring Case.

WASHINGTON — The Supreme Court on Monday rejected an effort in Puerto Rico to allow public utilities there to restructure $20 billion in debt, striking down a 2014 Puerto Rico law.

Justice Clarence Thomas, writing for the majority in the 5-to-2 decision, said the law was at odds with the federal bankruptcy code, which bars states and lower units of government from enacting their own versions of bankruptcy law.

Puerto Rico is struggling with $72 billion in debt and has argued that it needs to restructure at least some of it under Chapter 9, the part of the bankruptcy code for insolvent local governments. But Puerto Rico is not permitted to do so, because Chapter 9 specifically excludes it, although it is unclear why.

In 2014, the island tried to get around that exclusion by enacting its own version of a bankruptcy law, intended for its big public utilities, which account for about $26 billion of the total debt. But that attempt, called the Recovery Act, ran afoul of the part of the code that says only Congress may enact bankruptcy laws.

Puerto Rican officials had argued that the Recovery Act addressed a gap in the way its debts are treated. Under the bankruptcy code, they said, states may authorize their cities, counties, public utilities and other branches of government to restructure their debts under Chapter 9 of the code. But that law excludes Puerto Rico and all branches of its government, including its public utilities.

Utility creditors challenged the Recovery Act in federal court, arguing that the bankruptcy code displaced, or pre-empted, it. The justices agreed.

The federal law, Justice Thomas wrote, "bars Puerto Rico from enacting its own municipal bankruptcy scheme to restructure the debt of its insolvent public utilities." Chief Justice John G. Roberts Jr. and Justices Anthony M. Kennedy, Stephen G. Breyer and Elena Kagan joined him.

Justice Thomas wrote that the decision was compelled by a straightforward reading of the federal law.

In dissent, Justice Sonia Sotomayor, joined by Justice Ruth Bader Ginsburg, said the majority's approach was too mechanical and failed to take into account the purpose of the bankruptcy law and the impact of its decision. The Recovery Act, she wrote, "is the only existing legal option for Puerto Rico to restructure debts that could cripple its citizens."

"The Commonwealth of Puerto Rico and its municipalities are in the middle of a fiscal crisis," she wrote. "The combined debt of Puerto Rico's three main public utilities exceeds $20 billion. These utilities provide power, water, sewer and transportation to residents of the island."

"With rising interest rates and limited access to capital markets, their debts are proving unserviceable. Soon, Puerto Rico and the utilities contend, they will be unable to pay for things like fuel to generate electricity, which will lead to rolling blackouts," Justice Sotomayor added. "Other vital public services will be imperiled, including the utilities' ability to provide safe drinking water, maintain roads and operate public transportation."

The majority's approach ignores those realities, she wrote, "rejects contextual analysis in favor of a syllogism" and leaves Puerto Rico "powerless and with no legal process to help" its citizens.

Pedro Pierluisi, Puerto Rico's nonvoting member of Congress, said: "The practical significance of the court's holding is crystal clear. Only Congress can provide the Puerto Rico government with the authority to restructure its debts." He said action by Congress "is essential if the territory is going to overcome its severe — and worsening — economic, fiscal and demographic crisis."

The case has been vexing for all parties because when Congress amended the bankruptcy code to exclude Puerto Rico, in 1984, it left no written record explaining why. Yet the rule barred the island from the only way under United States law that a debtor can legally reduce debt over the objections of creditors.

Besides passing its own bankruptcy law in 2014, Puerto Rico tried to persuade Congress to delete the 1984 exclusion. It said the provision was inexplicable and may have been inserted by mistake.

Those arguments did not sway Congress. But last year lawmakers realized the United States Constitution gave them the power to "make all needful rules and regulations" for territories, including Puerto Rico. Using that approach, the House of Representatives passed a quasi-bankruptcy bill this month that would apply to all territories (though only Puerto Rico is in dire need at the moment).

Obama administration officials have expressed hope that the Senate will take up the measure quickly and enact it before July 1, when Puerto Rico is supposed to make debt payments totaling nearly $2 billion. It is expected to default, which would normally prompt creditors to sue. As now drafted, the bill would stay such lawsuits, put Puerto Rico under federal oversight and give it other legal powers similar to those found in bankruptcy.

In the majority opinion, Justice Thomas noted that Puerto Rico had also been seeking help from Congress. "After the parties briefed and argued these cases," he wrote, "members of Congress introduced a bill in the House of Representatives to establish an oversight board to assist Puerto Rico and its instrumentalities," adding that "the bill does not amend the federal bankruptcy code."

Justice Sotomayor responded that "the government and people of Puerto Rico should not have to wait for possible congressional action to avert the consequences of unreliable electricity, transportation and safe water — consequences that members of the executive and legislature have described as a looming ‘humanitarian crisis.’”.

Justice Samuel A. Alito Jr. recused himself from the cases, *Puerto Rico v. Franklin California Tax-Free Trust*, No. 15-233, and *Acosta-Febo v. Franklin California Tax-Free Trust*, No. 15-255. As is the court’s custom, he did not explain why.

THE NEW YORK TIMES

By ADAM LIPTAK and MARY WILLIAMS WALSH

JUNE 13, 2016

Detroit Eyes Refunding of Up to $660 Million Bonds.

(Reuters) – Detroit would sell its first general obligation bonds since exiting bankruptcy in December 2014 under a proposal by Mayor Mike Duggan’s administration to refund up to $660 million of outstanding bonds.

The city council on Tuesday sent the plan to refund up to $275 million of unlimited tax GO bonds sold in 2014 and up to $385 million of limited tax GO bonds sold in 2010 and 2012 to its Budget, Finance and Audit Committee for consideration.

The outstanding bonds were issued through the Michigan Finance Authority and backed by the city’s share of distributable state aid payments.

John Naglick, Detroit’s finance director, said Detroit expects to capture lower interest rates in the bond refundings to save money for the budget and to lower property tax rates supporting the bonds.

“If it wasn’t for this move to record low rates, we wouldn’t do this,” he said.

Ten and 30-year yields on Municipal Market Data’s benchmark triple-A scale are at or near all-time lows, driven by big investor demand for debt sold by states, cities, schools and other municipal issuers.

Detroit was able to shed about $7 billion of its $18 billion of debt and obligations in the biggest-ever U.S. municipal bankruptcy. In its first post-bankruptcy public debt offering last August, the city restructured $245 million of variable-rate revenue bonds backed by city income taxes into a fixed-rate mode at a hefty spread over MMD’s scale.

If the GO bond refundings are approved by the city council committee on Wednesday, the measures would head for a full-council vote on June 21. Naglick said the issuance also needs approval from the Detroit Financial Review Commission, the city’s post-bankruptcy oversight board, which meets on June 27.

By REUTERS

JUNE 14, 2016, 5:51 P.M. E.D.T.

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

The Price Illinois Will Pay For its Deepening Debt.

A little-noted but nonetheless important factor in Illinois' long-running fiscal stalemate has been the state's ability to keep borrowing money even as its finances have deteriorated.

Municipal bond markets have served as a pressure release valve, sparing Gov. Bruce Rauner and House Speaker Michael Madigan the full potential consequences of their intransigence and fiscal dereliction. Investors' appetite for Illinois IOUs helps stave off a short-term crisis that might force Rauner and Madigan to compromise.

Bonds finance capital spending, smooth out cash flows and keep $26 billion in existing Illinois bond debt afloat through refinancing. The state has even propped up its ailing pension funds with money borrowed in bond markets. "It's critical to the state," says Laurence Msall, president of the Civic Federation, a fiscal watchdog group.

And so far, Illinois hasn't lost that critical funding source, despite a credit profile that only a payday lender could love. The state has more than $7 billion in unpaid bills, a worst-in-the-nation pension funding shortfall of more than $100 billion, and it's heading into a second straight year without a budget. Yet it floated $480 million in bonds in January and plans to borrow another $550 million this week.

All investors have asked in return is a higher interest rate than fiscally responsible states pay on their bonds. Illinois paid about 4 percent on its last issue, compared with a median rate of 2.34 percent for AAA-rated state bonds, according to Richard Ciccarone, CEO of Merritt Research Services, a provider of research and data on municipal bonds.

But a couple of developments last week suggest the price of profligacy is about to rise. Credit rating agencies Moody's and Standard & Poor's cut Illinois' ratings again, with Moody's parking the state just two levels above junk status. More ominously, an influential bond investor openly questioned the market's willingness to indulge a borrower incapable of basic fiscal discipline.

RISING PRICE OF ADMISSION

"We as municipal market participants should really be penalizing in some way, by almost not giving them any access to the market," Peter Hayes, who oversees a $119 billion municipal bond portfolio at investment giant BlackRock, told Bloomberg News last week. "Think about it—they're a state without a budget, they refuse to pass a budget, they have the lowest funded ratio on their pension of any state, and yet they're going to come to market and borrow money."

Hayes' remarks shouldn't be taken as a signal that bond markets are about to slam the door on Illinois. Budget or no, many investors can't resist a 4 percent yield in an era of rock-bottom interest rates. And from a bondholder's perspective, risk of a payment default appears low, explains Moody's senior credit officer Ted Hampton.

Despite its fiscal chaos, Illinois still brings in plenty of revenue to cover debt service on bonds. What's more, state law gives bondholders first crack at those revenues, meaning they'll likely get paid before any money goes to struggling social services agencies stiffed by the state. "We don't think the state of Illinois is likely to default on its (bond) debt anytime soon," Hampton says.

What Hayes' comments do suggest, however, is that skepticism toward Illinois is growing among bond investors. Ciccarone notes that some have begun to back away from Illinois bonds, relegating the state to a costlier corner of the market. “With conservative investors you’re seeing resistance,” he says. “The investors that are stretching for yield are interested.”

As demand for Illinois paper shrinks, its borrowing costs will rise. How high? Possibly a lot higher, if paralysis endures in Springfield and Illinois’ credit rating keeps falling. Moody’s has a negative outlook on Illinois, a sign that at least one more downgrade may be coming. A drop into junk territory would be extremely expensive—junk-rated Chicago Public Schools bonds carry a rate of 8.5 percent.

A far-fetched scenario, perhaps, but Illinois’ current fiscal predicament seemed unimaginable not so long ago. As Hampton says, “We’re sort of in uncharted territory here with Illinois.”

CRAIN’S CHICAGO BUSINESS

BY JOE CAHILL

June 15, 2016

Illinois Budget Impasse Hits $550 Million Bond Sale.

Illinois’ long-running budget impasse stung the state on Thursday in the U.S. municipal market where buyers of its $550 million bond issue demanded bigger yields over the market benchmark.

The pricing was “surprisingly soft,” considering a strong rally in muni bonds on Thursday, said Greg Saulnier, a Municipal Market Data analyst. The results demonstrate that the market is increasing its penalty due to the state’s worsening fiscal and political problems, leaving Illinois unable to take full advantage of the historically low borrowing rates.

Bank of America Merrill Lynch won the tax-exempt general obligation deal in competitive bidding, pricing bonds due in 2026 with a 5 percent coupon to yield 3.32 percent, which is 185 basis points over MMD’s triple-A yield scale. The spread was 175 basis points ahead of the bond sale, according to MMD, a unit of Thomson Reuters.

It was also wider than the 154 basis-point spread in 10 years for Illinois’ $480 million GO bond sale in January.

Illinois is poised to be the only U.S. state since at least the 1930s to end a fiscal year without a complete budget.

Its Republican governor and Democratic-controlled legislature have so far failed to reach a deal on fiscal 2016 or 2017 spending plans. That leaves unaddressed the growing structural budget deficit and huge $111 billion unfunded pension liability in the fifth-biggest U.S. state.

The bond issue itself was seen as a weapon in the political war to pressure Democrats to cave in to Governor Bruce Rauner’s demands, while losing money for the cash-strapped state.

ILLINOIS SELLS INTO MARKET RALLY

Muni yields have been hitting new record lows on MMD’s scale in recent days, driven by cash-heavy investors chasing low supply of debt.

Rauner's office said the true interest cost for the bonds, which carry maturities from 2017 to 2041, was 3.74 percent, down from 3.99 percent in the January sale, and the lowest ever for similar general obligation bonds issued by the state.

"It's clear from today's bond sale that investors realize Illinois now has a governor that is trying to turn the state around and right its fiscal ship," Rauner spokeswoman Catherine Kelly said in a statement.

Some market participants thought Illinois' so-called credit spread should be even wider.

"It's odd to me," said Nicholos Venditti, a portfolio manager at Thornburg Investment Management. "Illinois has proven time and time again they can't get anything done."

Heading into the deal, Illinois' credit ratings, which were already the lowest among the states, were downgraded by Moody's Investor Service and Standard & Poor's.

The governor's office also revealed on Wednesday that the state lacks appropriations to actually spend all the proceeds earmarked mainly for road construction and mass transit projects due to the impasse.

State Treasurer Michael Frerichs, a first-term Democrat, predicted the bond issue could be a net money-loser for Illinois if the borrowed funds go unspent and must be invested short-term.

"We'll make far less in interest than we'll be paying in interest to the bondholders," Frerichs said in an interview. "I think we need to make these investments in infrastructure, but we're going about it in the wrong order. It seems backwards issuing the bonds and hoping they get an appropriation to spend them."

On Wednesday, Rauner administration officials warned of the imminent shutdown of transportation projects and the loss of 25,000 construction jobs without a budget deal.

Spokesmen for House Speaker Michael Madigan and Senate President John Cullerton, both Democrats, declined to speculate on the chances of either legislative chamber granting the Rauner administration the spending authority it needs to fully tap the bond issue.

REUTERS

CHICAGO | BY KAREN PIEROG AND DAVE MCKINNEY

Thu Jun 16, 2016 6:19pm EDT

(Editing by Daniel Bases and Matthew Lewis)

Puerto Rico GO Bond Price Dips, Rescue Bill Moves to Senate.

Puerto Rico's benchmark General Obligation bond fell in price on Friday in choppy trading after the U.S. House of Representatives passed legislation aimed at helping the U.S. territory fix its fiscal mess.

The GO bond, carrying an 8 percent coupon and maturing in 2035, last traded at 64.74 points in price, pushing the yield to 13.05 percent from 12.73 percent on Thursday, according to data provided by the Municipal Securities Rulemaking Board.

According to the MSRB's Electronic Municipal Market Access database, about $21 million worth of bonds traded versus $14 million the day before.

Late on Thursday the House passed the "Puerto Rico Oversight, Management and Economic Stability Act" (PROMESA), by a vote of 297-127, with the U.S. Senate expected to take up the bill quickly ahead of a $1.9 billion debt payment due July 1.

Puerto Rico has a $70 billion debt load it says it cannot pay and a staggering 45 percent poverty rate. It faces steady migration of its residents to the mainland and a potential humanitarian crisis because it cannot sustain social services.

PROMESA, if passed by the Senate and signed into law, would establish a powerful seven-member federal Oversight Board to navigate through the restructurings. Among other things, the board would have the authority to enforce balanced budgets.

"It is definitely a step forward, a very good step forward. We think it was necessary. It doesn't answer all your questions but at least it sets up a framework and does provide fiscal management and oversight which we think was necessary because the credibility of the government is pretty much shot," said Joe Rosenblum, director of municipal credit research at AllianceBernstein in New York.

"We don't think at these prices we are ready to dip our toes back in and we haven't seen a lot of trading activity out there, so I think we are in company," Rosenblum said.

PROMESA does not set out specific rules for restructuring, leaving such decisions to the control board to work through with creditors. This is a critical point for municipal bond market investors where long-standing rules set out a hierarchy among creditors, typically with GO bondholders considered senior to all others.

"Regardless of how things get restructured today, the fact that the economy continues to shrink and the population continues to shrink is a problem for the credit going forward," said Craig Brandon, co-director of municipal investments at Eaton Vance in Boston.

REUTERS

NEW YORK | BY DANIEL BASES

Fri Jun 10, 2016 5:52pm EDT

(Reporting By Daniel Bases; Editing by Tom Brown)

BlackRock Says Illinois Should Lose Access to Debt Markets.

The Land of Lincoln should be forced to log-off from the muni bond market, one influential Wall Street firm said Wednesday.

BlackRock, the world's biggest asset manager, said the debt-drunk state, with the worst pension shortfalls in the land, should lose its access to the $3.7 trillion municipal debt markets.

“They’re a state without a budget, they refuse to pass a budget, they have the lowest funded ratio on their pension of any state, and yet they’re going to come to market and borrow money,” Peter Hayes, who oversees the firm’s $119 billion in muni bonds, said on Wednesday.

President Obama’s home state, the least credit-worthy in the country, according to Moody’s Investors Service, is also planning its second general obligation bond offering this year, for $550 million.

The state’s legislature has been mired in a standstill over its budget — and hasn’t passed one in more than 11 months. There is also no budget for the fiscal year that begins on July 1.

As it stands, the state has more than $7.2 billion in unpaid bills and more: Its pension has a shortfall of more than $111 billion.

Its GO bonds were downgraded by Moody’s earlier this year — to Baa1 — two steps above junk.

Facing such a calamitous future, Hayes is blowing the whistle.

Wall Street “should really be penalizing in some way, by almost not giving them any access to the market,” Hayes said at a media event.

BlackRock is a giant.

It has about $4.6 trillion in assets — more than six times Illinois’ gross domestic product of $736 billion, according to the latest figures from the Federal Reserve Bank of St. Louis.

While certainly an outlier, Illinois, with $148.2 billion in debt, isn’t the only entity pretty far out on the debt limb.

Puerto Rico is $72 billion in debt, and has already technically defaulted on some of it. Congress is trying to pass a bill that would create a committee to oversee the island territory’s finances and restructure their debt.

A spokeswoman for Illinois Gov. Bruce Rauner declined to comment on Hayes’ comments. A spokeswoman for BlackRock declined to elaborate.

Despite being so drunk on debt, most believe Wall Street will keep on serving up more.

“Despite its lack of a budget, [Illinois] is still a state, and state GO bonds haven’t defaulted in modern history,” Matt Fabian, partner at Municipal Market Analytics, told The Post. “So it is impossible to think that it will not be able to place the new bonds, and probably at yields that aren’t too far off from where they sold them the last time around.”

Illinois bonds floated in May, before the Moody’s downgrade, paid 3.62 percent — roughly 1.83 percentage points over AAA-rated munis, according to Bloomberg.

Still, Fabian added, “BlackRock is one of the largest investors in municipal bonds, so their words (and their lack of interest in buying IL right now) carry more weight than you might think.”

Things are so bad in Illinois that the deadbeat state is late in paying $3 million to the FBI for processing fingerprints, the AP reported.

The debt is so old that it could be turned over to Washington’s collection agency, the Treasury Department, for collection.

The New York Post

By Kevin Dugan

June 8, 2016 | 11:59pm

U.S. Muni Bond Sales Fall Next Week After Issuance Spike.

New sales of U.S. municipal bonds are expected to slow next week to $5.7 billion from the year high of $12 billion in the week just ended, according to preliminary Thomson Reuters data.

That surge in municipal bond issuance was met by strong demand from investors, many drawn to the market in an attempt to escape low or negative interest rate policies globally.

The demand pushed yields down on AAA-rated 30-year U.S. municipal bonds to record lows three consecutive days in row.

"Sometimes supply feeds demand in a way that we see good performance, and we continue to see yields drop," said Jim Colby, chief municipal strategist at VanEck.

Despite the expected drop in issuance, municipal analysts predict record-low yields may continue into next week.

"There is sound reasoning that rates could move lower," said Colby. "The marketplace is saying, maybe rates are going to rise. The Fed is seeing evidence of strength in the marketplace, so short-term rates will rise. Let's employ a strategy that will let us earn positive returns."

Investors have poured money into municipal bond funds for 36 straight weeks, the longest stretch of consecutive inflows since 2010, according to data from Lipper, a Thomson Reuters company. Positive flows began in January 2009 and continued every week through March 2010.

Next week's $5.7 billion in new sales will be lower than the 2016 year-to-date weekly average of $7.5 billion, according to Thomson Reuters' Municipal Market Data (MMD). That is in part because many issuers rushed to sell bonds this week, before a possible rate hike, said Greg Saulnier, MMD municipal analyst.

Among the largest deals to hit the market next week is $550 million of Illinois general obligation bonds offered in competitive bidding on Thursday. Ahead of the sale, both Moody's Investors Service and Standard & Poor's downgraded the state's credit ratings, which are inching closer to "junk" level.

A political impasse between the state's Republican governor and Democrats who control the legislature has left Illinois without budgets for the current and next fiscal year and no plan for addressing its $111 billion unfunded pension liability and big structural budget deficit.

REUTERS

SAN FRANCISCO, JUNE 10 | BY ROBIN RESPAUT

(Reporting by Robin Respaut Additional reporting by Hilary Russ; Editing by Daniel Bases and James Dalgleish)

New Jersey's Top Court to Rule in High-Stakes Public Pension Case.

The New Jersey Supreme Court is expected to decide on Thursday whether the state's 2011 public pension reform improperly froze retirees' cost-of-living increases, a ruling that could cost the state billions of dollars.

Governor Chris Christie's administration suspended the so-called COLA payments, which are tied to inflation, as part of bi-partisan reforms aimed at curtailing the ballooning cost of public pensions.

Retired prosecutors challenged the provision, saying they have a contractual right to the adjustments, just as they do to their base pension payments.

If the retirees prevail, New Jersey's already underfunded pension system could be hit with another $17.5 billion of liabilities, according to The Record, a Bergen County newspaper, which cited a court filing.

New Jersey's roughly $83 billion pension system is as poorly funded as it has ever been. The state's aggregate funded ratio for all plans is 48.6 percent.

When including local government contributions, the overall system appears somewhat better funded at 59.5 percent, which is still far below the baseline 80 percent level considered healthy.

The court is expected to release its decision in the case, called Berg v. Christie, on Thursday, according to the court system's website.

Wall Street credit rating agencies rank New Jersey the second-worst U.S. state, behind only Illinois, in part because of its pension problems.

Some holders of New Jersey's roughly $37 billion of outstanding bonds are concerned about the impact the case could have on the state's fiscal condition.

For example, in April a Morgan Stanley wealth management director emailed Charles Ouslander, the retired prosecutor who petitioned the Supreme Court, to ask him about possible outcomes on behalf of the firm's retail clients who own New Jersey bonds, according to the email seen by Reuters.

Spreads on New Jersey 10-year bonds, which measure how much extra yield investors demand for riskier bonds, are a full percentage point higher than general top-rated municipal bonds, according to Municipal Market Data, a Thomson Reuters unit.

Another pressure on state finances could come from a ballot question Democrats hope to put before voters in November.

The constitutional amendment would require the state to fully fund its annual contributions to the retirement system, something it has not done since before Christie's tenure.

The state would need at least $2.8 billion of new taxes by 2022 to pay for the measure, according to a panel convened by Christie.

REUTERS

BY HILARY RUSS

Wed Jun 8, 2016 7:39pm EDT

(This version of the story corrects the name in paragraph four to Kramer instead of Parker.)

U.S. Municipal Bond Market Grows to $3.747 trln in First Quarter - Fed.

June 9 (Reuters) – The U.S. municipal bond market grew to $3.747 trillion in the first quarter from $3.719 trillion in the fourth quarter, according to a quarterly report from the Federal Reserve released on Thursday.

Households, or retail investors, held $1.608 trillion compared with $1.597 trillion the previous quarter.

Property and casualty insurance companies bought $10.4 billion of munis in the first quarter, while life insurance companies acquired $13.3 billion. U.S. banks increased their muni holdings by $48.4 billion.

U.S. mutual funds bought $78.5 billion of munis in the first quarter, while exchanged-traded funds added $7.1 billion.

(Reporting by Robin Respaut; Editing by Meredith Mazzilli)

El Paso Turns Around a Losing Game by Refinancing Stadium Bonds.

When El Paso, Texas, sold bonds three years ago to build a 9,500-seat stadium for its minor league baseball team, Detroit had just gone bankrupt and speculation was rife that the Federal Reserve was poised raise interest rates. The yields were so high they prompted a political outcry over why the deal wasn't done sooner.

Thanks to a turnabout in the market, which has driven municipal borrowing costs to the lowest since 1965, the city has made some of that expensive legacy go away.

El Paso sold $17.7 million of bonds last week, refinancing almost a third of the debt issued in August 2013, for a top yield of 3.4 percent on securities due in 2043. The first time around, the city paid as much as 5.95 percent on the tax-exempt bonds. On a $10 million loan, that difference amounts to about $255,000 a year.
"They're very excited about cutting the cost," said Maria Urbina, the city's financial adviser with First Southwest, a division of Hilltop Securities.

El Paso, with a population of about 680,000 along the Rio Grande, built the new home for the Chihuahuas, a Triple-A franchise of the San Diego Padres, to revitalize its downtown, a development strategy that's been used by cities such as Biloxi, Mississippi, and Hartford, Connecticut.

With the Federal Reserve holding monetary policy steady amid signs of an economic slowdown, El Paso joined another trend: refinancing debt. About $107 billion, or 61 percent, of the new municipal bonds sold during the first five months of the year were used to pay off higher-interest securities, according to Bank of America.

Refinancing will let the city spread out what would have been a $17 million balloon payment in 2023, said Mark Sutter, El Paso's chief financial officer, who took the job after the original bonds were issued.
"This makes our debt service much more manageable," he said.

The stadium was approved in November 2012, when voters signed off on a hotel-tax increase needed to pay for it. While officials initially intended to sell the bonds as soon as possible, that was delayed in part because of a May 2013 city election and ongoing controversy over the ballpark. Its construction required razing the former city hall.

That June, bond prices began tumbling after the Fed said it would wind down its program of buying bonds to hold down interest rates. A month later Detroit filed the largest municipal bankruptcy in U.S. history.

The El Paso stadium bonds priced in late August. Since the start of June, 30-year municipal yields had risen 1.4 percentage points to about 4.7 percent, the highest since 2011, according to data compiled by Bloomberg.

The timing led city council members to call for audits into how the financing was handled. Taylor Moreno, chief of staff for Mayor Oscar Lesser, had no immediate comment.

Yields at more than 50-year lows have allowed the city to rework part of it.

"They couldn't have caught the market at a better time," said David Jaderlund of Jaderlund Investments in Santa Fe, New Mexico. "This should produce some good savings for them."

Bloomberg Business

by Darrell Preston

June 6, 2016 — 2:00 AM PDT Updated on June 6, 2016 — 6:25 AM PDT

Minnesota Faces Problems with Municipal Bonds.

The state of Minnesota is in a new and troubling kind of crisis. And that is because they have been trying to liquidate as many municipal bonds that they can to in order to ensure that they are capable of funding their own infrastructure projects. The Internal Revenue Services of the United States of America has clamped down hard on the state of Minnesota and asked them to hold back their municipal bonds and spending in order to facilitate and improve the larger federal economy. At the moment there are several infrastructure projects underway in the state of Minnesota that would require a few more rounds of funding in order to get completed.

More IRS trouble

The Internal Revenue Services will now be issuing strict measures that would disallow the issuing of tax exempt bonds. The state of Minnesota, like any other state across the United States of America issues a certain number of bonds that allow the state to borrow money from the public in order to fund several of their infrastructure, health care and education systems and projects. This is what the Internal Revenue Services intend on changing in order to apparently make sure that there is a larger sense of accountability within the state system.

The move to clamp down on the tax free bond issue has brought together many critics of the federal government's monetary and tax policy. Many critics claim that the move to clamp down on the state bonds will not only impede the state's ability to raise money for projects, but will paralyze it. The critics are also skeptical about the rate of accountability that the IRS intend to bring in with the new law that is about to be passed. The critics are also questioning the kind of socialist system that is forming in the government. Many critics claim that the move to stop the state bonds tax exemption is an undemocratic way of doing things.

Proponent view

On the other hand, while the Internal Revenue Services have been a strong part of executing the movement, there are several proponents for the law. Many people claim that this would bring in some much needed accountability into the state system. In the meanwhile, the IRS has been entirely silent on the matter and has failed to comment over any of the happenings despite several journalists reaching out to the federal agency.

Financial Buzz

By: Danny

02 Jun, 2016

Maryland, Georgia Headline Spike in U.S. Muni Bond Issuance Next Week.

A whopping $12 billion of new sales of U.S. municipal bonds will come to market next week, a high for the year to date, highlighted by two offers of more than $1 billion in general obligation bonds from Maryland and Georgia.

The week's sales are considerably above the weekly average of $7.9 billion this year, according to preliminary Thomson Reuters data. The massive issuance is driven in part because of fears of a possible U.S. interest rate hike when the Federal Open Market Committee (FOMC) meets later this month.

The concerns were alleviated somewhat on Friday after the U.S. government reported weaker than expected May labor data, which pushed down the possibility of a Fed rate hike in June or July, according to analysts.

Non-farm payrolls rose by only 38,000 in May compared with economists' expectations of over 164,000, the government reported.

Jeffrey Lipton, head of municipal research and strategy at Oppenheimer and Co Inc, said the Fed would likely delay any increase in rates until after the "Brexit" vote on June 23, when the UK will vote on whether to leave the European Union.

Alan Schankel, managing director at Janney Montgomery Scott, said although there is often positioning ahead of the FOMC meetings, he did not see the June meeting as a huge factor in the timing of decisions.

"Market perception is that a bump in short rates (Fed) will have little if any impact on longer rates," he said. "I do think that we are seeing a pickup in overall muni new issue volume."

Phil Fischer, head of municipal research at Bank of America Merrill Lynch, said the substantial amount of issuance is good news for the U.S. economy.

"It's a positive story because we get more infrastructure, the state and local government refund their debt to save money, and there's a demand for the paper, so this is good stuff," he said.

REUTERS

SAN FRANCISCO, JUNE 3 | BY RORY CARROLL

(Reporting by Rory Carroll, editing by G Crosse)

S&P Warns Chicago About Potential Rating Cut Over Pensions.

Chicago remains vulnerable to bond rating downgrades unless the city makes comprehensive changes to its municipal and laborers' retirement systems, Standard & Poor's said on Thursday.

"The city's credit quality could weaken unless it gains both union and legislative support for any changes to its municipal and laborers' plans, and identifies a solid funding mechanism to address the unfunded liabilities and prevent further destabilization of its budget," the credit rating agency said in a report.

The Illinois Supreme Court in March threw out a 2014 Illinois law aimed at saving the two systems from insolvency by reducing retirement benefits and increasing pension contributions by the city and affected workers.

Chicago Mayor Rahm Emanuel last month announced an agreement in principal with unions to increase funding for the laborers' system, the smallest of the city's retirement funds. The municipal fund, the city's largest system, is projected to run out of money within 10 years. New accounting changes and other factors doubled its unfunded liability to $18.6 billion at the end of 2015 from $7.13 billion in 2014.

S&P, which rates Chicago's general obligation bonds BBB-plus with a negative outlook, said any deal for the municipal fund would require an identified revenue source.

The report also noted that Chicago has already raised property taxes to boost funding for its police and fire pension funds. Illinois lawmakers this week overrode Governor Bruce Rauner's veto of a bill spreading out the city's payments to those two funds.

Reuters

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Jun 2, 2016 2:38pm EDT

How Will Arlington, Texas Pay For Another Stadium Bond?

DALLAS – Arlington, Texas, may pay off the debt it issued for a pro football stadium to clear the path for subsidizing a pro baseball stadium.

The city is working on a plan to retire debt the city issued for the Dallas Cowboys' stadium years earlier than anticipated in order to put the tax revenues behind $500 million of bonds to fund an air-conditioned ballpark for Major League Baseball's Texas Rangers.

The bond finance scenario is one of two under consideration in advance of a November referendum on the proposed stadium, said Mike Finley, chief financial officer for the city.

"Voters are ultimately going to decide about the stadium option," Finley said. "Arlington has a 20-year track record of funding these facilities successfully. I'm comfortable in our ability to negotiate a deal that would meet with the expectations of our citizens."

A master agreement approved May 24 by the City Council calls for an even split between the Rangers and the city to build the $1 billion stadium.

Working with the city on financing the ballpark is David Gordon, managing director at financial advisor Estrada Hinojosa & Co. Estrada has played a role in financing many of the region's stadiums and arenas.

Under one of the proposed financing scenarios, the Texas Rangers would advance the city $100 million to retire bonds used to build AT&T Stadium, the seven-year-old, $1.2 billion Cowboys venue. The city would pay back the Rangers over time.

With the Cowboys stadium debt paid off, the city could apply its dedicated tax revenue to $400 million of bonds for the Texas Rangers.

Under the proposed timetable, the bonds would be issued by 2018 with the stadium completed by 2021.

The tax revenue to support the debt comes from a half-cent sales tax, a 5% car rental tax and a 2% hotel occupancy tax approved by voters in 2004 to build the Cowboys stadium. The tax was originally scheduled to expire in 2028 when the bonds were expected to be paid off. But Arlington is ahead of schedule on the Cowboys bonds, with payoff now expected in 2021.

In the November election, Arlington voters would be asked to extend the tax to finance the new stadium for the Rangers.

Under the second bond-funding scenario, Arlington would extend the maturity of the Cowboys bonds to 2034 at a lower interest rate. That would lower debt service costs enough create room to service the Rangers stadium bonds if voters approve the tax extension.

Arlington has a long track record of subsidizing professional sports team owners, exceeded its financing projections in both major cases.

The city's $135 million debt for the Rangers 22-year-old current stadium, Globe Life Park, was paid off in 2001, a full decade early. The venue was known for much of its life as the Ballpark in Arlington.

The $298 million issued for the Cowboys stadium has also been paid down quickly because the city applied its revenue of 1.5 times debt service to the bonds, Finley said.

In September, Standard & Poor's Global Ratings upgraded the Cowboys bonds to A-plus from A based on the improved debt-service coverage.

“If material pledged revenue increases or early debt retirement results in substantially improved debt service coverage, we could further raise the rating,” S&P analyst Omar Tabani said.

In 2015, Arlington paid the last of a $64 million lump-sum payment on stadium debt that wasn’t due until 2035. That took seven years off the 30-year bonds’ debt-service schedule.

In 2009, the year the Cowboys stadium opened, Arlington refunded $164 million of Series 2005B bonds that were originally sold as variable-rate demand notes supported by a standby bond purchase agreement and hedged with an interest rate swap. The 2009 issue ended the 2005B swap and shifted all the debt into fixed rate.

In 2008, the city retired $104 million of the original $164 million in 2005B bonds after some became bank bonds held by liquidity provider, Depfa Bank PLC. The rest were remarketed in February 2009.

Arlington will ask the Texas Office of the Comptroller to review the fiscal impact to the state before calling the Nov. 8 election on the proposed financing.

To gain support for the project, the Arlington Convention and Visitors Bureau hired HR&A Advisors to estimate the economic impact of a new stadium.

Its analysts said that Arlington would benefit to the tune of $77.5 million annually, while Tarrant County’s economy would grow by $137.6 million.

Related development plans include a Texas Live! entertainment complex, convention center annex and hotel adjacent to the new stadium. Direct funding and tax breaks could provide $100 million for the $200 million project, according to the city. Construction is expected to start this year.

Net present value of the Rangers’ continued presence between 2016-2054 with a new ballpark would be $2.53 billion for Arlington and $4.49 billion for Tarrant County, according to the study.

The proposed retractable-roof stadium would be built on what is now a team parking lot south of the existing ballpark.

The city and the Rangers are discussing the future of Globe Life Park, with options including office development, park space, parking and other uses.

The Rangers’ 30-year lease on the city-owned ballpark is set to end in 2024. With the new proposed master agreement, the Rangers’ partnership with Arlington would extend until Jan. 1, 2054.

The Rangers have played in Arlington since they moved from Washington, D.C., in 1971.

The team’s first stadium was Arlington Stadium, an expanded minor league ballpark. After 20 years in Arlington, the city broke ground on the team’s current stadium, built at a cost of $193 million.

While the current ballpark is considered an architectural gem, Texas’ oppressive summer heat has discouraged some fans from attending games in the open-air stadium.

With a population of 379,000, Arlington is the largest of the Mid-Cities between Dallas and Fort Worth. The city’s tax base has grown at an annual average of 2.6% over the past five years to $19.5 billion, according to Moody’s.

Home to the University of Texas at Arlington and a General Motors Assembly Plant, Arlington has long been known for its entertainment venues such as Six Flags Over Texas and Hurricane Harbor. The opening of the Cowboys stadium in 2009 made the city home to two professional sports franchises.

Plans for the new Rangers stadium call for about $200 million more from the city than was provided for the Cowboys stadium.

With $380.9 million of outstanding general obligation debt, Arlington carries triple-A ratings from S&P and Fitch Ratings. Moody’s Investors Service falls a notch lower at Aa1.

In 2014, Arlington voters approved the city’s $236 million GO bond proposal. The city has $226.1 million of unissued bonding authority, according to S&P.

The Bond Buyer

By Richard Williamson

May 27, 2016

Pennsylvania to Test Investor Demand as Budget Wounds Remain Raw.

Pennsylvania may soon get a sense of investors’ appetite for another year of likely budgetary battles between its Democratic governor and Republican-led legislature.

The Keystone State is selling almost $1 billion in general-obligation debt Wednesday in what is the first sale of the securities since Governor Tom Wolf allowed a budget to be put in place without his signature in March. The first-term leader conceded after failing to sway lawmakers to endorse his tax and spending proposals for the fiscal year ending in June.

Even after the resolution to the budget impasse -- the longest since 1956 — Pennsylvania still faces nearly a $2 billion shortfall in the next fiscal year and an economy growing more slowly than the rest of the nation. Moody’s Investors Service and S&P Global Ratings have warned of further credit-rating downgrades unless they see progress away from one-time budget balancing maneuvers. Investors appear to agree.

“You have a slow-growing state with high legacy costs and a somewhat contentious political process that we fear will result in the state being able to do just the minimum that’s acceptable,” said Paul Mansour, head of municipal research at Conning, which oversees $11 billion of state and local debt. “I really don’t see a catalyst right now for any improvement in credit quality.”

Conning “probably” won’t buy any of the securities unless the yields are more in line with that of debt graded a step lower than Pennsylvania, which has the fourth-highest rank, said Mansour.

High Yielders

Yields on Pennsylvania’s 10-year bonds are 0.64 percentage point above benchmark securities, near the three-year high of 0.72 percentage point in March, data compiled by Bloomberg show. Only Illinois, New Jersey and Connecticut pay more, according to data on 20 states tracked by Bloomberg.

That may serve as a saving grace for Wednesday’s sale. With tax-exempt mutual funds flush with cash from the longest stretch of inflows in six years and overall tax-exempt market yields not far from record lows, managers have poured money into higher-yielding securities, pushing up demand.

Randy Albright, Pennsylvania's budget secretary, said the bond sale Wednesday is attracting a "fair amount of interest."

Pension Funding

"Despite the budget impasse of last year, we continue to have a pretty exemplary track record of taking seriously all of our debt obligations and always being careful in terms of making sure that we're able to make payments when they're required to be made," Albright said.

Even after the compromise following the nine-month budget delay, Wolf and the legislature remain at odds over raising taxes and fixing the underfunded pension system to create another impasse for the next fiscal year beginning in July.

Pennsylvania, the sixth-most populous state, has struggled to fully recover from the recession that ended in 2009. Over the past few years, it has raided reserves and anticipates ending the year with just $232,000 in a rainy day balance that's supposed to account for 6 percent of its general fund. It's coping with rising costs from its pension system, which has about 60 percent of the assets needed to cover the benefits promised to about 700,000 employees.

Tax Plan

At Aa3, Pennsylvania already has a Moody's grade lower than the median of Aa1, second highest. Lowering it one step would make it third-worst ahead of New Jersey and Illinois.

"The commonwealth's credit challenges are likely to worsen in the near term absent political compromise," Moody's said in a May 20 report.

Wolf wanted to raise levies on income and retail sales and implement a new tax on natural-gas drillers. Resistant Republicans pressed to put new state workers into defined-contribution plans similar to 401(k)s, a measure Wolf vetoed.

Moody's cut the state's grade and those of school districts. S&P withdrew its ratings of debt issued by schools through a state program that diverts aid to the obligations. Schools and social service agencies were forced to take out loans.

Wolf is pushing a similar spending plan for the new fiscal year that raises $2.7 billion in taxes, and Republicans are again stressing avenues such as reducing pension costs and selling the state liquor operations.

"We believe that we shouldn't turn to taxpayers first when we're looking in trying to fix the deficit," said Jennifer Kocher, a spokeswoman for Senate Republicans in Harrisburg. "There are still other areas where we can generate revenue for the state."

Bloomberg Business

by Romy Varghese

May 31, 2016 — 10:20 AM PDT

More in Debt Than Puerto Rico, the Virgin Islands Rejects Rescue.

Congress's plan to throw a lifeline to Puerto Rico is making waves in the U.S. Virgin Islands.

The measure that passed a House committee last week would allow for a federal control board to oversee the finances — and potentially restructure the debt — of any U.S. territory, even though Puerto Rico is the only one now asking for help. Virgin Islands Governor Kenneth Mapp and Rep. Stacey Plaskett have blasted the bill, warning that it may tarnish its standing with investors. That concern is already starting to materialize: Returns on its securities are trailing the $3.7 trillion municipal market for the first time since 2011.

The Caribbean island, Puerto Rico's closest American neighbor, has a sliver of the population — about 104,300 — and a fraction of the debt, with $2.4 billion across all issuers. But divvied up, that's $23,000 of obligations per person, even more than Puerto Rico's $20,000. The two Caribbean territories with a shared culture also have similar fiscal strains: declining populations, underfunded pensions, histories of borrowing to cover budget shortfalls and unemployment rates that are twice as high as the U.S. mainland's.

"It's the same template: Over a period of years, you keep issuing debt to cover your operating deficits, your economy isn't growing, your population isn't growing, but your liabilities keep growing," said David Ashley, an associate portfolio manager at Thornburg Investment Management, which holds $11.5 billion in municipal bonds. "Just by virtue of math, your per-capita debt just continues to rise, probably to an unsustainable level at a certain point."

Territory bonds have long lured buyers across the U.S. because the interest on the securities isn't taxed at the federal, state or local level. And unlike some American local governments, the territories — – American Samoa, Guam, Northern Mariana Islands, Puerto Rico and the U.S. Virgin Islands — can't file for bankruptcy.

That made investors confident they'd be paid back, a faith that was lost as Puerto Rico defaulted and Congress advanced legislation providing a way for distressed territories to reduce their debts in court if needed.

Virgin Islands leaders insist the government can and will pay what it owes, in part because of the way the bonds are structured. Many securities are backed by specific revenue streams, like excise taxes tied to rum production by Diageo Plc and Cruzan International Inc., that go straight from the U.S. Treasury to an escrow agent. Even bonds backed by gross receipt taxes, which offering documents say are "secured by its full faith and credit and taxing power," also give the trustee a lien on the levies.

Virgin Islands officials say they've had to borrow to make up for discrepancies in how the federal government funds territories relative to states. They've called on Congress to extend tax credits for low-income workers to their residents and bolster Medicare and Medicaid payments as well. None of that was included in the Puerto Rico bill.

Disadvantaged Start

"Congress has passed the buck and hasn't done what they needed to do for many years," Plaskett, the Virgin Islands's non-voting representative in Washington, said in a telephone interview. "We're already operating at a disadvantage to the other states, and have had to utilize other monies, such as bonds, to pay for everyday expenses that the people of the territories need."

In a year when municipal-bond investors can't get enough high-yielding bonds, the Virgin Islands are an exception. The territory's debt has gained 2.2 percent so far in 2016, compared with 2.8 percent for all municipal securities, S&P Dow Jones Indices data show. It would be the first time since 2011 its obligations have trailed the market.

Its securities are mostly in the lowest investment-grade tier, unlike Puerto Rico's, which are deemed virtually certain to default. If the Virgin Islands issued pure general obligations, however, Fitch Ratings says it would rate them BB-, the third-highest junk rank.

"In terms of the debt load, on a per-capita basis, on an income basis, it's high," said Marcy Block, the Fitch analyst who tracks the Virgin Islands.

Aside from indebtedness, the Virgin Islands is grappling with similar economic and demographic trends as its beleaguered Caribbean counterpart.

The Virgin Islands's real gross domestic product dropped in each of four years through 2014, according to data from the Bureau of Economic Analysis. Like Puerto Rico's, its contraction has been exaggerated by migration as residents leave in search of jobs. The Virgin Islands's population is down 10 percent from its 2008 peak, according to BEA data, and the unemployment rate is 11.1 percent.

The Department of Interior said in a September 2011 report that the Virgin Islands's pension plan may be unable to pay what it promised by 2025, though a measure passed last year could delay that by a few years.

Mapp, who's unaffiliated with a political party, said in his first budget message a year ago that the territory's general-fund revenue hasn't been enough to cover expenses for the past two decades. The island may end this year in deficit as well.

Yet he says the Virgin Islands "have no financial issues close to or mirroring those of Puerto Rico."

"We're in a precarious situation — we have an enormous budget deficit and we've been struggling with that for quite some time," Plaskett said. "Should we be using bonds for operating costs? I have always argued no, but it's a necessity because Congress has not done its responsibility to give economic tools and support to the territories to be able to grow their own economies."

Bloomberg Business

by Brian Chappatta

May 31, 2016 — 2:00 AM PDT Updated on May 31, 2016 — 6:50 AM PDT

New York University Bond Sale Shows Hype Over STEM in City Real.

Cornell University, which is creating a technology campus on Roosevelt Island, isn't the only school spending millions for science and engineering facilities in New York City.

Columbia University borrowed $50 million in April to finance the construction of a nine-story building that will house a brain-science institute. The City University of New York on May 20 opened a nanofabrication facility, where students and corporations can create extremely small devices, in its

$350 million Advanced Science Research Center. New York University joined the spending spree Wednesday, when it sold $832 million of bonds for projects including a 365,000 square-foot medical-school building, an applied science center in Brooklyn and a nanoscience lab.

The bond sale, the biggest by a private university since 2010, draws NYU deeper into a nationwide higher-education push to invest in facilities for science, technology, engineering and math — or STEM — to prepare students for higher-wage jobs, attract faculty and boost their ability to commercialize research.

New York officials have encouraged the universities' expansion in the city, seeing it as a way to spur its technology industry and diversify the economy.

"New York State is playing a pivotal role in providing low-interest financing to support these preeminent universities and colleges," said Gerrard Bushell, the president of the Dormitory Authority of the State of New York, which is issuing the securities on behalf of NYU. "The rising scientific research facilities in New York City's core will diversify the economy as researchers make groundbreaking advances in medicine and technology."

Under former Mayor Michael Bloomberg, Cornell and Technion-Israel Institute of Technology were awarded land on Roosevelt Island and $100 million for infrastructure improvements to build an applied sciences and engineering school that will encompass 1.3 million square feet by 2027. His administration in 2012 reached an agreement with NYU that provided $15 million in subsidies for an applied sciences center in downtown Brooklyn that will focus on challenges facing cities, including infrastructure, energy efficiency, traffic, public safety and health.

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Universities, which can issue bonds in the tax-exempt market, are benefiting from borrowing costs that are holding near five-decade lows. Columbia, which has a AAA credit rating, issued 10-year tax-exempt bonds last month for a yield of 1.67 percent.

NYU's tax-exempt bonds maturing in 2043 were priced with a yield of 2.91 percent. Ten-year bonds yielded 1.91 percent, or 0.27 percentage point more than top-rated bonds with the same maturity. NYU also sold $247 million of taxable debt.

The securities have also paid off for investors: Municipal bonds for educational institutions have returned 3.02 percent this year, 0.35 percentage point more than the overall municipal market, according to Standard & Poor's indexes.

NYU's bonds, which are backed by university revenue, are rated Aa3 by Moody's and AA- by S&P Global Ratings, the fourth-highest grades. About $450 million of bond proceeds will be used to repay lines of credit that financed construction.

With about 47,700 students, NYU has transformed itself in a generation from a regional school to an international research university with a global "brand," according to Moody's. The university established degree-granting campuses in Abu Dhabi and Shanghai as well as centers in 11 other cities, including London, Paris, Madrid, Sydney, Buenos Aires, and Tel-Aviv.

It has also used its New York location to attract homegrown and foreign students. International students make up 17 percent of NYU's undergraduate enrollment, up from 6 percent in 2008, according to Moody's.

"Parents are more likely to send their children to come to college in New York because it's safer than it was 15, 20 years ago," said S&P analyst Carolyn McLean.

NYU's full-time enrollment has grown more than 20 percent in the last four years and is one of the largest private universities in the U.S. At about $65,000, NYU's tuition, room and board is among the highest in the country.

Because building in Manhattan is expensive, NYU has also borrowed more than its peers. With this week's issuance, NYU's debt will reach about $3.3 billion, not including another $2 billion for its hospital system. It's moving ahead with a $2 billion expansion plan at its Greenwich Village campus that has angered local residents.

NYU has about $1.4 billion of expendable resources, which is equal to about 40 percent of its debt, a low level compared to its peer group and rating, according to S&P.

"If you're in the rural Midwest the cost of building a science building is way less than buying up a block in Soho," said McLean.

Bloomberg Technology

by Martin Z Braun

June 1, 2016 — 2:00 AM PDT Updated on June 1, 2016 — 1:53 PM PDT

Puerto Rico's U.S. Rescue Won't Come Soon Enough to Halt Default.

Even if U.S. lawmakers return next week and push through their Puerto Rico rescue with unusual speed, it may not come fast enough to save the island from its biggest default yet.

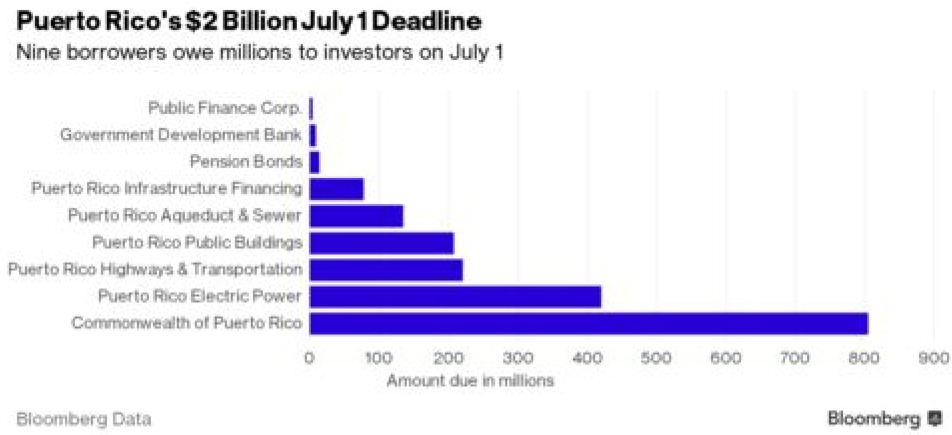
The legislation would put Puerto Rico's budget and, potentially, a restructuring of its debt in the hands of a federal oversight board appointed by congressional Republicans and President Barack Obama — a body that's virtually impossible to set up before $2 billion of debt payments come due on July 1. And the bill doesn't provide any additional federal money to the U.S. territory, whose government says it's simply too broke to pay.

"I don't think we would expect that Congress would enact anything that's quick enough to solve the July 1 debt service problem," said Phil Fischer, head of municipal research at Bank of America in New York. "There's a lot of uncertainty about what will be paid and how."

Puerto Rico's cascading series of defaults will enter a new phase next month if it skips payments for the first time on general-obligation bonds, which the island's constitution says must be repaid before everything else. With $805 million due on those securities, Governor Alejandro Garcia Padilla has said the commonwealth can't cover what it owes without shutting off services crucial to the island's 3.5 million residents, nearly half of whom live in poverty.

While the lapse would expose the island to a court fight with bondholders — who had little recourse when it defaulted on securities with weaker legal protections — they may still have to wait. A local law shields the government until January from lawsuits in Puerto Rico, while the bill that cleared the House Natural Resources committee last month by a 29-to-10 vote would halt them until February.

The Congressional bill "remains a work in progress, and is unlikely to be finalized and effective in time to prevent July 1 defaults," Alan Schankel, a managing director in Philadelphia at Janney Montgomery Scott, wrote in a report Thursday. "But it is the best potential next step in the pursuit of economic and fiscal stability for Puerto Rico."



Puerto Rico bonds are already trading with the expectation that they won't be repaid on time and in full. General obligations maturing in 2035, one of the most frequently traded securities, changed hands Wednesday at an average 65.6 cents on the dollar to yield 12.9 percent, data compiled by Bloomberg show. That price has tumbled from 93 cents in March 2014, when they were first sold to investors.

The commonwealth's fiscal crisis has been escalating since last June, when Garcia Padilla said the administration couldn't afford to repay $70 billion of debt left by years of borrowing to cover budget shortfalls as the economy contracted and residents left at record pace for the U.S. mainland. It has since failed to cover $370 million due on bonds sold by the Government Development Bank and $150 million for two other agencies as it conserved cash.

Help has been slow to emerge from Washington, which has allowed other deadlines to come without stepping in.

In December, despite the governor's warning of an impending humanitarian disaster, Congress failed to include any aid when it passed a key spending bill. While the House may take up the island legislation as soon as next week, Rep. Rob Bishop, the chairman of the Natural Resources Committee, has said he doesn't view July 1 as a crucial time limit to pass it.

Winning Concessions

Left on its own, Puerto Rico has been negotiating with bondholders and insurance companies to escape from some of its debt. It has already struck such an agreement with creditors of the Puerto Rico Electric Power Authority, the government's electricity provider. When the GDB defaulted last month, it reach a tentative deal with hedge funds holding $900 million of the bank's securities to eventually pay just a fraction of what is owed.

Garcia Padilla has typically waited until days before a payment is due to announce whether it will be made. Liz Kenigsberg, with the public relations firm SKDKnickerbocker in New York, which represents the GDB, didn't have an immediate comment.

The administration will probably negotiate with general-obligation creditors through the end of June, said Mikhail Foux, head of municipal strategy in New York at Barclays Plc.

"The market won't get any clarity pretty much until the 25th hour," Foux said. "There's very little trading because people are effectively just waiting for what's going to happen."

Garcia Padilla has said he will choose to keep essential government services in place over covering debt bills. If his budget is approved by Puerto Rico lawmakers, that's exactly what will happen: For the fiscal year that begins in July, he's proposed spending just $209 million on debt service, a fraction of the $1.39 billion that's supposed to be paid from the government's general revenue.

A default in July may eventually force the issue into court, Bank of America's Fischer said.

"Now we get to a very significant issue on July 1 in regard to constitutionally-protected bonds and this is a big deal in terms of the laws of Puerto Rico," said Fischer. "Is the constitution binding on the governor with regard to debt-service payments in an absolute sense? We're going to find out."

Bloomberg Business

by Michelle Kaske

June 2, 2016 — 2:00 AM PDT Updated on June 2, 2016 — 6:35 AM PDT

A Stadium Plan Goes Sour in Hartford.

The Yard Goats, the Double-A affiliate of the Colorado Rockies, had hoped to open their 2016 season at the new $63 million Dunkin' Donuts Park. Instead, because of a fiscal crisis in Hartford, their new hometown, the team is playing on a borrowed field about 40 miles away.

On May 27, Hartford Mayor Luke Bronin announced the city could no longer afford to cover the cost of construction delays at Dunkin' Donuts Park. Hartford recently cut services and raided its rainy-day fund to close a $50 million budget gap for the 2017 fiscal year, which begins July 1. Now, Bronin is making a claim against the insurance bought by builders Centerplan Construction to guarantee the stadium would be completed. "The developer is responsible for any costs beyond what we approved, and there were quite a few," Bronin says.

The stadium, born out of an idea to revitalize Hartford's desolate north side, isn't what caused the city's budget problems. As Connecticut's capital, Hartford is home to a large number of public buildings; half of all properties in the city are tax-exempt. To compensate, the city has raised business taxes, which are now higher than in any neighboring city.

Bronin's predecessor, Pedro Segarra, insisted the stadium wouldn't just pay for itself but also generate revenue for the city. He oversaw the creation of the Hartford Stadium Authority, which issued $56 million in municipal bonds in 2015 to finance construction. In early January, shortly after Bronin took office, Centerplan reported that it would require an additional $10.4 million to finish the job in time for opening day. Bronin agreed to split those costs with Centerplan in exchange for the builder finishing the project by May 17, a deadline it missed.

Bronin, a 36-year-old former Rhodes scholar who graduated from Yale College and Yale Law School, ran for mayor on a promise to look "under the hood" of the city's deteriorating finances. What he found wasn't pretty. "I knew we were facing some serious fiscal challenges, but this was just a lot worse than I had planned on," says Bronin, who served as a naval reserve officer in Afghanistan and worked for the U.S. Department of the Treasury before returning home to Connecticut, where he was appointed general counsel under Democratic Governor Dannel Malloy.

For the 2018 budget, Bronin anticipates a $34 million shortfall, thanks to payments on debt that are coming due. The gap balloons to $78 million by 2022. “The stadium isn’t the straw that broke the camel’s back here,” says Melissa McCaw, Hartford’s director for management, budget, and grants. “It’s just some hay that was dumped on a crippled, half-dead camel.”

Centerplan says it wasn’t able to meet its deadline, in part because of changes the city requested, including the installation of a barn-style door in a luxury suite. The company has threatened to walk off the job until the insurer, Arch Insurance, completes its evaluation of the city’s claim. Centerplan principal Jason Rudnick estimates that could take anywhere from six to nine months. If Arch sides with the city, the insurer will cover as much as $47 million to complete the ballpark.

McCaw says that with the stadium unfinished and no new revenue sources available, the city may need to lean on the state for help: “I really just have no idea how we’re going to close that budget gap.”

The bottom line: *Hartford, which recently struggled to close a $50 million budget gap, is refusing to cover cost overruns at its new ballpark.*

Bloomberg Businessweek

by Kate Smith

June 2, 2016 — 3:20 PM PDT

Puerto Rico Commission Says Bonds May Violate Constitution.

Puerto Rico may have sold bonds that violated the commonwealth’s constitution, according to preliminary findings from an island commission charged with auditing its $70 billion of municipal debt.

The report analyzes the commonwealth’s last general-obligation bond sale, a $3.5 billion offering in March 2014, purchased mostly by hedge funds, and a 2015 short-term note issue. The island’s constitution restricts annual debt-service on direct obligations and bond maturities, limitations that the 2014 bond sale may have broken, according to the report.

“There is strong factual basis for the commission to continue research into whether the commonwealth complied with the constitution in issuing its debt, and whether the underwriters complied with applicable U.S. Securities and Exchange Commission norms,” according to the report.

Puerto Rico and its agencies face a $2 billion payment to investors on July 1, including $805 million for general obligations. Governor Alejandro Garcia Padilla has said the island cannot make that payment and cover essential services for 3.5 million residents. Puerto Rico officials have been negotiating with creditors to reduce its debt by asking bondholders to accept less than full payment on their securities.

Control Board

The U.S. House plans to vote next week on a bill that would create a federal control board to oversee

Puerto Rico's budgets and manage any debt restructurings. That panel may choose to analyze whether the general obligations are valid, said Matt Fabian, partner at Concord, Massachusetts-based Municipal Market Analytics.

"This is just one report that potentially gives ammunition to the administration or to the fiscal control board, if they want to pursue it," Fabian said Thursday.

Puerto Rico's constitution stipulates that annual principal and interest on its general obligations and commonwealth-guaranteed debt cannot exceed 15 percent of the island's average annual revenues in the last two years. The commonwealth may have sold debt that fails to fall within that restriction, according to the report. The debt-service margin currently stands at 13.6 percent, leaving some room for additional borrowing, Melba Acosta, president of the Government Development Bank, said Monday during a legislative budget hearing.

"While the administration encourages an open and transparent process to review the commonwealth's aggregate debt load, it has no reason to believe that any of the commonwealth's debt was incurred in violation of the Puerto Rico constitution," Victor Suarez, the island's fiscal agent in charge of overseeing its finances, said in a statement Friday.

Disclosure Requirements

An SEC rule requires underwriters and other outside professionals working on municipal-debt sales to determine that a borrower will provide yearly financial statements and audits on time. On April 30, 2014, six weeks after the 2014 bonds were sold, Puerto Rico released a notice saying it would miss a deadline to file its fiscal 2013 audited financials, according to the report. The commonwealth has yet to release its fiscal 2014 audit.

The legislature created the 17-member commission last year to audit Puerto Rico's debt. The panel is comprised of legislative leaders, representatives from financial institutions, members of organized labor and academics. The report recommends that the committee hire staff and get funds to complete a full audit.

"This is how municipal governments have historically looked to repudiate their bonds, by invalidating all or a portion of the debt either through some limit or some kind of problem with its issuance," Fabian said.

Bloomberg Business

by Michelle Kaske

June 2, 2016 — 10:25 AM PDT Updated on June 3, 2016 — 7:56 AM PDT

[Bloomberg Brief Weekly Video - 06/02]

Joe Mysak, an editor at Bloomberg Briefs, speaks with Amanda Albright about this week's municipal market news.

[Watch the video.]

June 2, 2016

San Francisco Mulls Fining, Prosecuting Home-Share Sites Like Airbnb for Listing Unregistered Units.

In 2015, a law took effect in San Francisco that requires those who make short-term rentals available on sharing sites such as Airbnb, HomeAway and VRBO to register with local government.

But only around 1,400 of an estimated 7,000 or more owners who rent rooms and entire homes to travelers have complied. So now some members of the San Francisco Board of Supervisors are working on new draft legislation. It would potentially hold the sharing sites accountable for users who don't follow registration rules, the San Francisco Chronicle reports.

"This is not about changing existing law," said supervisor David Campos at a Thursday committee hearing. "It is ultimately about corporate responsibility. About an industry that has made and continues to make tens of millions of dollars in this line of work taking responsibility for the negative impact that they are having on the housing stock."

Campos, a Democrat and an attorney with a Harvard Law School pedigree, is one of the lawmakers working on the draft legislation. It is scheduled to be presented Tuesday to the full board of supervisors, which is expected to view it favorably, the newspaper reports.

However, dozens of hosts showed up at the hearing and at least some are concerned that registration requirements are too cumbersome. For example, those who register must provide an itemized list for rentals of all "furniture, appliances, supplies, equipment and fixtures," their cost and acquisition date, so that a "business personal property" tax of roughly 1 percent can be applied.

Under the law being proposed by Campos and fellow Democratic supervisor Aaron Peskin, sharing sites would have to get a registration number from an owner before his or her short-term rental offering could be listed online. Noncompliance could be punished with fines of up to $1,000 a day per listing and misdemeanor prosecution.

Meanwhile, others are concerned that the proposal could violate federal law insulating websites from liability for user content, the Chronicle reports.

"Anytime someone proposes to place liability on the platform because the platform users are doing something wrong, that raises concerns," said David Greene. He is the Electronic Frontier Foundation's civil liberties director.

THE ABA JOURNAL

BY MARTHA NEIL

POSTED JUN 03, 2016 11:53 AM CDT

N.J. Governor Christie Signs Atlantic City Rescue Package Into Law.

(Reuters) – New Jersey Governor Chris Christie on Friday signed into law a package of legislation that provides distressed gambling hub Atlantic City with immediate cash help but also a potential state takeover if the city cannot fix its finances.

The bills will help reform the city's "overblown municipal government" while protecting state and local taxpayers, Christie said in a statement while continuing to take shots at local officials.

"We all agree that Atlantic City's government has not demonstrated the competence to properly manage the people's money without state guidance and oversight," he said.

The legislation "embraces my demand that Atlantic City immediately account for every dollar it receives and spends, and triggers a series of strict conditions and rigorous requirements the city must meet immediately," Christie said.

Atlantic City Mayor Don Guardian did not immediately respond to a request for comment. Earlier on Friday, Guardian marked the opening of summer beach season for the seaside resort city.

The bills provide a $60 million, six-month bridge loan from the state to the city and establish $120 million of payments annually from casinos in lieu of property taxes, a move aimed at stabilizing the city's volatile, eroded tax base.

In return, the city must prepare a balanced budget for fiscal 2017, which begins Jan. 1, and a five-year recovery plan. If it falls short, the state can move to take over operations and throw out collective bargaining agreements, among other powers.

The package could prove positive for the city's credit rating, which is deep in junk territory at Caa3, because it provides much-needed financial relief and removes the immediate threat of default or bankruptcy, Moody's Investors Service said after the governor announced his signature.

But a bond restructuring, which Guardian has said the city will likely pursue, would be considered a default if it includes bondholder impairment, Moody's said.

The city has about $240 million of bond debt outstanding.

By REUTERS

MAY 27, 2016, 4:39 P.M. E.D.T.

(Reporting by Hilary Russ; Editing by Chizu Nomiyama and Jonathan Oatis)

Chicago Gets Some Pension Relief as Rauner Veto Overridden.

SPRINGFIELD, Ill. — Chicago taxpayers will save $1 billion on police and fire pension costs in the short term under a law the General Assembly approved Monday after some House Republicans bucked their governor, who had railed against it as a ridiculous expansion of the Illinois' growing pension hole.

The House voted 72-43 to override Gov. Bruce Rauner's veto of the savings plan, which trumps state law that required the city to pump $4.62 billion into retirement accounts for police officers and firefighters through 2020.

The huge payments could have forced a $300 million property tax increase, Mayor Rahm Emanuel had warned. But Rauner countered that shorting payments will cost an extra $18.6 billion in interest during the next 40 years.

The House quickly followed the Senate in reversing the first-term governor, a businessman who has pounced on the issue of Illinois' woeful pension funding — in municipal as well as state accounts — since he was a candidate.

The city's police and fire funds are $12 billion short of what's needed to cover current and future obligations. Chronic underfunding over the decades is largely to blame, as it is responsible for the $111 billion shortfall Illinois faces in its state-employee accounts. Rauner saw the legislation as another means of delaying the pain accompanying fiscal balance.

"Clearly, those who supported this measure haven't recognized what happens when government fail to promptly fund pension obligations," Rauner said in a statement.

The legislation was approved in the House last year with 65 votes — six short of the number needed for a veto override. But Monday, some Republicans jumped to the Democratic mayor's aid Monday. Arlington Heights Republican Rep. David Harris said Emanuel inherited the mess from his predecessor and already raised property taxes by $500 million just to catch up on underfunded pensions.

"Not a penny for public works, not a penny for infrastructure improvement," Harris said. "That's a tough thing to do and I give him credit for that."

The Democratic-controlled Senate voted 39-19 earlier Monday to OK the plan unions endorse. The Fraternal Order of Police Lodge 7 and Chicago Firefighters Union Local 2 backed the plan they had negotiated with Emanuel.

"We in the city agreed to step up and finally do our part to responsibly fund these pensions," Emanuel said in a prepared statement.

The plan would reduce Chicago's required pension deposits to police and fire retirement funds by $1 billion, to $3.63 billion, and stretches the timeline from 2040 to 2055 for the funds to meet a level of funding equal to 90 percent of what they need to cover current and future payouts.

Despite the blow to Rauner, many GOP lawmakers stayed the course.

"At some point, you're going to have to take fiscal responsibility for your own actions," Naperville Republican Rep. Grant Wehrli said. "Chicago, raise your taxes."

By THE ASSOCIATED PRESS

MAY 30, 2016, 8:39 P.M. E.D.T.

New York Airport's $4 Billion Renovation Financing Deal Closes, Begins Lease.

NEW YORK — A $4 billion project to renovate New York's dilapidated LaGuardia Airport finalized its financing on Wednesday, marking the start of a 34-year lease on one of the most complex public-private partnerships in the United States.

The Port Authority of New York and New Jersey, which operates the critical regional transportation hub, reached financial close on the deal with LaGuardia Gateway Partners (LGP), a consortium of

Vantage Airport Group, Skanska and Meridiam.

“We are committed to delivering this project on time and within budget, while keeping communities engaged and informed,” said LGP CEO Stewart Steeves in a statement. “We will build and operate a facility that New Yorkers can be proud of.”

Vice President Joe Biden derided the airport in 2014 when he compared it to “some third-world country.” Last year, he returned there to tout the redevelopment project.

The project is extremely complicated because the airport will remain open and fully operational during the rebuilding of the airport’s central terminal.

The Port Authority chose a public-private partnership to rebuild the terminal in part because it could shift construction risk to the private sector.

After construction is complete, the consortium will operate and maintain the facility for the duration of the lease, which ends in 2050.

On Tuesday, the Port Authority said some terminal roadways could be congested and that it will close some parking lots in June and July as part of the project.

New facilities will begin to open in 2018, with plans to have the project substantially completed in 2022, the consortium said.

The plan for the new terminal includes two pedestrian bridges spanning active aircraft taxi lanes, the first such design in the world, the companies said. It also includes food, beverage and retail stores and additional seating.

The consortium got access to low-cost borrowing through the New York Transportation Development Corporation, which two weeks ago issued $2.5 billion of mostly tax-exempt municipal bonds.

Altogether, two-thirds of the project is to be financed privately.

By REUTERS

JUNE 1, 2016, 3:03 P.M. E.D.T.

(Reporting by Hilary Russ; Editing by Diane Craft)

Report Questions Whether Puerto Rico Debt Issued Illegally.

SAN JUAN, Puerto Rico — A commission created to audit Puerto Rico’s debt is questioning the legality of government-issued bonds in a report released Thursday, saying the struggling U.S. territory might not be responsible for paying a portion of the money owed.

The report comes as the U.S. Congress is debating how best to help Puerto Rico as it struggles to restructure $70 billion in public debt. The island is widely expected to default on a $2 billion payment due July 1.

The commission, whose 17 members were in part appointed by Puerto Rico legislators, found in its pre-audit report that millions of dollars of debt might have been issued in violation of the island’s constitution. They say that is significant because previous court rulings have found that some U.S. municipal agencies were not responsible for paying debt if it was illegally issued.

The 44-page report states that Puerto Rico has borrowed more than $30 billion to finance deficits since as early as 1979, though its constitution prohibits it from doing so.

The constitution also bars the government from issuing loans for more than 30 years, but the commission found that the government has long done that. For example, a debt was incurred in 2014 to repay debt from 2003, which was used to refinance a 1987 debt.

The report also said Puerto Rico is spending more government revenue on debt than is allowed by the constitution.

"A court may rule that Puerto Rico borrowed without authorization to do so, with the consequence that Puerto Rico may be barred from issuing further debt in the future to finance deficits, it may be forced to raise taxes, or alternatively, declare the debt unpayable for lack of authorization," the report said.

The report's findings are not final. The commission noted that it has not received any funds yet to carry a full audit as planned.

"The findings of this report prove the need to dedicate resources to this audit and start to reveal who holds the debt, how borrowed money was used and if it met constitutional and legal limits," said Roberto Pagan, the commission's president.

Puerto Rico already faces several lawsuits stemming from its debt crisis, and some say the report's findings could further complicate efforts to find a solution in time to avoid default. The U.S. House of Representatives is considering a bill that would allow for restructuring of some debt while creating a federal control board to oversee the territory's finances.

The House is expected to debate the measure in upcoming weeks, while the Senate has not yet considered the bill.

By THE ASSOCIATED PRESS

JUNE 2, 2016, 11:24 A.M. E.D.T.

Bloomberg Brief Weekly Video - 05/26

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Joe Mysak about this week's municipal market news.

Watch the video.

May 26, 2016

California's Recovery Loses Luster as Tax Increases Set to Lapse.

California’s three-year boom run is showing signs of fatigue.

Shaking off recession-era comparisons to Greece, the most-populous U.S. state rebounded with surpluses and an economy fueled by the fast-growing technology industry, which garnered it eight bond-rating upgrades.

Governor Jerry Brown is now forecasting that revenue growth is slowing along with the economy after April’s income-tax collections lagged expectations, in part because of the sputtering stock market. Even if voters in November decide to keep a temporary income-tax increase from ending — a measure that Brown hasn’t endorsed — the budget would “barely be balanced,” his administration said this month.

“We see the state at somewhat of a crossroad,” said Bernhard Fischer, senior fixed-income analyst at Principal Global Investors, which holds $6.2 billion of municipal bonds, including those issued by California. “They need to prepare to address the expiring tax increases and prepare for spending cuts. Maintaining balanced budgets is critical for the long-term credit of the state.”

Following the housing-market crash, California dealt with budget shortfalls so severe it was forced to issue IOUs in 2009 when lawmakers couldn’t agree on a fix. The tax increase, approved on the November 2012 ballot, helped California reverse its fiscal fortunes, leaving officials in 2013 debating how to use a surplus. As it arrived, Brown paid down debt and socked money away to use the next time the economy tumbles into a recession.

The shift has been lauded on Wall Street. S&P Global Ratings raised California last year to AA-, the fourth-highest grade and the best for the state since 2000. Moody’s Investors Service rates it a comparable Aa3, its most positive assessment in 15 years. California’s 10-year bonds yield about 1.85 percent, or 0.23 percentage point more than top-rated securities, according to data compiled by Bloomberg. That gap is down from as much as 0.67 percentage point three years ago.

California’s job gains are expected to slow alongside the national economy, with the U.S. gross domestic product projected to grow by 1.8 percent this year, down from 2.4 percent in 2015, according to the median forecast of economists surveyed by Bloomberg.

In anticipation, Brown’s administration this month reduced its revenue estimate for the year that begins in July by $1.9 billion, citing weaker-than-expected receipts of income and sales taxes since January. Even so, the governor’s budget would still raise spending by 5.7 percent and nearly double the amount in its rainy-day fund to $6.7 billion. The plan is awaiting approval from the legislature.

California’s outlook is darkened by the scheduled end of tax increases that were approved in 2012. The additional quarter-percent sales tax expires at the end of this year, while a higher income tax on the wealthiest will cease in 2018. Labor unions, including those representing teachers, are backing an initiative for the November ballot that would continue the income-tax hikes through 2030.

Although Brown hasn’t expressed support for the measure, he projects that the loss of the taxes will leave the state spending $1.7 billion more than it brings in during the 2019 budget, a shortfall that will grow to $4 billion the following year.

That actually may be good news for bond buyers who want California securities but are dissuaded by the low yields relative to other securities.

“From a bond buyer’s perspective, you’d like to see some operating deficits or more stress on the budget just because spreads would widen out, and assuming that the economy is fairly strong, you can withstand tax increases and potentials for cuts in expenditures,” said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $6.3 billion of local debt.

The volatility in the stock market also poses risks. California is highly susceptible to equity-market swings because the top 1 percent of earners — who tend to own shares — accounted for nearly half of its personal income-tax collections in 2014.

While the state benefited from rising equities since 2012, “in a sustained market correction – which is inherently unpredictable – the dynamic would work in reverse, making state tax revenues susceptible to a steeper drop-off,” S&P analysts led by Gabriel Petek wrote in a May 17 report.

The state is better prepared for a recession than it was before the last one began at the end of 2007, said Rob Amodeo, head of municipals in New York for Western Asset Management Co., which holds $25 billion of the securities, including California’s. Still, he pointed to an April Moody’s report that showed that out of 20 states, California was among the most vulnerable.

“The credit is plateauing,” Amodeo said.

Bloomberg Business

by Romy Varghese

May 27, 2016 — 2:00 AM PDT

Puerto Rico Raises Stakes in Legal Standoff With Budget Proposal.

Even as Congress moves to rescue Puerto Rico, Governor Alejandro Garcia Padilla’s budget plan may open the door to its first legal showdown with investors for skipping bond payments.

The $9.1 billion spending plan unveiled Monday allocates $209 million for interest payments on commonwealth debt. That’s just 15 percent of the $1.39 billion of principal and interest that Puerto Rico owes from its general fund in the fiscal year starting July 1, including $1 billion for general obligations, according to Luis Cruz, the island’s budget director.

While creditors have decided so far against suing over earlier defaults on bonds with weaker repayment pledges, they may not be so patient when it comes to the debt backed by Puerto Rico’s constitutional pledge, which states the securities are repaid before other expenditures. It may boil down to whether Congressional leaders are able to come to an agreement and pass legislation allowing a debt restructuring before a $805 million general obligation payment comes due on July 1.

“You can’t allow obligations to be broken and not do something about it,” said Daniel Solender, who oversees $19 billion as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey, including commonwealth debt. “Otherwise, you’re not meeting your fiduciary responsibility. There are priorities he’s not following and it’s going to get some reaction from bondholders.”

Either way, Puerto Rico bond prices already reflect less then full repayment. General obligations with an 8 percent coupon and maturing 2035 traded Wednesday at an average price of 66 cents on the dollar, to yield 13 percent, according to data compiled by Bloomberg.

If Puerto Rico defaults on its general obligations, bondholders may still have to wait to seek remedies through the courts. The commonwealth’s debt-moratorium law passed last month includes a pledge to prevent creditors from suing Puerto Rico through January 2017 on a missed payment. The Congressional bill that was approved by a House committee Wednesday contains a provision that safeguards the island against such suits through February 2017.

Two Puerto Rico agencies, the Public Finance Corp. and the Puerto Rico Infrastructure Financing Authority, known as Prifa, have defaulted this fiscal year on about $150 million. They have some of the weakest repayment pledges among commonwealth debt. The legislature declined to allocate debt-service payments to the PFC. Gracia Padilla has redirected rum-tax revenue that usually repays Prifa bonds to cover general obligations, a risk investors were warned of when the debt was first sold.

The release of the budget plan just one day before the House committee began working on the bill and choosing to not include a full payment for general obligations may have been the latest attempt by the governor to force Congress to move forward, Solender said. Garcia Padilla has warned since June that the commonwealth could no longer afford its $70 billion debt burden.

“A lot of the attempts continually seem to be focused on trying to get Congress to take action,” Solender said. “This could be part of that process too.”

Investors and bond-insurance companies have filed suits against Puerto Rico for redirecting revenue away from some bonds to repay general obligations instead and to prohibit the government from taking money out of its Government Development Bank and safeguard the bank’s assets.

The budget proposal is a signal that instead of earlier attempts to find cash to meet general obligation deadlines, the administration is now focused on paying public workers and programs before bondholders, said Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer.

Debt Service

“This is a pretty strong statement that they’re not going to even try to pay anymore,” Hanson said. “In some ways he’s threatening bondholders and saying ‘come and sue us.”’

Garcia Padilla’s $9.1 billion plan is $700 million less than the current year’s revised budget. The difference comes from not paying debt service, Hanson said. The budget for the fiscal year ending June 30 included $1.2 billion to repay debt, $966.5 million more than Garcia Padilla’s fiscal 2017 plan, according to documents from the Department of Management and Budget.

Rather than reacting to the budget proposal, investors are waiting to see what happens on July 1, said Lyle Fitterer, head of tax-exempt debt in Menomonee Falls, Wisconsin, at Wells Fargo Capital, which oversees $39 billion of munis. Well Fargo Capital holds some insured Puerto Rico debt.

“The market is pricing in the fact that they are going to make their interest payment on July 1,” Fitterer said. “If they don’t, I would think that the market would sell off some on that news.”

Bloomberg Business

by Michelle Kaske

May 26, 2016 — 2:00 AM PDT

Chicago Reaps Rewards of Airport Debt Rally in Midway Sale.

Chicago is benefiting from a rally in airport bonds as the junk-rated city sold about $343 million of federally tax-exempt securities for Midway International Airport to refinance debt and pay for projects.

The bonds due in 2046, which have the longest maturity, sold on Wednesday at 3.04 percent yield, according to data compiled by Bloomberg. That's about 0.6 percentage points more than benchmark municipal debt, data compiled by Bloomberg show. The deal generated a present-value savings of $4.3 million, according to Molly Poppe, a city spokeswoman.

Prices of airport bonds are climbing as the improving economy boosts travel. The securities have returned 2.9 percent this year through Tuesday, outperforming the municipal market's 2.8 percent jump, Bank of America Merrill Lynch data show. At this rate, airport debt is headed for a third straight year of gains.

"Some people would say the airports have an extra degree of separation from the city," said Gabe Diederich, a Menomonee Falls, Wisconsin-based portfolio manager at Wells Fargo Asset Management, which manages about $39 billion of munis, including various Chicago bonds. "It almost seems like the positive halo of the airport sector is overwhelming the negative halo of being a Chicago-area issuer."

Pension Woes

Chicago is struggling with a debt-wracked pension system that has a shortfall of more than $20 billion after years of shortchanging its four retirement funds. The increasing stress on its finances from the pension deficit spurred Moody's Investors Service to lower its bond rating last May, leaving Chicago with the lowest credit ranking of any large U.S. city except once-bankrupt Detroit.

Mayor Rahm Emanuel reached an agreement this week with unions whose members participate in the laborers' pension fund. The deal would force the city to pay more into the fund, while allowing employees to retire as early as 65 in exchange for higher pension contributions. The pact still needs state approval.

S&P Global Ratings has the Midway bonds at A, the sixth-highest investment grade rating and two steps higher than its BBB+ rating on the city's general-obligation debt. Fitch Ratings also ranks the Midway bonds at A.

Capital Improvements

The bond are second-lien revenue and revenue refunding securities that are limited obligations of the city and payable by a pledge of revenues from airport operations and other funds, according to bond documents.

Midway, about 10 miles (16 kilometers) southwest of Chicago's downtown, had a record 11 million enplaned passengers last year, up 4.8 percent from the previous year, bond documents show. That performance is continuing this year: the first quarter of 2016 saw 2.3 million enplaned passengers, a record for the first three months of the year and a 4 percent jump from the same period in 2015. An enplanement is a revenue-generating passenger departing from or arriving at an airport.

The bonds' proceeds will refinance debt, fund a deposit to the debt service reserve fund and cover projects as part of the capital improvement plan. These funds will help cover the costs of maintenance projects, as well as the expansion of the terminal parking garage and the security checkpoint to make more concession space to increase non-airline revenue, according to an investor presentation.

Bloomberg Business

by Elizabeth Campbell

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Atlantic City Rescue Plan is Politics as Usual for Bondholders.

The tentative agreement to save Atlantic City is the latest example of how success is often measured in New Jersey politics.

After months of bickering, the deal reached Monday by state lawmakers to prevent the fiscal collapse of the seaside gambling hub offers optimism to workers worried about their next paychecks, unions adamant on preserving bargaining rights and tourism officials before the key Memorial Day holiday.

While the framework lets city leaders come up with a plan to align its operations with revenue or fall under state control, it doesn't detail how that could be done. The legislation provides cash for debt and other obligations this year, but the city must slash expenses and rebuild a tax base that has tumbled by more than two thirds since 2010.

"The underlying economic problems of Atlantic City haven't been resolved by this legislation," said Alan Schankel, a managing director at Janney Montgomery Scott in Philadelphia. "At the end of the day, some drastic action has to be taken. The state's not going to loan the city money indefinitely. I certainly don't think the state's going to loan money in some way to make bondholders whole."

For now, the legislative compromise does pull Atlantic City from the brink of bankruptcy, which would have been the first for a New Jersey community since the Great Depression. Credit-rating companies had warned of the effect of a collapse on other New Jersey cities. The legislature on Thursday will vote on the package that Democratic leaders say has the support of Republican Governor Chris Christie.

"The challenges are great," said Dan Belcher, a senior municipal analyst at Columbia Threadneedle Investment Advisers, which owns Atlantic City general obligations among its $26 billion in municipals. "But this is a good starting point."

Atlantic City, which once had a monopoly on gambling on the East Coast, has been veering toward insolvency since a third of its 12 betting parlors closed in 2014. To avert an unprecedented shutdown of city services, the 39,000-resident community lengthened worker pay periods last month. Mayor Don Guardian warned the city could run out of money in June.

Under the agreement, the state would provide Atlantic City a bridge loan. Some gambling proceeds that go toward marketing would flow to the city, which would also receive fixed payments from casinos instead of property taxes to prevent assessment appeals that strain its finances.

Borgata Rebate

With that “stable revenue stream” as collateral, the city could sell bonds through a state program that diverts aid for debt payment to meet its $170 million or so tab to Borgata Hotel Casino & Spa for tax refunds, said Belcher.

The legislation up for a vote Thursday is a compromise from that passed by the state senate and supported by Christie. Those bills would have implemented an immediate takeover of city operations that included an ability to change or end existing labor contracts. That power remains if the city’s failure in 150 days to come up with an acceptable five-year plan to restore fiscal stability triggers the state’s assumption of control.

Credit-rating companies expressed caution. “A liquidity infusion from the state of New Jersey would be credit positive for Atlantic City, but there would remain a high degree of uncertainty regarding a long-term solution,” said Josellyn Yousef, a Moody’s Investors Service analyst, in an e-mail Tuesday.

April Kabahar, a spokeswoman for S&P Global ratings, on Tuesday referred to a report earlier this month that said that even if the city does receive “extraordinary support” from the state, that may not prevent bondholder losses. Janney’s Schankel said Tuesday that he considers some kind of hit to bondholders as “likely.”

Unions welcomed the break in the impasse, however, and said they would work to prevent the marginalization of elected officials.

“We definitely don’t want the state takeover,” said Keith Bennett, a state delegate for the city’s Policemen’s Benevolent Association Local 24. “It would mean that Chris Christie would have his hands too deep into our union’s issues. He would be able to control every aspect of the city.”

Christie’s spokesmen Brian Murray and Jeremy Rosen didn’t respond to an e-mail requesting comment on the bills.

Investors need to see clear timelines and goals in the city’s five-year plan — and consequences from New Jersey officials if they aren’t met, Belcher said.

“I would want to see a very short leash,” he said.

Bloomberg Business

by Romy Varghese

May 24, 2016 — 2:09 PM PDT

Chicago Reaches Plan to Shore Up Its Smallest Pension Fund.

Chicago Mayor Rahm Emanuel reached an agreement with unions on a way to shore up the smallest of the city’s struggling pension funds, saying it would create a “path to solvency” after a previous overhaul was struck down by the Illinois Supreme Court.

The city and two unions reached a pact that — if finalized — would aid a pension that’s set to run out of money by 2029. The deal would require an increase in contributions from employees who want to retire as early as 65 and boost Chicago’s payments into the Laborers’ and Retirement Board

Employees' Annuity and Benefit Fund by no less than 30 percent a year over five years, beginning with the contribution due in 2018. The fund serves some 8,000 employees, retirees and beneficiaries.

"This agreement marks a tremendous step forward in ensuring that the city's employees and retirees have a secure retirement, while protecting Chicago's taxpayers from bearing the entire responsibility on their own," Emanuel said in a statement late Monday.

The arrangement would begin to chip away at Chicago's soaring debt to its employee retirement system, which has a more than $20 billion shortfall after years of failing to put enough taxpayer money aside. The mounting strain on the budget as the city is forced to catch up led Moody's Investors Service to cut Chicago's bond rating to junk a year ago, giving it a lower grade than any big U.S. city except once-bankrupt Detroit.

The laborers' agreement sets up a template to save the municipal pension. The later has almost $10 billion of unfunded liabilities, eight times the shortfall of the laborers pension.

Bond trading after the city's announcement signaled investor optimism around the plan. Federally tax-exempt Chicago bonds maturing in 2030 traded Tuesday for 44.9 cents on the dollar, the highest average price since April 2015, according to data compiled by Bloomberg.

"It's definitely positive that they've made some progress, and they have an agreement," said Daniel Solender, who oversees $19 billion as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. "With all their plans, there's so many levels of approval. It's still some time before we know if it's really a plan that'll work."

The proposal provides a "good framework" for how to approach the municipal pension, a larger fund, Chicago Chief Financial Officer Carole Brown said on a conference call with reporters. That fund is set to run out of money within 10 years.

"We're pretty optimistic about having a solution also for munis in relatively short order," Brown said.

Illinois Approval

Some details on the fix are still pending, and it would need state approval. The city won't push the needed legislation before the end of the regular session of the legislature on May 31. The city just presented the plan to the pension fund on Monday and the city has yet to draft the proposed bill, Brown said.

In March, the Illinois Supreme Court threw out Emanuel's overhaul of the laborers and municipal workers pension fund that reduced benefits and increased city and employee contributions. The new proposal is intended to avoid a court challenge because it affects newly hired employees and gives those hired after Jan. 1, 2011, the choice of an earlier retirement age in exchange for putting more of their paychecks into the fund.

The deal would still give the pension decades to bring its assets in line with promised benefits. If implemented, the plan would get it to 90 percent funding — meaning it has 90 cents for every $1 it owes — by 2057.

"Choice is one of the areas that the Illinois Supreme Court indicated should pass constitutional muster," Alex Holt, the city's budget director, said on a conference call with reporters.

Bloomberg Business

by Elizabeth Campbell

May 23, 2016 — 3:11 PM PDT Updated on May 24, 2016 — 8:48 AM PDT

Boards Of Education Beware: Ohio Supreme Court Closes Door On Open Meeting Loopholes.

Because public body meetings are required to be open to the public in Ohio, just exactly what constitutes a “meeting” of a public body has long been a matter of some debate, especially as means of communication have expanded dramatically in recent years. Can Board members send and receive private email communications to each other on school matters? Can a Board President conduct straw polls of individual members in one-on-one telephone conferences? Can Board members tweet about public matters when she is followed by a majority of other Board members? Can an email be sent by the Superintendent to other Board of Education members seeking input from each?

These are just a few of the questions that had been left unanswered – until the Ohio Supreme Court’s May 3, 2016 decision in *White v. King*. And the state Supreme Court has now let it be known that the answer to these and just about every other similar question is a resounding “No.” The court held that “any” private prearranged discussion of public business is prohibited, whether that discussion occurs face-to-face, on the telephone, by video conference, by email, by text, by tweet, or by any other form of communication.

Critical Editorial Leads To Private Correspondence

In White, the Columbus Dispatch ran an editorial critical of four members of the Olentangy Local School District Board of Education, including the Board President. The editorial praised the fifth member, Mr. White, for his vote against a measure passed by the majority requiring that any communication between Board members and the staff to first pass through the Superintendent or Treasurer.

The Board President then suggested that he and the three other majority members meet with the Superintendent and district staff to draft a response to the editorial. The Board members, with the exception of Mr. White, engaged in a series of email communications among themselves and the staff resulting in a final written response that the Board President sent to the Columbus Dispatch identifying the four members who approved of the communication.

Mr. White brought suit against the four other members. His lawsuit complained that they violated Ohio’s public meeting law, but a lower court dismissed his case and held that the communications were not covered by state public meeting laws.

Ohio Supreme Court: Open Meeting Laws Are Broad

The Ohio Supreme Court reversed this lower court ruling and held that the communications fell under the public meeting law. The court noted that the statute’s definition of a meeting – “any prearranged discussion of the public business of the public body by a majority of its members” – was clear, unambiguous, and applied to any form of communication, not just meetings involving “real time” communication. This was true even though the Board of Education approved the actions of the members and the response to the newspaper in an open meeting.

The state Supreme Court, citing decisions from other states interpreting similar statutes, went out of its way to emphasize the broad scope of its decision. It specifically enumerated all the forms of modern communication in addition to email that cannot be utilized privately by a majority of Board members in discussing public business, even if the communications occur as a “series” of communications.

What Does This Decision Mean For You?

This decision has significant ramifications for members of Boards of education in Ohio who often connect with one another via email, phone, Facebook, and other means of communication to discuss public business. As a practical matter, it means that Boards of education cannot wait to review their policies and procedures to ensure that they comply with this case.

Here are some proactive steps you should consider:

- revise Board policies regarding Board member communication that either are inconsistent with White or not adequately crafted to ensure that “meetings” are not conducted outside the presence of the public;
- develop policies for responding to requests for Board response that may be initiated by an individual to a majority of the Board;
- ensure that superintendent and staff communications to the Board are informative, may contain suggested action, etc., but do not solicit input from each of the Board members. Such input will come at the meeting in which the matter is considered;
- ensure that all Board communication to the public is approved by a majority of the Board at a public meeting; and
- require that all presentations to the Board be made in a public meeting or be made to a representative who can then report to the Board as a whole in a public meeting.

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: May 24 2016

Article by William E. Blackie

Fisher Phillips LLP

Lawmakers Unite Against Governor to Give Chicago Some Pension Relief.

State lawmakers dealt a surprise loss to Gov. Bruce Rauner on Monday when a handful of Republicans joined with Democrats to override his veto of a bill to provide Chicago with financial relief in paying for police and fire pensions.

Meeting on the eve of Tuesday’s scheduled adjournment, the move came almost exactly one year after the bill originally passed and only a few days after Rauner vetoed it, prompting a weekend of heated words between the Republican governor and Democratic mayor who once were vacation friends.

The override avoids another immediate City Hall property-tax hike following last year’s record increase. The Monday vote also injected a major element of drama into the ongoing battle between

Rauner and Democrats who control the General Assembly, one that has left Illinois without a formal state government spending plan for nearly a year.

But there was no sign that the Republicans who backed the override were bolting from Rauner's larger agenda. And as lawmakers faced a midnight Tuesday deadline for the end of the session, no resolution to the impasse appeared imminent. Instead, rhetoric continued to fly from Rauner's Republican allies aimed at veteran Democratic House Speaker Michael Madigan.

An override of the Chicago pension veto had been expected in the Senate, where Democrats hold a 40-19 majority over Republicans. The measure got 39 votes, three more than the minimum. Republican Sam McCann of Downstate Plainview, who beat back a March primary election challenge funded by Rauner allies, joined Democrats in the override.

An override in the House had been questionable, if not doubtful. Democrats have 71 members, the minimum required to overturn a veto, and the bill got just 65 votes when it was approved.

But three Republicans joined with the House Democratic majority — Reps. David Harris of Arlington Heights, David McSweeney of Barrington Hills and Michael McAuliffe of Chicago. McAuliffe's Northwest Side district is home to many police officers and firefighters.

It was the first time that the Democrat-controlled General Assembly has succeeded in overturning a major Rauner veto without first reaching a deal with the governor.

The bill was long sought by Emanuel and provides short-term relief to the city by reducing in the short term how much taxpayers contribute to the retirement funds by hundreds of millions of dollars a year through the creation of a new payment schedule. But it also comes at a price, adding billions of dollars in long-term costs while the city's pension debt continues to grow.

"I particularly want to thank the Democrats and Republicans in the General Assembly for putting politics aside and doing the right thing for Chicago taxpayers, and for our first responders," Emanuel said in a statement. "We in the city agreed to step up and finally do our part to responsibly fund these pensions, and I want to thank Springfield for doing their part as well."

Rauner, who has been critical of Emanuel's governance of the city, in particular for failing to take on the Chicago Teachers Union, issued a statement deriding the override vote.

"Clearly, those who supported this measure haven't recognized what happens when governments fail to promptly fund pension obligations," he said. "Instead of kicking the can down the road, local and state governments should instead focus on reforms that will grow our economy, create jobs and enable us live up to the promises we've made to police and firefighters."

In vetoing the bill Friday afternoon, Rauner called the measure "irresponsible" and warned "the cost to Chicago taxpayers" in the long run is "truly staggering."

That led Emanuel to spend much of the holiday weekend protesting the move and ripping Rauner, saying the governor had "told every Chicago taxpayer to take a hike" and questioning the governor's trustworthiness. Without the changes in the pension funding schedule, Emanuel said, Chicago taxpayers faced a property tax hike of as much as $300 million.

Democratic Rep. Barbara Flynn Currie of Chicago, Madigan's top deputy, called Rauner's veto "an outrage." Democrats argued that delaying the pension payment schedule wasn't ideal, but was necessary to try to prop up the city's finances.

Some Republicans made that argument, too.

“I very respectfully disagreed with (Rauner),” said Harris, who voted “present” on the bill last year. “I understand his logic in terms of saying that it’s kicking the can down the road, and it does stretch out the payments, absolutely. But at the same time, I believe the mayor has taken some really significant actions to try to address the problem.”

Harris said he notified House Republican leadership of his plans to override Rauner but emphasized his action was “totally separate and distinct” from the governor’s agenda, focused on pro-business changes and altering collective bargaining and workers’ compensation rules.

McSweeney said he voted for the override to prevent a tax hike in Chicago. “I looked at it and I’m not voting for a property tax increase. I never have, never will,” he said.

But opponents sought to play the regionalism card in arguing Chicago was seeking a special deal.

“The truth is, Chicago is basically, they’re coming here again with their hand out,” said Rep. Jeanne Ives, R-Wheaton. “They’re expecting the General Assembly to make a difficult decision for them, but they have the ability to clean up their own mess … they just don’t want to.”

Following the vote, Madigan and Senate President John Cullerton walked one floor down from the legislative chambers to Rauner’s second-floor Statehouse office for a previously scheduled meeting on the end of session. Asked afterward about Rauner’s response to the override, Madigan said the governor “had nothing to say” about it.

“And,” the speaker added, “I was raised not to cause embarrassment for people, so I didn’t raise it.”

As for chances on a comprehensive budget agreement by Tuesday night, Madigan said he already has planned on scheduling House sessions “every Wednesday through June starting next week.”

It was Madigan and his House Democrats who sent the Senate a budget bill that provides hundreds of millions of dollars to schools but is at least $7 billion short of what the state expects to bring in. If it gets to his desk, Rauner has vowed to veto the bill in its entirety.

Many rank-and-file Senate Democrats dislike Madigan’s plan, but Cullerton indicated it likely was the one his chamber will vote on Tuesday.

“The budget bill, I should point out, was passed out of the House first but was negotiated by the speaker and myself together. And, especially, the education part of the budget, which increased the education funding by $760 million, that was totally signed off on by myself and we’re working that issue in our caucus,” Cullerton said.

Rauner has sought to build pressure on Madigan to agree to some of his wish list by organizing bipartisan groups of rank-and-file lawmakers to negotiate key agenda items. Madigan said his members will continue to take part in those groups, though he said they are unwilling to “sacrifice the interests of the middle class.”

On Monday, Madigan held briefings to update House Democrats on the status of those working groups. But in a symbol of the deep partisan divide, the Rauner-controlled Illinois Republican Party issued a news release that likened the briefings as brainwashing “re-education meetings.”

Republicans also sought to score points when GOP Sen. Matt Murphy of Palatine tried to enter the Democratic meetings and later asked Madigan’s members to “not fall victim to the speaker’s ongoing personal vendetta against the governor."

"This seems to me like his attempt to derail (his members) and run out the clock," Murphy said of Madigan.

TRIBUNE NEWS SERVICE | MAY 31, 2016

By Monique Garcia, Kim Geiger and Celeste Bott

Chicago Tribune's Rick Pearson contributed.

Bernie Sanders Slams White House Compromise on Puerto Rico Debt.

Conservative political groups and hedge funds that bought Puerto Rico's debts have some surprising company in their quest to block bipartisan legislation that could allow some of those bonds to be written down. Vermont Sen. Bernie Sanders is also rallying his Senate colleagues to oppose the bill.

Mr. Sanders and Wall Street bondholders have very different reasons for opposing the legislation, but the episode illustrates the challenge of getting Congress to agree on how to address the island's debt and economic crises.

The Obama administration and House Speaker Paul Ryan (R., Wis.) have engaged in delicate negotiations for the past month on a bill that would allow Puerto Rico to restructure its $70 billion debt load, and they finally settled on a compromise last week.

Democrats have been pushing for broader latitude for the commonwealth to write down its debts. Unlike municipalities in some U.S. states, public entities in Puerto Rico don't have access to bankruptcy courts because Puerto Rico is not a state. The Treasury Department says without any debt-restructuring ability, Puerto Rico faces larger defaults and a creditor brawl that will make it even harder for the island to escape a recession that has lasted for most of the last decade.

Some Republican oppose debt restructuring because they say it would be unfair to the island's creditors, and some of those bondholders want to defeat the legislation because it would force them to accept losses upfront. Republicans have insisted that any legislation include a federal oversight board, modeled on the one imposed for Washington, D.C., in the 1990s, to restore financial accountability to the deeply indebted territory.

The current bill essentially combines some of what the Republicans want with some of what the Democrats want, though in the nature of such compromises, no one got everything they wanted. A House committee is set to markup the legislation this week.

Mr. Sanders objects to the imposition of an oversight board and to language throughout the bill designed to assuage Republicans that creditors' rights will be respected. He outlined his initial objections last week, just as the Obama administration had nearly wrapped several months of negotiations with House lawmakers, and he elaborated on them in a letter to Senate colleagues on Monday entitled, "We must stop treating Puerto Rico like a colony."

Even though the debt legislation is relatively obscure as policy issues go, it highlights the contrast between Mr. Sanders and Hillary Clinton, the Democratic front-runner, in substance and style. They face off in the Puerto Rico primary on June 5.

Mrs. Clinton has adopted the position of the Obama administration, saying that while the bill isn't perfect, it's probably the best deal that Puerto Rico is likely to get in the current political environment. "Without any means of addressing this crisis, too many Puerto Ricans will continue to suffer," she said in a statement last week.

Mr. Sanders is advocating a separate and more complex policy proposal that for now has no clear political support. His solution has two basic features. The first would require Congress to grant Puerto Rico's public corporations access to bankruptcy protection. The Obama administration rejected this step last year because it says giving Puerto Rico access to Chapter 9 of the bankruptcy code isn't sufficient to deal with all of the island's $70 billion debt load, since it excludes debts incurred by the central government.

Mr. Sanders also has proposed a plan that he says doesn't require congressional action. Instead, it calls on the Federal Reserve to provide emergency loans to Puerto Rico using the same authority that the government used to bail out American International Group in 2008.

Would this put taxpayers on the hook for Puerto Rico's debts while bailing out the hedge funds and mutual funds that bought up those bonds? Possibly, though Mr. Sanders opposes this.

Forcing investors to take haircuts could invite a constitutional "takings" lawsuit along the lines of one filed by some AIG shareholders. They argued that their property had been seized without proper compensation and while many legal experts initially dismissed their chances, a federal court ruled in their favor in 2014. The government is appealing that case.

Warren Gunnels, policy director for the Sanders campaign, says all of this can be avoided by requiring public entities to buy back their debts through a reverse Dutch auction, or a descending-price auction, allowing the Fed to refinance those holdings at less than full value.

"If the Federal Reserve can use its emergency lending authority to bail out huge Wall Street banks, it can use that same authority to help the same 3.5 million U.S. citizens who live in Puerto Rico," said Mr. Gunnels.

To be sure, the Fed used many of those authorities after majorities in Congress approved legislation in 2008. It's hard to imagine the Fed acting unilaterally and without broad political support for Puerto Rico because Fed officials have said the island's economic crisis poses no systemic threat to the broader municipal market or U.S. economy.

Moreover, some analysts have said such a move could backfire on the Fed by giving ammunition to Fed critics already looking to curtail its authority.

The bipartisan bill has the support of House Minority Leader Nancy Pelosi (D., Calif)., and one of the lead negotiators for Democrats on the House legislation was Rep. Raul Grijalva (D., Ariz.), who was the first lawmaker to endorse Mr. Sanders.

For now, few Democrats have signed onto Mr. Sanders's proposal, though some influential groups—including several large labor unions—have announced that they oppose the bipartisan legislation.

THE WALL STREET JOURNAL

By NICK TIMIRAOS

May 23, 2016 6:42 pm ET

House Committee Approves Puerto Rico Bill with Bipartisan Support.

A House committee on Wednesday advanced legislation to address Puerto Rico's debt crisis with solid bipartisan support, a strong sign the bill could move quickly through Congress ahead of a potential default by the territory on July 1.

The legislation would create a debt-restructuring process and empower a federal oversight board to supervise what is shaping up to be the largest municipal debt workout in American history. The measure wouldn't spend any federal money.

The House Committee on Natural Resources, which has oversight of federal territories, advanced the bill on a 29-10 vote, with 14 Republicans and 15 Democrats backing the legislation.

The bill, which produced a rare moment of bipartisan cooperation in an election year, has drawn strong opposition from some bondholders and other political groups that spent millions of dollars on television advertisements to defeat it.

Puerto Rico last year began defaulting on several classes of nearly $70 billion in debt it owes, threatening to worsen the island's growth prospects after a decadelong recession. Because it isn't a state, its municipalities aren't eligible to restructure their debts in U.S. bankruptcy courts. Because it isn't a country, Puerto Rico can't turn to the International Monetary Fund for assistance.

Rep. Rob Bishop (R., Utah), the committee chairman, said he expects majorities of both parties to back the bill when it comes to the House floor. In the Senate, Majority Leader Mitch McConnell (R., Ky.) said Tuesday lawmakers were "anxious to take up" whatever the House could pass. The White House supports the measure.

The measure would mark a significant policy accomplishment for House Speaker Paul Ryan (R., Wis.), who tasked Mr. Bishop with crafting legislation earlier this year for the island to write down certain debts while subject to the federal board. They worked closely with the Treasury Department and Democratic lawmakers, and both sides complimented what they said was an unusually collegial and bipartisan process.

"The legislation provides a framework to motivate the government and its creditors to come to the table to negotiate more," said Eric LeCompte, executive director of Jubilee USA, an organization that presses for debt relief.

Still, the compromise has been unpopular with blocs in both parties. Labor unions and elected officials in Puerto Rico have objected to several provisions, including an oversight board appointed by the White House and Congress that they say amounts to a colonial takeover.

House Minority Leader Nancy Pelosi (D., Calif.) and Rep. Pedro Pierluisi, a Democrat who serves as Puerto Rico's nonvoting representative, have supported the bill, saying it is the best package they can secure under a Republican-controlled Congress. Lawmakers should "get real" about any alternative "that can actually become law," said Mr. Pierluisi. "I do not believe one exists."

Some conservative lawmakers, meanwhile, said it would harm creditors' rights and create a potential precedent for distressed U.S. states.

Bond-market analysts said the legislation could actually help the broader $3.7 trillion municipal bond market, because by using the territories clause of the U.S. Constitution, Congress made clear it wouldn't set a precedent for states.

"This creates a clear firewall and ring-fences Puerto Rico from the broader muni market," said David Hammer, co-head of municipal bond portfolio management at Pacific Investment Management Co.

Moreover, the debt-restructuring mechanism would require Puerto Rico to cede more power to the federal government, he said. "That's not something a state or local government would ever seek to do."

Congress granted U.S. citizenship in 1917 to residents of Puerto Rico, which was seized from Spain after the Spanish-American War of 1898. The U.S. gave the territory the right to elect its own governor in 1947.

Under the legislation advanced Wednesday, a seven-member oversight board, not the government elected by Puerto Rico, would determine whether and when to initiate court-supervised debt restructuring, and it would have the power to approve or reject budgets. The board would terminate after Puerto Rico regains the ability to borrow at reasonable interest rates and balances its budget for four consecutive years.

THE WALL STREET JOURNAL

By NICK TIMIRAOS

Updated May 25, 2016 5:24 p.m. ET

—Siobhan Hughes contributed to this article.

Write to Nick Timiraos at nick.timiraos@wsj.com

Chicago's Pension-Fund Woes Just Became $11.5 Billion Bigger.

Chicago's pension-fund shortfall just got $11.5 billion bigger.

Thanks to the defeat of the city's retirement-fund overhaul by the Illinois Supreme Court and new accounting rules, Chicago's so-called net pension liability to its Municipal Employees' Annuity and Benefit Fund soared to $18.6 billion by the end of 2015 from $7.1 billion a year earlier, according to its annual report. The fund serves some 70,000 workers and retirees.

The new figure, a result of actuaries' revised estimates for the value in today's dollars of benefits due as long as decades from now, doesn't change how much Chicago needs to contribute each year to make sure the promised checks arrive. But it highlights the long-term pressure on the city from shortchanging its retirement funds year after year — decisions that are now adding hundreds of millions of dollars to its annual bills and have left it with a lower credit rating than any big U.S. city but once-bankrupt Detroit.

"The longer they wait to get this fixed, the more expensive it's going to get for the city's taxpayers," Richard Ciccarone, the Chicago-based president of Merritt Research Services LLC, which analyzes municipal finances.

The estimate presented Thursday to the board of the municipal fund, one of Chicago's four pensions, will add to what had been an unfunded retirement liability for the city estimated at $20 billion.

A key driver was the court ruling striking down Mayor Rahm Emanuel's plan that cut benefits and boosted city and employee contributions. Without it in place, the fund is now set to run out of money within 10 years.

That triggered another change. New accounting rules, adopted to keep governments from using overly optimistic investment-return forecasts to mask the scale of their liabilities, require them to use more modest assumptions once pension plans go broke. As a result, the reported liabilities jump.

The Chicago fund is notable because very few governments have been affected by the change, according to Ciccarone. "The investment returns are not going to fix the problems themselves," he said.

City officials from Emanuel to Chief Financial Officer Carole Brown have said the city is working on a solution to shore up the retirement system. Chicago has already passed a record property-tax increase that will bolster the police and fire funds.

Under the traditional way of estimating the municipal fund's obligations, which is how annual contributions are set, the shortfall rose to $9.9 billion as of Dec. 31, based on market value of its assets, according to the actuaries report. That's up from $7.1 billion a year earlier.

The pension is only 32 percent funded — meaning it has 32 cents for every dollar it owes — compared to 42 percent last year, according to the actuaries. And it has to sell 12 percent to 15 percent of its assets every year to pay out benefits.

City officials are having "very good discussions" with the unions about the issue, according to Emanuel, who has made clear that he disagrees with the court's ruling to throw out his plan.

"We're working through the issue to get to what I call a responsible way to fund their pensions within the confines, the straitjacket that the court has determined," Emanuel told reporters at City Hall on Wednesday.

A proposal is pending in the state legislature to bolster funding for the benefit fund. The plan would ensure it's 90 percent funded by the end of fiscal year 2055. Jim Mohler, executive director of the fund, told board members on Thursday that it's a "fluid situation."

Bloomberg Business

by Elizabeth Campbell

May 19, 2016 — 2:52 PM PDT Updated on May 20, 2016 — 7:12 AM PDT

Puerto Rico Electric Gets $55 Million Funding From Creditors.

Puerto Rico's government-run electric utility resurrected a deal with creditors willing to lend it $111 million, a sign of slow-moving progress in the island's first negotiated agreement to cut some of its

$70 billion of debt.

The Puerto Rico Electric Power Authority's creditors will provide $55 million to the utility as a first installment of a $111 million bond, the agency said in a statement Friday. The parties are working to finalize the sale of the remaining $55 million in securities.

The financing is part of the debt-restructuring accord the utility, known as Prepa, reached in December with hedge funds, bond insurers and mutual funds, which marked the island's first step toward cutting what it owes creditors. The promised cash allowed the utility to avoid defaulting on a $196 million interest payment due in January, with bondholders and insurers agreeing to purchase the three-year bonds later.

Prepa had been negotiating since last week, when the debt-sale agreement between bondholders, MBIA Inc. and Assured Guaranty Ltd. lapsed. Creditors were reluctant to lend because Governor Alejandro Garcia Padilla signed a debt-moratorium law on April 6 that allows him to suspend principal and interest payments. This week, Puerto Rico's Senate alleviated the concerns by passing legislation exempting the new bonds from the moratorium law.

"This agreement with creditors demonstrates the continued commitment of Prepa," Lisa Donahue, the agency's chief restructuring officer, said in a statement.

The move follows an agreement between President Barack Obama's administration and Republicans in Congress on Thursday over legislation, known as PROMESA, that would create a new financial control board to manage a debt restructuring, as well as to oversee the island's finances. The bill also protects any existing, voluntary restructuring agreements between a commonwealth agency and its creditors, like the Prepa plan.

"It's a positive for Prepa because they're getting some money in the door — that will help their liquidity near-term," said Matt Fabian, partner at Concord, Massachusetts-based Municipal Market Analytics. "The potential amendment to the moratorium, or the very reasonable prospects of passing the PROMESA bill, might be giving the creditors some confidence."

Bloomberg Business

by Michelle Kaske and Brian Chappatta

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New Jersey Mega Mall Wants State to Sell Debt to Finish the Job.

The municipal-bond financing plan for the unfinished New Jersey mega mall has changed, the latest of numerous shifts the ill-fated project has undergone since ground was first broken over a decade ago in the Meadowlands.

The council of East Rutherford, the borough that's home to the vacant structure now called American Dream, on Tuesday asked the New Jersey Sports and Exposition Authority to take its place in selling $675 million of municipal debt for the developer, Triple Five Group, which wants to issue tax-exempt securities to lower the cost. Having the state agency do that would be easier and less expensive than going through a lengthy process to change the taxable-debt plans already approved by East Rutherford, said borough Mayor James Cassella.

“Triple Five decided that this would go a lot smoother,” Cassella said by telephone Wednesday.

Plans for the mega mall about 10 miles (16 kilometers) west of Manhattan, near the MetLife Stadium, include the country’s first indoor ski slope and a theme park. Previous developers had run out cash, leaving thousands of New Jersey commuters with a prominent view of a vacant colossus that Governor Chris Christie once called the “the ugliest damn building in New Jersey, and maybe America.” The complex by Edmonton, Alberta-based Triple Five is slated to open in 2017.

The bonds would be backed by payments in lieu of taxes from Triple Five, after East Rutherford receives its cut, Cassella said. An additional debt offering of $350 million would rely on state tax breaks.

Tony Armlin, Triple Five’s vice president of development and construction, and Debbie Patire, a spokeswoman for American Dream, didn’t return calls and e-mails requesting comment Wednesday.

The New Jersey Sports and Exposition Authority “continues to work with Triple Five to facilitate moving this important project ahead,” Brian Aberback, a spokesman, said in an e-mailed statement.

Triple Five said the bonds could be sold by the summer, Cassella said. In June 2015, Armlin said the offerings may occur by September.

“If this works, this would be great. This is the best deal we’ve had — if it happens,” Cassella said. “It’s changed twice before. Who’s to say it won’t change again?”

Christie in 2011 had counted on American Dream, called Meadowlands Xanadu when it started, to bolster a local economy still struggling from the recession. The project by Triple Five, the owner of the Mall of America in Minnesota, was then slated to open in 2013.

Bloomberg Business

by Romy Varghese

May 18, 2016 — 9:23 AM PDT

Bloomberg Brief Weekly Video - 05/19

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Joe Mysak about this week’s municipal market news.

Watch the video.

May 19, 2016

Republicans, Obama Administration Reach Agreement on Puerto Rico Restructuring Bill.

WASHINGTON — House Speaker Paul Ryan capped weeks of delicate negotiations by agreeing with the White House and congressional Democrats on a deal to allow Puerto Rico to restructure its $70 billion debt load.

The bill, a rare moment of bipartisan cooperation in an election year, offers a path for the island to write down its debt similar to bankruptcy while forcing its government to submit financial statements and budget blueprints to a federal oversight board. The legislation doesn't spend any federal money, a critical ingredient to win Republican support.

The big questions now are whether Mr. Ryan can keep conservative lawmakers from rebelling against the compromise, and if it passes the House, whether and when the Senate might act.

Puerto Rico has defaulted on three classes of bonds, including this month when it missed most of a $422 million payment. It faces payments totaling $2 billion on July 1 that the island's governor said can't be paid.

Puerto Rico's public agencies can't seek protection in federal bankruptcy court to shed debts because the island, a commonwealth of the U.S., isn't a state, and it can't seek aid from the International Monetary Fund because it isn't an independent country.

Mr. Ryan sidestepped a question Thursday about whether the bill would attract a majority of Republicans but said the legislation was "exactly where we wanted it."

Rep. Raul Labrador (R., Idaho), a conservative who has been negotiating closely with Republican leaders on the bill, said he expected the legislation would get widespread GOP support.

Puerto Rico missed a debt payment on Monday. The White House is calling on Congress to step in and help the U.S. territory avoid financial disaster. How did the island get into this situation? WSJ's Jason Bellini has #TheShortAnswer. Photo: Erika P. Rodriguez/Bloomberg
Rep. Jim Jordan (R., Ohio), who leads the conservative House Freedom Caucus, said it wasn't yet clear how many of the group's members would support the bill. "You'll see some who will, some who won't," he said.

Opposition from the entire group would force Mr. Ryan to rely on a significant number of Democrats to pass the legislation, creating the type of political headache that badly weakened his predecessor, John Boehner.

The bill follows weeks of close consultations led by the House Natural Resources Committee, which has jurisdiction of U.S. territories. The committee pulled an earlier iteration from consideration last month after objections surfaced from both parties.

Mr. Ryan "has done what those on the right asked leadership to do for years, which is to do this through regular order and don't jam this down our throats," said Douglas Holtz-Eakin, who heads the American Action Forum, a right-leaning Washington think tank. Those who oppose the bill "can't complain about how it got done."

Democrats appear poised to support the bill. Treasury Secretary Jacob Lew called it "a fair, but tough bipartisan compromise" and House Minority Leader Nancy Pelosi (D., Calif.) said she hoped Congress would "move swiftly" to approve it.

Having an agreement between leaders of both parties in Congress and the White House "is an accomplishment in and of itself," said Mr. Holtz-Eakin, who supports the bill.

The goal of the bill is twofold. First, officials want to reduce a debt burden that currently absorbs nearly a third of the commonwealth's revenues, far more than any U.S. state. Second, they want to avoid a massive courtroom brawl between different creditors and the government that could further chill investment in Puerto Rico, which has been mired in recession for most of the last decade.

The bond funds with the largest exposure to Puerto Rico's debt haven't taken public positions on the bill. OppenheimerFunds Inc. is reviewing the bill, said a spokeswoman. Franklin Templeton Inc. declined to comment.

Senate GOP aides said Thursday they were still reviewing the legislation, but leaders have indicated they would probably approve legislation if the House could pass it first.

"I see it moving through the Senate very quickly, as compared to everything else in the Senate that moves very, very slowly," said former Sen. Judd Gregg, a Republican who has been hired by a group of bondholders that supports the bill.

Still, the legislative process will give deep-pocketed opponents several chances to peel apart a fragile coalition. Some bondholders have objected to a broad debt restructuring because it would force them to accept losses earlier. They say the bill would set a precedent for distressed states and chill the island's ability to issue new debt. And some are ramping up an expensive lobbying campaign to defeat the bill.

Former Treasury Secretary Lawrence Summers said the current legislation offered the "only prospect" of restoring Puerto Rico's access to credit markets anytime soon. "This debt is not being repaid," he said. "Creditors should want to establish the precedent that there is no debt relief without reform and without a clear necessity."

If creditors "were successful in further impoverishing millions of Puerto Ricans for the sake of their bonds, which they bought with a very substantial risk premium, it would really be a demonstration that financial interests have excessive power in formulating public policy," said Mr. Summers.

The compromise left each side without everything it wanted. Democrats didn't receive a health-care funding boost and objected to provisions that exempt the island from new overtime-pay regulations. Some Republicans wanted tougher language to overhaul pensions. And Puerto Rico's governor said the federal oversight board was an "unacceptable" incursion on self-rule.

THE WALL STREET JOURNAL

By NICK TIMIRAOS and KRISTINA PETERSON

Updated May 19, 2016 5:38 p.m. ET

—Heather Gillers contributed to this article.

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The Miami Method for Zoning: Consistency Over Chaos.

After a population explosion and building binge led to haphazard and random growth, Miami became the nation's first big urban area to adopt a citywide code based on looks.

Miami's Wynwood neighborhood epitomizes hip. A neglected industrial enclave that sat mostly empty just a few years ago, Wynwood today thrums with energy. Its low-slung warehouses and onetime auto garages are filled with buzz-worthy eateries, high-end tattoo studios, vegan juice bars and edgy art spaces. At Wood Tavern, twentysomethings gather around graffiti-covered picnic tables to sip La Rubia blonde ale, brewed just a couple of blocks away at the Wynwood Brewing Company. At nearby Wynwood Kitchen and Bar, diners eat Latin-tinged cuisine under wall-sized paintings by popular street artists. A block down, the line at Panther Coffee can stretch out the door. Throughout the neighborhood, at all hours of the day, people stop to snap selfies in front of the colorful new murals that cover seemingly every inch of every building in Wynwood.

It's the kind of dynamic urban scene that cities dream about. And it would never have happened, Miami planners say — or at least not to the same degree of success — without the city's new zoning code known as Miami 21. "I cannot imagine it," says Francisco Garcia, the city's planning director, shaking his head at the thought. "I just can't even imagine."

Miami 21 isn't actually brand-new: It's been on the books since 2010. But it was the first true overhaul of the city's code in nearly 80 years, and it points toward major change in the way Miami will grow for generations to come. The controversial code has altered every aspect of the city's development, from the way a builder interacts with the planning department to the size of the windows of a finished storefront. And it touches every part of the city, from the shimmering urban high-rises of downtown Brickell to the single-family homes in historic, tree-lined residential neighborhoods like Little Havana and The Roads.

Public zoning codes are typically filled with mind-numbingly dry details of frontages, setbacks and floor-area ratios — and Miami's is too. But these codes ultimately determine the way a city looks and feels and functions. They're the 1s and 0s that build the matrix. Miami 21 may be abstruse, but it's also a new vision for what the city wants to be.

Miami 21 is what's known as a form-based code. Rather than prescribing development based on how a plot of land will be used — residential, say, or mixed-use commercial — the code defines the physical shape development should take in different parts of the city. That means buildings are considered in context with what's around them, regardless of what goes on inside. The goal is a more walkable, more human-scale form of development. When Miami adopted the code in 2010, it was the first big U.S. city to implement a form-based code citywide. Six years later, it's still the only one.

Most of the impact of Miami 21 isn't as tangible or as concentrated as in Wynwood. But its effects are suffused in properties throughout the city. On a recent sunny Friday, as Assistant Planning Director Luciana Gonzalez drove around town with a couple of visitors, she couldn't help interrupting herself every so often to point out the role of the new code. "That's Miami 21," she says, as she drives past a new bank branch building set close to the street, with parking hidden behind it. "That's Miami 21," she says again, pointing out a multistory self-storage facility that looks more like a sleek office tower, with inviting plate-glass windows along the sidewalk and a soon-to-open high-end rooftop restaurant that will take advantage of the views of the Miami River. A little later, Gonzalez passes an under-construction residential high-rise that's wrapped in street-level retail spaces. "That's Miami 21, too."

Miami's form-based code has been lauded by the international planning community as a progressive commitment to New Urbanist ideals. But getting to this point involved years of convincing skeptical developers, architects, neighborhood organizers and political leaders that this change was the right thing for the city. And the code still has plenty of critics, including, perhaps surprisingly, Tomás Regalado, the city's current mayor. He acknowledges that Miami 21 "looks good on paper," but says it's proven difficult to implement on the ground. When asked whether the new code is an improvement over the way things used to be, Regalado pauses, holds up a finger and says, "Maybe."

There's nothing all that remarkable about the Catalonia apartment building on SW 27th Ave. A bland 13-story building finished in two tones of beige, it's the kind of faceless, nondescript mid-rise you drive past without giving it much thought. But one thing makes the Catalonia, which was completed in 2007, stand out. It sits smack next door to a small single-family home, a modest one-story house with a red tile roof and a patio out front. And that's made the Catalonia emblematic of the kind of unregulated growth Miami planners hope never to see again.

The former zoning code was adopted in 1936, and for many decades it seemed to serve the city just fine. Higher-density buildings — and some skyscrapers — were concentrated downtown and along Biscayne Bay, while residential neighborhoods were left mostly untouched. But the code became increasingly complicated as a succession of city leaders tacked on modifications and revisions and exceptions. As in most U.S. cities, Miami's old code was based on separation of uses. But the number of "uses" eventually exceeded 360 and didn't seem to make sense: A barbershop was considered a different use than a beauty salon.

Then came the 1990s population boom, and things really went haywire. Miami and surrounding Dade County grew by more than 18 percent in the 1990s, a growth trend that would continue into the 2000s and 2010s. Much of the influx was driven by immigrants from Latin America. By 2002, Miami-Dade had a higher percentage of foreign-born residents, 51.4 percent, than any other county in the country. The city went on a building binge. Height allowance was determined solely by the size of a lot, so if developers could simply cobble together enough plots of land, they could build 15- or 25- or 40-story buildings anywhere they wanted, even right next to a leafy neighborhood of small homes. High-rises sprouted like weeds overnight. One building might be 10 feet from the sidewalk, while the one next door was set back 30 feet. Blank walls stretched along sidewalks for entire blocks.

It was haphazard and random growth, "and it was all perfectly legal," says Ana Gelabert-Sanchez, who was the city planning director at the time. "It was all done by the book, within the code at the time. But it didn't result in a city that was nice to live in."

Manny Diaz was elected mayor in November 2001, and he sensed that Miami's development had gotten off track, even if he couldn't articulate it. "I wasn't trained in urban planning or design, but instinctively I knew something was wrong, because I just looked around," he says. "I saw pretty buildings that had no connection to the street, no connection to the buildings around them. I knew something had to be done, but I didn't know what that meant."

Diaz turned to Gelabert-Sanchez and to Elizabeth Plater-Zyberk, the renowned Miami-based architect who, along with her husband, Andrés Duany, has become an international leader in New Urbanist design. "The old code," says Plater-Zyberk, "was completely unpredictable." It had resulted in a "totally incoherent" city.

Plater-Zyberk and the city planning team got to work on a code that would help guide the form of new buildings, rather than just prescribe how a specific property would be put to use. It would emphasize street-level activity and public spaces to encourage walking, and it would bring a sense of order to Miami's explosive new growth.

Other cities had already implemented partial form-based codes in certain areas, such as a downtown core or a tourist district. In most places, the new code existed in parallel to a traditional use-based code. Cities would incentivize developers by, say, offering faster permitting for those choosing to abide by the form-based code, but it wasn't mandatory. The planners in Miami began drafting something similar, a code that could be used to augment planning in certain hot spots around town.

Diaz had a different idea: Scrap the old code completely and start over from scratch. If a form-based code was good for certain parts of the city, he felt, then it would be good for the city as a whole. “It just made sense,” he says. “Let’s just do it all at once. I know it’s crazy, but let’s just do it now.”

The plan was hit by opposition almost immediately. “There was a lot of concern, reluctance — fear, even — at the very beginning,” says Garcia, Miami’s planning director, who at the time was working in the private sector, on Plater-Zyberk’s team.

“Some people in the design community were worried that everything would end up looking the same,” says Gelabert-Sanchez. “Or they were worried that we in the city were going to say, ‘I don’t like those windows. I don’t like that arch.’ But we just wanted to establish principles. We don’t care about the style.”

Over a period of six years starting in 2003, the city held 60 formal public hearings on the new code, in addition to another 500 meetings with residents and other stakeholders — ranging from events with hundreds of attendees in large downtown convention halls to intimate sit-downs in residents’ living rooms. Many of the meetings were in Spanish. “We knew we’d have skeptics,” says Diaz. “So we wanted the process to be as transparent and as inclusive as possible. One thing no one can say is that this was some backroom deal between the city and developers, or land use attorneys.”

As the city coalesced around a plan, developers got on board. Because the new code provided much more predictability in terms of what was allowed on a given plot, the approval process need no longer involve acrimonious public hearings and contentious fights with the city over building plans. Everything would be spelled out in the code itself. And neighborhood conservationists appreciated that a new plan could better preserve the character of Miami’s distinct communities.

Still, there were critics. Property owners said the new code would devalue their land by limiting the amount of future development they could undertake. Builders said the code would throw all the city’s existing structures into legal limbo because they wouldn’t conform with the new regulations. And some of the preservationists and neighborhood groups that had initially supported the idea began to complain that the new code didn’t go far enough in protecting Miami neighborhoods; they waged fights with the city to “downzone” residential areas even further.

On Oct. 22, 2009, after an embarrassing initial rejection, Miami 21 was approved during Diaz’s very last meeting as mayor. The new code was law. But that didn’t end the opposition. The lone city council vote against the final code had been cast by Regalado, who 12 days later was elected mayor. Many people expected he might dismantle Miami 21 as soon as he took office. Indeed, some in the community hoped he would. Today, Regalado says he never even considered doing that. But at the time, advocates were worried. “Two or three [city commissioners] — and in particular Mayor Regalado — were set to take it apart,” says one person who was tracking the issue closely.

Then came the Great Recession. Ironically, it may have been the best thing that could have happened to Miami 21. Development in South Florida ground to a halt, and city leaders were overwhelmed by other concerns. Suddenly, debate over a zoning code was no longer a front-burner issue.

Gonzalez in the city planning office agrees. “It was good timing, actually, because then when the economy did come back, we were ready to receive the development. And ever since the beginning of 2013, it’s been, like, boom!”

It can be hard to appreciate the staggering rate of change Miami has seen in the past decade. From 2000 to 2014, the city's downtown doubled in residential population, and almost half the residents who live there now are between 25 and 44 years old. In the past decade alone, the city has added 113 new high-rises. Some of that development happened prior to Miami 21, which officially became law in May 2010. But most of it has happened since.

For many in the city, the jury is still out. Regalado complains that with so many details spelled out in the code itself, or hammered out between developers and city planners, less of the process is subject to public input. "In the old code, every minor zoning change had to be done by public hearing," he says. "Miami 21 [offers] less transparency."

Garcia says that's not the case. "Under the old code," he says, "the public hearings were much more acrimonious than they have been under Miami 21. Now we get out there and engage with the stakeholders." By the time a public hearing does occur, he says, everything has already been worked out.

Aside from dissatisfaction with the process, there are still some people who think the new code is a substantively bad deal. A few lawsuits have been filed by landowners — including the Catholic Archdiocese of Miami, which sued the city for $89 million in 2013 — who say the new code has devalued their property. None of the suits has gone anywhere. Others have accused the city of applying the code inconsistently, letting certain projects skirt the regulations: A proposed Walmart in Midtown became a particular lightning rod for controversy, as urban big-box stores often are. But the city says the store has been designed to comply with Miami 21; ground was broken on the project in January.

For the most part, Miamians seem to be living with the new code. Architects and developers appreciate the predictability of it; city planners like the way it's shaping new growth. In fact, nearly everyone seems to agree that it's working extremely well downtown. But it becomes more problematic when applied to smaller neighborhoods. "Miami 21 is great in the areas of town that are already designated as high-density, high-intensity development," says Ines Marrero-Priegues, a local land use attorney. The process for upzoning to add new denser projects in other parts of the city, however, is "very lengthy. It's easy to get projects approved in the urban core, but it can be very onerous for people who are doing smaller projects where there's less density already."

There's one thing you won't find mentioned anywhere in the pages of Miami 21: climate change. According to some of the latest projections of sea-level rise, large parts of Miami could be underwater in as little as 85 years, which can make Miami 21's intense focus on walkability and livability seem a bit ironic. It's not quite like rearranging the deck chairs on the Titanic, but some fear it might be close. "I think we're behind the curve," says Regalado. "Sea-level rise is something no one wants to talk about because the condos are selling very well; Latin American people are buying condos by the dozen. It's going to be painful, but we do need to create a code that takes sea-level rise into account."

Regalado says he wants to add a climate change component to Miami 21 before he leaves office in November 2017. That's something that Garcia would love to see as well. The climate change conversation, he says, has typically been dominated by architects, not planners, and has focused on making single buildings climate-resilient. "What I think is being left out of the conversation," he says, "is neighborhood resiliency, as opposed to building resiliency."

The full impact of Miami 21 won't be felt for decades. But simply getting to this point has been a remarkable event. "Those seven years we spent developing the code," Garcia says, "were seven years of getting a better understanding of what the concerns of the citizens were, and engaging the citizens to wrestle with planning and zoning issues. The knowledge base improved significantly, so now we can have much more advanced, sophisticated conversations with stakeholders. The profile of planning as a whole has been elevated."

Walking around Wynwood, or popping into a sidewalk coffee shop in a new skyscraper downtown, most people aren't thinking about the building code. They just know that Miami is becoming a nicer place to live. But the city as a whole has indeed come to appreciate the role zoning plays in creating a better built environment. Former mayor Diaz says that's something he learned as well. "You don't run for office on urban planning. You run because you say, I'm going to fight poverty, or fight crime, or improve education. But I realized that planning is the most important issue. We fight crime, and it goes down, and that's good. But in a few years, it might go up again. You move the needle as best you can, but these are constantly changing issues." But a new building, he says, will impact residents for generations. "When you put up a building, it's there for a hundred years."

GOVERNING.COM

BY ZACH PATTON | MAY 2016

S&P Report Discusses Cost to State, School Districts of California's Teacher Pensions.

SAN FRANCISCO (Standard & Poor's) April 12, 2016—In 2014, California enacted legislation to eliminate its teachers retirement system's unfunded pension liability by 2046. In a report published today, Standard & Poor's Ratings Services says that the additional contributions under the law should bolster the pension system's funded status over the long-term. Insofar as the law reduces the likelihood that the unfunded liability will spiral out of control, it's favorable for the credit quality of both the state and its school districts. However, the additional contributions mandated by the reforms could also strain the finances of either the state or some school districts, depending upon future investment performance.

The report is titled, "Post-Funding Reform, CalSTRS Defined Benefit Remains Guaranteed; Cost To State, School Districts Is Anything But."

The legislation—AB 1469—was adopted because by 2014 annual contributions to the California State Teachers Retirement System (CalSTRS) had fallen to a level such that the long-term solvency of its defined benefit plan was in jeopardy.

"Standard & Poor's generally views AB 1469 favorably because it should stabilize CalSTRS' long-term funding situation," said credit analyst Gabriel Petek. "At the same time, we also view the contribution increases it calls for as large enough to have material fiscal implications. Funding the higher contributions could strain the state's budget—or those of the local school districts. We can envision plausible circumstances in which the added fiscal pressure caused by the higher contributions could weaken credit quality. At this point, however, it's unclear whether—or if—the higher contribution rates will stress the finances of either the state or any particular school district to this degree.

Part of our uncertainty stems from the fact that AB 1469 did not allocate CalSTRS' unfunded liability to the state and school districts in a strictly proportional fashion. And the way the funding mechanism is designed means that the state's contribution rates (and therefore the fiscal implications to the state) are influenced disproportionately by CalSTRS' investment performance.

As for the school districts, those with declining enrollments or limited budget flexibility could be challenged by the increasing contribution rates that the law specifies.

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

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com.

Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

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Puerto Rico Electric Says Bondholders Need to Pay Up This Time.

In an unusual twist of events, one of Puerto Rico's main municipal-debt issuers is saying that bondholders must make good on a pledge to help fund a restructuring agreement or the accord risks falling apart.

A bond-purchase agreement between the Puerto Rico Electric Power Authority, a group of bondholders and bond-insurance companies will expire Thursday unless the creditors give Prepa, as the utility's known, \$111 million or the pact is extended. The agreement is part of Prepa's larger debt restructuring deal. Without a bond-purchase agreement, the overall \$9 billion restructuring plan would expire.

An ad-hoc group of investors holding about 35 percent of the power utility's securities and bond-insurance companies agreed in December to buy \$111 million of three-year Prepa bonds if the utility paid in full \$196 million of principal and interest due Jan. 1, which it did. Puerto Rico lawmakers passed a debt moratorium in April that allows Governor Alejandro Garcia Padilla to skip debt-service payments on all island debt. Prepa's creditors are reluctant to lend the utility more money unless Puerto Rico lawmakers amend the moratorium law to exempt Prepa.

A Prepa restructuring would be the largest ever in the \$3.7 trillion municipal-bond market. The proposal would help lower the utility's debt and modernize a system that relies on oil to produce electricity. Hedge funds, bond insurers and mutual funds have been working with Prepa on a way to restructure its obligations since August 2014. That's when the parties first entered into a forbearance agreement to keep negotiations out of court after the utility raided reserve funds to pay for fuel.

The parties have extended the bond-purchase agreement before. Puerto Rico has satisfied two key milestones for the bond sale to proceed, Prepa said in a statement Tuesday. First, lawmakers passed legislation in February to give Prepa the authority to execute the restructuring deal and second, the utility on April 7 filed a proposed customer surcharge to the island's energy commission.

"Conditions required for creditors to fund the $111 million bond purchase under Prepa's restructuring support agreement and related documents have been satisfied, and as a result such creditors are required to fund the $111 million bond purchase on May 12, 2016," the utility said in the statement. "Prepa paid $111 million in interest to these creditors in January 2016 in reliance on the creditors' agreement to re-lend the same amount if two important milestones in Prepa's restructuring occurred."

The obligation of creditors to buy the three-year bonds is subject to several conditions being fully satisfied, according to a Jan. 28 update to Prepa's restructuring deal. One condition is that no Puerto Rico statue enacted after the agreement shall have an adverse affect on the rights and remedies of the 2016 bonds or their validity or enforceability, according to the document.

Dan Zacchei, a representative in New York at Sloane & Co. for the ad-hock bondholder group, declined to comment on Prepa's statement. Greg Diamond, a spokesman for MBIA, and Ashweeta Durani, spokeswoman for Assured Guaranty, didn't have a comment on the statement.

The $111 million of bonds will carry a 10 percent coupon and mature July 2019. An ad-hock group of bondholders would buy $65 million of the bonds and MBIA Inc. and Assured Guaranty Ltd. would purchase $50 million, according to the debt-restructuring accord.

Puerto Rico's Senate declined to vote Monday on a House bill that would remove Prepa from the debt moratorium law. The governor used that law when the Government Development Bank on May 2 defaulted on $370 million, the largest such payment failure to date for the island.

The ad-hock group late Monday offered to deposit $61 million in an escrow account to fund the bond-purchase agreement and extend the termination deadline to May 31 or until island lawmakers amend the commonwealth's debt-moratorium law.

Prepa's restructuring plan would reduce what it owes by $600 million and offer debt-service relief for five years of more than $700 million. Bondholders would take a 15 percent loss on their securities by exchanging them for bonds repaid with a new customer fee, called a securitization charge. The island's energy commission is reviewing that proposed fee.

Bloomberg Business

by Michelle Kaske

May 10, 2016 — 8:08 AM PDT Updated on May 10, 2016 — 3:03 PM PDT

Puerto Rico Is Not Pompeii. But ...

There is a very unusual thing going on in the municipal market right now: People are losing money by the bucket, and soon they'll be losing money by the boatload. While regrettable, this is what happens when reality intrudes upon a fantasy.

Because Puerto Rico has defaulted, is defaulting and will default on some or all of the $70 billion in tax-exempt debt it has run up in the modern era as it borrowed to build stuff, and then to fill big holes in its budget.

Finally last June, Governor Alejandro Garcia Padilla declared on the front page of the New York Times that, “The debt is not payable.”

What makes it so unusual is that this is the municipal market, where states and cities promise they’ll do everything they can in order to repay the money they borrow, including selling the streets and (gasp!) raising taxes. Instead, the governor was saying, Game Over.

The defaults, the millions and soon billions of dollars in losses, and the governor’s startling admission are a little like the eruption of Mount Vesuvius in the municipal market. Although only a little, because it’s Puerto Rico — a territory, not a state. Had an actual U.S. state done this, the municipal market would be like Pompeii, buried under six feet of ash.

As it is, because it’s Puerto Rico, very few people in finance really care about it except for muni analysts, a handful of municipal mutual funds (which hold at least $7.9 billion of the bonds), some hedge funds (which hold about $20 billion of the debt), and of course Puerto Ricans (who apparently hold about $20 billion, much of it in their retirement accounts).

The U.S. Congress is getting around to doing something about it, setting up a whole framework to put Puerto Rico “on the path to fiscal responsibility,” according to Rep. Rob Bishop of Utah, who is chairman of the House Natural Resources Committee.

The main element in the proposal is to set up a Financial Control Board to make sure that Puerto Rico lives within its means and balances its budget. It will also balance the needs of bondholders and pensioners, said Bishop — and not along the lines of the Detroit model, either.

In Detroit, which filed for Chapter 9 bankruptcy in 2013, bondholders bore the brunt of creditor losses. Rep. Bishop said most restructuring in Puerto Rico would be “consensual.”

That’s a very defusing word. It was good to hear after so many months of listening to hedge funds and their mouthpieces talk about the constitutional guarantees on general obligation debt, and how anything less than 100 percent repayment would be unacceptable.

Now, normally, I would be in the strict constructionist camp in regard to general obligation debt. Meaning: Hey, you borrowed this; you have to do everything in your power to repay it. But.

The “but” is a combination of the island’s feckless management and flagging economy, the arrogance of the hedge funds who have been the island’s lenders of last resort, and Wall Street’s own culpability in stuffing this Caribbean piñata full of bonded debt it couldn’t afford. Puerto Rico is a very special case.

Let’s begin with the economy. The island has been in a tailspin since a special tax break that made it worthwhile for manufacturers to set up shop there expired in 2006. That was the Crack of Doom. The tax break led the island’s management to imagine it had a full-fledged, manufacturing-based economy instead of a more typical Caribbean economy based on tourism.

Then there are the municipal bonds. There’s a publication put out by Moody’s every year called State Debt Medians, and it’s just the Best Thing, tracking states and how much they borrow by various measures.

Every year they would publish this report, and every year you’d see the list of 50 states and then way at the bottom, below the states and on a line all its own, would be Puerto Rico, “not included in any totals, averages, or median calculations but provided for comparison purposes only.” And every year I would see the Puerto Rico figure grow.

I reported in a column in 2004 that Connecticut had the most tax-supported debt per capita at $3,558. And then I wrote, “The actual No. 1 borrower isn’t a state at all. Puerto Rico has $5,758 in net tax-supported debt per capita. That’s a little scary.” I wish now I had done a little more with that.

Incidentally, the 2015 State Debt Medians report, which covers 2014, showed that Connecticut still had the most tax-supported debt per capita, at $5,491, and Puerto Rico’s had grown to $15,637. In terms of net tax-supported debt as a percentage of gross domestic product, Hawaii topped the state list at 9.18 percent. Puerto Rico’s was 53.85 percent.

Wall Street underwriters profited handsomely, making about $908 million on the island’s bond sales since 2000, Bloomberg News estimated in March of 2014 after Puerto Rico sold $3.5 billion in general obligation bonds.

Finally, let’s talk about the hedge funds.

Some of the hedge funds bought those $3.5 billion Hail Mary general obligation bonds in 2014, which carried an 8 percent tax-exempt coupon. This was sold to give the island “breathing room,” it was said, to clean up its finances.

Some of the hedge funds bought Puerto Rico bonds from investors eager to sell as the island began its descent into the financial maelstrom. Those who bought at 70 or 80 cents on the dollar might still make money, depending on how those consensual negotiations go.

It’s been interesting to hear these guys, on Twitter and elsewhere, discuss Puerto Rico. First they discounted the sheer staggering, insane amount of bonded debt that Puerto Rico had incurred, claiming that the $70 billion was just fine and utterly reasonable.

Then they said that Puerto Rico was somehow in much better shape than it let on, even after the governor declared that the debt was not payable. (Actually, we don’t know the true financial condition of the island, because the last audit we have is from fiscal 2013).

Finally, the hedgies dug in their heels and said the debt they owned was legally guaranteed, and that they expected to be repaid at par. As I say, I respect this argument, and even might have embraced it at one point. But for a municipality in extremis like Puerto Rico, the legal niceties no longer apply.

And this is why people are losing money — lots of it — on their municipal bonds. Which is a very unusual thing.

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.

Bloomberg View

by Joe Mysak

MAY 13, 2016 6:00 AM EDT

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Memphis Slum Bond Default Spurs Effort to Oust Property's Owner.

A ministry that owns and manages two low-income apartment complexes in Memphis that were infested with roaches, littered with sewage and replete with broken windows and damaged walls, must be removed, said the trustee for municipal bondholders that financed the complexes.

The trustee, Bank of New York Mellon Corp, sued the owner, Global Ministries Foundation, in U.S. court on May 6, seeking the appointment of an receiver to take over, improve the apartments and sell them. In March, the U.S. Department of Housing and Urban Development cut off rent subsidies for more than 1,000 residents and said it would relocate them because of numerous health and safety violations. As a result, about $12 million of bonds backed by the subsidies defaulted, causing the price to tumble to as little as 21 cents on the dollar.

“Unless the borrower is removed, further payments from HUD will not be forthcoming in a very short while and once funding is stopped, the only recourse to the bondholders will be to the collateral itself, which deteriorates further every day,” the trustee said in the suit. “Most importantly, however, a third party receiver needs to be appointed who can attempt to improve the living standards of the residents.”

GMF, a Tennessee non-profit run by a Baptist minister, has raised $400 million through one of the riskiest corners of the municipal-bond market — local agencies with few, if any, employees and that exist only to sell tax-exempt debt for a fee. It owns and operates 60 multifamily complexes in 8 states.

The ministry allowed conditions at the Memphis complexes to deteriorate, failing to address health and safety violations that federal housing regulators found in April and December 2015. The April inspection of 30 buildings and 25 units revealed “life threatening” breaches including exposed wires and blocked emergency exits, as well as buckled ceilings, cracked windows and leaking pipes. HUD said GMF failed to correct the violations and stopped the subsidies in February.

Richard Hamlet, GMF’s president, said he disputes many of the allegations in the lawsuit, without identifying the particulars. The ministry is in favor of appointing a receiver because “it is in the best interest of the properties and the residents,” he said in an e-mailed statement.

“GMF has invested millions of dollars in these historically troubled properties, but unfortunately we were not successful,” he said.

Bank of New York has requested proof that funds were spent to improve the apartments, but has only received a ledger showing payment of certain amounts, the suit said. The bank also alleged that GMF misappropriated $625,000 of insurance proceeds after a June 2015 fire at one of the apartment complexes, saying it failed to give notification about the fire or provide a copy of the insurance claim. The bond contracts require insurance proceeds to be paid to the trustee.

Bank of New York recommended that Donald Shapiro, who runs Foresite Realty Management, be appointed as receiver. Foresite has experience with federally subsidized low-income housing and has served a receiver in Memphis, Bank of New York said.

Bank of New York's suit was reported May 10 by the Commercial Appeal of Memphis.

Bloomberg Business

by Martin Z Braun

May 11, 2016 — 11:49 AM PDT

Wayne County Executive Out to Fix Michigan's 'Broken' Funding Model for Cities.

LANSING, MI — When Wayne County Executive Warren Evans took office he set out to right the county's budget. He did it, but realized about halfway through his first year in office that the way Michigan's cities get money is, in his words, "broken."

"Balancing the budget… it made me realize that even running effectively and getting ourselves on firm financial footing, we just didn't have the resources going forward with the existing state of municipal financing," Evans said.

He's launching a statewide tour titled, "Investing in Michigan Communities: Finding Fair Funding for Strong, Successful Communities."

Evans is kicking off the tour in Trenton, and plans to talk with local officials about financing mechanisms that fuel their communities and challenges they face. In addition to Southeast Michigan, he plans to visit Grand Rapids, Lansing, Flint, Traverse City and the Upper Peninsula.

The goal is to build consensus around a solution. Evans laid out a problem in his March State of the County address: the county got $418 million less in tax receipts from 2008 to 2014 due to declining property values and limitations on how local municipalities can recover those funds.

He plans to hear from local officials statewide on this tour, and spend this year gathering information. In 2017, he intends to gather what he has learned and put forward solutions with broad support.

Evans is not the only one who has delved into municipal finance lately. Michigan State University researchers have traced local financial problems back to state policies, and the Michigan Municipal League recently launched a website that aims to educate on Michigan's "abysmal record" of investing in local governments.

Evans recognized that there are differences between municipalities, and there may be disagreement on how to proceed.

"If that weren't the case we'd have a remedy now," Evans said. "But we think that if we know enough about the problem and know enough about the issues that different parts of the state have, that gives us a leg up on trying to craft something that we can all live with."

Around Wayne County Evans said he hears almost universally that residents want two things: better infrastructure, like roads, and more public safety workers.

He said there are levels of nuance and differences between communities, but there are also a lot of similarities. Statewide solutions are necessary for all communities, Evans said.

In Wayne County, he's confident he's put the area on a sound financial footing. But he's still hearing about public safety, about roads.

"Without additional revenue, we, like a lot of communities are going to fall short of being able to perform the way that we think our citizens expect us to perform," Evans said.

Joining Evans on the tour are Bill Anderson, Government Finance & Operations Specialist for the Southeast Michigan Council of Governments; Eric Scorsone, founder of Michigan State University's Center for Local Government Finance and Policy; Tony Minghine, Associate Executive Director & COO of the Michigan Municipal League; Eric Lupher, President of the Citizens Research Council of Michigan; and city of Taylor Mayor Rick Sollars.

By Emily Lawler | elawler@mlive.com

May 16, 2016 at 10:01 PM, updated May 16, 2016 at 11:23 PM

Emily Lawler is a Capitol reporter on MLive's statewide Impact Team. You can reach her at elawler@mlive.com, subscribe to her on Facebook or follow her on Twitter: @emilyjanelawler.

Chicago City Council Committee Advances $600 Million Bonds.

A Chicago City Council committee on Monday approved the issuance of up to $600 million of new general obligation bonds as well as a proposed ordinance to subject future debt issues to greater scrutiny.

The council's finance committee agreed to send the bond issue to the full city council, which meets on Wednesday. If approved, the bonds would be priced through Goldman, Sachs & Co in the third quarter or sooner depending on market conditions and other factors, according to Chicago Chief Financial Officer Carole Brown.

Chicago's sinking credit ratings due to budget and pension woes have led investors to demand hefty yields for the city's debt.

Brown said the implementation of Mayor Rahm Emanuel's plan to reform the city's debt practices and the passage of a big property tax increase last year to help fund pensions have tightened the city's so-called credit spread over Municipal Market Data's benchmark triple-A yield scale.

"I think the market has responded to a lot of the hard choices that this council and the mayor have made related to our finances," Brown said.

She estimated Chicago would continue to have spreads over MMD's scale in the 200 basis-point range. The finance committee lowered the interest rate cap for the new bond sale to 10 percent from 18 percent.

Brown said the municipal bond market is awaiting the fate of legislation sitting on the desk of Illinois Governor Bruce Rauner's desk, which would allow the city to spread out payments to two public safety pension funds. Nearly two months after the state supreme court threw out cost-saving reforms to Chicago's other two pension funds, the mayor has yet to release a detailed plan B.

Proceeds from the bond sale would fund equipment purchases and capital improvements, with $100 million earmaked for legal settlements in 2016 and 2017.

The finance committee also advanced a Debt Transactions Accountability Ordinance that would require reports detailing the risks, benefits and costs of a debt issue prior to sale.

Participants in a bond issuance would not be indemnified by the city from “gross negligence, illegal acts, fraud, bad faith breach or willful misconduct.”

The proposed ordinance also sets out timelines for city council deliberations and public hearings on bond sales and requires annual post-sale financial performance reports by the city’s CFO.

Reuters

Mon May 16, 2016 3:36pm EDT

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Bloomberg Brief Weekly Video - 05/12

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Joe Mysak about this week’s municipal market news.

Watch the video.

10:45 AM PDT
May 12, 2016

Bloomberg Brief Weekly Video - 05/05

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Brian Chappatta about this week’s municipal market news.

Watch the video.

May 5, 2016

Arizona House Reverses Course, OKs Bill Aiding Developers.

PHOENIX (AP) – The Arizona House reversed course after an initial rejection and approved a bill Thursday that will give developers more power to issue municipal bonds and levy taxes to pay for public infrastructure in communities they are building.

The change came after an hours-long effort by House Speaker David Gowan to garner support for his proposal.

The legislation will allow developers and land owners to automatically set up special taxing districts run by boards with powers similar to governments, including the ability to tax homeowners.

Supporters say it will help bring jobs to the state, while opponents call the legislation a power grab by developers.

The initial vote remained open for nearly an hour as Gowan attempted to corral votes. Eight Republicans broke ranks to reject House Bill 2568 on a 28-32 vote Thursday.

Late Thursday, Gowan succeeded in gathering support, and on a reconsideration vote it passed with no votes to spare, 31-26.

Republican Rep. Warren Petersen of Gilbert was among several who changed their votes. He initially said developers should be using private financing rather than municipal bonds to pay for things such as public roads, water and sewer systems in planned communities.

Petersen said the special taxing districts, known as community facility districts, confuse homebuyers who don’t initially realize they have to pay additional property taxes to live in those communities.

“They distort the market. They distort prices,” he said. “Until I can be convinced otherwise to see the value in this, I just don’t see why we are going to use property taxes as a tool for this.”

He said he changed his mind after Gowan assured him a follow-up bill will add accountability and transparency requirements.

Gowan said that banks have been reluctant to provide private financing for large developments since the recession. He said the bill would spur business growth, especially in his legislative district in the southeastern part of the state.

“It helps putting people back to work by building houses,” he said.

The Landowners For Arizona’s Economic Development Coalition is the primary group backing the legislation. They say they represent about 200,000 acres of land set aside for master planned communities, though it would likely take decades to develop it. The coalition includes at least 11 developers, including El Dorado Holdings Inc. and Diamond Ventures Inc.

Gowan has received nearly $5,000 from owners or employees of developers El Dorado Holdings and Diamond Ventures to fund his congressional campaign and was seen sitting with Diamondbacks co-owner Mike Ingram, who founded El Dorado Holdings, for the team’s opening day.

Stephanie Grisham, Gowan’s spokeswoman, said he and Ingram only met briefly and did not know each other when the bill was crafted.

The measure would have a significant impact on the growth of master planned communities across Arizona as developers would be more likely to take advantage of the public financing available through the special taxing districts. That would include an area in Gowan’s legislative district where El Dorado Holdings Inc. is developing a 28,000-home community featuring an 18-hole golf course and a park.

The proposal also will change the makeup of the governing board behind these districts to include two members chosen by the landowners, two members selected by the closest municipality and one member chosen by the municipality from a short list provided by landowners.

To date, about 75 of these districts have been established in Arizona.

ASSOCIATED PRESS

By RYAN VAN VELZER

Thursday, May 5, 2016

San Francisco Public Utilities Commission to Issue Green Bonds.

San Francisco Public Utilities Commission next week will issue $240 million in wastewater revenue "green" bonds, the first infrastructure municipal bonds to meet specific criteria under a new environmental standard for water projects.

The certification comes from the London-based Climate Bonds Initiative, which developed the standard using a technical working group of academics and experts in the sector.

The commission is planning a competitive sale of $308 million of revenue bonds, of which $240 million meets the green certification.

Green bonds are still relatively new in the $3.7 trillion U.S. municipal bond market.

In February, the New York Metropolitan Transit Authority issued a $500 million green bond, which was certified under the Climate Bonds Standard's low carbon transportation criteria.

Terms and conditions, as well as disclosure practices, vary widely in the emerging green bond muni market, Moody's Investors Service said in a report last week.

Moody's surveyed 15 muni green bond transactions from 14 entities in 2013 and 2014. Timely reporting is not the norm, and issuers of seven of those transactions "have still not published reports that we could find," Moody's said.

Money from next week's sale will be used to repair and rebuild the ocean-side city of San Francisco's sewer system, protecting it from rising sea levels and intense rainfall that could result from global climate change.

Currently, more than 300 miles of San Francisco's sewers are over 100 years old and were not constructed to withstand major earthquakes or the impacts of climate change, according to an analysis by Sustainalytics.

Last month, Standard & Poor's Ratings Services upgraded the commission's wastewater enterprise revenue bonds from AA-minus to AA.

"We're upgrading our credit ratings, we're upgrading our bond standards, and most importantly, we're upgrading our aging wastewater infrastructure," said Harlan L. Kelly, Jr., general manager of San Francisco's sewer system.

"Our infrastructure was built to last a hundred years; it's only fitting that we use the latest, most innovative financing techniques to ensure our city's sewer system lasts for the next 100 years," he said.

Overall, an estimated $8.09 billion of debt will hit the U.S. municipal bond market next week, according to preliminary Thomson Reuters data.

REUTERS

LOS ANGELES | BY RORY CARROLL

(Reporting by Rory Carroll; Editing by James Dalgleish)

Fri May 6, 2016 5:34pm EDT

Recent Texas Supreme Court Opinions Change the Landscape of Governmental Immunity: Andrews Kurth

On April 1, 2016, the Texas Supreme Court issued opinions in *Houston Belt & Terminal Railway Co. v. City of Houston* and *Wasson Interests, Ltd. v. City of Jacksonville*, in which the Court further constrained the application of governmental immunity.

Houston Belt & Terminal Railway Co. v. City of Houston, No. 14-0459, Texas Supreme Court, April 1, 2016

The *ultra vires* doctrine is a narrow exception to governmental immunity, under which a claimant may sue a government official for injunctive relief if the official has either acted without legal authority or failed to perform a ministerial duty. *City of El Paso v. Heinrich*, 284 S.W.3d 366, 372 (Tex. 2009). Following *Heinrich's* establishment of the framework for evaluating whether a claim properly alleges *ultra vires* conduct, the general consensus has been that where government officials are vested with discretion, suits involving the exercise of that discretion do not properly present *ultra vires* claims and are therefore barred by governmental immunity.

In *Houston Belt*, the Texas Supreme Court considered this issue in the context of limited official discretion (as opposed to instances of absolute discretion) and found that an *ultra vires* claim may be premised on allegations asserting that an official exceeded his discretion. The Court reviewed the ordinance underlying the plaintiffs' claims and evidence regarding the manner in which it had been applied. Based on that review, the Court concluded that the plaintiffs' allegation that the official responsible for implementing the ordinance had exceeded the discretion granted him was sufficient to avoid dismissal on immunity grounds. The Court reasoned that where only limited discretion exists, governmental immunity does not bar a suit to enjoin an official's actions taken without reference to or in conflict with the constraints of the law authorizing the official to act.

The decision in *Houston Belt* alters the analysis of an *ultra vires* claim when the basis for an immunity defense is that the claim is premised on a government official's exercise of discretion. In order to determine the applicability of governmental immunity in such suits, courts will have to analyze the limits of the official's discretion and then resolve any fact issues concerning whether the official acted within those limits. As a part of that analysis, courts should consider the statutes or regulations applicable to the government action or inaction at issue. *Sw. Bell Tel. Co. v. Emmett*, 459 S.W.3d 578, 583 (Tex. 2015). Courts also can consider evidence necessary to resolve jurisdictional fact issues. *Tex. Dep't of Parks & Wildlife v. Miranda*, 133 S.W.3d 217, 227-28 (Tex. 2004). It is clear, however, that merely alleging an official's discretion is limited will not be sufficient to avoid dismissal. As the Court noted in *Houston Belt*, "many legislative grants of authority, although not absolute, will be broad enough to bar most, if not all, allegedly *ultra vires* claims."

Wasson Interests, Ltd. v. City of Jacksonville, No. 14-0645, Texas Supreme Court, April 1, 2016

In 2006, *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) established that a city is not immune from suit for torts committed in its proprietary capacity. Since that time, there has been disagreement in the courts of appeals as to whether this governmental/proprietary dichotomy also applies to contract actions against cities. Compare *City of San Antonio v. Wheelabrator Air Pollution Control, Inc.*, 381 S.W.3d 597 (Tex. App.—San Antonio 2012, pet. denied) (holding that there is a presumption of immunity and immunity was not "waived" in breach of contract cases where the contract was entered into in a city's proprietary capacity); *Republic Power Partners, L.P. v. City of Lubbock*, 424 S.W.3d 184, 193 (Tex. App.—Amarillo 2014, no pet.) (same) with *City of Georgetown v. Lower Colo. River Auth.*, 413 S.W.3d 803, 812 (Tex. App.—Austin 2013, pet. dism'd) (determining that the governmental/proprietary dichotomy applies to contract actions).

The Texas Supreme Court resolved the circuit split in *Wasson Interests*, holding that when cities enter into contracts in their proprietary capacity, they are not shielded by immunity from lawsuits related to those contracts. The Court reasoned that the governmental immunity afforded to political subdivisions of the State is not inherent in the political subdivision, but rather is derived from the State's immunity. That is, for cities, there is no "default immunity." Within that framework, the Court held immunity only attaches to actions performed by a municipality in its governmental capacity, because those actions are the only ones that are performed by a city as an agent of the State. Accordingly, the Court concluded that when a city contracts in its proprietary capacity, immunity never attaches.

Until now, the general understanding has been that the only instance in which immunity did not apply to bar a contract action was when the contract came within the scope of Subchapter I of Chapter 271 of the Texas Local Government Code, which waives immunity from suit and provides the process for adjudicating disputes involving contracts for goods or services. Tex. Loc. Gov't Code Ann. §§ 271.151-.160 (West 2005 & Supp. 2015). In *Wasson Interests*, the City of Jacksonville argued that these provisions abrogated the common law governmental/proprietary dichotomy with respect to contracts. The Court disagreed, reiterating that when a contract is entered into by a municipality in its proprietary capacity, no immunity exists and, thus, there is no immunity to waive.

Notably, the Court resolved another question that had been left open after *Tooke*, and confirmed in a footnote that the governmental/proprietary dichotomy applies only to municipalities, because they are the only political subdivisions that can act in a proprietary capacity.

Following *Wasson Interests*, in order to invoke the protections of governmental immunity in breach of contract actions, cities will have to show that they were acting in a governmental capacity. The practical reality is that there will be increased litigation over what is governmental and what is proprietary in breach of contract cases. As guidance, the Court noted that the Legislature is empowered to delineate the functions of a municipality that are governmental and those that are proprietary, as it has done in the Texas Tort Claims Act (the "TTCA"), see Tex. Civ. Prac. & Rem. Code Ann. § 101.0215. The Court directed trial judges to look to the TTCA for guidance when resolving the governmental/proprietary question in contract actions, just as they do in tort cases. It is important to note, however, that the TTCA does not establish an exclusive list of proprietary functions and, thus, is simply a jumping off point for courts considering whether a contract was entered into in a proprietary or governmental capacity.

As overarching takeaways from *Houston Belt* and *Wasson Interests*, municipalities need to be mindful of the fact that they do not have “default immunity.” Municipalities should therefore consider establishing limitations on their liability within the terms of any contracts they enter into in their proprietary capacity. Likewise, to the extent municipalities intend to imbue their officials with absolute discretion sufficient to invoke governmental immunity, they should take care to ensure that municipal ordinances clearly effectuate that goal.

Article by Mark B. Arnold, Kelly Sandill and Katie Alrich

Last Updated: April 26 2016

Andrews Kurth LLP

Attorney's Fees Under Florida's Public Records Act: Taking Intent Out of the Equation.

In a move towards strict liability, a recent Florida Supreme Court holding allows no room for public agency error under Florida’s Public Records Act (“Act”). On April 14, 2016, the Supreme Court of Florida issued on opinion in Board of Trustees, Jacksonville Police & Fire Pension Fund v. Lee, and held that a party is entitled to attorney’s fees under the Act when a public agency unlawfully refuses access to public records, regardless of a public agency’s reasonable or good faith mistake in refusing to produce the requested records.

The Florida Constitution provides individuals with the “right to inspect or copy any public record . . .” The Act codifies this constitutional mandate and incentivizes compliance by allowing for a prevailing party in a civil action to recover attorney’s fees when an “agency unlawfully refuse[s] to permit a public record to be inspected or copied.”

The Board of Trustees case originated in late 2009 after Curtis W. Lee (“Lee”) requested a series of public records from the Board of Trustees of the Jacksonville Police & Fire Pension Fund (“Pension Fund”). Following Lee’s requests, disputes arose around the Pension Fund’s prerequisites to public record access. Lee sought relief from the Circuit Court alleging the Pension Fund’s prerequisites violated the Act. The Circuit Court ruled the Pension Fund violated the Act and the First District Court of Appeal later affirmed the Circuit Court’s ruling.

Following this favorable ruling, Lee moved for attorney’s fees against the Pension Fund. The Circuit Court denied Lee’s request stating the Pension Fund’s Act violations were not “knowing, willful or done with a malicious intent.” Upon Lee’s appeal, the First District Court of Appeal (“DCA”) reversed the Circuit Court’s decision. Articulating that, regardless of intent, attorney’s fees must be awarded once a court determines an agency unlawfully violated the Act.

The First DCA’s holding aligned with the Second DCA which previously held there was no “good faith” or “honest mistake” exceptions when a public agency violates the Act. To the contrary, the Third, Fourth, and Fifth DCAs have held that attorney’s fees are not warranted under the Act when a public agency was acting reasonably or made a good faith mistake. Recognizing this conflict among the DCAs, the Florida Supreme Court accepted review of the Board of Trustees case.

The Florida Supreme Court, in accordance with the First and Second DCAs, held that the right to attorney's fees under the Act is predicated on a public agency's unlawful refusal to provide access to public records regardless of the agency's good intentions. The Court examined the Act's legislative history and noted the Legislature had "multiple opportunities to explicitly require a 'good faith' standard" in the Act's attorney's fees section and chose otherwise. In fact, prior to 1984, access to attorney's fees required a showing that an agency "unreasonably refused" access to a requesting party. However, in 1984, the Legislature changed the phrase "unreasonably refused" to "unlawfully refused," signifying a change in Legislative intent towards strict liability.

For public agencies around the State of Florida, the Board of Trustees case may be costly precedent. Unfortunately for public agencies, this case allows no room for missteps. In order to avoid paying attorney's fees, public agencies will need extensive training on recognizing public records, processing public record requests, and complying with requests in a timely manner. If a public agency fails to comply with a records request, the agency can expect to pay for their mistake … intentional or accidental.

Article by Leonard J. Dietzen, III and Lindy K. Keown

Last Updated: April 27 2016

Rumberger, Kirk & Caldwell, P.A.

Chicago Muni Bonds Left Isolated as Crisis Deepens.

A decision from Illinois' Supreme Court to reject pension reforms has seen Chicago's municipal bond spreads widen, with little effect on neighbouring municipalities.

- Municipal bond spreads in surrounding cities widened 20% on the back of Chicago's 'junk' downgrade last year
- Spreads across the board tightened significantly towards the end of 2015, reversing much of the post-downgrade spread deterioration
- Latest Fitch and S&P downgrades have seen Chicago's spreads widen again, but this time in isolation

Chicago's credit woes deepened last month as Fitch slashed the city's credit rating by two notches to BBB-. The downgrade means that both Fitch and S&P (BBB+) now have the city teetering above 'junk' status, a perilous position as it struggles to deal with $30bn of unfunded pension obligations.

The downgrade was a blow for the credit worthiness of Chicago's municipal bonds, which have diverged versus neighbouring cities' municipal bonds since the third major rating agency, Moody's, downgraded Chicago to 'junk' last May.

Junk status

On May 12th 2015, Moodys downgraded the city of Chicago from investment grade to 'junk' status in a move which deviated from the opinions of the other two major rating agencies, which held Chicago's issuer rating higher. $8.1bn of outstanding general obligation (GO) debt, $542m of outstanding sales tax revenue debt and $268m of outstanding and authorized motor fuel tax revenue debt were all simultaneously downgraded.

Chicago's municipal bond spread (premium over 10-yr AAA rated bonds) widened more than 30% after Moody's' decision, as surprised investors re-evaluated Chicago's credit worthiness. The downgrade also caused contagion in surrounding municipalities, which saw spreads widen in tandem.

Taking nine neighbouring cities in the Cook County area (Bellwood, Berwyn, Cicero, Elk Grove, Evanston, Highland, Lemont, Niles and Oak Lawn) and averaging their spreads, Chicago's downgrade had a 20% (wider) instantaneous impact.

Diverging paths

Municipal bond spread performance of both Chicago and surrounding cities continued to remain volatile over the following months (June 2015 to Sep 2015), although Chicago continued to see steady deterioration.

September 2015 until year end saw investor sentiment reverse, with volatility decreasing and spreads tightening across the board. By January this year, the average spread for the Cook County cities had retracted all the spread underperformance encountered after the Moody's downgrade, while Chicago's % change in spread fell from the 40% highs seen in September last year to just 5%.

But the positive sentiment was short lived as Chicago was forced to offer above average yields to garner investor demand in January. As fears started to escalate again around Chicago's inability to raise funds or cut costs, the supreme court of Illinois rejected pension reform legislation for two of Chicago's four pension plans last month, triggering a spate of downgrades from Fitch and S&P. The move, seen as a negative for credit quality, meant that rating agencies were now seeing their ratings converge towards the negative.

Chicago's municipal bond spread has since widened again, back near levels seen after last year's Moody's downgrade, but interestingly, in divergence to fellow Cook County city spreads. As the crisis deepens, it seems Chicago is left more and more isolated.

For more information regarding Markit's Municipal Bond Pricing service, please click here.

Neil Mehta | Analyst, Fixed Income, Markit

Apr 27th, 2016

Century-Old Oklahoma Tribal Map Is Flash Point in Digital Debate.

Pioneer George Rainey bounced into Oklahoma aboard a Santa Fe train in 1889 seeking his fortune. He landed a job as a county clerk and published a map of the state, including the vast tracts that once belonged to the Comanche, Cherokee and other tribes.

Today, Rainey's "Historical Map of Oklahoma 1870-1890" is central to a most modern debate: how much the federal government should spend to help people stay connected as the Internet emerges as the central communications service of the 21st Century.

The U.S. Federal Communications Commission has adopted Rainey's 1917 map as the reference for determining how big a subsidy poor Oklahoma residents get for telephone and Internet service. It includes wide areas that were once Indian reservations, where residents get $34.25 a month — compared with $9.25 elsewhere.

The subsidies are part of a nationwide system. But relying upon the long-dead cartographer's handiwork in Oklahoma is being cited by critics as evidence of what they say is the program's mismanagement and waste. It has become a rallying cry for Republicans in Congress who want to contain spending for what they derisively call the Obamaphone.

Internet Expansion

"There are problems plaguing this system," Representative Greg Walden, an Oregon Republican, said last week as lawmakers debated a Republican bill to limit spending on the program. "There's been cases of waste, fraud — a lot of fraud."

The Lifeline program has been around in some form since 1985, during the administration of Republican President Ronald Reagan. Last year it spent about $1.5 billion to help people pay for service over mobile phones and land lines. In March, the FCC expanded it by making broadband Internet eligible for subsidies.

That could drive up demand and costs for the program, which is paid for through a telecommunications tax on telephone bills. The FCC says switching from a 1951 map now in use in Oklahoma — where about two-thirds of all enhanced tribal subsidies are paid — will save money by cutting the capital Oklahoma City from areas regarded as former reservations. But it leaves much of the rest of the state still eligible, including Tulsa, the state's No. 2 city with about 400,000 people.

Tribal Subsidies

The enhanced subsidy is meant to provide an incentive for companies to provide service in neglected tribal areas.

The map grants standing for an expanded subsidy "even if you're not a tribal member, and if you're living in a major urban area," said Ajit Pai, a Republican FCC commissioner who has criticized Lifeline.

"If we're going to make this program fiscally responsible, and direct funding to people that actually need help, people in Tulsa don't need that subsidy," Pai said. "We should have reclaimed some of that subsidy and redirected it to people in need."

Democrats oppose a spending cap, saying it could arbitrarily bar poor people from a program that makes it possible for schoolchildren to complete homework, and grown-ups to reach jobs and doctors.

Poverty Program

"This is truly the lifeline for people that live in poverty," Representative Anna Eshoo, a California Democrat, said during debate April 19 before a House subcommittee that passed a cap, sending the bill on to full committee. "Why are we hurting these people?"

On this issue, Democrats can count on the backing of the wireless industry. CTIA, a trade group representing companies including AT&T Inc. and Verizon Communications Inc. that offer Lifeline service, told Congress a cap "would be counterproductive" in part because it would "exclude an undetermined number of the eligible low-income consumers."

The program offers the monthly support for people with incomes at or below 135 percent of federal poverty guidelines.

Lifeline swelled to as much as $2.2 billion for 17.2 million beneficiaries in 2012, up from $819 million for 6.7 million accounts in 2008. The rise happened after the FCC said wireless companies could offer service paid by Lifeline without owning a network, and scores of providers that lease wireless capacity rushed to join the program.

FCC Reforms

In response, the FCC tightened rules and claims credit for the drop of about 30 percent in spending from 2012 levels. The agency decided recipients need to provide documented proof of eligibility such as participation in U.S. welfare programs like food stamps, and it set up a database of participants that phone companies are to check to ensure there's no more than one subsidized device per household.

Regulators haven't said how much spending may rise as the program expands to include Internet service. If spending approaches $2.25 billion the FCC is to re-assess its actions.

The program will offer help to Americans who "live on the wrong side of the digital divide," FCC Chairman Tom Wheeler and Commissioner Mignon Clyburn said in a March 8 blog post. "What we're really talking about is people – unemployed workers who miss out on jobs that are only listed online, students who go to fast-food restaurants to use the Wi-Fi hotspots to do homework."

Fraud Cases

Republicans aren't mollified, and they point to recent fines imposed on companies for program abuses — such as claiming a second subsidy for a customer by falsely listing them at the address of a homeless shelter.

The FCC has proposed roughly $155 million in fines against 16 phone companies accused of bilking Lifeline since early 2013, according to a list maintained by the Universal Service Administrative Company, the non-profit that administers the program in partnership with states and the FCC.

In Oklahoma, the broad availability of a higher subsidy has attracted an unusual number of companies. The state had 74 Lifeline providers at the end of last year, compared with 40 providers in Oregon, a state with about the same population, according to Universal Service Administrative Company reports to the FCC. The two states had roughly the same poverty rate in 2014, approaching 17 percent.

Lifeline spending last year in Oregon was $7.3 million; in Oklahoma it was $108.2 million, of which all but $88,000 was billed at the higher tribal rate, according to the USAC reports to the FCC. The Oklahoma payments amount to about two-thirds of the $159.9 million in enhanced tribal payments nationwide.

Oklahoma Payments

Oklahoma authorities, concerned that some companies were enrolling more than the permitted one phone per household, in 2013 began an investigation that resulted in fines, according to Matt Skinner, a spokesman for the Oklahoma Corporation Commission that regulates Lifeline in the state. The agency "cracked down on the practice of merely handing out Lifeline phones to anyone" and created an enforcement unit, Skinner said in an e-mail.

By cutting Oklahoma City (population about 620,000 people) from the regions regarded as former tribal areas, the program expects to save $30 million to $40 million annually, said Mark Wigfield, an FCC spokesman.

Offering enhanced tribal subsidies in urban areas "does not reflect poorly" because the payments encourage building of telecommunications and makes services more affordable, he said in an e-mail.

Wireless companies went to court to block the new map, and settled after the FCC delayed implementation for four months, to June 8, to give more time to notify customers.

"This federally-mandated change will make it harder for our customers to stay connected to jobs, health care, family and emergency services and education," David Dorwart, chairman of Assist Wireless, the largest provider of Lifeline in Oklahoma said in an e-mail.

June Order

On its Web page, Assist says customers may be "very frustrated, angry, or even devastated" and encourages them to write to the FCC, state officials and Oklahoma City's U.S. Representative Steve Russell. The Republican declined to comment, said Daniel Susskind, a spokesman.

The FCC in its June order changing the map asked if it should also cut Tulsa and other municipalities, such as Reno, Nevada, and Anchorage, Alaska, from enhanced tribal areas.

The notion is "deeply offensive," Jefferson Keel, lieutenant governor of Chickasaw Nation based in Ada, Oklahoma, said in a Sept. 28 letter.

To "balance the budget on the backs of the poorest and most vulnerable is unacceptable," Keel said. Changing tribal lands "smacks of a bygone era of the misdeeds" as "something that was given is taken back, and yet again, land is taken away."

Bloomberg Technology

by Todd Shields

April 27, 2016 — 2:00 AM PDT

[Pimco Backs House's Puerto Rico Legislation as Way Out of Crisis.]

The U.S. House bill that would establish a federal oversight board for Puerto Rico and give it powers to reduce the island's $70 billion of debt would be a "satisfactory resolution" to the commonwealth's worsening crisis, according to Pacific Investment Management Co.

In an online posting Tuesday, Pimco, which doesn't own any of the territory's securities, said the legislation wouldn't trigger higher borrowing costs for other municipal issuers, a concern raised by some Republicans in Congress. The legislation is pending in the House Natural Resources Committee, which canceled a planned vote this month so it could address criticism from lawmakers of both parties.

"Diverse interests have emerged seeking to derail a bill aimed at a satisfactory resolution to Puerto Rico's debt crisis," Pimco's David Hammer, Sean McCarthy and Libby Cantrill wrote. The analysts, whose firm manages more than $40 billion of municipal debt, said the legislation “represents a responsible framework for managing the unavoidable restructuring of Puerto Rico’s debt and other liabilities.”

The firm’s comments may bolster support for the legislation, which marks the broadest effort yet by Washington to pull the U.S. territory from its swiftly escalating crisis. The bill has also won support from Nuveen Asset Management and holders of Puerto Rico’s sales-tax backed bonds, while hedge funds that own the commonwealth’s general obligations have opposed it.

The Congressional delay has left Puerto Rico without federal help as it faces a potential default on a $422 million debt payment due on May 1. On Tuesday, House Majority Leader Kevin McCarthy, the chamber’s No. 2 Republican, said he’s “hopeful” that the House will pass the legislation before $2 billion is due in July.

The oversight board created under the bill would manage budgets, oversee restructurings and impose a stay to temporarily protect the island from creditor lawsuits. Without the pause in litigation, the municipal market may see “confusing precedents” from the outcomes of any legal decisions, Pimco said.

Bloomberg Business

by Romy Varghese

April 27, 2016 — 7:31 AM PDT

Which Puerto Rico Bond Defaults Next? A 1,600% Yield Says It All.

As far back as December, Puerto Rico Governor Alejandro Garcia Padilla warned that May would be the month when it could no longer pay bondholders. It’s almost here.

The commonwealth owes $470 million in payments on May 1, including $422 million on securities sold by its Government Development Bank, which has already frozen some deposits to preserve cash. Because May 1 falls on a Sunday, the island has until Monday to come through.

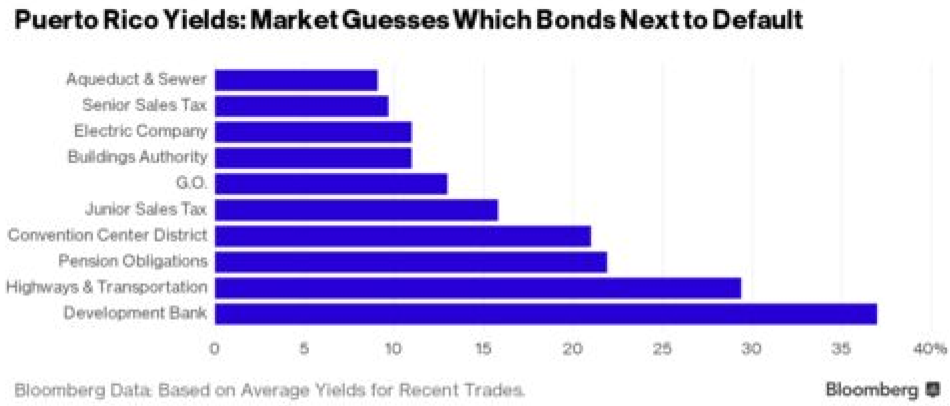
The failure to pay what’s owed on the development bank bonds would mark the biggest default yet by Puerto Rico, whose fiscal crisis has been steadily building for the past 10 months. With the government nearly drained of its cash, Moody’s Investors Service says such a lapse is a virtual certainty. Investors appear to agree: The securities last traded for 32 cents on the dollar, just weeks before the government was scheduled to pay them off at full face value. That effective yield: About 1,600 percent.

The Caribbean island of 3.5 million residents faces the next major hurdle in July, when $2 billion of bond payments are due, including those on general obligations that the constitution says should be paid above all else.

Its defaults so far have been relatively small, limited to about $143 million of missed payments, according to Moody’s. None of the securities were backed by the government’s full taxing power, nor are the development bank’s, leaving bondholders with little legal recourse.

The Public Finance Corp., which borrowed to help cover the government’s deficits, hasn’t met its debt-service bills since August, leaving the bonds trading at about 7 cents on the dollar. The commonwealth's Infrastructure Financing Authority followed in January, defaulting on debt backed by rum taxes. Bonds maturing in 2028 with insurance from Financial Guaranty Insurance Co., which only covered 22 percent of what it owed, traded this month for an all-time low of 26.7 cents on the dollar.

Here's the market's best guess for which other securities are most at risk. What follows are the amount of debt outstanding per Puerto Rico issuer, along with the most recent trading prices of bonds that aren't insured against default, according to data compiled by Bloomberg. When possible, the securities with the highest volume over the past month were used. They are listed from the highest yields (which represents the most risk) to the lowest.



Puerto Rico Government Development Bank: $7.7 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. With $422 million due in May, and officials saying there's not enough money to make it, tax-exempt bonds maturing in 2023 last traded for an average yield of 37 percent.

Puerto Rico Highways & Transportation Authority: $5.4 billion. The highway agency repays its debt with gas-tax revenue. It owes less than $1 million in May, which will probably be paid with reserve funds because the commonwealth has been using the agency's revenue to pay general obligation bondholders. Moody's said there's still a chance that they'll default. Bonds maturing July 2033 last traded for an average yield of 29.4 percent.

Puerto Rico Pension-Obligation Bonds: $2.8 billion. The taxable debt was sold to bolster the island's nearly depleted pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The system owes $13.9 million of interest every month in this budget year. Securities maturing in 2038 last traded for an average yield of 21.9 percent.

Puerto Rico Convention Center District Authority: $397.7 million. The agency oversees the convention center, as well as other facilities, and receives hotel-room tax receipts to repay its debt. It will make its July payments in full by using reserve funds, according to Standard & Poor's. Like the highway securities, they're subject to clawback. Bonds insured by FGIC maturing in 2023 last traded for an average yield of 21 percent.

General-obligations: $12.9 billion. The debt is backed by the island's full faith and credit. Its constitution says general obligations must be repaid before other expenses. Puerto Rico owes just $3 million on all commonwealth-guaranteed debt in May, before $805 million of principal and interest is due July 1. Securities with a 5 percent coupon and maturing in 2041 last traded for an average yield of 9.5 percent. Debt with an 8 percent coupon and due in 2035 last traded for an average yield of 13 percent.

Puerto Rico Public Buildings Authority: $4.2 billion. The PBA bonds are repaid with lease revenue that public agencies pay for their office buildings. The debt is more secure than typical revenue bonds because the commonwealth has guaranteed repayment. Bonds maturing in 2042 last traded for an average yield of 11 percent.

Puerto Rico Sales Tax Financing Corp.: $16 billion. The bonds, know by the Spanish acronym Cofina, are repaid from dedicated sales-tax revenue and come in two types: senior, with the first claim on revenue, and subordinated, which are second in line. The authority will make debt payments in August because revenue has already been delivered to the bond trustee, according to a Standard & Poor's report. Senior Cofinas maturing in 2057 last traded for an average yield of 9.7 percent, while subordinate ones maturing in 2042 yielded 15.8 percent.

Puerto Rico Electric Power Authority: $8.6 billion. Prepa, as it's called, is the island's main supplier of electricity and repays the debt from what it charges customers. The utility is the only government entity that has cut a deal with creditors to reduce what it owes, a step that Garcia Padilla wants to do on a broader scale for all of the island's obligations. That restructuring has yet to be completed, with some procedural hurdles yet to be overcome. Tax-exempt bonds maturing in 2030 last traded at an average yield of about 11 percent.

Puerto Rico Aqueduct & Sewer Authority: $3.6 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. The water agency owes $2.6 million in May. Bonds maturing in 2042 last traded at an average yield of 9.2 percent.

Bloomberg Business

by Brian Chappatta

April 29, 2016 — 2:00 AM PDT Updated on April 29, 2016 — 8:08 AM PDT

Bloomberg Brief Weekly Video - 04/28

Taylor Riggs, a contributor to Bloomberg Briefs, talks with Joe Mysak about this week's municipal market news.

Watch the video.

April 28, 2016

Atlantic City, America's Worst-Rated Town, Stares at Default.

Atlantic City has so little money left that it could miss a $1.8 million bond payment due Sunday, a step that would make it the first New Jersey municipality to default on debt since the Great Depression.

The Jersey Shore gambling destination has endured years of strain as a third of its casinos shut down. But now its cash levels are low enough that bankruptcy is a possibility for the 39,000-population city, according to Mayor Don Guardian.

“We’re down to a couple million dollars on any given day,” the mayor said in an interview.

Once prized as a vacation destination because of its giant casinos and boardwalk, Atlantic City is in this position because of a declining economy and mounting debt. Its predicament is more severe than most distressed U.S. municipalities because it has the worst credit rating of any American city.

The appetite for higher yields in the staid municipal-bond market has allowed some troubled cities to issue new debt or renegotiate existing terms. The Chicago Public Schools issued $725 million worth of bonds in early February despite a junk rating and a push by Illinois’s governor to give the school district the authority to declare bankruptcy. As recently as a year ago, bondholders purchased about $50 million in Atlantic City bonds backed by state aid payments.

Risky Gamble

Atlantic City, N.J., is struggling with higher amounts of debt per capita than other distressed cities around the country. Data are from 2014.

	ATLANTIC CITY	CHICAGO	DETROIT	SCRANTON, PA.
Population	39,415	2.7 million	680,250	75,281
Total direct debt per capita	$6,867	$3,624	$3,969	$1,971
Median household income	$26,936	$47,831	$26,325	$37,551

Source: Merritt Research

THE WALL STREET JOURNAL.

Since then, however, New Jersey Gov. Chris Christie blocked the delivery of a more than $30 million rescue package, a judge ruled Borgata Hotel Casino & Spa could stop paying about $30 million in annual city taxes and the city lost a $160 million property-tax dispute with the Borgata that the city can’t afford to pay.

Standard & Poor’s Ratings Services said in January it appears “inevitable” that Atlantic City would default on debt payments within six months barring major improvements. It rates Atlantic City triple-C-minus. S&P also downgraded the city's municipal utilities authority to junk last week, with further downgrades likely.

Atlantic City's credit rating has sunk so low that city officials and bankers say investors would likely reject any offers to buy new debt or refinance.

"If we could go to the market, we more than likely would've," said Marty Small Sr., the city council's president.

The writing was on the wall for the city when neighboring states opened their borders to gamblers over the past decade and took away Atlantic City's special draw. Subsequent declines in the hospitality and food industries caused four of Atlantic City's 12 casinos to close over the past two years, cutting the city's revenue in half.

Its direct debt, meanwhile, soared to $240 million, larger on a per capita basis than either Detroit's or Chicago's, according to Merritt Research Services LLC, a municipal-bond data provider.

Atlantic City's crisis worsened in January, when Moody's Investors Service downgraded its general-obligation debt to Caa3, near the bottom of the rating firm's scale. That placed Atlantic City eight notches below Chicago's junk rating.

Junk-rated cities remain a rarity. Only about 15 of more than 2,000 U.S. cities have ratings of BB-plus or below, according to Merritt Research.

"It's become more and more clear that the cash [the city] expected to be there wasn't," said Jim Colby, who manages a VanEck fund that bought Atlantic City debt last year.

Talk of default is spooking bond investors whose holdings have traded for as little as 66 cents on the dollar in recent weeks, according to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website. That is down from close to 100 cents on the dollar early last year.

New Jersey leaders, including Gov. Christie and the Democratic state Senate president, agree on a general fix for Atlantic City: a state takeover of the city's operations that would give the state ability to sell city assets, restructure debt or renegotiate union contracts. But a separate plan, backed by the state's Democratic assembly speaker, opposes altering union contracts and has so far blocked takeover legislation.

The proposals differ on how quickly the state would take over. Any action would require state assembly approval.

But Mayor Guardian has called the state's plan "a fascist dictatorship" and wants to retain local control of operations. His plan is to cut the city budget by at least $10 million and bring in new residents by giving away land and vacant homes.

"We're not an industrial town like Detroit," he said. "We're a tourist destination."

THE WALL STREET JOURNAL

By TIMOTHY W. MARTIN and HEATHER GILLERS

Updated April 28, 2016 10:42 p.m. ET

Write to Timothy W. Martin at timothy.martin@wsj.com and Heather Gillers at heather.gillers@wsj.com

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Texas Court Blocks Houston From Using Tougher Clean-Air Laws.

HOUSTON — Houston's efforts to use local clean air laws to regulate pollution in the home of the nation's largest petrochemical complex were halted Friday by a Texas Supreme Court ruling in favor of energy and chemical companies that claimed the city had overreached.

The coalition made up of ExxonMobil Corp. and other companies with nearby refineries and plants had sued the nation's fourth-largest city in 2008 after Houston passed ordinances that required businesses to pay registration fees based on the number and type of pollution sources on each site. The city used the fees to investigate potential violations of air pollution laws.

The ordinances also made it unlawful to operate a facility inside Houston unless it was registered with the city. Violations of the ordinances could have been prosecuted in municipal court and were punishable with fines between $250 and $2,000 per day.

Attorneys for the city had argued in court documents the ordinances were a local expression of state laws regulating pollution, that they didn't make an "end-run" around state regulations and the lawsuit was hiding the real issue, "which is that industry does not want to be accountable to the people to stay within industry's permitted levels of pollution."

But in a 8-1 ruling against the city, the state's all-Republican high court said the ordinances were inconsistent with the Texas Legislature's intent that favored statewide consistency in enforcement. The Texas Commission on Environmental Quality is the agency in charge of administering the state's environmental laws.

The Supreme Court said the ordinances allowed criminal prosecution without letting the environmental commission determine if a violation had taken place and without allowing the agency to determine if administrative or civil penalties were more appropriate.

"The Legislature has enacted a comprehensive and flexible regulatory regime for investigation into possible violations … and consistent enforcement of the state's air pollution laws," the high court wrote.

Janice Evans, a spokeswoman for the city of Houston, said the city would have a statement on the ruling later Friday.

Evan Young, an attorney for the Business Coalition for Clean Air Appeal Group, said he was pleased with the ruling.

"We think it upholds the integrity of Texas environmental law and reaffirms the important role for clear, even-handed statewide regulation," he said.

If Houston's ordinances had been upheld, it would have created a patchwork of such laws across the state that would have allowed counties or cities to "establish their own priorities and their own determinations of when to try and bring a particular kind of enforcement," Young said.

Adrian Shelley, executive director of Air Alliance Houston, an environmental group that had filed a motion in support of the ordinances, called the ruling “bad news for public health in Houston.”

He said the court’s decision falls in line with recent actions by the state — including a law last year barring local ordinances that prevent fracking and other oil and natural gas activities that are potentially harmful to the environment — that erode Texas residents’ rights to seek environmental and public health protections.

“We don’t have enough resources for enforcement and as a result, we have levels of pollution that endanger public health and do not comply with state and federal standards,” he said.

THE ASSOCIATED PRESS

APRIL 29, 2016, 4:31 P.M. E.D.T.

Washington Still Haggling as Puerto Rico Debt Deadline Looms.

In December, House Speaker Paul D. Ryan instructed lawmakers to find a “responsible solution” to Puerto Rico’s debt crisis in the first three months of this year, giving the island plenty of time to prepare for a May 1 deadline on a $422 million debt payment.

So much for that.

That deadline is imminent, but Republicans in the House and Democrats in the administration are still haggling over the terms of a bill to rescue Puerto Rico. Missing the payment risks further destabilizing its shrunken economy. And there are concerns that the passage of any legislation could be delayed until the island nears the tipping point of its debt woes: a $2 billion debt payment due on July 1.

The May 1 payment consists mainly of principal and interest due from Puerto Rico’s Government Development Bank, a uniquely powerful institution that has played a leading role in the island’s borrowing and financial affairs for decades. Its activities are so numerous and critical that analysts have worried for months that the bank’s failure would have untold ripple effects across the island. Puerto Rico’s governor, Alejandro García Padilla, who has warned about defaults for months, has expressed frustration with Washington’s inability to act quickly.

“On Monday there will be a default,” he said on Wednesday. The bank has until the close of business on Monday, since the May 1 due date falls on a Sunday.

But the bigger issue may be that second, larger debt bill due in July, roughly $800 million of which is constitutionally guaranteed, giving the payment of it legal priority even over the funding of essential public services, such as police patrols, ambulances or drinking water. Investors who hold the guaranteed debt say they are prepared to fight to enforce their legal rights, no matter how much it may shock and anger the island’s residents.

“There’s too much discord,” said Matt Fabian, a managing director at Municipal Market Analytics, referring to the rancor over the rescue bill. “This was supposed to be a very controlled process, and it just got out of hand.”

When Mr. Ryan ordered debt relief for Puerto Rico, he may not have known just how intractable the differences were going to be — not only between Democrats and Republicans, but also among certain classes of creditors, some of whom are intent on avoiding the sort of losses that Detroit bondholders were forced to bear after that city went bankrupt in 2013.

In addition to lobbying Congress, some of the bondholders are sponsoring television ads that depict the rescue of Puerto Rico as an odious taxpayer bailout. And some other creditors are in quiet talks with representatives of the Puerto Rican government, testing the waters for a sweeping negotiated debt reduction that might obviate congressional action.

Despite the power and importance of the Government Development Bank, its debts are not backed by any taxing power or constitutional guarantee. If it defaults on the looming $422 million payment, its creditors have little legal recourse. And much of the bank's debt, in the form of municipal bonds, is held by more than 100 credit unions on the island — financial institutions that tend to serve mom-and-pop savers in Puerto Rico's poor and remote communities.

"The island's credit unions represent the nest egg of nearly 1,000,000 Puerto Rican families (one of every four Puerto Ricans) that trust their livelihood and savings in these financial institutions," said the credit unions' primary regulator in a statement released last year, when the sector held Government Development Bank debt with a face value of slightly more than $500 million, according to regulatory records. The regulator's spokesman did not answer messages Thursday.

Historically, the credit unions were required to invest only in very safe assets. But in 2009 their regulators made an exception, allowing them to buy and hold riskier bonds, as long as the bonds were issued by some branch of the Puerto Rican government. The change gave the Government Development Bank a new way to raise money, by selling its bonds to the credit unions.

As a result, those institutions wound up with outsize exposure to the bank, which itself was found insolvent last year by Puerto Rico's Commissioner of Financial Institutions. Officials on the island have been seeking a way to protect the credit unions from the bank's expected default, but it is not clear what the mechanism would be, or whether it could even be put in place in time.

A payment default by the Government Development Bank would add to the list of extreme measures that Puerto Rico has undertaken to stretch its dwindling cash while waiting for Congress to enact its rescue package. It has already removed assets from its workers' compensation pool and public pension system to pay bills, taken cash from low-priority bonds to make payments due on high-priority bonds, and extended a highway privatization, giving up future toll revenue in exchange for upfront payments of $115 million.

On Monday, holders of roughly $9 billion of bonds issued by the island's Electric Power Authority are scheduled to buy $111 million more in bonds as part of a complicated agreement to keep the power company liquid and preserve a consensual restructuring deal. Those investors must decide by Monday whether handing over $111 million is worth it, under the current confused and deteriorating circumstances. But Puerto Rico has warned that if the new money does not materialize it may sue the creditors.

This group of bondholders, mainly mutual funds and other financial institutions, has emerged as one of four main creditor groups with a stake in the rescue legislation.

Another major group consists of bond insurers, known as "monolines," which have insured about one-fifth of Puerto Rico's total $72 billion of outstanding bonds. Their backing promised to make the affected investors whole every time Puerto Rico defaulted on an insured bond. Along with the first group, the monolines are deeply concerned about the methods the rescue legislation would use to ensure that different types of creditors are treated equally.

A third creditor group consists of financial institutions that bought roughly $3.5 billion of general-obligation bonds that Puerto Rico sold in 2014, its last borrowing before losing virtually all market access after ratings agencies downgraded it to junk status. The 2014 bonds were purchased eagerly by hedge funds because they promised a high yield and because general-obligation bonds are explicitly guaranteed by Puerto Rico's constitution.

Holders of this block now argue that Congress should not interfere with Puerto Rico's constitutional promises; the Treasury Department has argued that none of Puerto Rico's bonds should be exempt from the bill's restructuring framework.

The fourth major creditor group consists of investors who hold so-called Cofina bonds, which were sold from 2006 onward, backed by a dedicated sales tax. These bonds were advertised as virtually default-proof, but as Puerto Rico's troubles have mounted over the last year, the Cofina investors have grown worried that the island may decide to divert their sales tax revenue to pay some other creditor group, such as the general-obligation bondholders, who say the constitution gives them first calling rights on all the island's resources.

The Cofina bondholders' secret weapon is an agreement that the bonds will "accelerate" in the event of a payment default, meaning that instead of waiting for a 30-year maturity, the holders would immediately be entitled their full present value. This feature makes the Cofina bondholders the only group that would actually benefit from a default on their holdings — and a wild card in the deck that Congress keeps shuffling.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

APRIL 29, 2016

Smoking or Non-Smoking?

The California Public Employees' Retirement System (CalPERS) struck a controversial note this week when its board announced it would study whether to get back into the tobacco industry. The nation's largest pension fund divested from tobacco companies in 2001 on the premise that making money off a product known to cause cancer was in conflict with the fund's social responsibility.

But a study by a consulting firm showed that CalPERS forfeited an estimated $3 billion in investment profits since 2001 because of that decision. The board will take its time — two years — reconsidering its decision, citing its fiduciary duty to make the best investment choices possible for retirees.

The announcement has already drawn fire from those who say CalPERS would violate its role as a health insurer by getting back into tobacco. State Treasurer John Chiang, who sits on the board and voted against the majority, said in a statement that investing in tobacco companies is harmful to public health and to the fund's fiscal bottom line. "Smoking causes addiction, disease and death," said Chiang. "No public pension fund should associate itself with an industry that is a magnet for costly litigation, reputational disdain, and government regulators around the globe."

GOVERNING.COM

BY LIZ FARMER | APRIL 22, 2016

Nuveen Muni Bond Exec Urges Passage of Puerto Rico Debt Bill.

Nuveen's co-head of fixed income says failure to pass proposed legislation will likely disrupt the municipal market and stall economic recovery in Puerto Rico

Less than two weeks before Puerto Rico is poised to miss a $422 million payment on its debt, one of the country's largest managers of municipal bond assets has proclaimed its support for a congressional proposal that would create a financial oversight board that could initiate a court-supervised restructuring of the island's debt.

With that deadline approaching, the island's development bank filed this week to sell more debt, in the form of taxable securities that would mature in May 2017.

John Miller, the co-head of fixed income at Nuveen Asset Management, says in a statement released today that the proposal "provides a fair framework for consensual negotiations between Puerto Rico and its creditors and will not increase borrowing costs for U.S. states, municipalities or other territories."

According to Miller, the proposal is not a bailout for Puerto Rico, which owes $72 billion to creditors, but a pathway for a negotiated solution.

The proposed legislation "will provide better outcomes and recoveries for thousands of individual investors that lack the ability to aggressively lobby Congress, submit editorials or seek injunctions. These investors hold an estimated one-third of Puerto Rico's debt and will realize the best recoveries possible if there is an effective oversight board shepherding the process and seeking equitable outcomes for all creditors both big and small."

Many individual investors own Puerto Rican debt through municipal bond funds, which, in turn, bought these bonds because they are triple tax-exempt – exempt from federal, state and local income taxes for all investors, no matter where they live.

Failure to pass the proposed legislation, writes Miller, will "most certainly result in prolonged, complex litigation… stifle any hope of economic recovery for Puerto Rico [and] more likely to disrupt the municipal market … The best outcome for the broader municipal bond market and all issuers is for Congress to address this situation quickly, decisively and only at once."

House Speaker Paul Ryan, R-Wis., supports the proposed legislation. He has said it is not a government bailout but rather a way to help avoid any bailout in the future, but his fellow Republicans so far aren't buying the argument. The GOP-led Natural Resource Committee abruptly canceled a vote on the debt restructuring bill last week after it appeared the vote would fail. Sen. Orrin Hatch, R-Utah, who chairs the Senate Finance Committee, also said the bill would not pass the Senate. The House bill is currently being rewritten.

Meanwhile, the clock is ticking.

Puerto Rico's legislature has passed legislation, signed by its governor, Alejandro Garcia Padilla, that declares a moratorium on the island's debt, as a way to get around the law that prevents Puerto Rico from declaring Chapter 9 bankruptcy, unlike other municipal governments.

The territory missed a $58 million payment on its Public Finance Corp. bonds last August. Now, in addition to the $422 million payment due May 1, Puerto Rico has a $2 billion payment on debt coming due July 1.

THINK ADVISOR

By Bernice Napach

APRIL 20, 2016

Chicago Financing Plan for 'Star Wars' Museum Draws Mixed Reviews.

Chicago Mayor Rahm Emanuel’s proposal to fold financing for a museum sought by “Star Wars” filmmaker George Lucas into a redo of the city’s massive convention center got mixed reviews from U.S. municipal bond market on Wednesday.

The proposal, which surfaced on Monday, calls for $1.5 billion of tax-exempt revenue bonds issued by the Metropolitan Pier and Exposition Authority and the extension of existing so-called tourism taxes on hotel rooms, rental cars, restaurant meals and airport taxi rides to pay off the debt over 40 years. About $1.16 billion would be used to raze part of the McCormick Place convention center to make room for and build the museum and replace the lost exhibition space.

Lucas, whose museum would showcase his collection of paintings, illustrations and digital art, would contribute $743 million to cover interest payments on the bonds, according to Richard Oldshue, the authority’s chief financial officer.

Illinois’ fiscal and political woes, which pushed the credit ratings on $3 billion of existing McCormick Place bonds into the low-investment grade level of triple-B last year, could taint the new bonds.

“The market can’t trust the state to do the right thing and as such they will levy a pretty significant penalty before buying these bonds,” said Nicholos Venditti, a portfolio manager at Thornburg Investment Management in Santa Fe.

Illinois’ fiscal 2016 budget impasse led to a technical default on McCormick Place bonds last year because there was no state appropriation to transfer tax revenue to the bond trustee for required monthly debt service deposits.

Legislation appropriating the tax revenue subsequently passed, ending the default.

John Miller, co-head of fixed income at Chicago-based Nuveen Asset Management, said going forward, the state has no incentive not to appropriate for McCormick Place bonds.

“I don’t think anybody could or should view a McCormick Place renovation and a Lucas Museum as a partisan issue. It’s an opportunity,” he said, adding that the taxes paying off current bonds have been growing.

Still, Venditti questioned how the state could approve the museum plan instead of tackling its growing public pension costs, a structural budget deficit and the severe financial problems of the Chicago Public Schools.

“If I lived in Chicago, this proposal would drive me insane,” he said.

The financing package, which includes money and a tax pledge for the bonds by the state, requires approval from the Democrat-controlled Illinois Legislature and Republican Governor Bruce Rauner.

Reuters

Wed Apr 20, 2016 8:23pm EDT

(Reporting By Karen Pierog, additional reporting by Dave McKinney; Editing by Bernard Orr)

[Ordinary Investors Could Lose if Puerto Rico Goes Bankrupt.]()

Average, passive small investors throughout the United States may not realize it, but some of their money, too, may be at risk as Puerto Rico struggles with its debt crisis.

A select group of municipal bond funds have increased their shares in Puerto Rico despite the continuing battle in Congress over how to help the strapped commonwealth pay its $72 billion debt.

Municipal-bond mutual funds run by OppenheimerFunds and Franklin Resources' Franklin Templeton Investments have the highest exposure to Puerto Rico's debt, according to data from Morningstar.

Oppenheimer and Franklin are global investment firms that manage assets and provide investment advice for investors large and small. Both offer funds, or groupings of investments, to investors.

As of last week, 44 percent, or 259, of 588 traditional municipal bond funds in the U.S. have exposure to Puerto Rico. Which means some hands-off investors, including those whose financial matters are handled by a broker, have a vested interest in what happens to Puerto Rico.

While there are no figures to ascertain who invests in these bond funds, they are considered lower-risk and are often used by older investors seeking a relatively safe place for money – although the primary risk is the default of the bond holder, which is relatively rare.

Both Oppenheimer and Franklin have slightly increased their Puerto Rican holdings since August. Both remain optimistic that despite the economic woes, Puerto Rico will make good on its bond obligations.

In a February press release, Oppenheimer said Puerto Rico needs to adopt a process under which its sales tax revenue is securitized, or packaged, and sold to investors. "At OppenheimerFunds, we have invested in Puerto Rico and its bonds for decades," the statement said. "We have a broad vision and long-term horizon and want to help Puerto Rico's economy grow. We welcome the opportunity to work with Puerto Rico to advance our common cause of finding solutions that will aid the long-term economic growth, well-being and investment in Puerto Rico."

Franklin, also in February, told investors that it was "considering our legal actions" with regard to its holdings in Puerto Rico.

The Puerto Rican government is seeking to file for bankruptcy, a move supported by the Obama administration.

But foes of that strategy say federal code does not permit that. As a U.S. territory rather than a municipality such as Detroit, Puerto Rico is not allowed to file for bankruptcy unless Congress amends current law. Instead, those opponents are seeking a restructuring with oversight protections, which could allow Puerto Rico to skirt some repayment rules.

The Wall Street Journal this week reported that Oppenheimer and Franklin, along with some bond insurers, met with congressional staffers involved in crafting legislation concerning Puerto Rico's debt.

Critics claim anything dealing with Puerto Rico comes with trouble, including investments.

"I think the investments are toxic," said Jake Zamansky, a New York lawyer who is handling the claims of investors who said they were led into sinking their money into Puerto Rico funds that were risky. They subsequently endured losses of much of their estate in some cases. In September, UBS AG's wealth-management unit was ordered to pay investors from a $2.9 million fund for losses linked to Puerto Rico's municipal bonds.

"I don't see any way that Puerto Rico can get out of this," Zamansky said. "It can't go bankrupt and it will be litigating with its creditors for years. And it's become a political issue in the U.S. now."

AMI Newswire

by Steve Miller

Apr. 19, 2016, 3:20pm

Puerto Rico's Bondholders Divided in Fight Over Federal Rescue.

Puerto Rico bondholders are lining up on different sides of the battle in Congress over legislation to rescue the island from financial collapse as lawmakers rewrite the bill in an effort to overcome opposition from Democrats and Republicans.

Hedge funds that own about $5 billion of Puerto Rico's general-obligation bonds, which are guaranteed under the island's constitution, are fighting the House measure that would give the U.S. territory ability to write off some of its $70 billion in debt. Firms that own securities backed by sales taxes are working to ensure its passage, seeing it as a way to protect their investment from a cascading series of defaults.

The fracture is adding to the political discord over the broadest effort yet in Washington to address the Puerto Rican debt crisis, which has been building over the past 10 months as the island's government runs out of cash and can no longer borrow money to remain afloat. After members from both parties bristled at aspects of the bill, the House Natural Resources Committee last week abruptly canceled a planned vote so legislators could revise it. Representative Rob Bishop, who heads the committee, said Tuesday he thinks most Republicans will ultimately support the measure.

"The conflicting messages that lawmakers are getting from investors is making them less likely to want to be seen picking one creditor group over another," said Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer. "There are disagreements among House members over which credits are strongest and what's the right way to proceed."

Puerto Rico is veering toward major bond defaults in May and July after Governor Alejandro Garcia Padilla signed a law allowing him to suspend debt payments through January. He has pushed

Congress to give his government legal powers to restructure debt in court, which it currently cannot do, to avert painful spending cuts on an island where nearly half the residents live in poverty and the economy has been contracting for a decade.

Rival Creditors

If not addressed, the crisis threatens to leave owners of Puerto Rico's varying securities — with differing legal protections or promised rights to certain revenue — fighting in court over whatever money Puerto Rico brings in.

Garcia Padilla has proposed preventing that by allowing investors to voluntarily exchange their bonds for new securities, though no formal offer has been extended as his administration waits on action from Washington. In its most recent proposal, Puerto Rico said it would pay 74 cents on the dollar for general-obligation and government-guaranteed debt and 57 cents for sales-tax securities.

The creditor schism on Capitol Hill between investors with competing interests underscores the obstacles that Puerto Rico faces in reaching a timely agreement to reduce its debt, which was issued by 17 different arms of the government, including $13 billion of general obligations and $15 billion of sales-tax bonds. It took more than a year for its electric company to reach such a deal in December — and it still hasn't been completed.

A group of general-obligation bondholders that includes Monarch Alternative Capital, Davidson Kempner Capital Management and Stone Lion Capital Partners are among those opposed to the House legislation, which would give a federally-appointed board power to oversee Puerto Rico's budget and a restructuring with creditors. The bondholders, who have hired former U.S. Representative Connie Mack to lobby on their behalf, say the legislation threatens their rights to be paid back first.

"The House Super Chapter 9 bankruptcy legislation would violate the priority given to general-obligation bonds under Puerto Rico's constitution, which Congress has already twice affirmed," Andrew Rosenberg, a lawyer at Paul Weiss Rifkind Wharton & Garrison, which is representing the GO bondholder group, said in a statement. "As a result, the holders of $18 billion of GO and commonwealth-guaranteed bonds could assert takings claims against the U.S. government."

That position has put them at odds with a rival group that holds $1.6 billion of securities known as Cofinas that are backed by a share of Puerto Rico's sales taxes. The group includes GoldenTree Asset Management, Merced Capital, Tilden Park Capital Management and Whitebox Advisors. Judd Gregg, a former U.S. Senator from New Hampshire, is advising the group.

Those bondholders anticipate that the federal oversight panel would honor their claims more than Puerto Rico, which has already siphoned off gas- and rum-tax revenue pledged to some debt to avoid defaulting on general obligations. The group is concerned that Puerto Rico may begin redirecting sales-tax revenue as soon as July to help pay other expenses, something the House bill may prevent.

"We feel that the chances of our property rights being properly respected are greater in the hands of disinterested, dispassionate control board members than they would be in the hands of the administration in Puerto Rico, which seems to treat all property as house money," said Susheel Kirpalani, a partner at Quinn Emanuel Urquhart & Sullivan, which is representing the holders of the sales-tax debt.

Republicans' Conditions

House lawmakers were shooting to have a legislative fix for Puerto Rico done by the end of March, only to see the process take longer than anticipated. Bishop, the chairman of the House Natural Resources Committee, said the panel could act on a revised bill as early as next week, though others said such a vote may be delayed until May.

An influential group of about three-dozen fiscally conservative Republicans in the House, known as the Freedom Caucus, met Monday evening to discuss bill. Before they can endorse it, they want assurance that it treats different classes of creditors fairly and doesn't open the door to a push for states to restructure their debts, according to a member who spoke on the condition he not be identified.

The legislation initially released by the committee would allow a federal board to weigh in on Puerto Rico budgets, oversee a debt restructuring that creditors would be able to vote on through collective action, and put bondholder lawsuits temporarily on hold, a provision know as a stay. Many Republicans objected to allowing the territory to cut its debt, while Democrats said the board would wield excessive power over the island's finances and decisions.

While general-obligation bondholders also favor a federal oversight panel, they want the House bill to exempt constitutionally-guaranteed debt from restructuring or give the securities the top claim on the government's funds, according to three investors who asked for anonymity because lawmakers are still working on the legislation. They also want to be able to sue the commonwealth if it defaults on $805 million that's due on July 1, the people said.

Cofina investors have more time. Puerto Rico already directed $696 million this fiscal year to cover payments through August, according to Standard & Poor's. The next Cofina payment isn't due until Feb. 1, just a few weeks before the legal stay is lifted.

"It's a very tricky situation," said Mikhail Foux, head of municipal strategy at Barclays Plc. "GO bondholders will be saying they're backed by the constitution and Cofina bondholders will be saying they're backed by a specific stream of revenues."

Bloomberg Business

by Michelle Kaske and Billy House

April 19, 2016 — 2:00 AM PDT Updated on April 19, 2016 — 7:32 AM PDT

[Puerto Rico Sets Sights on Tobacco Bonds in Long-Shot Money Grab.]

Most tobacco bonds are destined for default, including those issued by Puerto Rico. Investors just never thought it could come this way.

Included in the commonwealth's debt moratorium law passed this month: Children's Trust, a not-fo--profit entity created to issue debt backed by legal-settlement money that U.S. states and localities receive from cigarette companies. Its presence is puzzling in that unlike almost every other Puerto Rican bond, some of the tobacco securities still carry investment-grade ratings because the cash that pays investors is deemed out of the government's reach.

As Puerto Rico tries to cut its $70 billion of debt, investors are learning nothing is off-limits, with even constitutionally guaranteed general obligations staring down losses. While Governor Alejandro

Garcia Padilla has yet to halt any payments — and creditors have yet to file the inevitable lawsuits — the threat of default on even the most-secure bonds by claiming police powers shows how far the commonwealth is willing to go to restructure its debt burden.

“The tobacco financing speaks in the language of true sale and trust agreements, and was created specifically to insulate bondholders from the general fund,” said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. “Legal hurdles aren’t what Puerto Rico is focusing on right now.”

Island’s Perspective

The moratorium law is meant to give Puerto Rico the tools it needs to weather its crisis while providing citizens with essential services, said Barbara Morgan, a representative at SKDKnickerbocker in New York who represents the commonwealth’s Government Development Bank.

“The inclusion of an entity, like the Children’s Trust, in the act does not automatically mean these tools will be applied to that entity,” she said in an e-mail.

Tobacco securities are one of the few corners of the $3.7 trillion municipal market where default isn’t just possible — it’s probable. They’re mostly considered junk because when governments first sold them more than a decade ago to get instant cash from the 1998 settlement revenue, they didn’t anticipate how quickly Americans would give up smoking.

Moody’s Investors Service last projected that a 4 percent annual decline in the cigarette shipments that back the bonds would cause 80 percent of them to fail to pay on time. That wouldn’t cause a default on Children’s Trust debt issued in 2002, the strongest of its obligations, according to the forecast.

Money Flow

Tobacco bonds were structured as asset-backed securities, with the settlement money flowing straight to a trustee to pay the debt, rather than passing through government coffers. With so many of the obligations poised to ultimately default, states and cities have touted that they’re not on the hook to make up for investor losses because of the setup.

In Puerto Rico’s case, it looks like the bondholders will be the ones praising the structure.

OppenheimerFunds Inc. is by far the largest owner of Children’s Trust debt, with about $9.9 billion of exposure when including the full maturity value of zero-coupon bonds, according to the most recent holdings data compiled by Bloomberg. That’s 82 percent of the $12 billion in outstanding securities, held across 17 mutual funds.

Meredith Richard, a spokeswoman for New York-based OppenheimerFunds, declined to comment.

Next up are Invesco Ltd., MacKay Shields and Nuveen Asset Management, which hold $211 million, $148 million and $131.5 million in maturity value of zero-coupon tobacco bonds, respectively, Bloomberg data show. In all, at least 12 fund companies own the debt.

Bond documents for the 2008 sale of zero-coupon debt contemplate a Puerto Rico money-grab.

“It is also possible that the commonwealth could attempt to claim some or all of the pledged TSRs for itself or otherwise interfere with the security for the Series 2008 bonds,” according to the documents. “In that event, the bondholders, the trustee or the trust may assert claims based on contractual, fiduciary or constitutional rights, but no prediction can be made as to the disposition of such claims.”

The documents also stipulate that Citibank N.A., the master settlement agreement escrow agent, must send all money directly to Deutsche Bank Trust Company Americas, the trustee, under terms that are “irrevocable until after all bonds have been repaid.”

For now, the credit raters aren’t ready to change their view on the Children’s Trust bonds.

“Unfortunately we’re not going to be able to provide insight here,” Joe Mielenhausen, a Moody’s spokesman, said in an e-mail. “It’s a complex legal question that we just can’t comment on at this time.”

Standard & Poor’s is looking into how the debt moratorium affects the bonds and doesn’t yet have an update, said April Kabahar, a spokeswoman for the credit rater.

Sandro Scenga, a spokesman for Fitch, didn’t return a voicemail or e-mail seeking comment. It’s the only credit rater to give investment grades to all of Children’s Trust’s 2002 debt.

Some of those securities that mature in May 2033 rallied Wednesday, trading at an average 100 cents on the dollar, the highest since April 12, data compiled by Bloomberg show. With the shortest maturity of all outstanding obligations, they’re the only ones to carry investment grades from all three credit raters.

In some ways, Puerto Rico’s tobacco securities are like its sales-tax debt, Fabian said. The bonds, known by the Spanish acronym Cofina, had long been a favorite of investors because they had a first claim on sales-tax revenue.

Now Cofina bondholders would recover just 57 percent in the commonwealth’s latest restructuring proposal. Otherwise, the debt would likely stop paying on Feb. 1 because of the moratorium law, according to S&P.

“Puerto Rico has been flouting the rule of law for the last 12 months or so — I can’t tell you they wouldn’t try to take” tobacco-bond funds, said Jason Diefenthaler, who runs a $106 million high-yield muni fund at Wasmer Schroeder & Co. in Naples, Florida. “It’s tough when you have such a political outcome determining the forward direction of a situation like Puerto Rico.”

Bloomberg Business

by Brian Chappatta

April 20, 2016 — 2:00 AM PDT Updated on April 20, 2016 — 12:12 PM PDT

Puerto Rico Registers to Sell Notes as May 1 Default Looms.

Puerto Rico’s Government Development Bank, operating under a state of emergency imposed to halt an erosion of its dwindling cash, has filed with regulators to sell debt as officials negotiate with creditors about a $422 million payment owed at the start of May.

The GDB, which lent to the commonwealth and its agencies, filed to sell taxable securities that would mature May 2017, according to the Municipal Securities Rulemaking Board's website, called EMMA. The notice doesn't list the amount of the sale or the coupon. The commonwealth hasn't been able to sell debt since last year.

Governor Alejandro Garcia Padilla declared the state of emergency April 9, allowing withdrawals from the GDB only to fund health, public safety and education services. The bank has $562 million of liquidity, according to a debt-moratorium law passed two weeks ago.

Barbara Morgan, a representative at SKDKnickerbocker in New York who represents the GDB, didn't have an immediate comment.

The Puerto Rico Aqueduct and Sewer Authority sold $75 million of short-term debt via private placement in September, data compiled by Bloomberg show. The commonwealth's Infrastructure Financing Authority sold $256 million of two-year debt in March 2015. The GDB's last borrowing was a short-term note sale in October 2014.

Bloomberg Business

by Michelle Kaske

April 20, 2016 — 9:07 AM PDT

Blown Deadline for Puerto Rico Bill Risks Triggering Defaults.

U.S. House leaders concede there is little chance of passing a bill to address Puerto Rico's debt woes before a May 1 deadline on a $422 million debt payment, leaving members worried the urgency of the debate could wane until the next crisis point.

That leaves lawmakers eyeing July 1, when a significant $2 billion payment comes due, and raises the risk that the territory could default on some of its general-obligation bonds, which are seen as the island's most sacrosanct debt.

Given the longstanding pattern of Congress waiting until the last minute to force through major compromises — whether it's raising the nation's debt limit or averting a government shutdown — members say that passage of a Puerto Rico bill could slip into late May, or even June.

"I've had a problem with that way of thinking since I've been here," complained Representative Tom Marino of Pennsylvania, of a tendency for Congress to let up until the next due-date. "I'm really worried about that."

Representative Raul Grijalva of Arizona, the top Democrat on the House Natural Resources Committee, which is drafting the measure, said "some might characterize May 1 as not a doomsday date."

"But we get past May and toward July when another big shoe drops — they continue to default and not be able to pay — then you're starting to take it to what the Republicans want to call a fiscal crisis of their own making, to a humanitarian crisis of pretty huge proportion," said Grijalva.

"I hope we maintain some urgency," he added.

Still Negotiating

House leaders insisted Thursday that they are trying to move the bill through as quickly as possible, saying that they are trying to accommodate changes demanded by the U.S. Treasury Department. Natural Resources Chairman Rob Bishop of Utah — who earlier this week said missing the May 1 deadline was not “Armageddon” — said Thursday there are only “minor” pieces left to resolve on a draft bill. He said his committee could act quickly once they were fixed.

But neither he nor House Speaker Paul Ryan would say whether that newly revised bill would be released next week — much less be acted on by the committee or the entire House. The House is out on a one week-recess starting on May 2, which also delays any action.

Congress’s slow pace is worrying to officials in Puerto Rico and many of the bondholder groups, who have been waiting to see what kind of action Congress will take.

“The longer the commonwealth suffers without federal legislation, the greater the likelihood of a taxpayer funded bailout,” former Senator Judd Gregg, an adviser to an ad hoc group of bondholders that holds $1.6 billion of securities known as Cofinas, said in a statement.

Fearing Default

Puerto Rico and its agencies owe $2 billion of principal and interest on July 1, including $805 million for general-obligation bonds. A default on those securities would send a signal to investors and Congress that the commonwealth is out of cash and needs help, said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees $4.2 billion of municipal bonds, including Puerto Rico debt.

“If they decide to default, it raises the stakes and it will push Congress to do something sooner rather than later,” Dalton said.

A missed payment on general obligations would be a shift in tone for Puerto Rico, which has found ways to continue paying on its direct debts. General obligations are backed by the commonwealth’s full faith and credit and carries a constitutional guarantee of repayment.

“That would be a big negative step for them,” said Daniel Solender, who manages $18 billion of state and local debt, including commonwealth securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. “You would hope that they’re just waiting as long as they can to figure out closer to the deadline of how not to default because that would be huge for them. Defaulting on their general obligation debt is not a positive step toward their future.”

Outstanding Issues

Lawmakers appear to have made little apparent progress since Bishop’s Republican-controlled Natural Resources panel canceled a meeting last week where it planned to work on the draft measure, H.R. 4900. That came amid objections raised to various provisions by Republicans, Democrats and Treasury Department officials.

Minority Leader Nancy Pelosi on Wednesday ticked off outstanding issues.

They include details of the restructuring processes that will be in place regarding the island’s debt; the membership, workings and powers of a financial oversight control board; issues related to pensions of workers and “other workers’ issues,” which have included Republican calls for lowering the island’s minimum wage; and proposed land transfers.

In addition, beyond the bill language, Ryan has been working to play down perceptions — pushed by some fiscal conservatives in his own conference and in ads from outside groups running in some members' districts — that the measure is a "bailout" of Puerto Rico, or a step toward that.

At the same time, leaders in both parties say any final bill will need bipartisan support to succeed. Pedro Pierluisi, Puerto Rico's non-voting delegate to the U.S. Congress, is among those who say that if a House bill doesn't get approved with "a decent number of both Republicans and Democrats, it doesn't stand a chance in the Senate."

"Ideally, within a month, the bill should be out of the House," said Pierluisi, in an acknowledgment that the May 1 date is no longer going to be met.

Trading Blame

Republicans and Democrats each are largely blaming the other party for the holdup.

Majority Leader Kevin McCarthy, a Republican from California who sets the House floor schedule on legislation, shifted focus to the Obama administration and House Democrats when asked if lawmaker urgency on the Puerto Rico bill could disappear after May 1.

"Well, we've been working and ready to go. The Treasury Department keeps negotiating, so the Democrats said they won't move until Treasury's done," he said.

"Your question goes to the Treasury," said McCarthy. The department didn't immediately respond to a request for comment.

Bloomberg Business

by Billy House and Michelle Kaske

April 21, 2016 — 1:10 PM PDT

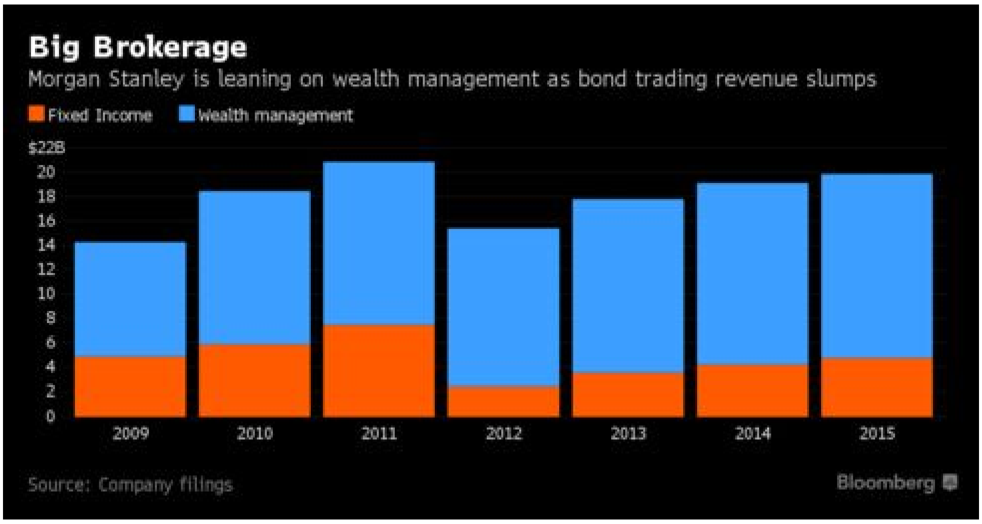
[Morgan Stanley Fuses Desks to Boost Bond Sales to Rich Clients.]()

Morgan Stanley, the Wall Street firm most dependent on wealth management, is combining some trading teams from its investment bank and brokerage to boost bond sales to rich clients.

The firm is joining corporate and government bond-trading desks to give wealth-management clients access to the broader pool of securities and research available to institutional customers, said Andy Saperstein, co-head of the division. It's an expansion of an effort that brought municipal-bond teams together in 2014, he said.

"That was a proof of concept, that by putting them together, we outpaced the Street by a lot, we increased our share," Saperstein, 49, said in a telephone interview. "It allows you to have more inventory, more scale in the market when looking for inventory. It's also more effective to manage risk across the book when they're not separate."

Wealth management has increased in scale and stature at Morgan Stanley under Chief Executive Officer James Gorman. The business accounted for 43 percent of the firm's $35.2 billion in revenue last year as fixed income became less profitable amid regulations and a trading slump.



Morgan Stanley will shuffle managers as part of the move, including Elizabeth Dennis, who ran the wealth-management team that executed trades. She will take over strategic lead management, which oversees referral business between institutional and wealth management and investments in private firms. She reports to Vince Lumia, who runs the private wealth-management unit catering to the firm's richest clients.

Kevin Lynyak, who heads trading for wealth management capital markets, will now report to Ben Huneke, head of investment solutions in wealth management, and Pat Haskell, the managing director of fixed income and commodities in the firm's institutional division.

Stephen Wronski will run a combined debt and equity middle-markets business, reporting to Lumia and Tracy Castle-Newman, managing director of equities on the institutional side. As part of the initiative, some wealth-management traders in the firm's Purchase, New York, office will relocate to New York City.

Bloomberg Business

by Hugh Son

April 21, 2016 — 6:48 AM PDT

Puerto Rico Moving Closer to Deal With Some Bank Bondholders.

Puerto Rico's Government Development Bank, operating under a state of emergency to preserve cash, is about halfway toward reaching a forbearance agreement with creditors, according to an official.

The GDB, which lent to the commonwealth and its municipalities, owes $422 million on May 1 that officials have said the bank cannot pay. Jesus Manuel Ortiz, spokesman for Governor Alejandro Garcia Padilla, said while leaving a press conference in San Juan on Friday that the government was about halfway there when asked by a Bloomberg News reporter about how talks on a potential forbearance pact were progressing. Such an agreement would allow the parties to negotiate out of court.

In an e-mail later to Bloomberg News, Barbara Morgan, a representative at SKDKnickerbocker in New York who represents the GDB, said there is no agreement yet.

“While we are actively negotiating in good faith with our creditors, no one on our team would ever suggest agreements have been reached,” Morgan said. “That would be both premature and directly at odds with our commitment to not negotiate this through the media.”

Taxable Debt

The bank has filed with regulators to sell taxable debt that would mature in May 2017, according to the Municipal Securities Rulemaking Board’s website. Garcia Padilla on April 9 declared a state of emergency for the bank. That decision limits withdrawals from the GDB only to fund health, public safety and education services. The bank has $562 million of liquidity, according to a debt-moratorium law passed two weeks ago.

Puerto Rico and its agencies borrowed for years to fix budget deficits, amassing $70 billion of debt. Island officials are negotiating with bondholders to reduce those obligations through a voluntary debt exchange. A U.S. House Natural Resources Committee is working on a bill that would establish a federal control board to manage Puerto Rico’s budgets and oversee any restructurings.

Puerto Rico needs Congress to address the island’s finances in order to protect its ability to maintain essential services for its residents, Antonio Weiss, counselor to U.S. Treasury Secretary Jacob J. Lew, told a packed audience in Manhattan Friday during a panel on the commonwealth’s debt crisis at the Center for Puerto Rican Studies at Hunter College. For every dollar the island collects in tax revenue, it must spend 33 cents on debt services, compared to an average 5 or 6 cents for states, Weiss said.

Cascading Defaults

“Without legislation by Congress, Puerto Rico will face a cascading series of defaults, including on its constitutionally protected debts and mounting litigation both against the commonwealth and between the creditors,” Weiss said.

The cash-strapped commonwealth is expected to fall short of paying the $422 million to holders of the GDB bonds, Moody’s Investors Service said Friday in a report. It may also default on debt from the Employees Retirement System, Industrial Development Co. and Highways and Transportation Authority, Moody’s said.

Lew on Friday urged Congress to act on a restructuring for the commonwealth to avoid a bailout.

“The goal should be that at the end of a restructuring, that Puerto Rico will again have access to capital markets,” he said in an interview with the Spanish-language Univision television network. “With a restructuring, it will actually be better for creditors as well.”

(An earlier version of this story was corrected to remove the reference to a tentative agreement in the first two paragraphs.)

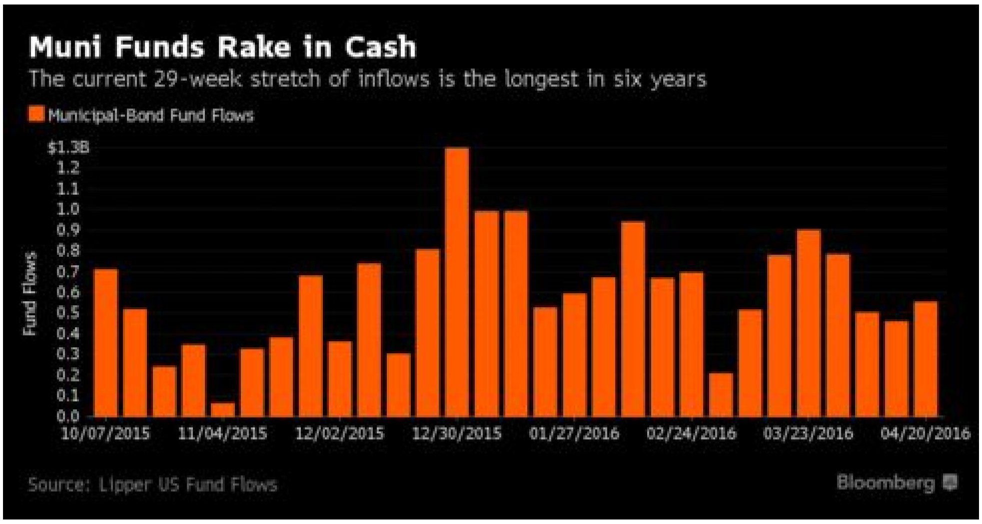
Bloomberg Business

by Michelle Kaske and Alexander Lopez

April 22, 2016 — 2:04 PM PDT Updated on April 23, 2016 — 1:20 PM PDT

Muni-Bond Funds See Longest Stretch of Inflows in 6 Years: Chart

Investors have added money to municipal-bond mutual funds for 29 straight weeks dating back to October, the longest streak since March 2010, Lipper US Fund Flows data show. The inflows persist even though state and local debt has trailed other fixed-income assets: munis have gained 2.3 percent this year, compared with 2.9 percent for Treasuries and 4.7 percent for investment-grade corporate debt, Bank of America Merrill Lynch data show. If history is any guide, the inflows will only get stronger in the coming weeks, as tax-free interest lures individuals who had to file their taxes by the mid-April deadline.



Bloomberg Business

by Brian Chappatta

April 22, 2016 — 6:36 AM PDT

Bloomberg Brief Weekly Video - 04/21

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Brian Chappatta about this week's municipal market news.

Watch the video.

April 21, 2016

San Bernardino Proposes Shielding City from Damages in Police Misconduct Cases.

Buried in San Bernardino's latest plan to exit bankruptcy protection is a request to shield individual police officers from liability in brutality and excessive-force lawsuits.

Bankrupt cities typically slash payments promised to Wall Street, retired workers and other creditors. More unusual is shielding a city from damages and settlement costs arising out of negligence and civil-rights lawsuits against individual officers. And the law around discharging such liabilities in municipal bankruptcies has rarely been tested.

A judge overseeing Detroit's bankruptcy rejected a similar request to protect police officers, according to WSJ's Katy Stech. But it's not clear whether any other localities have successfully shielded their employees from liability as San Bernardino is attempting.

When damages are awarded in lawsuits against police officers, it's usually the employer that pays the tab. And that's San Bernardino's concern.

"Exposing officers and employees to liability for harms committed while at work would expose officers and employees to often ruinous liability simply for doing their jobs," city officials said in a March 30 filing. "The city will be forced to pay such claims one hundred cents on the dollar, which the city cannot afford to do."

Judge Meredith Jury, who is presiding over the San Bernardino bankruptcy case, recently remarked on the absence of case law in that area. "There is no precedent that binds me in a decision on that," she said at a December hearing.

THE WALL STREET JOURNAL

By JACOB GERSHMAN

Apr 19, 2016 10:48 am ET

California Tool to Fund Badly Needed Infrastructure Growing in Popularity.

After years of the vacuum left by the end of California's redevelopment agencies, the California Economic Summit two years ago helped craft a robust new financing tool for local governments looking to pay for local infrastructure and economic development.

Now there are an estimated 60 projects under consideration across California using the "Enhanced Infrastructure Financing District" as a way of funding projects. And that number is expected to increase.

Following the dissolution of redevelopment agencies in 2011, local governments struggled to pay for everything from long-neglected sidewalks and roads to the mass-transit and affordable housing needed for long-term sustainable growth.

"People see EIFDs as a way to spur local and regional investment," said Fred Silva, senior fiscal analyst for California Forward, which is beginning to provide EIFD technical assistance where requested. "We encourage local leaders to develop a business plan for economic development of their communities and determine the infrastructure investments that will be needed to sustain a healthy local economy over time."

Last week in Los Angeles, a forum hosted by the Southwest Megaregion Alliance, a Knowledge

Partner of the California Economic Summit, attracted more than 50 people, including city and regional leaders and consultants who are already working on projects and looking into using EIFDs to fund them.

“It was a sort of EIFD 2.0,” said Mark Pisano, who noted that there are up to 60 EIFD projects in some sort of development across California.

Pisano is the former executive director of the Southern California Association of Governments, the nation’s largest metropolitan planning organization. He is also co-lead of the Summit’s Infrastructure Action Team and has been promoting EIFDS as a flexible structure that give local entities a vehicle to fund economic development.

While there was some initial confusion about EIFDs and how they worked, it appears that there is a better understanding of how the EIFDs can help economic development.

“People more than understand it,” Pisano said. “They are beginning to do it.”

Long-time California urban economics and financial consultant Stan Hoffman attended the meeting.

“The EIFD can be an important tool that cities should evaluate,” Hoffman said. ”It’s not the whole toolbox, but it can be valuable.”

Some of the projects that are maturing include one in the city of West Sacramento, which wants to use an EIFD to help finance two new bridges across the Sacramento River to the city of Sacramento on the other side. The city of La Verne is looking at an EIFD for a transit-oriented development plan around the Gold Line, and the city of Los Angeles is considering using EIFDs in plans to revitalize the area around the L.A. River.

There are still many other civic and business leaders who are in the early stages of learning more about EIFDs. On Friday in Palm Desert, Assemblymember Eduardo Garcia brought together Coachella Valley civic and business leaders interested in learning more about EIFDs. Silva and Pisano were among a handful of experts who were explaining how to define and set one up.

“Enhanced Infrastructure Financing Districts and Community Revitalization Authorities are valuable tools that provide cities and special districts with financing mechanisms to invest in infrastructure and affordable housing,” said Garcia, who is chairman of the Assembly Committee on Jobs, Economic Development and the Economy.

The discussion at Friday’s session centered on four key questions in getting an EIFD created and underway.

- What financing instruments could work?
- Who else needs to be a part of this process?
- What can be done to help broker ideas and projects?
- What needs to happen next?

“Through my involvement in the California Economic Summit, it is important to me that we hold workshops to help local governments understand and better utilize these tools,” Garcia added. “Increasing investment in our local communities will help address poverty, high unemployment, and the shortage of housing that’s affordable, thereby helping to create strong and resilient local economies and communities.”

CALIFORNIA ECONOMIC SUMMIT

BY ED COGHLAN

MARCH 28, 2016

[New Report Finds Illinois Municipalities Pushing for 'Home Rule.']

A movement is underway to have the Illinois legislature expand what's called "home rule authority," according to a [new report] from the Better Government Association. What exactly is home rule and what could it mean for towns and villages throughout the state?

Bob Reed, director of programming at the Better Government Association, says home rule gives communities "more control."

"It's basically a legal standing that allows towns of over 25,000 [people] to tax, issue bonds, do other financial engineering and economic development and make a number of other decisions for their communities, such as privatizing certain services, like garbage collection or water, and changing zoning," Reed said. "Basically, it gives communities more control in both how they finance and how they will run their communities."

According to Reed, out of 1,297 municipalities in Illinois, 211 currently operate under home rule, which was first introduced in Illinois in 1970 as an amendment to the state constitution.

The Illinois Municipal League is working on legislation that would expand home rule to communities with over 5,000 people with an amendment to the Illinois constitution. But that legislation would have to make it through the General Assembly before it gets to the ballot in November.

Reed said the chances that home rule will be on the ballot are "slim to none."

"I wouldn't rule it out 100 percent, but it's highly unlikely," Reed said. "What this really is, is a warm-up act. What the Illinois Municipal League is signaling here is the state's 1,297 municipalities are hurting. These towns and villages are concerned that even if a state budget is passed, the state could hold back money. So they're looking at the taxpayer as a way to relieve some of this pressure and uncertainty so they can move forward with plans and fully funding their day-to-day operations."

Reed said that even with the state budget stalemate, home rule is still a tough sell to voters.

"Most people, when they hear home rule, think more taxes. But on the other side, you have the people who run the government and unions who want home rule to pay for better schools and better services," Reed said.

"[What is] important to remember here though is that home rule by itself won't solve the financial problems for communities," Reed said. "Municipalities need to also deal with reforming pensions, consolidating government, and where possible, consider privatizing services. Home rule is just one tool in the package for municipalities."

Reed joins "Chicago Tonight" to further discuss home rule and what that could mean for Illinois communities.

Chicago Tonight

Andrea Guthmann | Meredith Francis | April 11, 2016 4:31 pm

Revenue-Bleeding Kansas Revives Tobacco Bonds as Deficit Lingers.

After reeling from budget shortfalls since cutting income-tax rates three years ago, Kansas is considering a once-popular fix for cash-strapped governments: bonds secured by the money received under the 1998 settlement with tobacco companies.

The sale would be the first offering of the securities in the U.S. municipal market since March 2015 as the decline in smoking over the past decade cuts into the annual payouts, leaving less to borrow against. States and localities have already sold $34 billion of the bonds, a niche that's rallied as cigarette sales steadied last year and investors plowed into higher-yielding debt while interest rates held near a half-century low.

"The demand side is pretty strong for securitized tobacco bonds," said David Hammer, who oversees about $40 billion as co-head of municipal bonds at Pacific Investment Management Co. in New York. "A number of states have looked to tobacco securitizations to plug budget gaps over the years, and I am sure we can expect to see more."

The proposal floated by Republican Governor Sam Brownback illustrates the continuing financial pressure on the state, which borrowed $1 billion in August to shore up the employee retirement system. It has since had to cut spending for higher education and plans to put off pension contributions after tax collections fell short of its forecasts. In late 2015, Kansas borrowed $400 million for transportation after using highway funds for other expenses.

The prospective debt sale — which would need approval from the legislature — has drawn criticism for failing to permanently address the state's budget problems and for potentially siphoning money away from children's programs now paid for with the approximately $60 million a year received from the settlement.

That includes mental health services, child-care assistance and hearing programs, among others, said Shannon Cotsoradis, president of Kansas Action For Children, an advocacy group.

"Selling bonds backed by this money is a one-time fix that comes with a high price tag," she said.

Kansas could get $474 million to $782 million through a tobacco bond-sale, depending on how much of the settlement money it wants to pledge. Lawmakers will weigh the idea later this month after they return from a recess and officials receive new revenue estimates, according to Eileen Hawley, Brownback's spokeswoman.

Since deep cuts to income-tax rates became effective in 2013, Kansas has patched budgets shortfalls with one-time fixes that leave it facing deficits again when the next year begins. "The question is how are you going to solve the problem next year?" said Dave Hitchcock, senior director at Standard & Poor's.

Brownback, a former U.S. Senator who became governor in 2011, had said his state could become a model, predicting the lower levies would strengthen the economy and create more jobs and tax revenue. Kansas has since seen revenue fall short of forecasts, and in 2014 its economy expanded by 1.4 percent, compared with 2.2 percent for the U.S. overall.

Kansas drew down reserves and raised taxes in the year that began in July, though revenue has still come in 2 percent below estimates so far. On April 8, Brownback's administration said it would temporarily delay payments to employee pension plans due on April 15 until new revenue estimates are available.

Tobacco bonds are one of the highest-yielding corners of the municipal market, in part because of the risk that the securities will default as people cut back on smoking. But as gas prices tumbled last year, leaving consumers with more to spend, cigarette shipments slipped 0.1 percent, the smallest drop since 2006, according to regulatory filings by Reynolds American Inc. The securities have returned 5.2 percent over the past year, beating the 4.8 percent advance in the overall market, according to Bank of America Merrill Lynch indexes.

California sold $1.7 billion of tobacco bonds in March 2015, with 30-year debt yielding 3.38 percent. The prices have since risen, pushing the yields down to an average of 2.69 percent in trading Wednesday.

“Securitization of the tobacco settlement is one of several options the legislature can consider when they return,” said Hawley, the governor’s spokeswoman.

Some may be skeptical. The state’s House of Representatives are focused on finding long-term solutions for eliminating deficits and “reforming the budget process,” Republican House Speaker Ray Merrick said in an e-mailed statement.

“It’s important that any decision regarding securitization of tobacco funds be made with full understanding of potential benefits and drawbacks,” Merrick said.

Bloomberg Business

by Darrell Preston

April 14, 2016 — 2:00 AM PDT Updated on April 14, 2016 — 5:54 AM PDT

S&P Report Discusses Cost To State, School Districts Of California's Teacher Pensions.

SAN FRANCISCO (Standard & Poor’s) April 12, 2016—In 2014, California enacted legislation to eliminate its teachers retirement system’s unfunded pension liability by 2046. In a report published today, Standard & Poor’s Ratings Services says that the additional contributions under the law should bolster the pension system’s funded status over the long-term. Insofar as the law reduces the likelihood that the unfunded liability will spiral out of control, it’s favorable for the credit quality of both the state and its school districts. However, the additional contributions mandated by the reforms could also strain the finances of either the state or some school districts, depending upon future investment performance.

The report is titled, “Post-Funding Reform, CalSTRS Defined Benefit Remains Guaranteed; Cost To State, School Districts Is Anything But.”

The legislation—AB 1469—was adopted because by 2014 annual contributions to the California State Teachers Retirement System (CalSTRS) had fallen to a level such that the long-term solvency of its defined benefit plan was in jeopardy.

“Standard & Poor’s generally views AB 1469 favorably because it should stabilize CalSTRS’ long-term funding situation,” said credit analyst Gabriel Petek. “At the same time, we also view the contribution increases it calls for as large enough to have material fiscal implications. Funding the higher contributions could strain the state's budget—or those of the local school districts. We can envision plausible circumstances in which the added fiscal pressure caused by the higher contributions could weaken credit quality. At this point, however, it's unclear whether—or if—the higher contribution rates will stress the finances of either the state or any particular school district to this degree.

Part of our uncertainty stems from the fact that AB 1469 did not allocate CalSTRS' unfunded liability to the state and school districts in a strictly proportional fashion. And the way the funding mechanism is designed means that the state's contribution rates (and therefore the fiscal implications to the state) are influenced disproportionately by CalSTRS' investment performance.

As for the school districts, those with declining enrollments or limited budget flexibility could be challenged by the increasing contribution rates that the law specifies.

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

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com.

If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com.

Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this
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Municipal Bond Sales Poised to Accelerate as Redemptions Rise.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt rises.

States and localities plan to issue $13.8 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $11.7 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

California plans to sell $1.49 billion of bonds, Texas Transportation Commission has scheduled $615 million, Louisiana will offer $359 million and Texas's Lewisville Independent School District will bring $331 million to market.
Municipalities have announced $8.68 billion of redemptions and an additional $10.8 billion of debt matures in the next 30 days, compared with the $17.4 billion total that was scheduled a week ago.

Issuers from California have the most debt coming due with $1.97 billion, followed by Michigan at $1.21 billion and New York with $997.4 million. State of California Department of Water Resources Power Supply Revenue has the biggest amount of securities maturing, with $669.1 million.

Fund Flows

Investors added $1.46 billion to mutual funds that target municipal securities in the week ended April 6, compared with an increase of $1.4 billion in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $50.4 million last week, reducing the value of the ETFs by 0.24 percent to $21.1 billion.

State and local debt maturing in 10 years now yields 94.803 percent of Treasuries, compared with 92.75 percent in the previous session and the 200-day moving average of 96.982 percent, Bloomberg data show.

Bonds of Ohio and California had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Ohio's securities narrowed 4 basis points to 1.84 percent while California's declined 3 basis points to 1.89 percent. Puerto Rico and Connecticut handed investors the worst results. The yield gap on Puerto Rico bonds widened 192 to 12.69 percent and Connecticut's rose 12 basis points to 2.26 percent.

This story was produced by the Bloomberg Automated News Generator.

Bloomberg Business

by Ken Kohn

April 18, 2016 — 4:33 AM PDT

Bloomberg Brief Weekly Video - 04/14

Taylor Riggs, a contributor to Bloomberg Briefs, talks with reporter Joe Mysak about this week's municipal market news.

Watch the video.

April 14, 2016

New York City Public Pension Pulls Hedge Fund Investments.

NYCERS joins a growing list of public pension funds opting to drop hedge funds

The board of trustees for New York City's biggest public-employee pension fund voted Thursday to pull its investments from hedge funds, joining a growing number of pension funds that have taken this step.

“The trustees believe that this new structure will help the fund construct a responsible portfolio that meets our long-term investment objectives,” said New York City Comptroller Scott Stringer, the board’s investment adviser, in a statement after the vote.

The resolution authorizes asset managers for the New York City Employees’ Retirement System, known as NYCERS, to liquidate its hedge fund investments and not make any future ones.

The trustee board includes Mr. Stringer, a representative for New York City Mayor Bill de Blasio, city Public Advocate Letitia James and others.

NYCERS, which bills itself as the nation’s largest pension fund for municipal employees, has about $55 billion in assets for more than 300,000 individuals. Of that total, about $1.4 billion is invested in hedge funds. Among the hedge funds that have managed their money are D.E. Shaw & Co. and Fir Tree Partners. They didn’t respond to requests for comment on Thursday.

New York City’s other four pension funds have been undergoing a review of their asset allocation for several months. Those funds represent teachers, police, firefighters and the board of education.

The move marks a victory for liberal advocates and labor unions that have organized over the past year against hedge funds. A conglomerate of such advocates have operated under the banner the Hedge Clippers, and staged a protest outside a hedge fund-linked political fundraiser in New York, among other things.

Those advocates scored another win earlier this month when New York Gov. Andrew Cuomo signed a $15 minimum wage into law, backed by labor and liberal activists.

The vote on Thursday came after other large public pension funds in California and Illinois have taken similar steps, and a large pension fund in Ohio recently took testimony on the topic.

The effort to divest from hedge funds is backed by several large labor unions, including the American Federation of Teachers.

THE NEW YORK TIMES

By MIKE VILENSKY and BRODY MULLINS

Updated April 14, 2016 7:06 p.m. ET

Write to Mike Vilensky at mike.vilensky@dowjones.com and Brody Mullins at brody.mullins@wsj.com

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Puerto Rico Aims to Appease Congress With New Debt Proposal.

Puerto Rico proposed a new plan on Monday to restructure its debt, offering some creditors better terms than an earlier plan but falling well short of winning broad support.

The plan was announced as members of Congress in Washington struggled with a momentous decision: whether and how to give Puerto Rico extraordinary powers to wipe out debt. Conservative Republicans have resisted this idea, but major defaults are looming. Last week lawmakers in Puerto Rico stepped up pressure on Congress to act quickly by suddenly authorizing the island’s governor to halt payments on $72 billion in debt.

If the threat of a debt payment moratorium was Puerto Rico's stick, the restructuring offer on Monday appears to be a carrot. Puerto Rico said it had found a way to make debt payments of $1.85 billion a year, compared with the $1.7 billion a year it had offered before.

"The commonwealth is in crisis, and the fact is that we will only be able to address these issues by working together," Victor A. Suarez, Puerto Rico's secretary of state, said in a statement. "Our commitment to this is underscored by our willingness to listen to our different creditors and work to meet their needs."

The new restructuring plan covers $49.3 billion of Puerto Rico's total debt, most of which is in the form of municipal bonds. It calls for creditors to accept $32.6 billion to $37.4 billion up front by exchanging existing bonds for two new classes of bonds. The offer is up from a previous offer of $26.5 billion.

Puerto Rico's Government Development Bank, a crucial part of the local economy, risks defaulting on $422 million in debt payments due May 1, and the island faces $2 billion in payments on debt in July. Lawmakers both in San Juan and Washington have been working to prevent a disorderly collapse of the island's finances. Congress is working on a revised proposal to help Puerto Rico restructure under the supervision of a federal oversight panel.

The Treasury secretary, Jacob J. Lew, speaking at the Council on Foreign Relations on Monday, said, "There are still some open issues."

"There are a lot of details, but when you get down to the bottom line the question to us is: Does that restructuring authority work? It has to work or it's not going to be acceptable," he said. "It can't be something that you put a label on but in the marketplace it doesn't work." He did not comment on Puerto Rico's new proposal.

Puerto Rico began presenting its first restructuring proposal to creditors in January. A number of them said they considered it unacceptable; some have tried with little success to interest Puerto Rico in counteroffers.

Particular resistance has come from creditors who hold bonds backed by Puerto Rico's most ironclad pledges. General obligation bonds, for example, are specifically guaranteed by the island's constitution, and some holders argue that anything less than full, timely repayment would be unconstitutional.

Puerto Rico has taken the position that all types of creditors must sacrifice, however. The new offer announced on Monday reflects that position. General obligation bonds held by investors who do not live on the island would get a recovery rate of 74 percent under the new proposal. Holders of sales-tax-backed bonds would get 57 percent; and holders of bonds issued by the Government Development Bank would get just 36 percent.

Puerto Rico's financial crisis, and the solutions sought by Washington, could reverberate throughout municipal finance. A potential sticking point is that Puerto Rico's other long-term commitments, such as the pensions of retired government workers, would not be reduced under the new restructuring plan. Pensions do not currently have top legal priority in the order of creditors seeking payment, and some lawmakers think that switching around credit priorities for Puerto Rico would send a shock through the capital markets, making it harder for other states and cities to borrow.

The new proposal calls for current bondholders to trade in their holdings for two new types of bonds. Bondholders would get more or less of each type, depending on the priority of the bonds they now hold. Those with the highest-priority bonds would get more of the first type, which offer less monetary value but greater certainty of repayment.

The first type would be a “base bond” with a total face value ranging from $32.6 billion to $37.4 billion, depending on whether bondholders in Puerto Rico opted in or took advantage of the special offer available to them alone.

The new base bonds would start out paying 1.1 percent interest for the coming fiscal year. (Under Puerto Rico’s previous offer, interest payments would not have started until a year later.) The interest rate would then rise gradually to 5 percent in 2021, the same year principal repayments would start.

Bondholders living in Puerto Rico would, however, have the chance to recover more of their initial investment if they were willing to wait. Instead of trading in their holdings for the regular base bonds, they could opt for “local holder base bonds,” which would have a value equal to the face amount of the bonds being handed over. The local holder base bonds would pay a fixed, 2 percent rate of interest over a longer period of time.

A summary of the proposal noted that Puerto Rico was seeking to “provide relief to those Puerto Ricans who live day-to-day off their interest payments,” and the government was also looking at other ways of helping them.

For investors not living in Puerto Rico, there would be only a chance of getting a full recovery. In addition to their base bonds, they would get a second type, called “capital appreciation bonds,” which would not offer any cash payments until after the base bonds had been fully repaid and it was clear how much of a loss each type of bondholder had suffered.

At that point, this second type of bond would start paying investors enough to make up for their losses over a long time.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

APRIL 11, 2016

Water Deals Top U.S. Municipal Bond Sales Next Week.

The two biggest negotiated deals on next week’s $6.7 billion U.S. municipal bond and note calendar will fund water infrastructure projects in Massachusetts and California.

Issuance of U.S. water and sewer municipal bonds in the first quarter rose to $10.2 billion, a 7.8 percent increase over the same quarter in 2015, according to Thomson Reuters data.

That was nearly 23 percent higher than the $8.28 billion median quarterly issuance for water bonds over the last 10 years, according to Reuters calculations.

Local governments invested over $2 trillion in water and sewer infrastructure through 2013 and spend $117 billion a year, said Senator Jim Inhofe, chairman of the U.S. Senate’s environment and public works committee, citing data from the U.S. Conference of Mayors at a hearing on Thursday.

He noted that the U.S. Environmental Protection Agency has finally requested funding to start up the Water Infrastructure Finance and Innovation Act, passed in 2014.

Although the EPA requested $15 million, the committee is planning to provide about $70 million to fund the initiative, Inhofe said.

But he said more encouragement for private investment is needed, adding, “If it can’t be raised through municipal bonds, where’s it going to come from?”

Near record-low interest rates could be an incentive to borrow. Yields on top-rated 30-year municipal bonds closed at 2.54 percent on Friday, just 7 basis points off the 2.47 percent low in November 2012, according to Municipal Market Data, a Thomson Reuters unit.

Next week, Massachusetts’ Water Resource Authority will price $535 million of general revenue and refunding bonds through senior managing underwriter Citigroup.

The water system covers 2.8 million people, or 43 percent of the state’s population, including most of the Boston metropolitan area, according to a presentation for potential investors.

The authority had about $5.4 billion of debt outstanding as of March, including bonds and loans. Of that, about $905.5 million is variable rate, with $492 million of associated swaps.

Its fiscal 2016 budget grew by $28 million over the previous year, mostly for capital finance expenses, representing an overall rate increase of 3.4 percent, the presentation noted.

A one-day retail order period on Wednesday is to be followed by a day of institutional pricing.

California’s Infrastructure and Economic Development Bank will issue $414.2 million of clean water state revolving fund revenue bonds as green bonds through lead manager Morgan Stanley.

REUTERS

APRIL 8 | BY HILARY RUSS

(Reporting by Hilary Russ; Editing by Dan Grebler)

Tennessee Bars Memphis Conduit From Selling Housing Bonds.

Tennessee has temporarily barred a Memphis agency from issuing municipal bonds for housing, saying it’s suffering from a leadership vacuum while it deals with a high-profile default of debt issued to finance the purchase of two apartment complexes.

The Memphis Health, Educational and Housing Facility Board hasn’t had an executive director since December and is facing scrutiny over a $12 million bond issue by the Global Ministries Foundation to buy the Warren and Tulane apartments in Memphis. On March 14, Bloomberg reported that the U.S. Department of Housing and and Urban Development cut rent subsidies to more than 1,000 residents because the buildings were infested with roaches and had numerous health and safety violations. The loss of the federal funds caused the securities to default, pushing the price to as little as 21 cents on the dollar.

“You’ve got an agency that’s going into its fifth month without an executive director and they’re needing to deal with, and some cases respond to, some fairly high profile things," said Tennessee Housing Development Authority Executive Director Ralph Perrey in a telephone interview. "We think they have their hands full and we want to give them time to work through all of this."

Buyers Sing Blues After Memphis Bond Default Goes Unrecognized

The Tennessee Housing Development Authority allocates tax-exempt bonds to affordable housing developers. The bonds are then issued through conduits like the Memphis HEHF for a fee.

THDA has referred two developers seeking to issue $22 million of municipal bonds for multi-family apartments through the Memphis HEHF to other area conduits.

Daniel Reid, Memphis HEHF chairman, said in an e-mail that the agency has hired an interim executive director and is working closely with the city of Memphis to address THDA's concerns.

"The board fully anticipates the prompt resolution of THDA concerns and restoration of full services to pending and new applicants in the very near future," Reid wrote.

The action by THDA was reported earlier by the Memphis Daily News.

Bloomberg Business

by Martin Z Braun

April 11, 2016 — 9:51 AM PDT Updated on April 11, 2016 — 11:54 AM PDT

[Puerto Rico Investors Offer New Bond Deal to Avert Default.]

Investors holding almost $5 billion of Puerto Rico general-obligation bonds released a plan to provide debt relief to the island, which include a new $750 million offering to stave off a July 1 default.

The bondholders would agree to defer principal repayments for five years through a consensual exchange offer, saving the commonwealth $1.9 billion over the period, according to the proposal. It also stipulates issuing $750 million of new general obligations at a 7 percent interest rate to avoid a default on an $805 million general-obligation payment on July 1. Those securities would also pay only interest through June 2020.

The investor proposal comes after the Puerto Rico Senate passed a bill calling for a moratorium on a wide range of debt payments, including general-obligation bonds, through January 2017. The $13 billion of securities are guaranteed by the island's constitution.

"What the bondholders are doing seems to at least be a more productive step than what Puerto Rico is trying to do," said Dan Solender, who manages $18 billion of state and local debt, including commonwealth securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey.

General obligations with an 8 percent coupon and maturing 2035 traded Tuesday at an average price of 66 cents on the dollar, the lowest since the bonds were first sold in 2014, data compiled by Bloomberg show. The average yield was 12.8 percent.

"This consensual process avoids a July 1 default, which would irreparably harm Puerto Rico's economy, hurt millions of American citizens who live on the island, and impair Puerto Rico's access to markets and its ability to finance essential services," Andy Rosenberg, a lawyer at Paul Weiss Rifkind Wharton and Garrison, who represents the bondholder group, said in a statement. He represents a group of general-obligation bondholders in their negotiations with Puerto Rico and other creditor groups.

The terms proposed by investors includes enacting a statutory lien on general-fund revenue, similar to measures in Rhode Island and California. They would also require Puerto Rico to resume deposits into an escrow account at a New York bank to pay debt service on general obligations.

The $750 million size for the new deal could be revised based on funding needs, according to the proposal.

"We are ready and willing to discuss potential solutions that would address the commonwealth's fiscal crisis in a sustainable and comprehensive fashion," Melba Acosta Febo, president of the Government Development Bank for Puerto Rico, said in a statement. "We have not received an actionable, binding financing commitment from anyone, and we have received no offers that would lead Puerto Rico towards a stable and prosperous economy for years to come."

Bloomberg Business

by Brian Chappatta

April 5, 2016 — 2:44 PM PDT Updated on April 5, 2016 — 2:55 PM PDT

Puerto Rico's Development Bank on Brink as Debt Gambit Goes Bad.

Puerto Rico's Government Development Bank, which was set up after the Great Depression to chart a course out of poverty, is on the verge of a collapse that would deepen the Caribbean island's $70 billion debt crisis.
The lender was designed to promote business investment with a long-term horizon, but in recent years politicians turned it into a piggy-bank that lent to the government and its agencies, helping keep them afloat as the island's economy shrunk. Now it's rapidly running out of cash and poised to default on a $422 million debt payment due in May — raising the risk that it may be pushed into receivership or broken up.

The bank's failure would undermine one of the last sources of cash that Puerto Rican authorities are counting on to pay teachers, firefighters and other employees, in a territory where almost half the population lives in poverty. Hedge funds are also laying claim to the money, filing a lawsuit against the lender this week, while in Washington lawmakers are mulling steps to put the island government under federal oversight and give it legal powers to restructure its debt.

"It's going to be a day of reckoning for a lot of municipalities," said Marcos Rodríguez-Ema, who served as the bank's president from 1993 through 1998. "Few of them know how to manage their budgets. Few of them understand the financing world. They will have to live within the means of the tax collections and that's it."

Puerto Rico Governor Alejandro Garcia Padilla on Wednesday signed legislation giving the government authority to temporarily halt payments on a wide swath of its debt, step that may buy the bank more time, even though it threatens to complicate negotiations with Wall Street and

Congress.

Puerto Rico’s crisis has been building for almost a year as lawmakers cope with years of borrowing that allowed the government to pay its bills as the economy contracted. Since August, it’s defaulted on bonds sold by two of its agencies and is negotiating with hedge funds and other investors in an effort to reduce what it owes. The governor has said it may not be able to cover payments due in July on its general-obligation debt, which is given first claim on the island’s funds under its constitution.

Restructuring the development bank may exacerbate Puerto Rico’s troubles and put an economic recovery further out of reach, said Jose Villamil, an economist at Estudios Tecnicos Inc. an economic strategy and planning firm in San Juan. The 11.7 percent unemployment rate is more than twice what it is in the U.S., helping to fuel a population exodus that’s contributed to the government’s strains.

“If it were to go into receivership, it would increase the sense of uncertainty and in certain ways hopelessness that has been generated by this situation,” said Villamil, who about 10 years ago provided the GDB with a strategic plan that urged the bank to curb its lending to the island. “It would probably make it more difficult for the economy to recover, there’s no question about it.”

Barbara Morgan, a spokeswoman at SKDKnickerbocker in New York who represents the GDB, and Betsy Nazario, a spokeswoman at the GDB in San Juan, didn’t have an immediate comment. On Friday, Garcia Padilla said the bank will remain open and that his administration is doing “all we can to avoid a receivership.”

Melba Acosta, the GDB’s president, told a local radio station last week that the bank’s liquidity stood at about $700 million, while the moratorium legislation said it had slipped to $562 million by April 1, according to a copy of the legislation.

The island’s commission of financial institutions, the bank’s regulator, concluded in its most recent review in November that the GDB is insolvent, a determination that allows the administration to place the bank in receivership. It faces a potential $1.3 billion shortfall in June. Hedge funds that hold the bank’s bonds sued it Monday to stop it from returning deposits to public agencies and municipalities, which had about $3.9 billion in the bank as of Sept. 30.

“As the economic conditions in Puerto Rico continue to deteriorate without any relief in sight, GDB – like all agencies of the commonwealth – is faced with extremely difficult choices, and it is our responsibility to evaluate all options that may protect creditors’ ability to be repaid while ensuring that GDB keeps its doors open,” Acosta said in a statement Monday.

The declining liquidity has caused the price of bonds that mature next month to tumble as investors anticipate a default. Taxable securities due May 1 last traded March 11 at an average 31.9 cents on the dollar, less than half the price from a year ago. The commonwealth’s benchmark general obligations fell Wednesday, changing hands at an average 63.8 cents on the dollar, the lowest since the debt was first sold in 2014, Bloomberg data show.

The bank’s debt “has been dragged down with the commonwealth’s GOs and deteriorated as the severity of the stress in Puerto Rico became clearer and clearer,” said Ted Hampton, an analyst at Moody’s Investors Service.

The bank was created in 1942, with the help of Franklin D. Roosevelt’s administration, to bring manufacturing to an agrarian economy.

It helped to finance government-owned factories, as well as roads, bridges, housing and water and electricity systems. By the 1950s, the bank was extending loans to private companies to build factories and create jobs. A $3.5 million loan helped construct the Caribe Hilton in San Juan, the island's first modern tourism hotel, which opened in 1949 and still operates today.

After federal tax incentives that lured manufacturers and drug companies were phased out from 1996 to 2006, Puerto Rico relied on the bank to help fund operating expenses by extending it loans or selling bonds on its behalf. That left it owed about $6.8 billion by the Puerto Rico government and its agencies as of June 30, 2015, according to financial documents.

"When you're looking at the GDB about 2000 and on, you're looking at a very weakened GDB," said Jose Bolivar, a Puerto Rico historian and author of a book about the bank. "As time went by there was less money into infrastructure and more into financial engineering — and of course the debt started to increase."

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