

## **Fitch: Illicit Sales Will Limit California Cannabis Revenues.**

Fitch Ratings-New York-25 September 2017: California's high cannabis taxes will encourage black market sales and limit potential local government revenues from this new market, Fitch Ratings says.

Effective tax rates on nonmedical cannabis will be as high as 45% when accounting for both state and local levies. Taxes include a 15% state excise tax, state cultivation taxes of \$9.25 per ounce for cannabis flowers (\$2.75 per ounce for leaves), and state and local sales taxes ranging from 7.75% to 9.75%. By comparison, Oregon taxes nonmedical cannabis at approximately 20% and Alaskan taxes range from 10% to 20%.

California's high taxes are likely to keep black market prices competitive into the long term. The state's black market will also benefit from its long history as a supplier to states where nonmedical cannabis remains illegal. Retail sale of nonmedical cannabis is set to begin on Jan. 1, 2018 following California voters' approval of the Control, Regulate and Tax Adult Use of Marijuana Act (Proposition 64) in November 2016.

California will become only the latest of the states to contend with black market staying power. Colorado, Washington and Oregon each lowered their cannabis taxes following legalization to address black market competition. Proposition 64 and most local tax measures included provisions that could permit reductions in tax rates over time. However, future tax cuts may be politically challenging to implement.

Federal restrictions pose an additional and ongoing risk to revenues in states that have legalized medical and nonmedical cannabis. The risk of intervention has risen under the current presidential administration following the US attorney general's call for increased enforcement of drug laws that continue to classify cannabis alongside heroin and LSD. Rising popular support for cannabis legalization nationally may mitigate such risks over the longer term.

Fitch Ratings will publish a report titled "Local Taxes May Challenge Cannabis Legalization in California" in the coming weeks. It will be available for download on [www.fitchratings.com](http://www.fitchratings.com).

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

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## **[Fitch: California School and Community College District Ratings \(IDRs, GOs and Pledged Special Revenues\)](#)**

[Read the Fitch Special Report.](#)

25 Sep 2017

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## **Budget Battles Drag On in Two Northeast States.**

### ***Connecticut and Pennsylvania have seen ratings downgrades and state aid cuts amid stalemates***

Connecticut and Pennsylvania lawmakers are still struggling to reach agreements to cover multibillion-dollar budget gaps, and the consequences from the stalemates are adding up.

Nearly three months into their new fiscal calendars, they are the last two states without finalized budget plans. The delay has cost Pennsylvania a ratings downgrade and temporarily stalled payments to Medicaid providers and school districts, while Connecticut cities are facing major cuts in state aid.

“Now the squeeze is happening,” said John Hicks, executive director at the National Association of State Budget Officers.

If Connecticut can’t pass a solution by Sunday, a wave of nearly \$1 billion in reductions to municipalities will move forward under the terms of an executive order signed by Gov. Dannel Malloy, a Democrat, to keep state operations running. That could prove damaging for Hartford, the state capital, which had its credit rating downgraded this week. City officials have warned Hartford could file for bankruptcy by early November without more state assistance.

Connecticut and Pennsylvania are required by state laws to pass balanced budgets. Their stalemates follow a bruising year for budget fights around the U.S. Negotiations came down to the wire in many states this summer—the fiscal year starts July 1 almost everywhere—and New Jersey and Maine partially shut down their governments when lawmakers couldn’t reach accords in time.

Fiscal challenges differ from state to state, although persistently weak revenue has been a broad challenge in recent years. Pennsylvania faces near-term funding challenges because lawmakers passed a spending plan before shoring up how to pay for it. Lawmakers are now fighting over how to plug the gap.

Connecticut, meanwhile, faces stark longer-term fiscal challenges, according to Moody’s Investors

Service . Income-tax hikes in the state in 2011 and 2015 haven't stabilized its finances. The state is burdened with a heavy debt load, hefty unfunded pension liabilities and a shrinking population. These factors have contributed to a \$3.5 billion projected deficit in its two-year budget.

With funding for infrastructure, schools and public safety all at stake, towns around the state are worried, said Elizabeth Gara, executive director of the Connecticut Council of Small Towns.

Schools in Groton, Conn., a community on the Thames River, could lose funding for roughly a quarter of the school budget, according to Keith Hedrick, the city's mayor.

S&P Global Ratings placed nine Connecticut municipalities on negative credit watch Thursday, including New Haven, Bridgeport and New London. The rating agency cited the state's budget impasse and the possibility of big cuts to municipal aid beginning Sunday.

"I worry about the impact to residents," Mr. Hedrick said. "Depending on the size of the cut, we are going to have cut education or raise taxes or both."

A spokesman for Mr. Malloy said the executive order can only provide money for cities and towns based on the state's current revenue projections.

"The solution is to pass a balanced budget as soon as possible," he said.

To plug the hole, Mr. Malloy has called for shifting some teacher pension payments to cities and towns, which has been opposed by municipalities across the state. Labor unions have pushed for higher taxes on corporations.

Republican legislators won a surprising victory in early September when they netted enough Democratic votes to pass a GOP budget. That plan includes higher retirement contributions from teachers and steep cuts to the University of Connecticut, the state's higher education flagship.

Mr. Malloy vetoed the plan Thursday, saying the GOP budget was unbalanced and unsustainable.

"I remain committed to engaging in honest dialogue with legislative leaders to reach an agreement," Mr. Malloy said.

Democratic and Republican lawmakers said Thursday that a budget deal before Oct. 1 was unlikely and now aimed to reach an agreement by mid-October. Absent an agreement, Republicans said they would seek to override the governor's veto on Oct. 10.

Meantime, lawmakers in Pennsylvania managed to pass a \$32 billion spending plan on June 30, but not a revenue plan that will fill a \$2.2 billion gap, much of which was caused by weak revenue in the last fiscal year. This caused "a virtually immediate liquidity shortfall that the state is already scrambling to cover," according to Moody's.

Gov. Tom Wolf, a Democrat, instructed the state treasury earlier this month to delay about \$1.7 billion in payments pegged mostly for Medicaid providers and school districts.

The state soon caught up and made the payments, but weak liquidity and the chance for more delays contributed to an S&P downgrade last week.

"The downgrade largely reflects the commonwealth's chronic structural imbalance dating back nearly a decade, a history of late budget adoption, and our opinion that this pattern could continue," S&P analyst Carol Spain said.

The state treasurer and auditor general, also Democrats, warned lawmakers in a recent letter that they were “disinclined” to support more lending to a general fund if the state can’t balance revenues and costs.

Pennsylvania’s current budget fight hasn’t yet trickled down in a way that affects average citizens, said Dan Seymour, a Moody’s analyst. This differs from a nine-month impasse, following the end of a fiscal year in mid-2015, which hurt state funding to social-service agencies that help seniors and students.

Gov. Wolf supported a plan in the GOP-controlled state Senate that would raise taxes by roughly \$550 million to \$600 million, but the GOP-controlled House has turned that plan down. A spokesman for the governor said he continues to work with lawmakers to resolve the stalemate.

The Senate, meantime, has spurned a state House plan that would rely more on money shifted from other state funds. “We do not believe that taxes should be the first option, it should be the last option,” a spokesman for the House GOP said.

## **The Wall Street Journal**

By Jon Kamp and Joseph De Avila

Updated Sept. 28, 2017 4:25 p.m. ET

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### **[Fitch: Utah's Economy, Conservative Financial Ethos Foster Strong Municipal Credit Quality.](#)**

Fitch Ratings-San Francisco-18 September 2017: Utah’s tax-supported cities, counties, and school districts maintain strong Issuer Default Ratings (IDR), thanks to a vigorous state economy, conservative financial management, and robust revenue frameworks, according to new research from Fitch Ratings

Statewide, Fitch’s IDRs are in the top ‘AA’ and ‘AAA’ categories, with Stable Rating Outlooks across the board.

“The State of Utah is benefiting from rapid population growth, a diversified economy, and very low unemployment,” said Alan Gibson, Director for U.S. Public Finance. “Within this context, local governments are also performing well. Even during periods of economic expansion, they tend to emphasize prudent budgeting, careful financial monitoring, affordable fixed costs, and strong reserves -all important factors in overall credit quality.”

Other keys to strong Utah local government ratings include robust revenue frameworks and solid expenditure flexibility. Most Fitch-rated Utah local governments enjoy low to moderate revenue volatility, high to superior inherent budget flexibility, and high reserves. Fitch anticipates most of its rated Utah local governments will maintain sufficient reserve safety margins for a ‘aaa’ financial resilience assessment through future economic cycles.

Fitch expects these positive credit characteristics to continue supporting strong ratings in the future, according to Gibson.

For more information, a special report titled "Credit Strengths of Local Governments in Utah" is available on the Fitch Ratings web site at [www.fitchratings.com](http://www.fitchratings.com) or by clicking on the link.

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## **Illinois Bondholders Cheer Reversal of Fortune Before Big Sale.**

- **Worst-rated state has stabilized, biggest bondholders say**
- **State plans to borrow to pay down record backlog of late bills**

As Illinois prepares for what may be its biggest debt sale in over a decade, its largest investors are celebrating a rally that's transformed the state's bonds from one of this year's worst performers to one of the best.

Since the state in July resolved a two-year budget impasse that pushed its rating to the brink of junk, debt issued by Illinois and its local governments has vaulted to a 7 percent return this year, more than any other state, according to S&P Municipal Bond Indices. Until June 8, they were the worst performer among the five most-indebted states, which include Texas, California, Florida and New York.

The reversal came after lawmakers enacted a budget — and raised taxes — over Governor Bruce Rauner's objections. They also extended Illinois authority to reduce a record pile of leftover bills by selling as much as \$6 billion of bonds. It would be the state's biggest sale since 2003 if done in a single offering.

What follows is a round-up of the outlook for the state from some of Illinois's largest bondholders and how much their firms own:

### **Nuveen Investments: \$868 million**

"It has turnaround potential," said John Miller, co-head of fixed-income at Nuveen, which bought more Illinois bonds in late June and July as the budget came together. The firm plans to take a "hard look" at the \$6 billion borrowing, calling it a "benchmark-type deal" because it may be one of the largest of the year, according to Miller, who

cautioned that the state's rising pension-fund debts are still posing risks.

### **AllianceBernstein LP: \$583 million**

"They've stopped the bleeding," said Guy Davidson, director of municipal investments at AllianceBernstein. He said the firm is interested in buying more Illinois debt. "It's not like we think they have solved their problems. We just think they've stabilized their problems."

Davidson said investors are "getting paid more than we think the risk entails"

### **Wells Fargo Asset Management: \$428 million**

"They're not under the gun as much as far as ratings go," said Dennis Derby, a portfolio manager at Wells, which holds \$40 billion of municipal debt. The firm would be "more comfortable" if the state took action soon to reduce the \$16 billion of unpaid bills

### **BlackRock Inc.: \$310 million**

The tax hike gives the state "more tools" to meet their expenses and obligations, marking an improvement, said Joe Gankiewicz, a credit-research analyst in Princeton, New Jersey, for the company, which oversees about \$124 billion of municipal debt. The state's unfunded retirement liabilities — \$130 billion, according to the Commission on Government Forecasting and Accountability — remain an issue. "The pension expense is likely to outstrip the organic revenue growth in the state in the coming years," Gankiewicz said

Illinois G.O. holding figures are based on data compiled by Bloomberg.

### **Bloomberg**

By Elizabeth Campbell

September 22, 2017, 4:00 AM PDT

— Written with the assistance of Bloomberg's Municipal Global Data team

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## **[CA Multifamily Issuance Jumps \\$2B in 2016.](#)**

[Read the Volume Cap Report.](#)

**CDFA | Sep. 21**

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## **S&P: Florida Hospitals Show Resiliency Before, During, And After Hurricane Irma.**

Given their location, many Florida hospitals and senior living communities have experience dealing with hurricanes and other severe weather events, and they have very detailed disaster preparedness plans they can initiate in anticipation of a major storm such as Hurricane Irma, which recently roared up the state.

[Continue Reading](#)

Sep. 19, 2017

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## **S&P: How Durable Is California's Fiscal And Credit Recovery?**

California's economy is dynamic and capable of strong growth rates. Additionally, the state's upwardly skewed income distribution and progressive tax structure combine to amplify the effects of economic and financial market fluctuations in its revenue performance.

[Continue Reading](#)

Sep. 21, 2017

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## **Judge Affirms Limited Power of States and Cities Over Drones.**

***The ruling was a defeat for Newton, Mass., which banned people from flying drones below 400 feet over private property.***

A federal court in Massachusetts has struck down key elements of a local drone ordinance that had significantly restricted where residents could fly the devices, affirming the limited power of cities and states to regulate unmanned aircraft.

The ruling was a defeat for the city of Newton, which enacted an ordinance in December that restricted flights of pilotless aircraft weighing less than 55 pounds. The city said the rules were meant to address safety and privacy concerns about the proliferation of drones in the area.

In January, Newton resident Michael Singer sued the city, seeking to strike down four provisions of the law. Among them were a requirement that drone owners register their aircraft with Newton and a ban on flying drones below an altitude of 400 feet over private property without permission of the property owner.

Citing Federal Aviation Administration guidance, lawyers for Newton said localities are allowed to "co-regulate unmanned aircraft" and argued that the city's ordinance was "within the bounds of its municipal police powers."

But U.S. District Judge William G. Young of Massachusetts disagreed, ruling that the ordinance was in direct conflict with federal government's drone policies mandated by Congress.

Such a collision between local and federal rules, he wrote, violates a provision of the U.S. Constitution that gives federal law priority over conflicting state or local regulation.

“Newton’s choice to restrict any drone use below this altitude thus works to eliminate any drone use in the confines of the city, absent prior permission,” wrote Judge Young. “This thwarts not only the FAA’s objectives, but also those of Congress for the FAA to integrate drones into the national airspace.”

The ruling leaves in place other provisions of the ordinance that Mr. Young didn’t challenge, such as a prohibition on operating drones in reckless manner or using them to spy on people.

On Friday, the Law Department for Newton said the city is considering its appeal options.

Mr. Singer, a physician-scientist, said the decision helps to “ensure that the skies would remain open for new technology that would benefit society.” He said that at the time the ordinance was passed, he was researching ways of using drones for delivering medical services.

A number other local jurisdictions in the U.S. have imposed or considered similar clamp downs on drones, such as West Hollywood in California and the Florida town of Palm Beach, which is rewriting its drones rules to avoid the same legal concerns Newton faced.

The Consumer Technology Association, which supported Mr. Singer’s case, said the ruling makes clear that the FAA, and not local jurisdictions, has the final say over who can fly drones and where and when they can do so.

“This decision establishes a rock-solid affirmation that the federal government unequivocally holds jurisdiction over the drone industry,” said Doug Johnson, vice president of technology policy for the association.

THE WALL STREET JOURNAL

By Jacob Gershman

Sept. 22, 2017 7:32 p.m. ET

Write to Jacob Gershman at [jacob.gershman@wsj.com](mailto:jacob.gershman@wsj.com)

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## **[New Fight in California Water Wars: How to Update Old System](#)**

FRESNO, Calif. — In California’s long-raging water wars, pitting north against south and farmer against city dweller, the one thing everybody agreed on Wednesday was that the outdated method of shipping water throughout the most populous state needs a serious upgrade.

A group of influential California farmers shook up the debate a day earlier, backing out of Gov. Jerry Brown’s \$16 billion plan to build two massive water tunnels, re-engineering the delivery system. Westlands Water District in Fresno said it was too expensive and came with too few guarantees.

Brown’s administration, however, gave no sign of giving up. Other key water districts serving vast farmland in the most productive agricultural state and millions of residents still have to weigh in, including the behemoth Metropolitan Water District of Southern California.



"I don't think a 'no' vote is the end of the story," said Metropolitan's general manager, Jeffrey Kightlinger. "We don't live in a world where we can just turn off the projects and walk away."

Kightlinger sees a path to launch the project before Brown leaves office next year. It's impossible to predict what form it will take before all the water districts have voted on whether they're in or out.

The proposed 35-mile-long (56-kilometer-long) tunnels, however, can't survive as it's drawn up now without "big players," such as Westlands, said Kightlinger, who entertains the possibility of a scaled-down project.

Current plans call for building twin tunnels east of San Francisco to deliver water from the Sacramento River mostly to farms and cities hundreds of miles away in central and Southern California.

Backers say the tunnels will stabilize flows, save endangered fish species and ensure a reliable water supply. However, critics say it will be used to drain Northern California dry and further harm native fish.

It is California's most ambitious water project in more than 50 years, when state and federal officials launched a hard-fought campaign to win support for building the current system of reservoirs, pumping stations and canals.

Westlands farmers on Tuesday became the first of several large water districts to vote, pulling out after having spent millions over more than a decade on drawing up plans and calculating costs.

The shake-up forced a big moment for the players to take stock of the whole water system, said Jay Lund, a leading state water expert at the University of California, Davis.

"It's a strategic opportunity to make a strategic political decision," he said.

Among the options are building a single tunnel to serve just municipal districts rather than two, in what Lund called the "garden hose" option, or burrowing one now with the option for a second one later, if it's needed.

The Sacramento-San Joaquin River Delta is such a vital water source for California that somebody will always be advancing projects, Lund said.

In Northern California, the source of much of the state's water, Westlands' vote won cheers from farmers who have fought the project for years.

They contend the tunnels, and their decadelong construction, would have further harmed the delta and San Francisco Bay, destroyed their farms and doomed many sleepy Gold Rush-era towns.

"Does this project end with that vote? I don't know," said Russell van Loben Sels, speaking by cellphone Wednesday from his vineyard where one of the giant water intakes for the tunnels would go. "There'll be a lot of politics and a lot of arm-twisting and that kind of thing."

Brown's Natural Resources secretary, John Laird, said Wednesday that there's broad agreement water deliveries will keep declining without upgraded infrastructure.

"While it's too soon to speculate on potential changes to the project," he said, "the state will continue to consider how best to meet the needs of the agencies" that want to participate.

U.S. Rep. John Garamendi, a Democrat from the delta, said it was a matter of time before central California farmers, such as those who are part of Westlands, realized that high cost and uncertainty would crush the project.

The Democratic governor had floated a similar plan during his first two terms as governor, aiming to build a canal around the delta to ship water south. Brown could not let go of it, said Garamendi, who seeks more water storage and fortifying levees.

"It just takes a long time for bad, old ideas to finally die," Garamendi said. "Hopefully we can move onto cheaper, more effective solutions."

Another major supporter that has yet to vote, Kern County Water Agency, called it a good project.

"I do think if we don't go ahead (with the tunnels), California in 20 years will look back on this as a mistake," general manager Curtis Creel said.

By THE ASSOCIATED PRESS

SEPT. 20, 2017, 9:06 P.M. E.D.T.

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## **[A Storm's Never Destroyed a Grid Like Maria Ruined Puerto Rico's.](#)**

- **Parts of island may be without power for weeks, if not months**
- **Utility crews will restore service to critical resources first**

You don't even have to leave the airport to see that Hurricane Maria has laid waste to Puerto Rico's power grid.

On Friday, the San Juan airport was abandoned. No electricity meant no air conditioning, and no air conditioning meant hot and muggy air wafting through the terminals. Ceilings were leaking. Floors were wet. Only the military, relying on its own sight and radar systems, was landing planes. The airport is one of the first places crews will restore power — whenever they can get to it. Hundreds are still waiting for the all-clear to move in and start the arduous task of resurrecting Puerto Rico's grid.

The devastation that Maria exacted on Puerto Rico's aging and grossly neglected electricity system when it slammed ashore as a Category 4 storm two days ago is unprecedented — not just for the island but for all of the U.S. One hundred percent of the system run by the Puerto Rico Power Authority is offline, because Maria damaged every part of it. The territory is facing weeks, if not months, without service as utility workers repair power plants and lines that were already falling apart.

"I have seen a lot damage in the 32 years that I have been in this business, and from this particular perspective, it's about as large a scale damage as I have ever seen," said Wendul G. Hagler II, a brigadier general in the National Guard, which is assisting in the response.

No federal agency dared on Friday to estimate how long it'll take to re-energize Puerto Rico. If it's any indication of how far they've gotten, the island's power authority known as Prepa is only now starting to assess the damage.

"We are only a couple of days in from the storm — there could be lots of issues and confusion at the

beginning of something like this,” said Kenneth Buell, a director at the U.S. Energy Department who is helping lead the federal response in Puerto Rico. “We are in the phase where we have people queued up and lining up resources.”

### **‘Evacuate NOW’**

What Buell does know is Puerto Rico’s power plants seem inexplicably clustered along the island’s south coast, a hard-to-reach region that was left completely exposed to all of Maria’s wrath. A chain of high-voltage lines thrown across the island’s mountainous middle connect those plants to the cities in the north.

Puerto Rico’s rich hydropower resources have also taken a hit. On Friday, the National Weather Service pleaded for people to evacuate an area in the northwest corner of the island after a dam burst. “All areas surrounding the Guajataca River should evacuate NOW. Their lives are in DANGER!” the service said on Twitter.

And that’s not to mention the state of Puerto Rico’s grid before the storm. Government-owned Prepa, operating under court protection from creditors, has more than \$8 billion in debt but little to show for it. Even before the storm, outages were common, and the median plant age is 44 years, more than twice the industry average.

Rebuilding the island’s grid into something more robust will cost billions of dollars, Buell said. “You are talking about a lot of money.”

Buell is a part of what is known as the Emergency Support Function No. 12. That’s another way of saying his team is 12th on a list of groups getting priority access to the island to help with restoration efforts. They’re behind the ones that, among other things, are delivering food and water and carrying out search-and-rescue missions.

### **Essential Services**

One major task for the National Guard will be to clear debris, allowing workers to move around. The biggest priority for utility crews will be to restore power to essential services — the airport, water infrastructure and hospitals, Buell said.

It won’t be easy. The supply chains the island once relied on to shuttle fuel oil and natural gas to generators, supplying the vast majority of the island’s power, have been destroyed. The Energy Department is looking for alternative sources, Buell said.

Some agencies are capable of flying in fuel, and the government may waive a law that limits the tankers permitted to haul oil and liquefied natural gas between U.S. ports to boost shipments to the island.

Once critical resources have regained power, crews will start the long process of getting power plants back up and running and transmission lines reconnected. New York Governor Andrew Cuomo flew in Friday with 10 people from the state’s own public power authority, drones and back-up generators.

A helicopter was scheduled to fly out as soon as Saturday to assess the damage to the system, said Mike Hyland, senior vice president of engineering services for the American Public Power Association, the industry group for municipal utilities.

At this point, “we don’t know what to do if there is no generation,” Hyland said. “You need to see it.”

## Bloomberg Technology

By Naureen S Malik and Jonathan Levin

September 22, 2017, 4:31 PM PDT

— With assistance by Michelle Kaske, Sophie Caronello, and Christopher Maloney

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### **Puerto Rico Bond Prices Fall as Hurricanes Add to Island's Troubles.**

***Prices have fallen as much as 4% on some bonds issued by the commonwealth or its utilities***

It could take weeks to determine the full extent of the hurricane damage to Puerto Rico, but bondholders are already anticipating losses.

Prices have fallen as much as 4% since Monday on some bonds issued by the commonwealth, its public power company, and its water and sewer authority. Investors were already expecting deep haircuts as the commonwealth makes its way through a federally supervised restructuring process.

"How long will they be missing revenues because of people not getting power?" asked Dan Solender, director of municipals at Lord Abbett & Co. which holds more than \$100 million of Puerto Rico bonds, including some from the power authority.

Even before Hurricane Maria slammed into Puerto Rico early Wednesday, thousands of people had been without electricity for two weeks, since Hurricane Irma passed by the island's northern coast. But the damage from Maria, the most powerful hurricane to hit Puerto Rico since 1928, is likely to be much more widespread on the island, which is already reeling from a decade of economic distress.

August and September mark peak hurricane season in the Atlantic basin. Here's why the conditions in these months make them more likely to form there. Photos: NASA/NOAA

Puerto Rico owes roughly \$70 billion to investors, including individuals on both the island and the mainland, to major U.S. mutual funds and, increasingly, to hedge funds. OppenheimerFunds Inc. and Franklin Resources Inc. are the biggest mutual fund holders of Puerto Rico bonds, according to Morningstar Direct.

Depending on the extent of the damage, the hurricane could factor into future decisions by the federal control board on just how much those investors will get paid, said Matt Fabian, a partner with Municipal Market Analytics.

In the aftermath of a natural disaster, "why would a court decide 'yes, investors, you should take more money off the island?'" Mr. Fabian asked.

But some analysts and advisers to Puerto Rico bondholders also said Wednesday that a massive hurricane recovery effort could help stimulate economic growth on the island. Federal disaster relief funds and insurance money flowing into Puerto Rico could replace outdated infrastructure, and rebuilding could help put people to work, these people said.

THE WALL STREET JOURNAL

By Heather Gillers

Sept. 20, 2017 5:47 p.m. ET

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## **Puerto Rico's Power Woes Are Decades in the Making.**

### ***Years of underinvestment and massive debts left the energy grid vulnerable***

TOA BAJA, Puerto Rico — As residents here grapple with power outages across the entire island, the task of turning the lights back on falls to an electrical utility beset by rickety infrastructure, workforce reductions and financial woes so deep it declared a form of bankruptcy in July.

Earlier this month, Hurricane Irma sideswiped the island, knocking out power to about 70% of the customers of the Puerto Rico Electric Power Authority, or Prepa. The utility had made significant strides in restoring electricity when Hurricane Maria struck on Wednesday, wiping out power to 100% of its customers.

The “damage is catastrophic,” Ricardo Ramos, chief executive of Prepa, said Friday on CNN. He said previously that it could take months for power to be restored across the island.

Residents are bracing for an uncomfortable slog.

“People don’t think there will be light until after Christmas,” said Mara López, a resident of Toa Baja, near San Juan. Electricity “here is really unstable. It’s a system that has not been well-maintained, and every time the wind blows, it falls.”

The prolonged loss of power and disruption to businesses “could delay the economic recovery of the island,” said Rick Donner, vice president and senior credit officer at Moody’s Investors Service. Puerto Rico is contending with a decadelong recession, declining population and \$73 billion in debt. A federal board is overseeing its finances, and in May, the island declared what amounts to the largest-ever U.S. municipal bankruptcy.

Two months later, the federal board voted to place Prepa, which has \$9 billion of debt, in bankruptcy as well. The move was aimed at helping advance plans to modernize the utility and turn it from a government-owned monopoly into a regulated private utility.

Calls and emails to a spokesman for Prepa weren’t returned, though Puerto Rico’s telecommunications system was hobbled by Maria. Periodic updates on the utility’s Twitter feed highlight its efforts to assess damage and begin the process of restoring power.

Prepa’s problems have been decades in the making. Early in its history, it earned praise for powering Puerto Rico’s industrialization efforts in the 1940s and 1950s. But over time, it became less efficient, energy analysts say.

Its generating plants, which rely on imported oil for about 60% of their energy production, are mostly obsolete and require major upgrades or outright replacement, said Miguel Soto-Class, president of the Center for a New Economy, a nonpartisan think tank in San Juan that has done in-depth analyses of the utility’s finances.

Power outages on the island are common. A fire at one of the utility's plants in September triggered a blackout across the island that left many customers without power for days.

Yet prices are high. In April, Prepa's average electricity rate for customers was 20.1 cents per kilowatt-hour, down from 25 cents in 2013 but still close to double the average mainland U.S. rate of about 12 cents, according to Moody's.

Island residents have complained in interviews in recent years about the lengths to which they must go to keep their electricity bills in check. Some said they had limited their use of air conditioners as much as they can tolerate. Others said that they had shut off circuit breakers, except for the one controlling the refrigerator, before heading to work.

For years, Prepa enjoyed easy access to bond markets and borrowed regularly, accumulating enormous debt. Yet it failed to make important capital investments, such as transitioning to natural gas from oil to generate power, analysts say. Analysts say the money went to a bloated payroll, among other things.

When the island sank into recession, Prepa's finances suffered even more, as business and residential demand for power declined. The exodus of Puerto Ricans to the continental U.S. is shrinking the island's population, depleting the utility's customer base. And austerity measures that the utility implemented as it headed toward bankruptcy resulted in cuts to the workforce it now needs to make repairs.

"All these things have compounded, one on top of the other," Mr. Soto-Class said. They "will severely limit the ability of Prepa to come back quickly."

The utility likely will need many resources, such as power poles and lines, that typically aren't stored on the island, said Brock Long, administrator of the Federal Emergency Management Agency. And "even if the power grid is back up and running, getting power to the house is a whole other situation," since homes may have flooded and sustained damage to their electrical systems, he said.

Given that President Donald Trump declared a major disaster in Puerto Rico, the utility could receive federal disaster funds to help finance repairs.

"They're going to need help," Mr. Donner said. "This really is a big task."

THE WALL STREET JOURNAL

By Arian Campo-Flores and José de Córdoba

Updated Sept. 23, 2017 10:33 a.m. ET

Write to Arian Campo-Flores at [arian.campo-flores@wsj.com](mailto:arian.campo-flores@wsj.com) and José de Córdoba at [jose.decordoba@wsj.com](mailto:jose.decordoba@wsj.com)

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## **[Weakened Dam the Latest Threat as Puerto Rico Reels From Hurricane.](#)**

SAN JUAN, Puerto Rico — A Puerto Rico dam damaged by heavy rains from Hurricane Maria was in danger of failing on Sunday, posing a risk to communities downstream, as people across the U.S. territory sought to dig out from the deadly storm.

Some 70,000 people who live downstream from the compromised Guajataca Dam in the northwest of the island were under orders to evacuate, with the structure in danger of bursting at any time.

Puerto Rico Governor Ricardo Rossello, after surveying damage to the cracked dam, reiterated his request on Saturday that people leave the area as soon as possible.

"The fissure has become a significant rupture," Rossello said at a news conference.

The dam, which is made of earth and surrounded by trees in a largely rural region of Puerto Rico, is 120 feet (37 meters) tall, according to a U.S. Army Corps of Engineers database

The National Weather Service extended a flash flood watch for communities along the rain-swollen Guajataca River, downstream from the dam, until 1400 local time on Sunday.

If the dam fails, the flooding would be life-threatening, the National Weather Service warned. "Stay away or be swept away," it said.

Maria, the second major hurricane to savage the Caribbean this month and the most powerful storm to strike Puerto Rico in nearly a century, carved a path of destruction on Wednesday.

The storm killed at least 25 people, including at least 10 in Puerto Rico, as it churned across the Caribbean, according to officials and media reports.

It knocked out electricity, apart from emergency generators, on Puerto Rico, which has 3.4 million inhabitants.

Severe flooding, structural damage to homes and virtually no electric power were three of the most pressing problems facing Puerto Ricans, New York Governor Andrew Cuomo, whose state is home to millions of people of Puerto Rican descent, said during a tour of the island.

"We lost our house, it was completely flooded," said resident Carmen Gloria Lamb, a resident near the rain-swollen Guajataca. "We lost everything; cars, clothes, everything."

The Guajataca Dam was built in 1929 to serve as a supply of drinking water and for irrigation, according to a U.S. Geological Survey website.

## FUEL SHORTAGES AND WATER RATIONING

Signs of the strain on Puerto Ricans were evident throughout San Juan, the capital.

Drivers had to wait up to seven hours at the few filling stations open on Saturday, according to news reports. Hotels, meanwhile, warned that guests might have to leave soon without fresh supplies of diesel to keep generators operating.

Water rationing also began on Saturday. Signs posted throughout San Juan's Old Town informed residents that service would return for two hours a day between 1700 and 1900 local time until further notice.

Telephone service also was unreliable, with many of the island's cell towers damaged or destroyed.

Maria struck Puerto Rico as a Category 4 storm on the five-step Saffir-Simpson scale, dealing a savage blow to an island already facing the largest municipal debt crisis in U.S. history.

The storm caused an estimated \$45 billion of damage and lost economic activity across the

Caribbean, with at least \$30 billion of that in Puerto Rico, said Chuck Watson, a disaster modeler at Enki Research in Savannah, Georgia.

Maria, which was hundreds of miles east of Florida over the Atlantic Ocean on Sunday, had eased slightly to a Category 2 storm but still sustained winds of up to 110 miles per hour (175 kmh). It was expected to weaken gradually as it moves north over the next two days.

Dangerous surf and rip currents driven by the storm were expected along the southeastern coast of the U.S. mainland for several days, the National Hurricane Center said.

Scattered showers were forecast for Puerto Rico on Sunday, said National Weather Service meteorologist Arlena Moses at the agency's Miami office.

Maria hit Puerto Rico about two weeks after Hurricane Irma, one of the most powerful Atlantic storms on record, killed more than 80 people in the Caribbean and the United States. The two storms followed Hurricane Harvey, which also killed more than 80 people when it struck Texas in late August and caused flooding in Houston.

By REUTERS

SEPT. 24, 2017, 10:42 A.M. E.D.T.

(Writing by Alex Dobuzinskis; Editing by David Goodman)

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## **[Moody's Places 37 Texas Municipalities Under Review for Downgrade.](#)**

New York, September 22, 2017 — Moody's Investors Service has placed the general obligation bond ratings of 31 Municipal Utility Districts, four School Districts, and two cities under review for downgrade, affecting \$1.2 billion in outstanding debt. The review was prompted by the potential for significant economic and revenue loss associated with damage caused by Hurricane Harvey and the related rains that inundated the region for several days. The area affected by the hurricane covers 39 FEMA-designated counties in Texas that include over 450 Moody's-rated municipal issuers. The majority of issuers that have been placed under review are smaller entities with concentrated revenue sources and limited financial flexibility.

Moody's identified issuers for review on the basis of their flood exposure, location and, in the case of utility systems and schools, their operating status. Specifically, the rating agency examined the issuers' exposure to flooding based on their proximity to 100- and 500-year flood zones and the Addicks and Barker reservoirs, and their location relative to the areas identified in FEMA's initial assessment of damage as of September 2, 2017. For those issuers in the most affected areas, the rating agency then considered potentially mitigating financial resources, including cash and reserves from their most recent audited financial statements. Moody's also considered information related to the extent of damage in a given area, including utility systems that were destroyed or rendered inoperable as of September 18, 2017 as reported by the Texas Commission on Environmental Quality (TCEQ) and schools that have not yet opened.

During the review Moody's will consider the credit implications of any economic and revenue loss from the hurricane as well as operating and capital costs associated with recovery. Additionally, Moody's will assess issuers' damage estimates, access to financial resources, including potential for and timing of financial assistance from federal and state sources, private property damage insurance



coverage, and business disruption insurance.

The rating agency expects to complete the reviews over the next 60 to 90 days. Moody's will continue to review additional rated entities that were impacted by this unprecedented weather event as information becomes available.

**List of issuers by sector:**

**Municipal Utility Districts:**

Issuer Name Rating/Outlook County Debt outstanding as of 8/29/2017

Corinthian Point Municipal Utility Dist 2 Baa3/STA Montgomery County \$1.39M

Cypress-Klein Utility District A1/NOO Harris County \$355,000

Fort Bend Co. MUD 25 A2/NOO Fort Bend County \$100.39M

Fort Bend County M.U.D. 117 A2/NOO Fort Bend County \$16.13M

Fort Bend County MUD No. 128 A2/NOO Fort Bend County \$67.47M

Harris County Municipal Utility District 132 A1/NOO Harris County \$385,000

Harris County Municipal Utility District 153 A1/NOO Harris County \$23.02M

Kleinwood Municipal Utility A2/NOO Harris County \$11.83M

Montgomery County MUD 94 A3/NOO Montgomery County \$33.16M

Montgomery County MUD 95 Baa2/STA Montgomery County \$20.93M

Montgomery County Municipal Utility District 46 Aa3/NOO Montgomery County \$82.91M

Montgomery County Municipal Utility District 9 A1/NOO Montgomery County \$12.11M

Montgomery County Water Control Improvement District 1 A3/NOO Montgomery County \$13.49M

Montgomery MUD 90 Baa2/STA Montgomery County \$8.09M

New Caney Municipal Utility District A3/NOO Montgomery County \$25.17M

Northampton Municipal Utility District A2/NOO Harris County \$28.90M

Northeast Harris Co. M.U.D. 1 Baa3/STA Harris County \$8.51M

Oakmont PUD A2/NOO Harris County \$30.05M

Pecan Grove Municipal Utility District A1/NOO Fort Bend County \$53.34M

Southern Montgomery County Municipal Utility District Aa3/NOO Montgomery County \$7.56M

Spring Creek Utility District A2/NOO Montgomery County \$52.12M

Timber Lane Utility District A2/NOO Harris County \$49.48M

Varner Creek Utility District Baa1/NOO Brazoria County \$7.46M

Cnp Utility District A1/NOO Harris County \$15.94M

Fort Bend Co MUD 144 Baa2/STA Fort Bend County \$15.40M

Fort Bend County M.U.D. 116 A2/NOO Fort Bend County \$26.34M

Fort Bend County Municipal Utility District 152 Baa3/STA Fort Bend County \$8.40M

Fulshear Municipal Utility District No. 1 Baa2/STA Fort Bend County \$13.29M

Galveston County MUD 14 A3/NOO Galveston County \$9.61M

Harris County MUD 109 A2/NOO Harris County \$28.39M

Harris County Water Ctrl. & Imp. Dist.132 Baa1/STA Harris County \$3.80M

### **Cities:**

Issuer Name Rating/Outlook County Debt outstanding as of 8/29/2017

Port Arthur (City of) A1/NOO Jefferson County \$48.62M

Robstown (City of) Ba2/NEG Nueces County \$16.13M

### **School Districts:**

Issuer Name Rating/Outlook County Debt outstanding as of 8/29/2017

Ingleside Independent School District Aa3/NOO San Patricio County \$45.03M

Orangefield Independent School District A2/NOO Orange County \$9.36M

Sheldon Independent School District Aa3/NOO Harris County \$280.15M

Taft Independent School District A2/NEG San Patricio County \$28.45M

### **Methodology**

The principal methodology used in the ratings was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of the methodology.

### **Regulatory Disclosures**

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional

rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for additional regulatory disclosures for each credit rating.

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## **[How Olympia Financed an Arena in a Bankrupt City.](#)**

The Ilitch family's dream for a new home for their Detroit Red Wings was 25 years in the making.

The ambition finally becomes reality on Sept. 12, when Little Caesars Arena opens with a series of

Kid Rock concerts. The \$863 million project — a 20,000-seat state-of-the-art arena anchoring 12 acres of mixed-use buildings and a parking garage — is the centerpiece of The District Detroit, the family's wider \$2 billion, 50-city-block development plan.

How the arena came to fruition amid an especially turbulent era in the city's history is a study in the marriage of timing, politics, money, influence and home team-inspired civic pride. It survived the political turmoil of ex-Mayor Kwame Kilpatrick, the global recession and Detroit's municipal bankruptcy. The legislation needed to authorize public financing for its construction sailed through Lansing in 2012 with no effective opposition. Local approvals followed with few roadblocks. A brief legal challenge earlier this year didn't delay anything.

How did they pull it off amid the chaos?

The chaos was key.

The tumult in many ways helped smooth the way for the sweeping downtown development plans by the Ilitch family (and fellow Detroit billionaire Dan Gilbert).

"It's not surprising they were able to do what's necessary, to acquire property under the radar in a period of turbulence," said Robin Boyle, professor and chairman of Wayne State University's department of Urban Studies and Planning, who has closely watched the arena project over the years. "The focus of government in Detroit was to keep the lights on, to overcome the chaos we were going through. (Ilitch and Gilbert) were able to do it without a great deal of interference. These two companies benefited from the chaos that existed (at) the time."

With one mayor in prison followed by a succession of three more in office and then an emergency manager appointed by the governor, Detroit city government wasn't able to scrutinize wealthy businessmen's plans too closely. Politicians saw new investment as a tonic for a city under scrutiny after decades of problems and decline.

"It wasn't able to impose what in other cities would be a much more stringent regulatory process. They got their approvals without much conversation," Boyle said, adding that the city hadn't updated how it handled development projects in decades.

The sheer size of the arena project, and the promise of massive investment and new jobs, was hard to resist in a city of crumbling infrastructure, poverty, bad schools and joblessness.

## **Political prowess**

The Ilitches, who declined to make anyone available to talk for this story, also employed the right players to navigate the project through potential minefields, Boyle said.

Developer Eric Larson played an especially crucial role. Larson was hired as non-executive president of Olympia Development in 2011 to oversee the Ilitch real estate holdings. He assembled the political support in Lansing to get the public financial enabling legislation passed in December 2012.

Larson, who left Olympia in 2013, is CEO of Bloomfield Hills-based Larson Realty Group and also CEO of the Downtown Detroit Partnership. Larson said the talks to get the arena bill through Lansing began in earnest about six months before the vote.

Also hired to shepherd the legislation were Lansing-based lobbying firm Muchmore Harrington Smalley & Associates and Detroit law firm Miller, Canfield, Paddock and Stone PLC.

These allies helped make the case to politicians and the public for giving a billionaire public money to build a hockey arena — and also to anticipate and tamp down public outcry.

Such pushback had become common in the decade before as taxpayers questioned the need to help pay for sports stadiums that ultra-wealthy owners wanted.

But even the Ilitch family had previously encountered difficulties in stadium financing.

In 1996, Mike Ilitch got Wayne County voters to OK a 2 percent rental car tax and 1 percent hotel room tax to finance construction of Comerica Park for his Detroit Tigers, but banks balked at his portion of private financing.

He was forced to assemble a consortium of lenders, including financiers in Japan and Europe, to get the cash.

Ilitch's pizza business wasn't as healthy then as it is today, and bankers were concerned about financing his stadium.

Now, with Little Caesars churning out billions in sales, the family's financial standing has improved to the point where lenders are happy to finance the arena.

The total up-front public cost of the arena, so far, is \$324.1 million, while Olympia is financing \$538.8 million.

Political decision-makers have come to view public financing as a practical matter — a benefit in exchange for a subsidy. And developers of large projects know that's how business is done.

Quite simply, politicians are willing to hand the money over.

To make sure that happened, Olympia had a strategy to offset potential opposition: Avoid using any general fund dollars from the cash-strapped city.

The public subsidy for the arena's construction comes in the form of tax-exempt municipal bonds sold by the Detroit Downtown Development Authority, the city's economic development agency that has its own budget and taxing authority.

That's what the legislation authorized — changing the law that allows the DDA to use an expanded tax capture in downtown Detroit to pay off the \$250 million in construction bonds it eventually issued to help pay for the arena.

Those dollars are legally obligated for new economic development projects and cannot be diverted to pay for things like city services or schools.

Most of the taxes captured come from large downtown corporations such as General Motors and Dan Gilbert's Bedrock, which owns more than 90 downtown buildings.

### **Broader vision**

The other Ilitch strategy to gain support was to make the project much more than just an arena.

Instead, they unveiled a bold pitch that was no less than the creation of an entire neighborhood.

Shortly before the arena bill vote in December 2012, Olympia unveiled its plan for a \$650 million project that included not only the arena bowl but also surrounding development of residential, retail,

office and green spaces. The Ilitches had begun quietly gathering the land in the early 1990s with the intent of using the plots for an arena. They eventually decided to make it a much broader effort.

The strategy of a wider project helped Olympia burnish the playbook employed by arena and stadium developers everywhere: Sell the project with the promise of new jobs and increased economic activity that fills tax coffers and pocketbooks. With the Olympia project, it would be on an even larger scale in a city starved for new development. And they promised jobs and contracts would go to city residents and locally based companies, pledges they say they have stuck to with some exceptions. Job training and internships are part of the construction effort, too.

In July 2014, the Ilitches made public their far wider District Detroit plan of 50 city blocks remade with new investment. They paid University of Michigan professor Mark Rosentraub for a report that estimated the mammoth arena project would create 8,300 construction jobs and 1,100 permanent jobs, along with \$1.8 billion in economic impact for the city, region and state.

Decades of academic study nationally, however, cast doubt on the economic sense of public subsidies for sports stadiums.

Such caution didn't affect the political will to give Olympia the money it sought. The promise of developing a blighted section of the city was irresistible.

"Over the years (the Ilitches) were able to assemble enough land to think about where significant infill developments could occur," Larson said. "Little Caesars Arena is filling a void that was going to take a very long time, tens of years, to infill with traditional development. There was this void and nothing was going to link (downtown and Midtown) as impactfully and quickly as the arena."

Stitching together two parts of the central business district with a sprawling mixed-use project helped sell political and civic leaders on the project, Larson said.

"The return on investment, I think, ultimately, is much more significant and will be realized much faster than if it were just a standalone sport facility," Larson said.

The family's business reputation also helped their quest for public subsidies. The Ilitches have been long praised for relocating their Little Caesars pizza chain headquarters downtown in 1989 while other businesses were leaving the city.

The reality is mixed: They put a lot of money into downtown investments, but also garnered criticism for their stewardship of some blighted properties. Plans for some new developments fell through, too, fueling boos from some.

But overall, they've been heralded for their accomplishments, which include renovation of the Fox Theatre and construction of Comerica Park and MotorCity Casino and Hotel. They're currently building a \$150 million new headquarters for Little Caesars next to the Fox.

The Ilitches also were able to rely on the Red Wings' history for support. Mike Ilitch bought the club for \$8 million in 1982. It would go on to win four Stanley Cups during a playoff streak that lasted 25 years. Winning fuels goodwill.

The arena strategy has worked so well for the Ilitches that they successfully got city approval for another \$34.5 million worth of DDA bonds to pay for retrofitting the arena to accommodate the Detroit Pistons, who announced in November they'd relocate to Little Caesars Arena to be a tenant alongside the Red Wings.

The Ilitches haven't faced the sort of resistance Dan Gilbert is facing in Cleveland, where he's seeking \$70 million in local aid for a \$140-million upgrade to Quicken Loans Arena, where his Cleveland Cavaliers play home games.

Public and political opposition to Gilbert's plan reached the Ohio Supreme Court, which ruled last month that the issue must go to a public referendum.

"Community-based push back has been really muted here. It hasn't had the same resonance you'd find in other places," Boyle said.

## **Crain's Chicago Business**

By Bill Shea

September 10, 2017 12:01 a.m.

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### **[Puerto Rico Bonds Gain After Judge Rules Against Highway Debt.](#)**

- Price on general obligations with 8% coupon highest since July
- Ruled toll revenue can be used to repair roads, not repay debt

Some Puerto Rico general-obligations gained in value after a court ruled that the commonwealth's transportation agency would retain toll revenue to cover operations instead of paying bondholders.

Puerto Rico general obligations with an 8 percent coupon traded Tuesday at an average 59.3 cents on the dollar, the highest level since July 20 and up from 57.8 cents the day before, according to data compiled by Bloomberg.

U.S. District Court Judge Laura Taylor Swain last week ruled that the island's Highways and Transportation Authority will continue using toll revenue to maintain its system rather than pay bondholders as the agency works its way through bankruptcy.

Some investors may interpret that ruling as an indication that sales-tax revenue may ultimately be used for commonwealth expenses, which would be a positive for its general-obligation bonds, said Daniel Solender, head of municipals at Lord Abbett & Co., which manages \$20 billion of state and local securities, including Puerto Rico debt.

"Maybe there's some kind of positive move toward G.O.s getting access to some of that revenue," Solender said.

## **Bloomberg Markets**

By Michelle Kaske

September 12, 2017, 9:38 AM PDT

— With assistance by Steven Church

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## **Hartford Says It Needs Debt Relief as Credit is Downgraded.**

Matt Fabian of Municipal Market Analytics considers Hartford's bonds impaired since the city has indicated it can't handle all its debts.

The city of Hartford in Connecticut is still paying interest on its debt, but it notified bondholders this week that it won't be able to do so forever — even if it gets the state aid its waiting for.

It has hired bankruptcy attorneys who plan to meet with creditors later this month to discuss restructuring.

**Matt Fabian of Municipal Market Analytics** says Hartford's bonds are already impaired. He wrote to clients Friday afternoon:

With a notice to bondholders that the city requires relief from its bonded indebtedness regardless of whether or not the state provides incremental aid, the city of Hartford CT has been added to the MMA database of defaulted and impaired municipal bonds. Hartford is in the Other category, which is for issuers still paying debt service in the normal way but where covenant violations, technical defaults, or other threats to repayment have arisen.

Credit rating agencies lowered the city's ratings multiple notches in the past week. Moody's lowered it to the triple-C level — to Caa1 on its ratings scale from B2. S&P lowered it to B-minus from double-B.

**S&P credit analyst Victor Medeiros** comments:

The downgrade to 'B-' reflects our opinion that Hartford has capacity to pay on its obligations, but due to the current local and Connecticut political, economic, and financial environment, the city is more vulnerable to payment interruptions.

**Barron's**

By Amey Stone

Sept. 15, 2017 5:17 p.m. ET

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## **Detroit: The Tipping Point.**

***Detroit's struggles have been well chronicled, but new investments are contributing to an economic resurgence.***

Timothy Thorland drives past the northwest corner of Porter and Hubbard most days on his way to work. Although most who see the abandoned row houses there as urban blight, Thorland envisions attractive residential units that could meet a public need, breathe new life into Detroit's Mexicantown neighborhood, and prove to traditional lenders that it's a viable real estate market worthy of long-term investment.



Like nearly all Detroit neighborhoods, Mexicantown began declining in the latter half of the 20th century and fell off a cliff when the housing bubble burst in 2008. But it sits adjacent to Downtown Detroit, which has experienced significant revitalization in recent years. The hope is that this positive growth will spread into surrounding neighborhoods.

But simply waiting for the downtown boom to spread won't save Detroit's neighborhoods. It takes financial creativity, long-term vision, and risk-taking from organizations like Thorland's Southwest Housing Solutions to push tipping-point neighborhoods like Mexicantown in the right direction.

[Continue reading.](#)

## **The Urban Institute**

by Brett Theodos, Jay Dev, Sierra Latham

September 12, 2017

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### **[KBRA Affirms Rating on DFW International Airport's Joint Revenue Improvement Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of AA- with a Stable outlook on the Dallas/Fort Worth International Airport (DFW) Joint Revenue Improvement Bonds.

This affirmation is based on KBRA's [U.S. General Airport Revenue Bond Methodology](#).

Please click on the link below to access the full report:

[Dallas/Fort Worth International Airport's Joint Revenue Improvement Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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### **[KBRA Rates Pennsylvania Turnpike Commission Turnpike Revenue Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of AA- with a Stable outlook to the Pennsylvania Turnpike Commission Turnpike Revenue Bonds, Series A-1 of 2017 and Turnpike Revenue Refunding Bonds, Series A-2 of 2017. After issuance, PTC will have approximately \$4.9 billion senior lien Turnpike Revenue Bonds outstanding, with final maturity in 2051.

At the same time, KBRA has assigned a long-term rating of AA- and Stable Outlook to all the Pennsylvania Turnpike Commission's outstanding senior lien Turnpike Revenue Bonds on a parity basis. KBRA's long-term rating excludes bonds backed by a letter of credit or liquidity facility, unless otherwise noted.

The turnpike revenue bonds are secured by net revenue of the turnpike system, consisting primarily of all tolls received by or on behalf of the Commission from the Pennsylvania Turnpike system.

To access the full report, please click on the link below:

## [Pennsylvania Turnpike Commission Turnpike Revenue Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **KBRA Assigns Ratings to the Industrial Development Authority of the County of La Paz, Arizona.**

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of BBB- with a Stable outlook to the Imperial Regional Detention Facility Project Senior Lien Refunding Project Revenue Bonds (Federally Taxable) Series 2014 issued by the Industrial Development Authority of the County of La Paz, Arizona.

This rating is based on KBRA's [General Revenue Bond Methodology](#). KBRA's rating evaluation focuses on the following key rating determinants.

- Management
- Service Area
- Operations
- Financials
- Debt and Capital
- Security Provisions

To access the full report, please click on the link below:

[Industrial Development Authority of the County of La Paz, Arizona](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **KBRA Releases Surveillance Report: MTA Transportation Revenue Bonds.**

Kroll Bond Rating Agency (KBRA) affirms the long-term rating of AA+ with a Stable Outlook on MTA's Transportation Revenue Bonds, except for bonds backed by a letter of credit or liquidity facility. KBRA also affirms the K1+ rating on the Series 2015B-2e (Taxable), Series 2015B-2f (Taxable), Series 2017A-2 and Series 2017B BANs. The affirmation takes into account additional disclosure since our June 15, 2017 report.

On June 15, 2017, Kroll Bond Rating Agency (KBRA) assigned a long-term rating of AA+ with a Stable Outlook on the Metropolitan Transportation Authority's (MTA) Transportation Revenue Refunding Green Bonds, Series 2017B ("the 2017B Bonds"). On that date, KBRA affirmed the long-term rating of AA+ with a Stable Outlook on all outstanding MTA transportation revenue bonds, except for bonds backed by a letter of credit or liquidity facility. KBRA also affirmed the short-term rating of K1+ on the Series 2015B-2e (Taxable), Series 2015B-2f (Taxable), Series 201A-2 and Series 2017B Bond Anticipation Notes (BANs. For additional information on the MTA's long-term credit, please see our [report](#) dated June 15, 2017.

Since our June report, MTA has disclosed further information including the appointment of a new Chairman and other management changes, and submitted the June 2017 Financial Plan to the MTA Board. As a result of the additional disclosure, KBRA is issuing an update to the June 2017 report.

To access the full report, please click on the link below:

[Metropolitan Transportation Authority Transportation Revenue Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **City of Aurora - A Metro Growth Magnet Builds Its Water Future through Strategic Investment, Innovation and Hard Work.**

The City of Aurora (CO) joins with Denver and Lakewood to form one of 381 Metropolitan Regions in the United States. Aurora's is a major contributor to the metro economy. The US economy added 2.3 million jobs in 2016; and Metro areas generated over 2 million, accounting for more than 95% of all US gains. The Denver-Aurora-Lakewood Metro area ranked 18 out of 381 Metro areas in annual employment growth. (1) Growth in employment is expected to follow rapid population growth. Projections indicate Aurora's population will double from 359,407 in 2017 to three quarters of a million people by 2070. These growth trends require more public services and modern infrastructure to deliver them. In a high prairie desert city any mayor and council will address water supply and demand, now and in the future. Steve Hogan, Mayor of the City of Aurora says, "We don't sit around and wait. We take action." Mayor Hogan and city leaders are making decisions based on local priorities - survival and quality of life - as they identify, commit funding, and sequence major capital investments and operations logistics to keep the water flowing.

An early May 2017 interview with Mayor Steve Hogan and Marshall Brown, Director of Aurora Water, in the impressively modern and expansive Aurora Civic Center, revealed a legacy of forward thinking about water needs. Aurora now employs an ever-evolving mix of advanced water management planning tools to achieve an adequate supply at constant demand regardless of population growth. The diversification of water supply is necessary but nonetheless logistically challenging. This review describes how a 20th Century legacy articulated by elected leaders became the cornerstone for advanced water supply planning by today's leaders; and what they are doing now to secure their water future.

[Continue reading.](#)

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## **Chicago Schools Get Lifeline From State to Cover Pension Costs.**

- **Move extends rally in the school district's bond prices**
- **State to provide \$1.1 billion more over next five years alone**

A school bus drives by a school in Chicago, Illinois. Photographer: Scott Olson/Getty Images  
Chicago's cash-strapped school district is set to receive an additional \$1.1 billion from Illinois over the next five years alone to pay for its teachers' pensions, providing significant relief from the escalating costs that have reduced its bond rating to junk.

The changes to how aid is distributed, ushered in by legislation Republican Governor Bruce Rauner signed Thursday, triggered a rally in Chicago school bonds, pushing the price of some securities to a more than two-year high. The amount to be provided by the state marks an 18-fold increase from the \$62 million it had previously been set to pay into the teachers fund, according to pension documents.

"It's a big dose of good news for a change," said Richard Ciccarone, the Chicago-based president of Merritt Research Services, which analyzes municipal finances. The law "provides a meaningful mitigation of the burdens that they have at the school district."

Rising pension liabilities, triggered by years of shortchanging the retirement plan, have ravaged the finances of Chicago's school system, the nation's third-largest, with about 400,000 students. It's been borrowing at punishing interest rates and raiding reserves to stay afloat.

Chicago has been receiving far less help than other school systems with its pension costs because it's the only one in the state with its own teachers fund. The rest participate in the Illinois Teachers' Retirement System. Last year, the state made a \$4 billion contribution to that fund, which breaks down to about \$2,447 per student, while Chicago got only \$12 million, or \$32 per student, according to figures from the Chicago district.

Officials from Forrest Claypool, the schools' chief executive officer, to Mayor Rahm Emanuel have blamed what they viewed as an inequitable state funding system for the district's distress. The school board unsuccessfully sued Illinois this year, trying to wrest more cash from the state. The judge rejected the board's assertion that the system discriminated against the heavily minority-student district.

"In terms of us being able to make plans and plan with greater certainty, I think we're in a better place today than we were," Charles A. Burbridge, executive director of the Chicago Teachers' Pension Fund, said in a telephone interview.

The aid increase comes as Illinois contends with a \$14.8 billion backlog of unpaid bills after going two years without a budget. The spending plan enacted in July over Rauner's objections included an income-tax hike that's expected to generate about \$5 billion and gave Illinois authority to issue debt to pay down some of the unpaid bills.

Bondholders applauded the school funding revamp. The price of the school system's bonds that mature in 2042 traded for an average of 97.3 cents on Thursday, the highest since April 2015, for a yield of 5.2 percent, according to data compiled by Bloomberg. That price is up from 76 cents at the end of June.

Beyond the state help, the funding bill allows the city's board of education to raise property taxes to generate revenue for pensions.

"This is above expectations for even the people who are bullish on the city of Chicago public schools," said Paul Mansour, head of municipal research at Conning, which oversees about \$9 billion of state and local debt, including some Chicago school securities. "With these new sources of revenue in play, this should reduce their future borrowing costs. And give them access to the mainstream municipal market in the future."

## **Bloomberg Politics**

By Elizabeth Campbell

September 1, 2017, 2:00 AM PDT

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## **In Kentucky's Drastic Pension Reforms, No One Would Be Spared.**

***Previous attempts to address the state's pension crisis haven't gone far enough. This time around, past, present and future employees could take a hit.***

It was a busy week for many Kentuckians. With the state facing yet another public pension crisis, Gov. Matt Bevin spent five hours answering questions on Facebook Live, while retirees were lawyering up and legislators packing their bags for a special session.

This is the third time in a decade that Kentucky has tried to address its woefully underfunded pension systems. Each time, the solutions have become more drastic as the financial health of its pensions have continued to decline. Now, a consulting group is recommending the state's lawmakers cut retirees' pension checks by as much as 25 percent. Between its plans for workers, police officers, firefighters and teachers, the state owes roughly \$33 billion in pension debt.

[Continue reading.](#)

GOVERNING.COM

BY LIZ FARMER | AUGUST 31, 2017

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## **Sewerage and Water Board of New Orleans Debt Ratings Not Immediately Affected By Rain Impact, Leadership Turnover.**

DALLAS (S&P Global Ratings) Aug. 31, 2017-S&P Global Ratings said today that the operational struggles related to extraordinary rainfalls in July and August, including from the remnants of Hurricane Harvey, are not likely to impair the credit quality of the Sewerage and Water Board of New Orleans (SWBNO)'s waterworks or sanitary sewer system revenue bonds or its special ad valorem tax drainage system...

[Continue Reading](#)

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## **S&P: Refinancing Some Of Its Unpaid Bills Could Partially Preserve A Crucial Cash Management Tool For Illinois.**

SAN FRANCISCO (S&P Global Ratings) Aug. 22, 2017-Enactment of a fiscal 2018 budget in Illinois did not bring an end to the ongoing political stalemate that caused its two-year budget impasse. The governor and General Assembly remain at odds over funding policy for the state's school districts.

[Continue Reading](#)

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## **Appellate Division Clarifies NJ State University's Qualified Immunity From**

## **Local Land Use Regulation.**

The Appellate Division recently reaffirmed and clarified the concept of a public university's qualified immunity from local land use regulations initially espoused in the New Jersey Supreme Court's seminal decision in *Rutgers University v. Piluso*, 60 N.J. 142 (1972). In this recent opinion, *Montclair State University v. County of Passaic*, Docket No. A-3318-15T3 (August 23, 2017), the court reviewed the nature and extent of local and county review with regard to a connector road proposed by Montclair State University (MSU) from its campus to Passaic County Route 621 (Valley Road) in Clifton. MSU spent approximately six years consulting with defendants Passaic County and the City of Clifton regarding the proposed road and working through objections and concerns raised by both the county and the city.

Ultimately, MSU believed it had satisfied defendants' concerns and in 2014 submitted an application to the county for approvals relating to the proposed intersection with County Route 621. The county failed to respond, and MSU filed a complaint for declaratory judgment with the Law Division seeking a determination that the county's refusal to issue the permit was inconsistent with settled law which granted MSU qualified immunity. The trial judge ordered MSU to provide updated traffic studies, and to appear before both the city and county planning boards in connection with the road project. After MSU produced an updated traffic study, the county refused to issue a permit because it believed the roadway design did not meet the governing engineering standards, and because the city's approval was required for a traffic signal which would impact local roadways.

[Continue reading.](#)

Day Pitney Author(s) Katharine A. Coffey Christopher John Stracco Craig M. Gianetti

August 28, 2017

**Day Pitney**

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## **Illinois Overhauls System for Funding Public Schools.**

Long the financial disgrace of the nation, Illinois made its mark in another way on Tuesday by passing landmark education-funding reform that will pump more state money into the neediest districts, give a major boost to Chicago's struggling school system and deliver one of the widest-reaching private scholarship programs in the country.

The Illinois Senate passed the measure on Tuesday, one day after the House. Gov. Bruce Rauner, a Republican, has said he will sign the bill.

The legislation adopts a new "evidence-based model" that delivers more state dollars to low-income school districts. Illinois schools have long relied heavily on local property taxes to finance their education system, creating what reform advocates have called the most inequitable school-funding system in the country. The legislation establishes a new formula by which state money will shore up districts lacking a robust property tax base.

The governor vetoed the original legislation, calling it a bailout of Chicago Public Schools, which he has long criticized as financially mismanaged. Lawmakers largely ignored Rauner's veto, which included amendments to the bill. Instead, they focused on securing a union-opposed, \$75 million private scholarship fund — a pilot for five years — as part of the deal. Cardinal Blase Cupich, the

archbishop of Chicago, lobbied heavily for the private program, which would allow individuals and corporations to earn tax credits for donating to a scholarship fund that benefits eligible families who send their children to private schools.

"This has been a long and cumbersome process," said state Sen. Andy Manar, a Democrat who championed the education-funding overhaul.

The deal has the potential to drop a political lifeline to Rauner.

"For far too long, too many low-income students in our state have been trapped in underfunded, failing schools," the governor said in a statement. "The system needed to change. We have changed it. We have put aside our differences and put our kids first. It's a historic day for Illinois."

"Our leaders worked together to provide school-choice protection for parents who want the best education possible for their children," Rauner said. "This is accomplished by ensuring that district-authorized charter schools receive equal funding, and by providing families with limited financial resources the same access to private schools. The Tax Credit Scholarship program encourages individuals and businesses to enable families to choose the school that best meets the needs of their children."

Opponents criticized Rauner, saying he had criticized the legislation as recently as Friday.

"Today lawmakers overcame another of Bruce Rauner's manufactured crises," said Sam Salustro, a spokesman for the Democratic Governors Association. "After the legislature overrode his veto of the state's first budget in two years, Rauner could have refocused his administration toward making progress. Instead he pushed the state right back into crisis by vetoing funding for schools and making demands even Republicans would not support. Illinois families will not forget how Rauner's failed leadership threatened public schools' ability to stay open for political gain."

The deal is a boon for Chicago Mayor Rahm Emanuel, giving the city's struggling school system more money to cover pensions, as well as allowing Chicago to levy another property tax.

Teachers unions in Illinois criticized the bill for allowing what they call a backdoor voucher program, taking potential tax dollars out of public classrooms.

POLITICO

By NATASHA KORECKI

08/29/2017 06:28 PM EDT

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## **[Bond Insurers Seek Investigation of Puerto Rico's Finances](#)**

Bond insurers for Puerto Rico's debt are seeking a court order that would allow them to crack open the books for the broke U.S. territory, arguing it is withholding key financial information while releasing fiscal reports that don't add up.

National Public Finance Guarantee Corp and Assured Guaranty on Friday filed motions seeking, under federal bankruptcy Rule 2004, an exam of Puerto Rico and its Federal Oversight and Management Board to compel the release of information related to the island's fiscal plan.

To read the full story on WestlawNext Practitioner Insights, click here: [bit.ly/2wcTSvD](http://bit.ly/2wcTSvD)

REUTERS

BY JIM CHRISTIE

AUGUST 28, 2017

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## **[S&P: Ratings Of Texas Municipal Utilities In Harvey's Path Are Unaffected For Now.](#)**

DALLAS (S&P Global Ratings) Aug. 31, 2017—S&P Global Ratings said today that it will continue to track the operational status of Texas municipal waterworks and sanitary sewer utilities that were affected by Hurricane Harvey's widespread and ongoing damage. We will also work with management of those utilities to ascertain financial impacts, and, if we believe relevant, credit implications.

Because many management teams are focused on emergency response, addressing public health and safety considerations, and restoring service, it could take some time for us to assess the recovery costs and the impact on these utilities' near- and long-term credit quality. We first look to the existing financial condition of the utility systems and access to immediately available liquidity until such time that eligible outlays are reimbursed. Generally, because most systems exhibit strong available reserves and many storm-related costs could be eligible for some degree of reimbursement, we don't expect near-term rating pressures. However, once management evaluates the extent of the damage and makes updates to long-term capital plans, we will incorporate expected future infrastructure investments and the ability to finance them—beyond any hazard mitigation grants or similar funding—into our assessments.

[Continue reading.](#)

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## **[S&P Global Ratings Monitoring Ratings On U.S. Not-For-Profit Transportation Infrastructure Issuers Affected By Harvey.](#)**

NEW YORK (S&P Global Ratings) Aug. 29, 2017—S&P Global Ratings today said that it is monitoring ratings on not-for-profit transportation infrastructure enterprises in southeastern Texas, southern Louisiana, and southern Mississippi following the initial impact of Hurricane Harvey.

[Continue Reading](#)

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## **[KBRA Affirms Long-Term Ratings on Hillsborough County Aviation Authority, Tampa International Airport Revenue Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of AA- with a Stable outlook on the Hillsborough County Aviation Authority (HCAA or "the Authority"), Tampa International Airport



Revenue Bonds and the long-term rating of A+ with a Stable outlook on the Hillsborough County Aviation Authority, Tampa International Airport Subordinated Revenue Bonds. These ratings apply to all of the HCAA's outstanding aviation revenue bonds that are not backed by letters of credit or third-party credit agreements. As of July 1, 2017 the Authority had approximately \$459 million in senior lien and \$302 million in subordinated lien airport revenue bonds outstanding.

The senior and subordinate lien bonds are payable on a senior and subordinated basis from net airport system revenues. The airport system includes Tampa International Airport and three general-aviation airports. The trust agreement provides for the issuance of airport revenue bonds that are secured by net airport revenues and are additionally payable from available passenger facility charge (PFC) revenues. These "double-barreled" bonds are rated on a parity basis with outstanding senior and subordinate lien bonds that are solely secured from net airport revenues. The Series 2009 Senior Lien Bonds are double-barreled as are all currently outstanding subordinate lien bonds.

To access the full report, please click on the link below:

[Hillsborough County Aviation Authority, Tampa International Airport Revenue Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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### **[KBRA Affirms Long-Term Rating on Hillsborough County Aviation Authority, Tampa International Airport Customer Facility Charge Revenue Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of A+ and a Stable Outlook on the Hillsborough County Aviation Authority ("the Authority"), Tampa International Airport (TPA or "the Airport") Customer Facility Charge Revenue Bonds. This rating applies to all of the Airport's outstanding Customer Facility Charge Revenue Bonds. As of June 30, 2017, TPA had approximately \$383.3 million in customer facility charge revenue bonds outstanding.

The customer facility charge (CFC) bonds are payable solely from and secured by a pledge of pledged revenues and certain funds and accounts held under the CFC trust agreement. Pledged revenues comprise all on-airport CFCs, off-airport transportation facility charges (TFCs), and payments made by the concessionaires (rental car companies) pursuant to their respective concessionaire agreements as contingent payments to cover deficiencies, if any, in the amount of CFCs and TFCs needed to fund mandatory eligible costs. Mandatory eligible costs are defined as the sum of (a) debt service; (b) 40% of the annual operation and maintenance cost of the automated people mover; (c) establishment and funding of repair and replacement reserves; and (d) reimbursement of the Authority for debt service on previously issued HCAA bonds, and investments made on a PAYGO basis for existing rental car facilities.

To access the full report, please click on the link below:

[Tampa International Airport Customer Facility Charge Revenue Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **[KBRA Affirms Rating on the MTA's Hudson Rail Yards Trust Obligations, Series 2016A](#)**

Kroll Bond Rating Agency has affirmed the long-term rating of A- with a Stable outlook on the Metropolitan Transportation Authority's Hudson Rail Yards Trust Obligations, Series 2016A.

The rating is based on KBRA's [General Property Tax/Assessment Revenue Methodology](#). For certain Rating Determinants, elements of KBRA's [CMBS Property Evaluation Methodology](#) were used in developing the rating assessment.

To access the full report, please click on the link below:

[MTA's Hudson Rail Yards Trust Obligations, Series 2016A](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **[Mercy Housing Closes First Deal With California Certificated Credits.](#)**

Mercy Housing California has closed a deal to use "certificated" state housing credits on its latest affordable housing development.

The transaction will help finance the development of the 180 West Beamer Street development in Woodland, Calif. The new 80-unit community will serve low-income families, with 32 units set aside for special-needs residents.

The deal with investor U.S. Bancorp Community Development Corp. (USBCDC) is believed to be the first transaction using certificated credits to close in the state.

The team faced the challenges that come with using a brand-new program, including creating new documents and working through deadlines and pay-in schedules that differed from those used in traditional credit transactions, according to Stephan Daues, Mercy Housing's director of real estate division for the Sacramento region.

However, the approximately \$30.7 million development was able to secure a higher price for its state housing credits that will eventually result in additional equity for the development of 180 West Beamer.

The deal comes after California leaders made changes to the law to allow for the [certification of state low-income housing tax credits](#) (LIHTCs) under a three-year pilot. Traditionally, LIHTCs are allocated to developers, who then sell them to an investor, usually in the form of a limited partnership interest. Certificated credits differ in that they are sold outright to investors who take no ownership interest in the development. This eliminates the impact of the state credits on an investor's federal tax liability, allowing an investor to offer higher pricing.

State credits in California have recently sold for about 65 to 75 cents per dollar of credit, but officials think that the certificated credits could generate 90 to 95 cents per dollar of credit. That could result in about \$20 million in additional equity to California projects and ultimately more

affordable housing being built.

Under the new state program, participating developments must receive at least 80 cents per dollar of credit. For the Woodland project, an increase from 65 cents to 80 cents meant approximately \$750,000 more in equity.

Mercy Housing, working with its partner New Hope Community Development Corp., received a reservation of approximately \$5 million in state housing credits and \$1.5 million in federal housing credits in 2016. Like many other developers, the team was hit with the double whammy of cost increases and lower LIHTC prices late last year, Daues says.

Federal LIHTC prices dropped sharply after the November election as the prospects of tax reform increased with Donald Trump in the White House and Republicans in control of the House and Senate. Trump has called for slashing the business tax rate from 35% to 15% while members of Congress will likely be eyeing a rate in the 20% to 25% range. While a change in the tax rate does not affect the value of the tax credits themselves, it can impact depreciation and other tax losses that are part of the investment.

The California Tax Credit Allocation Committee (CTCAC) provided an opportunity for 2016 projects to exchange their state housing credits for certificated credits to raise additional financing. Mercy Housing and New Hope decided to make the move to raise additional financing for their development.

The deal was compelling to USBCDC for several reasons, according to Vihar Sheth, senior vice president, director of business development, affordable housing tax credit investments, at the firm, noting that the bank has had a close relationship with Mercy Housing.

In addition to the longtime ties, the nonprofit developer's latest project stood out from a mission standpoint because the development will serve a special-needs population in need of quality affordable housing.

Looking at certificated credits in general, both developers and investors can benefit, Sheth says.

For the investor, the fundamental difference is the allocated credit is treated as income so the value of it is automatically reduced by the amount of the federal tax you have to pay, which is why the pricing is lower. Certificated credits are considered personal property and can be used to reduce an investor's state tax liability but not have it impact the investor's ability to deduct state taxes from their federal taxable income, allowing for the pricing to be higher.

There's also another advantage. Under the program, CTCAC reserves certificated credits in the name of the nonprofit partner in the development. The nonprofit can then sell the credits to one or more investors, with the law allowing each initial investor to resell the credits one additional time.

"With the certificated credit being transferrable, it also increases the amount of people who can access it without having to have the expertise and the staff to close into an affordable housing deal," Sheth says. "... It's a win-win for everybody."

Construction on 180 West Beamer started in June. Twenty units will receive project-based Sec. 8 assistance from Yolo County Housing, the region's affordable housing and community development agency, which also provided a no-cost 99-year land lease to make the project happen.

## **Affordable Housing Finance**

By Donna Kimura

Aug 22, 2017

*Donna Kimura is deputy editor of Affordable Housing Finance. She has covered the industry for more than a decade. Before that, she worked at an Internet company and several daily newspapers. Connect with Donna at [dkimura@hanleywood.com](mailto:dkimura@hanleywood.com) or follow her @DKimura\_AHF.*

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## **In Colorado, Local Governments Test Their Oil Drilling-Regulating Limits.**

City leaders on Tuesday approved a set of oil and gas regulations that exceed what the state requires of energy-extraction firms, setting the stage for potential legal challenges as tensions between Front Range communities and drilling companies mount.

Thornton's new rules, which the city has been working on for more than a year, establish a 750-foot buffer between wells and homes, more than the 500-foot setback required by the state. They also go tougher on abandoned flowlines than rules from the Colorado Oil and Gas Conservation Commission stipulate.

Thornton also would require operators to maintain \$5 million in general liability insurance for property damage and bodily injury, while the state requires only \$1 million in insurance coverage.

Councilman Joshua Zygielbaum called the new rules a reasonable balance between encouraging economic development in Thornton and protecting citizens' health and welfare.

The final vote was 7-2. There was no public comment taken on the issue.

"I hope the oil industry sees the flexibility of of these regulations and can meet us at the table," Zygielbaum said.

But two council members voted against the rules, with Mayor Heidi Williams warning her colleagues that "we have opened ourselves up for a lawsuit."

Councilwoman Jan Kulmann said "we've overstepped in some areas" and "put ourselves at risk for no reason," especially because no drilling permits have been issued in Thornton for at least a decade.

The new rules immediately prompted negative reaction from the industry. Colorado Oil and Gas Association president Dan Haley called some of Thornton's regulations illegal and said the city disregarded a warning from the COGCC not to contravene state rules.

Local control over oil and gas development has been a fiery topic lately, with cities and counties across the metro area trying to put tighter controls on operations. The issue of safety around drilling in populated areas took on a critical tone this spring when gas seeping from a cut-off underground pipeline led to a home explosion in Firestone that killed two and injured one.

But efforts by several Colorado cities to outright ban drilling near homes repeatedly have failed when challenged in court, including a ruling from the Colorado Supreme Court last year that said oil and gas bans are not the purview of local government.

GOVERNING.COM

AUGUST 25, 2017

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## **'Double Dipping' Pensions No Longer an Option for Illinois Police.**

Legislation to prevent law enforcement officers from retiring, collecting a pension and then returning to active police duty to earn a second pension was signed into law Thursday by Gov. Bruce Rauner at the Naperville Municipal Center.

The measure, sponsored by state Rep. Grant Wehrli, R-Naperville, and state Sen. Michael Connelly, R-Lisle, stops the practice known as “double dipping.” It was triggered, in part, by Naperville Police Chief Robert Marshall, who retired after 28 years with the Naperville Police Department only to return seven years later as its top administrator.

“This bill stops the process of double dipping,” Wehrli said. “Up until this bill was signed, a police office could retire on a Friday, start a new job as a chief of police on a Monday, collect a pension and now start working on a second pension.”

Under the new rules, law enforcement retirees returning to active duty positions will have the option of enrolling in a 401(k)-style system instead of accruing a second pension through the police pension fund or the Illinois Municipal Retirement Fund.

The legislation received bi-partisan support from the General Assembly and begins to address Illinois’ mounting pension problems, Wehrli said.

“As those liabilities are growing, local units of government are seeing those dollars that should be allocated for other services going to fund pensions,” he said.

Rauner, speaking before signing the bill, said the new regulations represent a positive step toward pension reform. Beyond that, allowing law enforcement officials to collect more than one pension is not fair to retirees who are collecting just one, he said.

“It’s not fair to taxpayers and, in the long run, it deprives money from the pension system so it can stay sustainable (and) it takes money from other critical services in our communities,” Rauner said.

Wehrli said the new law could serve as an example for future pension legislation.

“Many are calling this model legislation on how we can address the problem going forward,” Wehrli said. “You can expect to see legislation filed applying to concepts for other business areas inside the public sector.”

Marshall will not be affected by the new law.

In 2005, Marshall retired from the police department. Shortly thereafter, he was hired as Naperville’s assistant city manager and in 2012 he became the city’s top cop. When he was hired as a city official, he started contributing to the Illinois Municipal Retirement Fund and continued to do so as police chief.

The Illinois Department of Insurance challenged the arrangement, saying Marshall should not receive his police pension in addition to his salary. The city’s police pension board, however, vote 4-1 to allow him to continue receiving both payments.

The state took the case to DuPage County Circuit Court, where a judge ruled in 2014 that the police chief — despite wearing a badge and having the authority to make arrests — was not a police officer when it came to the pension system.

The state took the case to the Illinois 2nd District Appellate Court, but ultimately dropped the legal action.

According to city documents, Marshall now earns a \$168,786 salary. How much he collects in police pension payments or is contributing to the second pension fund was not available.

TRIBUNE NEWS SERVICE | AUGUST 25, 2017

By Erin Hegarty

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### **Fitch: Hurricane Harvey Takes Aim at Texas Gulf Coast Utilities.**

Fitch Ratings-Austin-25 August 2017: Texas Governor Greg Abbot's pre-emptive declaration of 30 Texas counties as disaster areas sets the stage for entities impacted by Hurricane Harvey to be eligible for federal funding and assistance from the Federal Emergency Management Agency, according to Fitch Ratings. In a disaster scenario, federal funding is significant factor in how utilities manage the fallout, both financially and operationally. The counties accounted have an estimated population of 7.5 million.

Hurricane Harvey is forecast to make land fall on the Texas gulf coast overnight Friday, likely coming to shore as a category 3 hurricane—an example of the extreme weather challenges that Texas utilities often face as very wet and very dry periods alternate.

Corpus Christi, expected to be ground zero for the impact of Hurricane Harvey, is currently under a voluntary evacuation order. However, other low lying areas in the region are under mandatory evacuation orders. For context, the last major hurricane to impact the Texas coast was Hurricane Ike in September 2008, which made landfall at the north end of Galveston Island as a category 2. Damage estimates for Ike from the National Hurricane Center were \$19.3 billion.

Fitch rated utility systems directly in Harvey's path include: Corpus Christi (combined utility system revenue bonds rated 'AA-/Stable Outlook), Nueces River Authority, TX (water revenue bonds rated 'AA-/Stable Outlook) who's rating is directly linked to Corpus Christi's combined utility rating, San Patricio Municipal Water District, TX (water revenue bonds rated 'A+/'Stable Outlook) and Victoria, TX (water and sewer revenue bonds rated 'AA-/Stable Outlook). Corpus Christi could see yearly rainfall total levels in a matter of a day or two. The city of Corpus Christi combined utility system serves not only the city population (estimated at 300,000) but also provides water to several municipalities, water districts, and industries within a 70-mile radius of the city. Utility operations have exhibited signs of operational stress and management is currently in negotiations with the EPA regarding violations of the Clean Water Act. Nueces River Authority is the wholesaler water provider to the city of Corpus Christi, while San Patricio Municipal Water District serves part of the Corpus Christi MSA and purchases all its raw water from the city.

After making landfall Hurricane Harvey is forecast to stall near Victoria, which lies about 30 miles inland from the Gulf of Mexico, north east of Corpus Christi. Officials in Victoria have issued a mandatory evacuation order and the city is forecasted to receive record-breaking rainfall totals from 15 to 25 inches over a 72 hour period and up to 135 mile per hour winds that could potentially result

in significant property and infrastructure damage. Depending on the future track of Harvey, other large urban regions could see substantial rainfall totals resulting in flash flooding, including Houston (senior water and sewer revenue bonds rated 'AA+/Stable Outlook), San Antonio (senior water and sewer revenue bonds rated 'AA+/Stable Outlook) and Austin (water and sewer revenue bonds rated 'AA-/Stable Outlook). Fitch will continue to monitor the situation along with the financial and operational impacts to Fitch-rated utilities and inform the markets accordingly.

For more information about Texas water and sewer utilities, please see Fitch's report, "Texas Water and Sewer Peer Review," dated Aug. 2, 2017.

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### **Fitch: Tax on California Water Another Pressure on Monthly Bills.**

Fitch Ratings-San Francisco-25 August 2017: A proposed state-wide tax on California water bills would generate funds for water projects in disadvantaged communities. According to Fitch Ratings, the tax would set a precedent in the state and add to the upward pressure on water bills.

Households would initially pay 95 cents per month and commercial customers up to \$10 per month. Fertilizer sellers and dairy producers would also pay fees to support the program. The bill, if passed, would generate an estimated \$2 billion over 15 years for both long-term and emergency projects for utilities to meet safe-drinking-water standards.

The proposed tax is just one of a long list of forces pushing California water bills higher. Water rates have increased state-wide, in some cases significantly, in recent years due to conservation-related demand declines resulting from the state's five-year drought. Many utilities implemented rate increases or alternative rate structures to mitigate significant declines in financial margins in fiscals 2015 and 2016. In addition, the proposed California Water Fix (the Fix), a plan to convey water through two tunnels under the Sacramento-San Joaquin Delta (the Delta) to improve water reliability and the health of the Delta ecosystem, could add several dollars per month to the bills of many southern California residents. The estimated \$16.3 billion in project costs would be borne by the utilities' ratepayers, including State Water Project (SWP) and Central Valley Project (CVP) members.

California water utilities have enjoyed solid rate flexibility, but Fitch believes the margin of that flexibility is decreasing and will likely be tested in the years ahead. The proposed bill is unlikely to tip the balance in the near term but adds to the pressure incrementally. Ratepayers have thus far shown a willingness and ability to absorb higher rates and most California utilities have ratepayer bases able to bear the estimated increases. However, some agencies have water bills that already exceed Fitch's affordability threshold (combined water and sewer utility bill equal to or higher than 2% of median household income) and would become more pressured if additional costs such as those related to the tax and the Fix are implemented.

The fate of the bill (Senate Bill 623) is uncertain as it would require a two-thirds vote of the state legislature. The bill's goal of addressing safe drinking water in disadvantaged communities enjoys broad support among lawmakers and interest groups, but stakeholders continue to debate the merits of the bill's funding mechanism (the tax on water bills). Agriculture and dairy industries as well as environmental groups support the bill because it would begin to address longstanding concerns about rural groundwater. Water districts and the Association of California Water Agencies oppose it. Water agencies have expressed concerns about the precedent of taxing water, which has been exempted from state sales taxes as is food and some other basic necessities.



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## **Connecticut Governor Calls for Paradigm Shift in Relationship Between State, Cities.**

### ***Malloy defends proposal to solve state's two-year budget deficit of \$3.5 billion***

Connecticut Gov. Dannel Malloy said Thursday it is time for a new relationship between the state and its 169 towns as he defended his proposal to close a yawning budget gap by shifting more costs from the state to municipalities.

State funding for cities and towns reached \$5.1 billion for the fiscal year that ended in June, a 21% increase over the past five years, according to a report from Mr. Malloy's budget office released Thursday. Funding for cities and towns has outpaced spending on transportation, Medicaid and debt service during that same time period, according to the report.

In the face of a two-year deficit of \$3.5 billion, the governor said that can't continue.

"Unfortunately, holding towns harmless and even increasing aid while we make excruciating cuts across state government is not sustainable in the long term," said Mr. Malloy, a Democrat and former mayor of Stamford, Conn. "It's clear that if we want to put Connecticut's budget on stable footing, we must modernize the relationship between the state and local municipalities."

After the legislature failed to pass a budget by the end of June deadline, the state has funded operations through an executive order signed by Mr. Malloy. State lawmakers continue to negotiate to pass a spending plan and say the earliest a could vote take place is in September.

Elizabeth Gara, executive director of the Connecticut Council of Small Towns, said towns are worried they will have to bear the brunt for bad fiscal management by the state.

"We are concerned the report sets the stage for cuts to municipal aid that will lead to property tax increases," Ms. Gara said.

Funding teacher pensions is one of the biggest drivers of spending increases in municipal aid, the report said. The state pays about \$1.2 billion annually in teacher pension costs, and that figure is expected to peak at \$6.2 billion in 2032.

Mr. Malloy has called for making cities and towns pay \$400 million annually to help bring teacher pension costs down. Currently, they don't pay into the system.

Ms. Gara says making towns pay for teacher pension costs is a mistake.

"It's unfair to saddle taxpayers with the costs of a problem that has festered because of the state's mismanagement," Ms. Gara said.

### **The Wall Street Journal**

By Joseph De Avila

Aug. 24, 2017 5:39 p.m. ET

Write to Joseph De Avila at [joseph.deavila@wsj.com](mailto:joseph.deavila@wsj.com)



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## **Suit Says Santee Cooper Charging for Plant it Didn't Build.**

A local attorney is pursuing a class action lawsuit against Santee Cooper over the purchase of a power plant it never put into use and for charging "illegal rates."

According to the lawsuit, Santee Cooper's customers are on the hook for over \$800 million in bonds for a plant that was never built.

In an action filed this week, Conway attorney George Hearn is asking the court to certify his lawsuit as a class action against the state utility on behalf of all current or former residential and commercial Santee Cooper customers who paid increased rates from November 2009 to the present.

The suit alleges that the utility issued \$342 million in tax-exempt municipal bonds to finance, in part, the construction of two coal-fired power plants that would make up the Pee Dee Energy Campus in Florence County, with \$249 million of that going towards the purchase of a disassembled coal power plant "kit" from China.

The Chinese power plant was never built and is lying in a field unassembled in Florence County.

Hearn's suit contends that Santee Cooper made the purchase of the Chinese power plant even though it had not received or begun the process of applying for most of the federal and state permits necessary to build or operate it.

In fact, the suit says that the federal and state regulations were such that Santee Cooper could not possibly obtain all the necessary permits to construct or operate that particular plant.

Santee Cooper did, however, receive an air quality construction permit from the South Carolina Department of Health and Environment Control in December of 2008 for the Pee Dee plant.

The lawsuit says that in 2008, Santee Cooper issued an additional \$406 million in tax-exempt municipal bonds to finance, in part, the construction of the Chinese power plant.

By May of 2009, the suit says Santee Cooper had issued approximately \$842 million in bonds to finance the Chinese power plant in on the Pee Dee Energy Campus, with its customers paying for it.

But in August of 2009, Santee Cooper's Board of Directors made the decision to "suspend efforts to permit" the Chinese power plant.

In a press release dated Aug. 24, 2009, Santee Cooper's chairman gave the utility's reasons for not going through with the construction of the plant.

"We are witnessing three significant changes," the state-owned utility's chairman O.L. Thompson said. "The current recession has reduced overall demand for electricity, proposed federal government regulations would significantly increase the operating costs of coal-fired power plants and Central Electric Power Cooperative, our largest customer, intends to gradually reduce its power load from Santee Cooper by approximately 1,000 megawatts beginning in 2013."

Thompson added that with the cancellation of the project "customers could benefit from the decision, because they may not need to bear the capital costs of constructing the proposed Pee Dee facility."

The suit says the board of directors finally cancelled the plans to construct the plant in April of 2010

“even though Santee Cooper had already purchased the Chinese power plant that was delivered to South Carolina, purchased other assets, and incurred costs in an amount exceeding \$250 million.”

Hearn says the unassembled power plant was reclassified as prepaid expenses and as an asset in Santee Cooper’s consolidated balance sheet without taking any account of depreciation or decrease in value.

The suit contends that this action artificially inflated the financial condition of Santee Cooper and the utility said it was sure the assets were marketable and could be sold.

Today, according to the suit, Santee Cooper “continues to spend approximately \$13 million per year for maintenance and security on the unassembled plant including \$3.5 million spent annually to keep the plant in working condition.”

Hearn says the company had the opportunity to sell the unused Pee Dee plant for a lower amount than the purchase price but did not do so.

The suit says the utility imposed rate increases on its customers to repay bond indebtedness which was incurred for the purpose of acquiring and assembling an “asset which Santee Cooper has no intention or hopes of operating and did not roll back those rates once the project was cancelled.

Questionable rate hikes?

In August of 2009, Santee Cooper issued a press release stating its board of directors voted to consider a two-year rate increase that would be an overall raise for customers an average of 4.4 percent beginning in November 2009 and an additional 5.5 percent in November 2010.

According to the lawsuit, the board rejected that 2009 rate hike proposal. But in November of 2009, the residential rate was increased from 6.32 cents per kilowatt- hour to 8.88 cents per KWH and added an additional 1.0 cent per KWH for summer months.

This rate was not authorized by Santee Cooper nor by statute and was in excess of the original proposal that was being considered, according to the suit.

The lawsuit says in September of 2012, Santee Cooper issued a release that the Board of Directors approved a two-year hike totaling a 7 percent increase but began charging a 10 percent hike instead that was not presented or discussed at public hearings as required by law.

The suit says the plaintiffs are entitled to the recovery of all money paid to the defendant as a result of the illegal rate increases.

Hearn is asking the court to certify the matter as a class action on behalf of all of Santee Cooper’s customers and to grant damages and attorney fees.

Santee Cooper spokesperson Mollie Gore said the suit has just been filed and the utility is currently studying it.

“I can tell you this. Santee Cooper will vigorously defend itself against the suit,” Gore said.

by Tom O’Dare [tom.odare@myhorrynews.com](mailto:tom.odare@myhorrynews.com)

Aug 18, 2017

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## **[KBRA Rates State of Texas' \\$5.4 billion Tax and Revenue Anticipation Notes, Series 2017.](#)**

Kroll Bond Rating Agency (KBRA) has assigned a rating of K1+ to the State of Texas' Tax and Revenue Anticipation Notes, Series 2017. KBRA has also affirmed the long-term rating of AAA with a Stable Outlook to the State of Texas' general obligation bonds. The short term rating is based on KBRA's [U.S. State and Local Government Short Term Cash Flow Note Rating Methodology](#).

To access the full report, please click on the link below:

[State of Texas' Tax and Revenue Anticipation Notes, Series 2017](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **[Billions in New Spending for Housing, Water, Parks and More Could Be on the 2018 California Ballot.](#)**

Californians could vote on billions of dollars in new spending for low-income housing developments and water and parks improvements next year.

Gov. Jerry Brown and lawmakers are considering five proposals that would finance new homes for low-income residents, build parks in neighborhoods without them and restore rivers, streams and creeks among dozens of other projects. The Legislature is likely to decide how much money would be borrowed and where it would be spent before it adjourns for the year in mid-September — a debate that legislative leaders say is pressing.

"We know that housing is such a major crisis up and down the state of California," Senate President Pro Tem Kevin de León (D-Los Angeles) said. "The issue of aging infrastructure goes hand in hand. We need to strike while the iron is hot."

Voters have long backed bond financing, which allows the state immediately to spend more money than is otherwise available and pay back the debt with interest over time. Over the last four decades, California voters have approved \$164 billion in bond spending while only rejecting \$18 billion, according to the nonpartisan Legislative Analyst's Office.

But statewide bond proposals have been relatively few in recent years, with Brown and others bemoaning California's "wall of debt," which rose substantially during the economic recession and budget crisis as the state's credit rating sunk. The governor supported a \$7-billion water bond in 2014, but opposed last year's \$9-billion measure for school improvements, both of which were successful.

Brown is supporting bond spending in 2018. He's announced that he'll back a low-income housing bond as part of a package of measures to deal with the housing affordability crisis.

How much lawmakers will agree to spend on housing hasn't been determined. The pending proposal calls for \$3 billion to finance new construction of homes for low-income residents and preserve existing units. But that amount of money will do little to dent the state's housing crisis and advocates

want more.

State Treasurer John Chiang, who is running for governor, recently released private campaign polling that showed voters would be willing to support a \$9-billion affordable-housing bond to build many more homes than could be constructed under the bond currently in the Legislature.

"This is an opportunity to do something at a much larger scale," Chiang said.

Housing is also competing with other major issues. De León has written a bond measure that would authorize nearly \$4 billion in spending on water and parks improvements. A second bond from Assemblyman Eduardo Garcia (D-Coachella), which focuses more on parks than De León's plan, also is pending.

Two outside groups have put forward initiatives that propose much higher spending on water projects, and they're influencing the debate at the Capitol.

One measure, which has support from agricultural interests, calls for \$8.7 billion in boosts to water infrastructure through funding conservation, recycling and storage projects as well as \$200 million set aside for Oroville Dam repairs. The other, which is backed by organizations including the Nature Conservancy and Environmental Defense Fund, would dedicate \$7.9 billion to improving drinking-water quality, protecting water systems from the effects of climate change and improving state and local parks. Supporters of both measures said they'd prefer Brown and lawmakers agree to a plan with enough funding directed toward their preferred projects so that they could abandon their efforts. But they realize there are many competing priorities and limited interest to endorse too much spending in general.

"You can see a pretty big squeeze play going on there," said Joe Caves, an environmental consultant and author of the Nature Conservancy's preferred measure.

Brown, De León said, has agreed to support a water-and-parks bond in addition to one for housing. Brown's office declined to comment.

De León said his goal also is to agree to a bond package that would eliminate the need for competing ballot initiatives.

"Negotiations are always fluid and dynamic," De León said. "We've had productive conversations. We cannot work at cross-purposes with each other."

Despite the focus on the big-ticket items, supporters of more limited spending plans hope there's enough room for them too.

Secretary of State Alex Padilla is pushing a \$450-million bond that would upgrade voter systems across the state. Counties are relying on outdated technology — one county, which was not named in a legislative analyst's report, had to purchase replacement parts for its voting machines on EBay because the manufacturer doesn't make them anymore — and the state needs to invest now in new technology and equipment to boost security and reliability, he said.

"If it doesn't happen, it's only a matter of time before the equipment itself begins to fail at increasing rates," Padilla said.

While Brown and lawmakers are expected to put some bond measures on the 2018 ballot by the end of the legislative session, they still have plenty of time to add more when legislators return in January.

The proposals for bond measures under consideration for the 2018 ballot are:

- \$3.1 billion for parks improvements in Assembly Bill 18 by Assemblyman Eduardo Garcia (D-Coachella)
- \$450 million for voting system improvements in Assembly Bill 668 by Assemblywoman Lorena Gonzalez Fletcher (D-San Diego)
- \$3 billion for low-income housing development in Senate Bill 3 by Sen. Jim Beall (D-San Jose)
- \$3.8 billion for water and parks improvements in Senate Bill 5 by Senate President Pro Tem Kevin de León (D-Los Angeles)
- \$500 million for Salton Sea improvements in Senate Bill 701 by Sen. Ben Hueso (D-San Diego)
- \$7.9 billion for water improvements in a proposed initiative supported by groups including the Nature Conservancy and the Environmental Defense Fund
- \$8.7 billion for water improvements in a proposed initiative from Gerald Meral, former deputy director of the state Department of Water Resources

## **The Los Angeles Times**

By Liam Dillon

August 17, 2017

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### **Trump's DOJ Picks Food Fight With New York City Over Calorie-Display Law.**

- **Government sided with trade group to block rule's enforcement**
- **FDA pushed deadline for federal compliance back to May 2018**

U.S. President Donald Trump's administration is quietly going to war with his hometown's calorie-counting obsession.

The U.S. threw its weight on Monday behind trade groups suing New York over what the government calls a "unilateral" plan to enforce a local 2015 calorie-labeling law at restaurants and food retailers in the city.

A provision of the 2010 Affordable Care Act that requires calorie labeling nationwide gave the Food and Drug Administration control over when and how to enforce it, the government said in a court filing. That means Bill de Blasio, New York's Democratic mayor, can't implement a city law as planned starting Aug. 21, the U.S. argued.

"The FDA has been tasked with determining when and in what circumstances uniform menu-labeling rules will be enforced across the nation," government lawyers wrote. "The city may not choose to take its path in the face of this clear expression of Congressional purpose."

The FDA in May delayed the federal rule for a third time, until May 2018.

"It's pretty clear from the delay of the national law the day before it was supposed to take effect that the Trump administration has no intention of supporting menu labeling," Colin Schwartz, a senior associate at the nonprofit Center for Science in the Public Interest, said in a phone call. Trump has signaled that he'll "do whatever industry wants him to do," he said.

The U.S. argued federal law preempts the city's effort. There was no indication that the

administration was backing away from labeling requirements altogether, though Trump has promised to slash government regulations and criticized rules put in place by his predecessor that he says gum up the economy.

It's unclear how a victory for trade groups and the DOJ in the New York suit may impact other calorie-labeling laws in places such as Vermont and Washington State's King County, home to Seattle.

U.S. District Judge Victor Marrero held a hearing in private Wednesday without explanation and no decision was announced. The city's health commissioner, Mary Travis Bassett, said outside court that she fears the Trump administration is signaling its desire to roll back existing city laws and scuttle the planned federal rules.

"With this administration, a delay may mean never," she said.

## **Calorie Labeling**

Many restaurant chains across the U.S. already include calorie labeling on their menus voluntarily.

De Blasio's office said in a statement in May that the city would focus on its own efforts in the name of public health, regardless of the FDA's delay.

"While the Trump administration may disagree, knowledge is power, and that is particularly true when it comes to nutrition," New York City Council Member Corey Johnson, chairman of the Health Committee, said in the statement. "People have the right to readily-available information regarding the food they consume and the effects it will have on their health."

Bassett said the FDA appears to be taking the position that fast-food restaurants that have been providing calorie information to customers in the city for years should stop doing so.

"Poor nutrition is fueling an epidemic of chronic diseases, and this basic information should be accessible and transparent to all," Bassett said in a statement.

Dawn Dearden, a spokeswoman for the U.S. Attorney's Office in Manhattan, which submitted the court filing, declined to comment. Osvaldo Vazquez, the attorney for the National Association of Convenience Stores, one of the plaintiffs suing the city, declined to comment.

New York in 2008 became the first city in the U.S. to require fast food and other restaurant chains to post calorie counts. In 2015, the city beefed up the law to include calorie information about prepared foods sold in chain convenience stores and grocers, as well as a requirement that the average recommended daily intake of 2,000 calories be displayed to give the labels context.

## **New York Fines**

The New York law, which includes fines of up to \$600 for failure to comply, applies to chain restaurants with 15 locations or more nationwide. It's expected to affect about 3,000 restaurants and about 1,500 food retailer stores, the city has said.

The FDA in May extended the federal compliance date by a year to May 7, 2018, citing the diverse and complex set of stakeholders affected by the rule.

Federal law prohibits any state or municipality from imposing food-labeling regulation that's not identical to requirements established by Congress and the FDA, the trade groups said in their

complaint. But New York's regulation is different from the federal law because it takes effect immediately, the groups said in their request for an injunction against the enforcement of the city law.

Former President Barack Obama's FDA in 2015 issued the first delay of the labeling requirement as part of a compromise to keep supermarkets and convenience stores covered by the law. Congress delayed it again in 2016 after lobbying efforts by industry groups and Domino's Pizza Inc., which complained about the cost of signage.

"We plan to fully implement that policy, in a manner that applies consistent, science-based standards to outstanding implementation questions," FDA spokeswoman Jennifer Corbett Dooren said in an emailed statement. "Congress understood the importance of implementing a single, national standard."

She declined to comment on why New York shouldn't be permitted to implement its own policies.

The case is National Association of Convenience Stores v. New York City Department of Health and Mental Hygiene, 17-cv-05324, U.S. District Court Southern District of New York (Manhattan).

## **Bloomberg Politics**

By Erik Larson

August 15, 2017, 11:05 AM PDT August 16, 2017, 6:40 AM PDT

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### **[Missouri Nixes \\$2.5 Billion Line to Bring Wind Power to the Midwest.](#)**

- **Missouri rejected project because not all counties assented**
- **Clean Line Energy developing \$9 billion in transmission lines**

A proposed \$2.5 billion transmission line to bring cheap Kansas wind power to the Midwest was rejected by Missouri, which said the project failed to get all needed county approvals.

Clean Line Energy Partners LLC's Grain Belt Express project is intended to transport about 4,000 megawatts of wind power from western Kansas to Missouri, Illinois, Indiana and neighboring states. The rationale: while untapped wind howling across Oklahoma and Kansas could generate more electricity than a dozen nuclear plants, it's captive without a shipping route.

A Missouri municipal electric-utility agency had planned to use cheaper wind power from the line to replace 100 megawatts of energy and capacity it purchases under a contract set to expire in 2021, according to Wednesday's opinion by the Missouri Public Service Commission.

"It's impossible if you're building a multi-state transmission line to get agreements from all 30 counties that you might cross," said Michael Skelly, the president of Houston-based Clean Line, which is planning about \$9 billion of power lines across the Great Plains, Midwest and the Southwest.

Clean Line has at least three options it is considering, according to Skelly. It can appeal the decision, seek a change of state law or bypass the state by asking the U.S. Energy Department to approve it.

"If none of those three work, we're toast," Skelly said in an interview Wednesday.

## **‘Necessary or Convenient’**

While the public service commission deemed the project “necessary or convenient for the public service,” it also found that it “failed to meet its burden of proof to demonstrate it had obtained all county assents.”

Developers of many Kansas wind projects have planned to sell electricity generated to other regions. But with existing lines in Kansas already congested, wind developers may be deterred from building additional wind farms if new transmission projects aren’t built, said Alex Morgan, a New York-based analyst at Bloomberg New Energy Finance, in an interview Wednesday.

There is precedent for bypassing reluctant states. Last year, the Energy Department relied on a statute to clear a Clear Line project from the wind-rich Oklahoma panhandle through Arkansas and into Tennessee. It was the first time the 2005 statute has been used to circumvent state approval and push through an interstate transmission project.

“We’re making energy so cheaply from wind,” said Matt Langley, vice president of finance and origination at Infinity Wind Power Inc., a developer wants to sell Kansas wind power over the Grain Belt. “It’s hard for the market to ignore that.”

## **Bloomberg Markets**

By Brian Eckhouse

August 16, 2017, 10:47 AM PDT August 16, 2017, 2:31 PM PDT

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## **[Las Vegas Charity Files for Bankruptcy 20 Months After Debt Sale.](#)**

- **Bonds issued through agency that specializes in risk debt**
- **Invesco Ltd. largest debtholders with \$12.5 million on hand**

Goodwill Industries of Southern Nevada, which runs 50 donation centers and retail stores in Las Vegas, filed bankruptcy 20 months after issuing about \$22 million of unrated municipal bonds to finance the acquisition of three retail facilities.

The non-profit issued the debt through a Wisconsin agency, the Public Finance Authority, which specializes in acting as a conduit for risky debt. Borrowers for speculative projects sometimes forgo credit ratings rather than risk the taint of being labeled junk.

A consultant hired by Goodwill Industries of Southern Nevada to improve management expressed concern that the non-profit overstated its inventory, according to a July 20 letter to Goodwill’s board of directors.

Goodwill also had too many employees, needed to reduce rent and change a culture where “excuses and laying blame for others for poor performance are tolerated at every level.”

Sales at Goodwill stores began declining in the fall of 2016, corresponding with a nationwide retail downturn. “The recent expansion, the retail downturn, and increased operating costs to run our retail stores have led us to make the difficult decision to file for Chapter 11 reorganization,” the charity said on its website.



Goodwill's chief executive officer, Steve Chartrand, resigned in May after working for 20 years at the non-profit, the Las Vegas Review-Journal reported. He was replaced by John Helderman, a former vice president of finance for Caesars Entertainment Corp, who is serving on interim basis. Sean Corbett, a Goodwill spokesman, declined to comment.

Invesco Ltd. held \$12.5 million of the bonds as of June 30, the biggest holder of the debt, most in its high-yield municipal fund, according to data compiled by Bloomberg. Delaware Investments held \$5 million in its national high-yield municipal bond fund.

Bonds with a 5.5 percent coupon and maturing in 2035 are valued at about 88 cents on the dollar, according to Bloomberg Valuation Service.

Goodwill Industries of Southern Nevada listed assets and liabilities between \$10 million and \$50 million in its Aug. 11 bankruptcy filing.

## **Bloomberg**

By Martin Z Braun

August 14, 2017, 9:34 AM PDT August 14, 2017, 12:32 PM PDT

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### **[Fitch: California Tunnel Project to Further Increase Water Rates.](#)**

Fitch Ratings-New York-16 August 2017: The proposed twin-tunnels project in California would likely drive a further increase in monthly water rates which could test utilities' rate flexibilities, says Fitch Ratings.

The fate of the California Water Fix (the Fix), a plan to convey water through two tunnels under the Sacramento San-Joaquin Delta (Delta) to improve water reliability and the health of the Delta ecosystem, is nearing resolution as agencies that would benefit from, and pay for such water, take a position on the outcome. The estimated \$16.3 billion in project costs would be borne by the utilities' rate payers, including State Water Project (SWP) and Central Valley Project (CVP) members. The Metropolitan Water District of Southern California (MWD), a SWP wholesaler to 26 member agencies serving about 19 million residents, expects to bear about one-quarter of the total cost. MWD estimates the monthly household bill within its service territory would increase by about \$2-\$3.

The MWD estimate is based on a cost split for the Fix of 55% SWP and 45% CVP. However, this assumes that all other SWP and CVP contractors sign on to the Fix. The cost to MWD and its ratepayers could be higher if some contractors decline to participate.

The timing and ultimate cost of the Fix, formerly known as the Bay Delta Conservation Project, are important to California's water and sewer utilities as this cost ultimately will be passed on to end users. Many California utilities implemented substantial rate increases or alternative rate structures in recent years to mitigate significant declines in financial margins in fiscal years 2015 and 2016 due to conservation-related demand declines resulting from the state's five-year drought. The cost related to the Fix would be an added charge.

Ratepayers have thus far shown a willingness and ability to absorb higher rates and most California utilities have ratepayer bases able to bear the estimated increase to fund the Fix. However, some

agencies have water bills that already exceed Fitch's affordability threshold (combined water and sewer utility bill equal to, or higher than, 2% of median household income) and could become more pressured.

The Fix is intended to increase the reliability of water supplies through the Delta via the SWP while protecting native fish populations. Much of California's water supply is dependent on levees constructed half a century ago. The plan proposes the construction of two 45-mile long tunnels and three intakes on the Sacramento River and may produce an average annual yield of 4.9 million acre feet.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com). The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at [www.fitchratings.com](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[Hartford, With Its Finances in Disarray, Veers Toward Bankruptcy.](#)**

HARTFORD — By many measures, Connecticut appears to be brimming with wealth. The state is known for its Gold Coast, populated with chief executives and hedge fund billionaires and specked with mansions on spacious estates. Then there are the suburbs that draw families with placid neighborhoods and high-achieving public schools.

But the state capital is teetering on the brink of bankruptcy, and the turbulence rocking Hartford has served as a stark reminder of the gulf between the affluent enclaves that drive Connecticut's wealth and its larger cities that have long grappled with high crime, underperforming schools and unsure financial footing.

The problems in Hartford are similar to some other cities across the United States that have sought relief through bankruptcy: its tax base and population have shrunk and its pension obligations and debts have piled up. City officials, who are confronting a budget deficit approaching \$50 million, have already made deep cuts in services, sought concessions from labor unions representing public employees and have taken steps, such as hiring lawyers, to position the city to be able to file for bankruptcy.

At the same time, Hartford has looked to the state for help, only to find that financial situation is also

in disarray. The state, which has a deficit of about \$3.5 billion, started the fiscal year on July 1 without a budget after months of wrangling in the State Legislature and a resolution could be weeks away.

"It's one thing to persuade people around the state that cities matter," said Luke Bronin, Hartford's mayor. "It's another thing to get the Legislature to adopt a budget that includes very deep and painful cuts, but includes support for Connecticut cities."

Connecticut has the greatest degree of income inequality of any state, according to Daphne A. Kenyon, an economist who studies local taxation at the Lincoln Institute of Land Policy, a research institute in Cambridge, Mass. That, she said, has translated into an extreme in "haves" and "have-nots" among its municipalities.

Cities and towns in Connecticut rely to an unusual degree on property taxes to finance their operations, a system that works well for more affluent communities, like Greenwich and Darien. But it is proving disastrous for a city like Hartford, which has one of the highest property tax rates in the state, but still cannot raise enough money to pay for basic government operations. Last year, state grants and assistance covered about half of the city's \$566 million budget.

Hartford, with a population of about 125,000, has a bounty of hospitals, colleges and government buildings, and a downtown of office towers filled with corporate tenants who contribute to the city's distinction of being an important insurance center.

The city's boosters have pointed to what they see as optimistic signs: the University of Connecticut is expanding its downtown campus and the creation of two high-rise residential developments. On a recent warm summer evening, patrons packed downtown restaurants, families strolled through the sprawling Bushnell Park and a gaggle of young people skateboarded in Heaven, a graffiti-plastered skate park tucked along an interstate.

Still, it does not take long to find signs of distress.

In a symbolic blow, Aetna, the insurance giant that has been based in Hartford for over 150 years, announced in May that it would be moving its headquarters to New York City, while holding on to its colonial revival building and many of its employees.

Beyond the city's core, blocks are dotted with blighted buildings, some appearing to be overtaken by nature. Residents complain of parks that are poorly maintained and have expressed concern over violent crime. The Police Department is significantly understaffed, officials said, having lost more than 100 officers in recent years. The city's library system recently announced the closure of three of its branches and other cuts have threatened community events, like parades and festivals.

The mayor said city leaders have been trying to strike a painful balance.

"We're not afraid to do difficult things," Mr. Bronin, a Democrat, said. "We're not afraid to touch third rails while we do it."

He added, "What we've tried to do is find that line where we've cut deeply because we know that the times demand it but we're not cutting so deep that we fail to deliver our basic responsibilities."

But even those onerous cuts may not be enough to relieve the situation. The state's inability to balance the budget comes at a particularly challenging time, as state aid that would normally arrive in September has been held up, and the city faces a \$27 million debt payment in October.

Hartford also has a fundamental tax problem: It is home to government buildings and other properties it has no power to tax, making up just over half the real estate in the city. Connecticut accounts for that by promising to compensate the capital for the forgone property taxes, but in practice, the flow of money has been unreliable. The mayor described the city as being in a situation that forces an urban center to operate with a tax base similar to that of a suburb. "And it's a structure not built to work," Mr. Bronin said.

In July, Moody's Investors Service downgraded Hartford's debt after the city disclosed that it had hired a law firm to advise it on a possible debt restructuring. Both Moody's and Standard & Poor's now rate Hartford's debt in the junk range, signaling a greater likelihood of some sort of default on bond payments. Mr. Bronin has said he hopes to meet with the city's bondholders and persuade them to voluntarily accept lower payments.

Some contend that filing for bankruptcy is inevitable and is the city's best option. But there is also a pervasive sense in the city, especially among public employee labor unions, that bankruptcy could have devastating consequences and should be vigorously avoided.

"You're talking about the capital city," said Shellye Davis, a co-president of the Hartford Federation of Paraprofessionals, who has worked for 26 years in the city's public schools system. "That would affect everything around us."

It is possible for a city to negotiate lower bond payments without going into bankruptcy. But municipal bankruptcy gives cities much greater leverage to negotiate the debt relief they believe they need.

"I don't think it should be entertained lightly, and I don't think it is being entertained lightly," Gov. Dannel P. Malloy, a Democrat, said of bankruptcy, adding, "This is a critical period of time for them. I think they were right to hire counsel and I think they were right to understand what their options are."

Hartford would be the first state capital to file under Chapter 9 of the federal bankruptcy code. (Harrisburg, the Pennsylvania capital, tried to declare bankruptcy in 2011, but state lawmakers there passed a bill to thwart the case from proceeding.)

Mr. Malloy has also proposed legislation that would put Hartford under state supervision.

Hartford is certainly not the first among Connecticut's larger cities to veer toward bankruptcy; the state bailed out Waterbury in 2001 and a decade earlier, Bridgeport sought bankruptcy protection but it was blocked in court. "We've never had a municipality go bankrupt," said the State House majority leader, Matt Ritter, a Democrat representing Hartford. "If it really came to that, I'd like to think that Connecticut has a moral obligation to avoid the bankruptcy of any of its towns."

But as state lawmakers struggle to come to an agreement over the budget, aid to towns and cities rests at the heart of the discord. Lawmakers have been debating fairness, with wealthier communities arguing that they should not have to support poorer municipalities. The state's aid to local schools is especially contentious, with a judge ordering an overhaul last year.

The financial limbo has created a level of uncertainty that some fear will only add to Hartford's troubles, clouding perceptions of the city, hampering much needed growth and overshadowing positive things they see happening here. "With all this momentum, having that fog or haze — a major fog or haze — which is the threat of looming bankruptcy is not good," said Shawn Holloway, 44, a housing inspector who has lived in Hartford his entire life. "There should be some better choices."

THE NEW YORK TIMES

By RICK ROJAS and MARY WILLIAMS WALSH

AUG. 15, 2017

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## **[Aurelius Hedge Fund Seeks to Toss Puerto Rico's Bankruptcy Filing.](#)**

WILMINGTON, Del. — Puerto Rico's bankruptcy, aimed at restructuring \$72 billion of debt, violates the U.S. Constitution and should be dismissed, the Aurelius Capital Management hedge fund said in a court filing on Monday.

The U.S. commonwealth's federally appointed oversight board initiated its debt-cutting proceeding in May under a law known as PROMESA. Puerto Rico is barred from traditional municipal bankruptcy protection under Chapter 9 of the U.S. code.

Affiliates of Aurelius argued in court papers that the creation of the oversight board violated the U.S. Constitution's Appointments Clause. Aurelius said board members answer only to the U.S. president, yet their appointments were never confirmed by the Senate. Six of seven members were essentially hand-picked by Congress, violating the principle of the separation of powers, the hedge fund said.

The fund, known for its years-long battle with Argentina over its defaulted debt, seeks to bar the oversight board from operating until it has been validly constituted.

Aurelius holds roughly \$468 million worth of debt guaranteed by Puerto Rico's constitution. The hedge fund, run by Mark Brodsky, is known for buying distressed debt and pursuing aggressive litigation tactics to boost recoveries. In the Argentina case, the fund participated in numerous legal actions, including an unsuccessful attempt to attach Argentine pension and retirement funds located in U.S. banks. The firm was one of many parties that settled with Argentina in 2016.

Creditors were among those who lobbied most aggressively for the appointment of a board in Puerto Rico, believing it would support investor-friendly policies. But the board has lost allies in the creditor community after it sought to impose severe losses on creditors even as it has also pushed Puerto Rico to impose austerity measures.

Puerto Rico, with \$72 billion in debt, a 45 percent poverty rate and near-insolvent public health and pension systems, filed the largest municipal bankruptcy in U.S. history in May.

It was the board that technically filed the bankruptcy, under the 2016 Puerto Rico rescue law known as PROMESA. The law allows the board to essentially step into the Puerto Rico government's shoes for purposes of debt restructuring.

By REUTERS

AUG. 17, 2017, 6:36 P.M. E.D.T.

(Reporting by Tom Hals in Wilmington, Delaware; Additional reporting by Nick Brown and Daniel Bases in New York; Editing by Grant McCool and Howard Goller)

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## **Chicago Touts New Debt Structure Aimed at Saving Money.**

CHICAGO (Reuters) - Under a plan announced on Wednesday by the mayor's office, Chicago would create a new entity to issue bonds backed by city's share of Illinois sales tax collections in an effort to reduce its borrowing costs.

Mayor Rahm Emanuel unveiled the plan at the city's annual investors conference, saying it will be "much more financially viable" for Chicago.

A chronic structural budget deficit and a huge unfunded pension liability that totaled \$35.76 billion at the end of 2016 have pushed the city's general obligation (GO) credit ratings from the low end of investment grade to junk levels.

As a result, investors have demanded higher interest rates for the city's debt.

Illinois' fiscal 2018 Illinois budget, which was enacted last month, included a provision allowing home-rule local governments like Chicago to assign their state revenue to an entity for the purpose of issuing debt.

Carole Brown, Chicago's chief financial officer, said the state sales tax dollars would flow first through the new entity to meet debt service and other requirements before any of the revenue is released to the city's general fund.

The state law also creates a statutory lien that would shield the bonds from a bankruptcy filing, which Illinois local governments are currently not allowed to pursue.

"It's one of the reasons that we expect the market will view (the new debt) favorably, why it will get higher ratings and why we think the cost differential with our (GO bonds) will be so great," Brown said.

An ordinance creating the program will be introduced in the city council this fall, according to Brown. If passed, Chicago would initially refund some of its "more expensive" GO debt and outstanding sales tax revenue bonds, she said, noting that New York, Philadelphia and Washington have similarly structured debt programs.

"From a credit standpoint, it's a positive," said Richard Ciccarone, who heads Merritt Research Services, which provides research and data related to municipal bonds. He added that from a public policy standpoint, the move could tie up revenue the city may need for operations.

In a report last month, Fitch Ratings said debt issued under this new structure could attain a rating higher than the city's current GO rating.

Chicago's \$9.8 billion of outstanding GO bonds are rated BBB-plus by Standard & Poor's, BBB-minus by Fitch and Ba1 by Moody's Investors Service.

REUTERS

Aug. 9, 2017, at 6:04 p.m.

(Reporting by Karen Pierog, editing by G Crosse)

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## **A Debt Affordability Study Sounds Wonky. But Illinois Needs One, Pronto.**

The Pew Charitable Trusts recently found that 23 states do not publish debt affordability studies. Illinois, which we know is a high debt state, is among those that do not.

What is a debt affordability study? It is a document that describes all of the state's outstanding debt by type. For example, there is debt supported by taxes—such as general obligation bonds and pensions—versus debt supported by a revenue stream, such as that of the tollway. The study in turn projects out future indebtedness for items such as state buildings or roads based on the capital budget.

Finally, based on state policy, the study sets constraints—specifying, for example, that annual debt service on tax-supported bonds cannot be more than 5 to 10 percent of revenues. Or setting benchmarks for total debt relative to GDP. These parameters are often based on what peers are doing and/or what the rating agencies feel is reasonable.

Because the study is forward-looking, the state must accurately, to the extent possible, project future revenues and then determine if it can live within those constraints. The best studies have been conducted by states such as Rhode Island, Georgia and North Carolina, which include pension and health care benefit payments as debt. So these payments are added to annual debt service when applying constraints. (According to the Boston College Center for Retirement Research, Illinois debt service and the actuarial required contribution for pensions relative to revenues is the highest in the nation at close to 39 percent, while the median for all states is 8.2 percent.)

In some states, there are appointed commissions that develop the study. But in Illinois, we should charge the budget office with the study as it needs to be coordinated with capital budgeting and outlays for items such as pension payments.

If Illinois had this best practice in place a few years back, perhaps we would not be in the fiscal mess we now face. But it's not too late. The state can still adopt a study and, like most places, update it annually. Because Illinois would blow through any reasonable constraints, the document should be aspirational and complied with over time.

Still, a debt affordability study would force the governor and the Legislature to understand the magnitude of our problem and see how trade-offs such as debt and pensions can crowd out other essential services, such as education. This sort of transparency would also be a useful guide for the voting public.

Finally, in a state that recently flirted with junk bond status, it's worth mentioning that adopting this practice is a plus with the rating agencies.

### **Crain's Chicago Business**

By: Michael D. Belsky

August 09, 2017

*Michael D. Belsky is executive director of the Center for Municipal Finance at the University of Chicago's Harris School of Public Policy. He served as mayor of Highland Park from 2003 to 2011.*

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## **Illinois Governor Stalls Bond Sales, Seeks Other Options to Pay Bills.**

CHICAGO — Illinois Governor Bruce Rauner said on Monday he was holding off issuance of up to \$6 billion of bonds to help pay down the state's more than \$14 billion in overdue bills despite the state comptroller's public plea for the debt sale.

The Republican governor called on Illinois Comptroller Susana Mendoza to tap more than \$600 million in various state accounts first to pay bills. Authorization for the general obligation bonds and for using money parked in the accounts was included in the fiscal 2018 budget the Democratic-controlled legislature enacted in July over the governor's vetoes. [nL1N1JX20R]

Rauner also said the state cannot go to market with the debt until he works with state lawmakers to identify an appropriation or plan to pay off the new bonds.

"This bonding in and of itself is not the answer," Rauner told reporters.

In a video and statement on Monday, Mendoza said Illinois' bill backlog is costing residents \$2 million a day in late payment penalties that can reach as much as 12 percent a year. The bond authorization, which expires on Dec. 31, was aimed at having Rauner's budget office sell the 12-year bonds at a lower interest rate.

The debt is covered under the Illinois GO Bond Act, which constitutes an irrevocable and continuing appropriation for principal and interest payments on all of the state's outstanding bonds, according to budget legislation.

Illinois' unprecedented two-year budget impasse ballooned the unpaid bill total to a record \$15.4 billion in June. As of Friday, the backlog stood at \$14.35 billion.

Abdon Pallasch, a spokesman for the Democratic comptroller, said inter-fund transfers were already underway.

"What we need right now is movement by the governor's office and a solid timetable for refinancing the debt so that our office can establish a comprehensive cash management plan for the remainder of fiscal year 2018," he said.

On Monday, Illinois bonds due in 12 years were yielding 4.13 percent, according to Municipal Market Data, a unit of Thomson Reuters.

Illinois has the lowest credit ratings and pays the highest borrowing costs among the 50 U.S. states. Since enacting its first budget in two years along with a \$5 billion income tax hike, and subsequently evading junk bond ratings, the state's so-called credit spread over MMD's benchmark triple-A yield scale has narrowed.

Mendoza's office said the new borrowing will provide some relief to service providers and businesses that have been waiting months for payment.

"Over the past two years without a budget, they have had to exhaust their lines of credit, lay off employees and, in some cases, turn away Illinois citizens in need of services," a statement from the comptroller said.

By REUTERS



AUG. 7, 2017, 7:00 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Diane Craft and Dan Grebler)

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## **Illinois Misses School-Funding Payment as Leaders Remain Deadlocked.**

### ***Legislators plan votes to try to override governor's education veto***

Illinois missed its Thursday deadline for the first round of state aid payments to K-12 schools with weeks to go before the start of classes as Republican Gov. Bruce Rauner and the Democratic legislature continue to haggle over a controversial education funding proposal.

School funding has become the most recent casualty of a clash between Mr. Rauner and the General Assembly that resulted in \$14.6 billion in unpaid bills and the longest state financial crisis since the Great Depression.

The payment of \$227 million was meant to be the first since the General Assembly passed a \$36 billion budget package in July over the veto of the governor. The measure included a funding increase of roughly \$350 million to K-12 schools, but the state must still establish a mechanism to distribute the new money.

The legislature approved a bill in May to enact a funding formula allocating state money to the neediest school districts first, but the governor used his veto power to rewrite the measure earlier in August, stripping hundreds of millions of dollars in state aid from the beleaguered Chicago Public Schools district.

The Senate is scheduled to convene Sunday to take up the governor's veto. Legislative rules demand a three-fifths supermajority vote of both chambers to either approve the governor's changes or override his veto. If lawmakers are unsuccessful in either of those efforts, the bill dies.

Democratic State Comptroller Susana Mendoza offered schools some relief Thursday in the form of \$429 million already owed to school districts following the historic, 736-day budget impasse. Those funds will help cover costs for bus transportation, special education and other services, according to a news release from the comptroller's office.

### **The Wall Street Journal**

By Quint Forgey

Aug. 10, 2017 5:26 p.m. ET

Write to Quint Forgey at [quint.forgey@wsj.com](mailto:quint.forgey@wsj.com)

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## **Hedge Fund Sues to Have Puerto Rico's Bankruptcy Case Thrown Out.**

A hedge fund sued on Monday to have Puerto Rico's bankruptcy case thrown out, arguing that the federal oversight board guiding the island's financial affairs was unconstitutionally established.

In a lawsuit filed in United States District Court in San Juan, the hedge fund, Aurelius Capital, cited the “appointments clause” of the United States Constitution, which calls for all principal officers of the federal government to be appointed by the president, and then confirmed by the Senate.

That did not happen when the seven members of the Financial Oversight and Management Board for Puerto Rico were selected, Aurelius said in its motion to dismiss the bankruptcy-like proceedings. The board members were instead “handpicked by individual members of Congress,” it said, through “an intricate system of Balkanized lists, designed to severely constrain the president’s appointment powers.”

No Senate confirmation proceedings occurred, although senators of both parties were among the members of Congress who made recommendations last year to President Barack Obama for the board.

Aurelius Capital was among the firms that fought Argentina in court for years over its sovereign debt default, and ultimately succeeded in pressuring the government there to pay.

A spokesman for the oversight board said the members were reviewing the lawsuit and could not comment.

The oversight board was established last year, when Puerto Rico was sinking under \$123 billion of public debt and pension obligations that it amassed by years of borrowing to plug deficits. The federal bankruptcy code bans Puerto Rico from declaring bankruptcy, and by 2016, it was defaulting haphazardly on payment after payment, without any way to take shelter from the many resulting creditor lawsuits.

After a number of hearings, and even expedited arguments before the United States Supreme Court, Congress last year enacted a law called Promesa, which gives insolvent territories a way to seek court protection from their creditors. Title III of Promesa, which is similar to Chapter 9 municipal bankruptcy, gives Puerto Rico the power to abrogate contracts unilaterally — but it has no access to Title III without the oversight board’s authorization.

The law went into effect last summer, and in the months that followed, the board members were chosen. Work then began on a five-year fiscal reform plan, and Puerto Rico’s Title III proceedings began last May. They were expected to be slow and contentious even before Aurelius Capital challenged the oversight board. That is because Puerto Rico’s debt is extremely complex, the hierarchy of creditors is unclear, and the situation has no legal precedent to draw on. Large losses for bondholders are expected.

Aurelius sued just days after the governor of Puerto Rico, Ricardo Rosselló, defied the oversight board for his own reasons. He said on Friday that the board’s five-year fiscal reform plan was excessively harsh and that he would not shut down much of the government two days every month for the rest of the fiscal year, something the board saw as necessary to save money and streamline operations.

Aurelius Capital sued in its capacity as a holder of Puerto Rico’s general obligation bonds. When those bonds were issued, over many years, Puerto Rico’s Constitution in effect guaranteed them, saying that if money ever became tight on the island, the bondholders would have first call on the “available resources” of the territory’s government.

Some of Puerto Rico’s bondholders argue that they bought the bonds on the understanding that their repayments and interest were by law the government’s first priority. They were surprised when they

found that Puerto Rico's five-year plan called for deep cuts in all bond payments, including payments to the holders of general-obligation bonds. The oversight board wants to use the savings to finance government operations for the five-year recovery period. But creditors say this approach is at odds with the Puerto Rican Constitution.

To make matters worse, Mr. Rosselló said on Friday that he was not willing to honor yet another provision of the fiscal plan: pension cuts averaging 10 percent for certain retired public workers. The five-year plan calls for the cuts to be phased in over the next three years, with the biggest pensions being cut the most.

Puerto Rico's pension funds have almost exhausted their assets, and all retirees are being shifted to a pay-as-you-go system, in which the central government will pay pensions directly from its budget. That means some of its "available resources," will be used for pensions instead of debt service.

On Monday, Aurelius also asked the federal court in San Juan to lift the "stay" of Promesa, which keeps Puerto Rico's creditors from suing the government. Aurelius said it wanted to seek declaratory and injunctive relief to keep the oversight board from operating until it could be reconstituted in compliance with the appointments clause.

"Whether or not one agrees with the policy positions of the board, foundational legal principles require that it be constituted in compliance with the Constitution," Aurelius's lead lawyer, Theodore B. Olson of Gibson, Dunn & Crutcher, said in a statement.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

AUG. 7, 2017

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## **Silicon Valley Wants to Help You Never Pump Gasoline Again.**

- **Mini-marts, safety concerns and plug-in cars present barriers**
- **Facebook, Cisco, PepsiCo sign-ons show capacity for growth**

For Dana Dwyer, an Oracle Corp. employee and mom, a full tank of gasoline at the end of her workday is something she describes with just two words: "It's happiness."

Dwyer spends an hour each morning fighting through 20 miles of Bay Area traffic to get her child to school and herself to work. At night, "making one more stop to the gas station is the last thing I want to do," she said in a telephone interview.

That's music to the ears of Frank Mycroft, the chief executive officer of Booster, and competitor Michael Buhr, the CEO of Filld, startups created to deliver gasoline to customer's cars at work or home. They face obstacles in the form of gas station mini-marts, community safety concerns and the rise of electric cars. But with time-constrained U.S. consumers paying \$255 billion a year for auto fuel, the two Silicon Valley entrepreneurs say they have room to grow, and they're getting the financial backing to prove it.

"This is not just Uber for gas, this is reinventing the entire supply chain," said Mycroft, whose Booster service is used by Dwyer through a contract with Oracle. "We cut out the middleman and

deliver gas directly to consumers,” trimming costs by buying directly from oil companies.

Booster, which focuses on partnering with large companies, also fills up cars at Facebook Inc. and PepsiCo Inc. facilities. Filld, meanwhile, is more focused on reaching individual consumers, though it has companies including Volvo and Bentley on board as corporate clients. Both fuel-startups are based in Silicon Valley.

### **Added Financing**

On Aug. 1, Booster announced it had secured \$20 million in financing, bringing its total to \$32 million. Investors include Conversion Capital, Stanford University’s StartX Fund, BADR Investments, U.S. Venture Inc., Maveron, Madrona Venture Group, Version One, Perot Jain LP, and RRE Ventures, according to the statement.

While Filld has reported less than half that figure, spokeswoman Shateera Israel said the company will soon be announcing additional funding. Its investors include PivotNorth Capital, Javelin Venture Partners, Lightspeed Venture Partners and Lucas Venture Group.

The startups are vying for empty gas tanks at a time when Elon Musk’s electric-powered Model 3s are just starting to hit the streets in high volumes, threatening to eliminate the use of gas altogether. Musk predicts more than half of U.S. auto production would be electric in 10 years, though others see the transition coming at a slower pace. Executives at five of the 25 biggest suppliers to automakers in North America have all recently downplayed expectations for electric-vehicle sales.

But that’s not the only issue facing the nascent industry, according to Patrick DeHaan, a senior analyst at GasBuddy, a firm that monitors gasoline pricing. “Profit margins are tight from gasoline,” he said by telephone. “That’s why convenient stores are taking aim at becoming more than just sellers of gas and becoming a grocery store replacement.”

### **Plug-In Timing**

Mycroft and Buhr, though, argue that gas station convenience stores aren’t always safe. And they’re betting it will take years for the plug-ins to make a substantial dent, with 99 percent of all U.S. cars running on that fuel in 2016. In the meantime, both executives said separately said they’re preparing their companies in case gasoline does stop being the fuel of choice.

“The way our trucks are designed is to be flexible in terms of what type of fuel is delivered,” Buhr said. “It could be electric or hydrogen.”

Booster focuses on partnering with large companies and refilling employees’ cars while they’re at work, which Mycroft said allows them to access greater market density. “This is a perk that people fall in love with,” he said.

Since June 2015, Booster has delivered more than 5 million gallons of gasoline to more than 300 campuses, located in the San Francisco Bay area and Dallas-Fort Worth area, according to data supplied by the company. Users identify the location of their car using the company’s online app, then receive a message and email receipt when their car is filled up.

Filld, on the other hand, is more geared to individual consumers, according to Buhr. It’s also app-based, with consumers asked to submit a license plate number, a location and a delivery window. Users then pay online, and have the option save their information there for future use.

### **Fuel Anywhere**

The average consumer gets gas in their car every seven to eight days, according to Buhr. “We can fuel anywhere,” he said, “both residential as well as commercial.”

As with Uber, though, innovation is coming faster than regulation can handle.

City fire codes that see driving around in a pickup truck with hundreds of gallons of gasoline as a hazard pose a challenge. For instance, the San Francisco Fire Department hasn’t yet approved the use of Filld in the city, according to spokesman Jonathan Baxter. They’re awaiting guidelines for the new services from the state.

While some municipalities have held up approvals, Buhr said it’s mostly a matter of getting the time to show them the safety net they have in place for their vehicles.

“Thus far, we haven’t experienced much pushback, mostly edification,” he said. “We are also very proactive, working in advance with local, state and federal regulators around the industry as a whole.”

### **Approval Permit**

Approval for Booster’s services took a while in Santa Clara, California, according to Fire Chief Bill Kelly. But eventually the city and the company arrived at an agreement that let the fledgling industry operate with a permit in that community.

While both CEOs said they are looking to expand eastward, only Booster now operates outside of the West Coast, serving campuses in Texas as well.

Catherine Wright, a 56-year-old administrative assistant in the San Francisco Bay area, said she was ecstatic the first time she ordered Filld’s overnight service and found her gas tank full the next morning. Since she’s always running late, Filld has helped her manage her busy schedule and relieved stress, she said.

“This service has been kind of a godsend to me because I know that when I get in the car, it’s already been done,” she said.

### **Bloomberg Technology**

By Hailey Waller and Claire Ballentine

August 11, 2017, 10:28 AM PDT

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## **[Landmark Public-Private Partnership Between FivePoint and City of Irvine Brings World-Class Sports Park to Life at Orange County Great Park.](#)**

IRVINE, Calif., Aug. 4, 2017 /PRNewswire/ — The first 53-acre phase of the highly anticipated Orange County Great Park Sports Park opens Saturday, Aug. 5 with a free daylong community celebration from 2-9 p.m. that includes family games, sports activities, gourmet food trucks and a free concert by the Blues Brothers featuring Dan Aykroyd and Jim Belushi.

Built on the site of the former Marine Corps Air Station El Toro, the Sports Park is ultimately planned to be nearly twice the size of Disneyland and is the result of an innovative public-private

partnership between the City of Irvine and Five Point's partnership (Heritage Fields El Toro, LLC). The FivePoint (NYSE: FPH) partnership is spending approximately \$250 million to improve, operate and maintain 688 acres of the Orange County Great Park and infrastructure serving the Great Park. The first phase: a world-class youth sports facility that complements the award-winning schools, vibrant economy and well-planned neighborhoods that help Irvine rank consistently as one of the best places to live.

"FivePoint made a commitment to help realize the vision of the Great Park and enhance the lives of residents in Irvine and across Orange County with amenities worthy of such an important public asset - by including much-needed sports facilities," said Emile Haddad, chairman and CEO of FivePoint, "We look forward to welcoming our neighbors to the grand opening celebration and showing them how FivePoint is delivering on our promise. And we hope they will see how deep our commitment is with the many other Great Park improvements already well underway."

At the daylong opening ceremonies, FivePoint and Irvine city officials will unveil the centerpiece of the first phase of the Sports Park: a state-of-the-art championship soccer stadium with capacity for as many as 5,000 fans. The stadium will be among the region's premier outdoor sports venues and is expected to host graduations and other special community events.

Guests will also be among the first to tour 25 hard-surface tennis courts, six natural-turf soccer fields and five sand volleyball courts. Both the tennis and volleyball centers include championship courts with fixed seating for more than 100 spectators each. A one-acre playground with activities for children tops off the first phase of this family destination.

### **Focus on Championship Youth Sports Reinforces Irvine's International Prominence**

Once complete, the 175-acre Sports Park is planned to include a dedicated softball complex with five fields, including a championship stadium and four batting cages; a baseball complex with seven baseball fields, also including a championship stadium and four batting cages; plus, four basketball courts, six more soccer fields and "flex fields" that can be used for soccer, rugby, cricket and lacrosse.

"August 5 starts a new era for the City of Irvine and the Great Park," said Donald Wagner, Mayor of Irvine. "We are finally performing on the promise made to you years ago for a world-class park in Irvine. From this first phase, grand opening of the Sports Park to the hundreds of acres still awaiting you, there will be something for everyone, and something for friends and family to return to for fun, relaxation, entertainment, and enrichment."

The Sports Park is on track to become one of the largest public multisport facilities in California and one of the largest in the United States.

### **Sports Park the Result of Groundbreaking Public-Private Partnership**

Planned in conjunction with the City of Irvine since 2013, the Sports Park is funded and built by FivePoint's partnership (Heritage Fields El Toro, LLC) with the city as part of the company's broader commitment to develop and improve 688 acres of the Great Park with public amenities. The FivePoint partnership plans to spend approximately \$250 million for construction, operation and maintenance on the portion of the Orange County Great Park it is building and infrastructure serving the Great Park. A significant part of that cost — almost \$30 million — was paid to remove runways, hangars and other structures from the closed MCAS El Toro and complete infrastructure in the park, including roads, water, electrical and other necessary improvements.

“The Sports Park is a world-class facility designed to meet the needs of the 21st century,” said Guy Lemmon, who was instrumental in the “Build the Great Park Now” campaign that helped jump-start progress at the Great Park. “Youth are more involved in athletics than ever before, and there’s been a fundamental change in people’s dedication to being active and healthy. For years to come, kids and their families will measure their sports and fitness accomplishments by the amount of time they spend at the Sports Park and Great Park.”

In addition to sneak peeks at the world-class amenities, attendees will be treated to a festival of family-friendly games; demonstrations and sports clinics with well-known former men’s’ U.S. national team and LA Galaxy soccer star Landon Donovan, former U.S. women’s national team member Amy Rodriguez and former men’s’ U.S. national team member and European Premier League player Brad Friedel; and savory eating at 14 food and dessert trucks. The grand-opening celebration will culminate in a free evening concert featuring Dan Aykroyd and Jim Belushi of the Blues Brothers.

A complete schedule of grand-opening celebrations is available at [greatparkneighborhoods.com/news-and-events/event/sports-park-grand-opening](http://greatparkneighborhoods.com/news-and-events/event/sports-park-grand-opening)

### **About FivePoint**

Five Point Communities Management, Inc. is the development manager for Heritage Fields El Toro, LLC, the owner of the private development adjacent to the Orange County Great Park, commonly known as Great Park Neighborhoods. Five Point Communities Management, Inc. is a subsidiary of Five Point Holdings, LLC (“FivePoint”) (NYSE: FPH). FivePoint is developing vibrant and sustainable communities in Orange County, Los Angeles County, and San Francisco County that will offer homes, commercial, retail, educational, and recreational elements as well as civic areas, parks, and open spaces. FivePoint’s three communities are: Great Park Neighborhoods in Irvine, Newhall Ranch near Valencia, and The San Francisco Shipyard/Candlestick Point in the City of San Francisco. The communities are planned to include approximately 40,000 residential homes and approximately 21 million square feet of commercial space.

### **About the City of Irvine**

The City of Irvine is one of America’s most successful master-planned cities. With more than 260,000 residents, Irvine’s draw as a place to live, work, and play comes from a diverse community, more than 200,000 jobs, its reputation as a safe city, its unprecedented support of public schools, its national ranking for fiscal management and a wide-ranging park system that includes thousands of acres of open space.

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**[KBRA Affirms AA-/Stable on MICLA Lease Revenue Bonds, Series 2014-A and Refunding Series 2014-B](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of AA with a Stable Outlook on the general obligation debt of the City of Los Angeles, California. KBRA has also affirmed the long-term rating of AA- with a Stable Outlook on the Municipal Improvement Corporation of Los Angeles (MICLA) Lease Revenue Bonds, Series 2014-A and Refunding Series 2014-B.

The general obligation bond rating is based on KBRA's [U.S. Local Government General Obligation Rating Methodology](#) and it applies to all of the City of Los Angeles' outstanding general obligation bonds.

The MICLA rating is based on Los Angeles' long-term general obligation rating of AA/Stable and evaluation of the factors discussed in KBRA's [U.S. State and Local Government Abatement Lease Methodology](#). Generally, ratings assigned to the majority of U.S. state and local abatement lease obligations by KBRA will be one to two notches below the government lessee's general obligation rating.

To access the full report, please click on the link below:

[MICLA Lease Revenue Bonds, Series 2014-A and Refunding Series 2014-B](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **[A Significant Step but Still a Long Way to Go: New Jersey Contributes Lottery Enterprise to Pension Funds.](#)**

Kroll Bond Rating Agency (KBRA) has published a comment on New Jersey's contribution of its lottery enterprise to three of the state's pension funds. The comments key points are:

- In KBRA's view, the State of New Jersey has significantly increased the level of assets in its pension funds through the irrevocable contribution of the Lottery Enterprise for a period of 30 years. The Lottery Enterprise has been valued at \$13.5 billion.
- The value of this one-time contribution represents 7.3X the pension contribution made by the State in FY 2017.
- The contribution of the Lottery Enterprise is a meaningful step towards addressing the State's substantial unfunded pension liabilities. As a result of this transaction, the funded ratio of the State's combined retirement systems has increased from 45% to 59%. The aggregate unfunded actuarial accrued liability has been reduced from \$49.1 billion to \$36.5 billion, or a reduction of 25.6%.

To access the full report, please click on the link below:

[A Significant Step but Still a Long Way to Go – New Jersey Contributes Lottery Enterprise to Pension Funds](#)

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## **The Rise of the 'Night Mayor' in America.**

***The concept caught fire in Europe and is gaining relevance in large and small cities across the Atlantic.***

Mirik Milan has become a kind of city management celebrity.

As Amsterdam's first "night mayor," he's been managing the after-hours economy of the Netherlands capital since 2014. His job seems straightforward and imminently practical — Milan manages relationships in an effort to minimize quality-of-life complaints from residents and boost nighttime business — yet no one else on the European continent was doing it.

The idea quickly began spreading to other European cities. Paris and Toulouse, France, as well as Zurich, Switzerland, each created their own night mayor positions. Last year, Cali, Colombia, became the first Latin American city to get one.

And now, large and small cities in the U.S. have begun to embrace the position as their downtowns have become more populated.

"What happens when you bring a bunch of people into the city center? A lot of them want to go out at night, and other people want to sleep," says Jim Peters, president of the Responsible Hospitality Institute (RHI), who has consulted with dozens of cities interested in the idea.

Peters stresses that different cities have different problems and needs, but that all cities should have some common considerations: Should bars all have the same closing times, leading to thousands of people pouring out onto the street at once? When people do leave the bars, how are they getting home? Is there enough lighting for people to walk or bike? Are there enough trash cans to accommodate that number of people in the street?

"This is coming into the 21st century of urban planning. It's not all about buildings, roads, bike lanes. It's about the socializing. It's about what people can do in your city," he says. "You have to plan for people as much as you plan for buildings."

Several U.S. cities are doing just that.

Pittsburgh got its first "nighttime economy coordinator" three years ago, around the time Milan started in Amsterdam. Orlando Fla., recently created a "bar czar" position. Fort Lauderdale, Fla., apportioned \$1.4 million this year for a nighttime management team. And Iowa City appointed its first night mayor in April.

Last week, a New York City Council Committee advanced a proposal to create an Office of Nightlife (headed by a nightlife director) and a Nightlife Advisory Board. The proposal will be voted on by the full council on Aug. 24.

If it passes, it could help solve some of the city's problems preserving small, independent art spaces and nightlife venues, according to Rafael Espinal, the councilmember who introduced the bill.

"NYC is one step closer to bringing nightlife out of the bureaucratic shadows," Espinal said in a press release after the committee vote. "From DIY venues to nightclubs, this bill accurately reflects the diversity of the NYC nightlife scene."

Like other cities experiencing rapid neighborhood change and rising rents, New York has been struggling to keep space available for smaller, independent venues, "and [Manhattan] has become

kind of sterile [with] just a bunch of high rises now, "says Peters, the RHI president. London has a similar problem that's causing the city to lose population.

"That's also really driving this increased interest in night managers," Peters says. "How do you develop and keep the creative and cultural experiences that people want in a city?"

Of course, that involves balancing the needs of businesses with those of residents. Allison Harnden, Pittsburgh's current nighttime economy coordinator, says she has spent her first year on the job learning how to manage growing pains of the city's thriving bars, restaurants and art venues.

"We had growing nightlife that, like most cities, really had no plan. It just happened," Harnden says. "So suddenly you have neighbors feeling the noise or other kinds of disruption because systems haven't been put in place."

Harnden's first order of business was to look at city codes for outdated and counterproductive laws that may be hurting the nighttime economy. She realized, for example, that the city charges an amusement tax for food and drink served in conjunction with any type of entertainment, even without tickets or a cover charge. So if a restaurant has a piano player, it would be subject to the extra tax.

"I don't think my businesses are usually aware of all this stuff. So then I have to think about, why was that law created? Does it need to be looked at again?" she says.

In Fort Lauderdale, the goal is speedy solutions.

"I don't want to have an occupancy issue at a bar and not have anyone able to come out until the following night when there's no issue," says City Manager Lee R. Feldman. "We need to have someone available at 1 in the morning to address the issue on the spot."

GOVERNING.COM

BY NATALIE DELGADILLO | AUGUST 11, 2017

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## **California, Once Compared to Greece, Is Now Trading Better Than AAA.**

- State benefits from booming real estate, stock markets
- 5-year G.O. index trading at yields below AAA counterparts

Seven years ago, California was "the next Greece." Today, the state's bonds are trading better than AAA.

As the Golden State benefits from record-breaking stock prices, Silicon Valley's boom and a resurgent real estate market, demand for tax-exempt debt in the state with the highest top income tax rate in the U.S. is "insatiable," said Nicholas Venditti, a portfolio manager for Thornburg Investment Management. Spreads are so tight that Venditti has stopped buying California bonds for his national fund.

"They've gone to a level that just seems ridiculous," Venditti said. "It just seems unsustainable for any long period of time."

If demand for California bonds is insatiable, supply is meager. Over the next 30 days, almost \$4

billion more bonds are set to mature or be paid off earlier than planned issuance, leaving investors with more cash to invest.

An investor Tuesday bought about \$1.1 million of state general obligation bonds maturing in six years at a yield of 1.33 percent, or 4.3 basis points below AAA rated bonds with the same maturity. California bonds are rated AA- by S&P Global Ratings and Fitch Ratings and Aa3 by Moody's Investors Service.

If the market turns and spreads widen, investors holding California bonds may be "hit disproportionately hard," Venditti said.

"It's got to widen out quite a bit to get to a reasonable level relative to Kansas or Texas," he said.

After the Great Recession, California was so strapped it took to issuing IOUs and drew comparisons with Greece. Now, flush with cash from the tech economy and record-breaking stock prices, California has boosted budget reserves to \$8.5 billion and made an extra \$6 billion payment to the state employee pension. At the local level, assessed values have recovered, bolstering property tax revenue.

"You have a whole swath of tech employees, tech investors, who are now trying to protect that substantial wealth from Uncle Sam," Venditti said. "So they've gone out and they have bought up every municipal bond."

Comparing California to Greece was obviously hyperbole, Venditti said. California's gross domestic product rivals that of the U.K., the world's fifth biggest economy. Greek sovereign bonds of 2027 maturity, meanwhile, have rallied from less than 12 cents on the dollar in June 2012 to about 88 cents today.

## **Bloomberg Markets**

By Martin Z Braun

August 8, 2017, 11:01 AM PDT August 8, 2017, 2:03 PM PDT

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## **[How Battle Over 'Sanctuary Cities' Has Heated Up: QuickTake Q&A](#)**

Donald Trump's November victory owed little to the largest U.S. cities, which voted against him in force. So far into Trump's presidency, there's no sign of warming relations. The White House issued an executive order in January that threatens to block federal funding to jurisdictions that refuse to comply with U.S. immigration-enforcement efforts. On Monday, Chicago filed a lawsuit against the Justice Department over newly unveiled funding requirements that deny grant money to such "sanctuary cities," joining other municipalities that have since taken the administration to court.

[Continue reading.](#)

## **Bloomberg Politics**

By Jordan Yadoo

August 8, 2017, 3:58 PM PDT

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## **Water Filtration System in West Virginia Among the Elite.**

MORGANTOWN, W.Va. — A raft of garbage covers a swath of the Monongahela River in northern West Virginia, a dozen miles upstream from the drinking water intake for 100,000 people.

Old tires, damaged toys, algae, oil drums, sticks and other refuse have crowded against the dam for so long that weeds sprout from them. Stuck against the spillway, the trash spans a football field's length from one bank to the other and spreads almost 30 yards upstream.

But the filth is no match for the Robert B. Creel Water Treatment Facility in Morgantown. The publicly owned plant routinely turns the dirty water into drinking water that far exceeds federal and state health standards, an approach that sets it apart from most systems in the U.S., according to the American Water Works Association. In addition to being safe, it won the association's award for best-tasting West Virginia water in 2016.

It's not cheap. The raw water from the Monongahela is treated in a system that was upgraded four years ago with a \$40 million municipal bond. The project increased production capacity in Morgantown, the home of West Virginia University and one of the few areas in the state that's been growing and water demand is projected to keep rising.

About 150 miles away is Charleston, where in 2014 a leaking chemical tank left about 300,000 people without water for roughly nine days. Even if a spill like that happened near Morgantown, its elite system wouldn't have been able to filter out the chemical that spilled into the Elk River and fouled Charleston's drinking water. But it does have sensors upstream that may have detected that something was amiss when the chemical leak started and could've closed its intake earlier, perhaps preventing people from losing their drinking water for days.

"From a health standpoint, Morgantown is going to be way better off than most utilities," said Rob Renner, of the Water Research Foundation in Denver. "These membranes take more of the risk out."

Renner is talking about membranes with microscopic openings that block most pathogens at the Morgantown facility.

That doesn't mean the water elsewhere is unsafe to drink. It just has less assurance that it's been properly filtered, so the risk that it contains contaminants is higher. Private utilities are reluctant to upgrade their systems the same way because of cost and regulations don't require it. Morgantown was different because it's publicly owned, and when its system needed to upgrade, engineers thought about safety and then the bottom line.

"I wish that would take hold in other places," said Angie Rosser, of the West Virginia Rivers Coalition. "They're showing their customers they are going above and beyond and instilling that confidence that we haven't regained in Charleston."

The disaster in Charleston spurred many utilities into action as they realized they couldn't take clean drinking water for granted. West Virginia American Water in Charleston said it continued upgrading its source water monitoring and analysis last year and will add storage tanks and replace water mains in \$29 million of system upgrades this year. It uses gravel, sand and charcoal filters.

The Morgantown board in December 2015 was the first system in West Virginia to publish its source water protection plan, required by state law after the Charleston spill, listing more than 16,000 potential sources of significant contaminants, including nearly 12,000 above ground storage tanks,

about 2,000 abandoned mine lands and about 1,200 Marcellus Shale natural gas wells.

Under the Safe Drinking Water Act and 19 major regulations since the 1970s, drinking water systems have spent about \$5 billion on upgrades to comply, Renner said. If every surface water treatment plant in the U.S. were to add membrane filtration like the one Morgantown has, it would probably cost billions of dollars, he said.

West Virginia's Bureau of Public Health requires all the water systems for more than 1.5 million customers to test for many contaminants. The bureau issued almost 5,000 violation letters last year, though none to Morgantown. The bureau also sent out 26 permit suspension warning letters, with 11 permits temporarily suspended.

Patrick Murphy, environmental engineering director for the state, said 33 administrative orders setting timelines for fixing multiple violations were issued last year, representing 3 percent of the systems. "Generally the systems in West Virginia are doing well," he said.

But the challenges from pollution are significant.

The Monongahela, which empties into the Ohio River at Pittsburgh, is on the West Virginia Department of Environmental Protection's list of "impaired" waterways. Garbage is a minor culprit. The leading polluter is fecal coliform, mostly from human waste. Next is iron, often from mining. Most lakes and many smaller streams lack enough data to tell if they're impaired.

Engineers at the Morgantown treatment plant face mine drainage, bacteria, sewage, fertilizer, chemicals and other waste and pollution in the Monongahela.

After the waste enters quarter-inch intake screens tilted slightly downstream, the river water is pumped into sediment settling tanks, then through six levels of gravel and sand filters and then through the membranes. Chlorine, lime, carbon, alum and potassium permanganate are added to help purify the water, but closely monitored to try to limit the minute chemical byproducts of disinfection, some considered carcinogens.

Control room operators constantly monitor 2,000 data points by computers with alarms if they exceed normal parameters, treatment and production manager Greg Shellito said. They sample water throughout the system, and in his 30 years, have never had to issue a boil notice, he said.

"In this industry you have to be 100 percent correct 100 percent of the time," plant manager Mike Anderson said. "What you do in this business is public health."

By THE ASSOCIATED PRESS

AUG. 7, 2017, 11:22 A.M. E.D.T.

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## **[America's Most \(and Least\) Sustainable Cities, Ranked.](#)**

***When it comes to sustainability in urban centers, the West Coast is faring better than the rest of the country.***

U.S. coastal cities are coming the closest to meeting sustainability goals set by the UN, according to the first analysis of 100 metropolitan cities by the Sustainable Development Solutions Network

(SDSN). But no U.S. city has yet managed to reach a score of even half of what is necessary to satisfy the Paris Climate Agreement.

The Sustainable Development Goals Index measures how successfully cities are dealing with issues related to poverty, health, and equitable income distribution in addition to climate change objectives like cutting large carbon emissions. Jeff Sachs, Director of the SDSN, said the report—the first of many—creates “an accurate starting line” for cities in their “race to 2030 and a smart, fair, and sustainable future.”

[Continue reading.](#)

CITYLAB

TERESA MATHEW AUG 10, 2017

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## **Timber! Top Texas Republicans Look to Axe Local Tree Rules.**

AUSTIN, Texas — Greg Abbott insists he doesn't hate trees. But Texas' Republican governor and many conservatives in its Legislature do hate what they see as government infringing on property owners' rights, and have launched an unprecedented effort to cut down tree protection regulations sprouting across America's second-largest state.

In recent years, cities nationwide have gotten more vigilant about safeguarding their fauna, hiring professional arborists and toughening rules about how trees should be cared for. Fifty-plus Texas cities have adopted tree ordinances, including Austin, which prohibits cutting down most “heritage” trees, or 10 special species whose thick trunks indicate old age.

For Abbott, the issue became personal. In 2011, before he was elected governor, Abbott tore down his Austin home and built a new one with a pool. He was allowed to do so as long as he didn't damage the root systems of two large pecan trees. Later, the city arborist wrote that “unpermitted impacts have occurred within the critical root zone” and ordered Abbott to plant thick new trees as a result.

“That is insanity,” Abbott said, recalling the incident during a recent radio interview. “It's socialistic.” His spokesman, John Wittman, declined further comment.

The city says it rejects a very small percentage of the applications it requires for tree removal.

Still, in this year's legislative session, Abbott and likeminded lawmakers pushed an assortment of measures to knock down, or at least severely prune, ordinances. One passed, letting landowners plant new trees to offset municipal fines for chopping down old ones — but Abbott vetoed it for not going far enough.

He then summoned lawmakers into a special session and demanded that they finish the job. The proposals have been cheered by homebuilders and developers, while municipal organizations and conservationists have united against them.

Dallas Republican Sen. Don Huffines complained that tree inspectors and other officials have become so numerous that they've “turned into a cottage industry.” The state Senate approved a bill virtually wiping out all tree ordinances statewide. The House passed a softer version, similar to the

one that the governor vetoed.

On Friday, the Senate narrowly voted to advance a modified version of the House's bill, over some conservatives' objections that it was too lenient. Both chambers will have to hammer out a compromise before the special session ends next week.

"I've had enough of the cities telling people what they can and can't do with their daily lives," Republican state Rep. Larry Phillips from Sherman, north of Dallas, said during recent floor debate on the House version. "So, if a tree accidentally falls, like we've had trees fall, are we going to get in trouble because nature blew the tree down?"

Priscilla Files, executive director and senior arborist for the Galveston Island Tree Conservancy, said it's not that simple. She said trees are treasured in her city on the Gulf of Mexico, where damaging storms roll in off the water, and that officials use ordinances to protect even younger live oaks, magnolias, sycamores and others.

"If you want to meet your neighbors in a bad way, fire up a chain saw," said Files, who recalled 2008's Hurricane Ike, which destroyed about 50 percent of canopy cover on Galveston Island. "Everybody comes out immediately and goes, 'What are you doing?'"

State vs. city conflicts have become more common in conservative states where local governments are more liberal. Republican-led legislatures have targeted city ordinances on everything from raising the minimum wage to banning plastic bags. But tossing local tree ordinances into the proverbial wood chipper is unique to Texas — at least so far.

"There are so many problems in this state," Charlie Bonner, from the Texas League of Conservation Voters, said of Abbott. "He really plucked this out of thin air for a lot of people."

By THE ASSOCIATED PRESS

AUG. 11, 2017, 3:51 P.M. E.D.T.

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## **[Oklahoma Supreme Court Rules Fee on Cigarettes Unconstitutional.](#)**

(Reuters) - Oklahoma's Supreme Court declared a fee on cigarettes unconstitutional on Thursday, citing faulty lawmaking practices, prompting the state's governor to suggest calling back the legislature to find a solution to replace the lost revenue.

In a statement following the court's decision, Republican Governor Mary Fallin said invalidating the fee would cause a \$215 million budget shortfall. Most of the revenue created by the passage in May of the "cessation" fee - \$1.50 per pack of cigarettes - was earmarked for health and human services agencies.

"These agencies and the people they serve cannot sustain the kind of cuts that will occur if we do not find a solution," Fallin said. "My belief is we will have to come into special session to address this issue."

The court called the fee a "revenue raising measure" that was passed in violation of the state's legislative process that requires that such measures cannot be passed in the last five days of a session. The measure also did not garner either a required supermajority vote in favor, or a vote by



the people to pass.

Lawmakers were attempting to fill an \$878 million shortfall.

A special session would cost the state an additional \$30,000 per day, according to a statement released Thursday by the House Democratic Caucus.

Petitioners, which included both tobacco and wholesale distribution companies, argued that the fee was a revenue-raising measure. Attorneys representing the state said the principle purpose of the fee was not to raise revenue, saying that it primarily aimed at reducing smoking rates, and therefore did not have to follow the constitutional process.

Oklahoma has a balanced budget requirement. Its fiscal-year 2018 budget totaled about \$6.8 billion, according to Michael McNutt, a spokesman for Fallin.

The yield on Oklahoma 10-year general obligation bonds traded 20 basis points over the benchmark Thomson Reuters Municipal Market Data AAA yield scale on Wednesday, according to the data available. The yield was little changed from the end of May, when the state's legislative session ended.

By REUTERS

AUG. 10, 2017, 3:42 P.M. E.D.T.

(Reporting by Stephanie Kelly; Editing by Daniel Bases and Leslie Adler)

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## **[Are Texas Lawmakers' Business Ties with Public Entities a Conflict of Interest?](#)**

***Like most higher education institutions, Houston Community College officials had a lot they wanted state legislators to do for them in Austin earlier this year. The school found a champion in a veteran Democratic senator from Dallas.***

Sen. Royce West, who sits on both the higher education and finance committees, came through big for HCC and other community colleges, shepherding dual-credit legislation — which an HCC administrator called a “high-priority opportunity” — through a committee, the floor of the Texas Senate and onto the desk of Republican Gov. Greg Abbott.

Weeks before West helped House Bill 1638, which strengthened connections between community colleges and four-year universities, pass the Senate, HCC gave his law firm, West & Associates, a place in its legal services pool — a list of pre-approved attorneys HCC chooses from when it has legal needs.

Since 2016, public entities have had to reveal the businesses they have large contracts with. These “1295 disclosures” reveal numerous legislators among the contractors — and some of those lawmakers have sponsored or voted on bills that help those same public entities.

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

THE TEXAS TRIBUNE



## **Illinois Governor Stalls Bond Sales for Other Options to Pay Bills.**

CHICAGO (Reuters) - Illinois is holding off on issuing \$6 billion of bonds to help pay its hefty pile of overdue bills despite the state comptroller's public plea for the debt sale, the governor's office said on Monday.

Laurel Patrick, a spokeswoman for Governor Bruce Rauner, said Illinois Comptroller Susana Mendoza should first tap more than \$600 million in various state accounts to pay bills. Authorization for the bonds and for using money parked in the accounts was included in the fiscal 2018 budget the Democratic-controlled legislature enacted in July over the Republican governor's vetoes.

"The governor's final decision on bonding requires us to first know how much of the bill backlog can be addressed through means other than bonding," Patrick said in a statement.

In a video and statement on Monday, Mendoza said Illinois' bill backlog is costing residents \$2 million a day in late payment penalties that can reach as much as 12 percent a year. The bond authorization, which expires on Dec. 31, was aimed at having Rauner's budget office sell the 12-year bonds at a lower interest rate.

Illinois' unprecedented two-year budget impasse ballooned the unpaid bill pile to a record \$15.4 billion in June. As of Friday, the backlog stood at \$14.35 billion.

Abdon Pallasch, a spokesman for the Democratic comptroller, said inter-fund transfers were already underway.

"What we need right now is movement by the governor's office and a solid timetable for refinancing the debt so that our office can establish a comprehensive cash management plan for the remainder of fiscal year 2018," he said.

On Friday, Illinois bonds due in 12 years were yielding 4.13 percent, according to Municipal Market Data (MMD), a unit of Thomson Reuters.

Illinois has the lowest credit ratings and pays the highest borrowing costs among the 50 U.S. states. Since enacting its first budget in two years along with a \$5 billion income tax hike, and subsequently evading junk bond ratings, the state's so-called credit spread over MMD's benchmark triple-A yield scale has narrowed.

Mendoza's office said the new borrowing will provide some relief to service providers and businesses that have been waiting months for payment.

"Over the past two years without a budget, they have had to exhaust their lines of credit, lay off employees and, in some cases, turn away Illinois citizens in need of services," statement from the comptroller said.

The Rauner administration launched a vendor support program in 2015 allowing certain businesses and service providers to sell their state receivables to private lenders who are then able to keep the late payment penalty.

REUTERS

AUGUST 7, 2017

Reporting By Karen Pierog; Editing by David Gregorio and Diane Craft

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## **Illinois Governor Vetoes Chicago School Aid From Funding Measure.**

- **Chicago Board of Education bonds higher since budget passed**
- **Move casts uncertainty over aid for schools statewide**

Governor Bruce Rauner slashed state aid for Chicago's cash-strapped school district on Tuesday, issuing an partial veto of a bill that overhauls Illinois's education funding practices.

Rauner, a Republican, had repeatedly called the measure a Chicago "pension bailout" since the Democrat-led legislature approved the law to provide more than \$200 million to help the district pay mounting retirement fund bills. His veto cuts a block grant for Chicago schools and nixes pension considerations from the evidence-based funding formula, according to a statement from Rauner's office.

Illinois's spreads have tightened since the state enacted a spending plan last month, ending its record-long budget impasse that spanned two years. The gap between yields on Illinois's 30-year bonds and benchmark debt fell to the lowest since October last week after Moody's Investors Service confirmed the state's bond rating, ending the imminent threat to Illinois's investment grade status.

But that tightening may be short-lived given this new political fight.

"The governor's walking a very dangerous tightrope in how the state's going to be perceived in the marketplace because it puts on edge opening the schools," said Richard Ciccarone, the Chicago-based president of Merritt Research Services LLC, which analyzes municipal finances. "For the state of Illinois, they're going to probably retrench on some of the gains they've made on tightening."

The move casts uncertainty on the timing of state aid for all Illinois schools as the legislature must now either concur with Rauner's changes or override his veto in order for the measure to become law. If they fail to do either or do nothing, it dies. Illinois enacted a budget in July after lawmakers defeated Rauner's veto of a \$36 billion spending plan and income-tax hike.

Tucked into that package is a requirement that any state aid to schools be distributed through a kind of evidence-based funding formula. Such money normally goes out to schools this month, and some schools may not be able to stay open if it doesn't come through.

The bill, Senate Bill 1, originally contained a \$250 million block grant credit for Chicago and more than \$200 million for pension costs, according to Rauner's office. He wants the latter to be added to the state's pension statute, not the school funding formula, according to a statement from his office.

"I believe these changes put Illinois on a better path for all our children," Rauner told reporters in the state capital of Springfield on Tuesday. "My suggestions ensure that our education funding system is fair and equitable to all students in Illinois."

Chicago Board of Education bonds had rallied since the state passed a budget despite Rauner's

repeated veto threat. The nation's third-largest school district has been struggling to stay solvent because of rising pension costs. The board has been draining reserves, shortchanging its retirement fund and borrowing at punishing interest rates to stay afloat.

The state owes Chicago schools about \$466.5 million in delayed categorical payments, Moody's Investors Service said on July 6. Chicago Mayor Rahm Emanuel, a Democrat, slammed Rauner's partial veto.

"It is well past time for Governor Rauner to stop playing politics with our children's futures, start demonstrating leadership, and ensure a child's education isn't determined by their zip code or his political whims," Emanuel said in an emailed statement.

## **Bloomberg Politics**

By Elizabeth Campbell

August 1, 2017, 11:39 AM PDT

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### **[Chicago Pension Bills Soar as City Pays Up to Keep Funds Solvent.](#)**

- **City will pay \$1.18 billion to pensions in 2018, report says**
- **Projected budget gap is the smallest since 2007, city says**

Chicago will contribute \$1.18 billion to pensions in 2018 as the junk-rated city steps up payments to put its retirement funds on a path to solvency, even as the unfunded liabilities keep growing.

The city will pay \$792 million to the police and fire pensions, \$344 million to the municipal workers' fund and \$48 million to the laborers' fund next year, according to its annual financial analysis released Monday. The metropolis forecasts a \$114.2 million budget deficit in 2018, the smallest since at least 2007, the report shows.

Mayor Rahm Emanuel has taken steps including raising property taxes and getting approval from the gridlocked state government to keep the retirement funds from running out of money. "All four pension funds are on the road to solvency with dedicated revenue supporting increasing pension contributions in 2018," Emanuel said in a letter included in Monday's report.

Emanuel has enacted higher property taxes and utility levies to help cover these higher payments. The city also won Illinois's approval to overhaul its municipal and laborer retirement funds, which had been on track to run out of money by 2025 and 2027, respectively. Changes, included in the state budget package this month, allow Chicago to contribute more money and make new employees pay more into their pensions.

Despite the changes, the city's pension debt is still rising. Chicago's pensions are struggling with \$35.8 billion of unfunded liabilities as of Dec. 31, up from \$33.8 billion a year earlier. The shortfall comes after years of not paying enough into the funds. Chicago's ballooning debt to its pension funds has weighed on the city's finances and led Moody's Investors Service two years ago to cut its bond rating to junk.

## **Bloomberg Markets**

By Elizabeth Campbell

## **Fitch: Illinois Veto Jeopardizes School Funding and Ratings.**

Fitch Ratings-New York-02 August 2017: Illinois Governor Rauner's veto of Senate Bill 1 (SB1) creates uncertainty as to whether or not Illinois school districts will receive state aid prior to opening for the new school year. Should there be an extended impasse, ratings for the Chicago Board of Education (Issuer Default Rating 'B+' / Negative Outlook) and other Illinois school districts with limited financial flexibility could be at risk, according to Fitch Ratings.

The state budget for fiscal 2018, which was enacted through override of the governor's veto, made school funding contingent upon legislative passage of a new evidence-based formula for distributing school aid. SB1, which meets that requirement, will now return to the legislature for further consideration. Among other adjustments, the governor's changes limit the increase in funding to Chicago Public Schools (CPS) by removing from the formula a \$250 million block grant that the district has historically received and also cutting CPS pension considerations. The governor's action would include putting monies required to fund CPS's normal pension cost in statute instead. Any other aid would require additional legislation, perhaps making it vulnerable to separate budget appropriation this year and in the future.

Although the dispute between the legislature and governor is focused on funding to CPS, the veto threatens the timeliness of the first distribution of general state aid to all K-12 school districts, which is set in statute for Aug. 10. Following a veto, the bill must be read again into the record in the state senate the next time it is in session. The legislature then has 15 days during which it faces three options. First, the house and senate can both agree to the governor's changes; this seems unlikely given the rancour of the debate. Second, the legislature can override the governor's veto with a super-majority vote. This also seems unlikely despite the override of the governor's veto of the fiscal 2018 budget. The budget crisis brought bipartisan agreement to a solution in a way that the school funding formula may not. The third option is to allow the bill to lapse and begin again, likely extending past the first distribution date on Aug. 10.

Resistance among key stakeholders and an absence of consensus create a political environment that remains a negative consideration for the state. A return to political gridlock specifically related to school funding puts at risk the ability of school districts to open all of their schools with a full complement of services. This is a notable difference from the state's fiscal behaviour during its extended budget impasse, during which it consistently appropriated funds for schools and prioritized those payments in its cash flow management. Nevertheless, delayed distribution of school funds would not have a near-term negative effect on the state's 'BBB' Issuer Default Rating. The current Negative Outlook is unrelated to school funding and instead reflects uncertainties related to achieving the revenue and spending assumptions in the fiscal 2018 budget. Delayed distribution may, however, have a negative impact on school district ratings. Some districts should be able to weather a state aid delay by relying on reserves or by short-term borrowing, but others, notably CPS, have much more limited flexibility. Fitch will closely monitor the potential impact an extended impasse may have on Illinois school district credit quality and will take action on a case by case basis as necessary.

For more information on the enacted state budget and school funding, see 'Fitch: Illinois Budget Mixed News for Locals' (July 2017), available at [www.fitchratings.com](http://www.fitchratings.com).

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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### **[KBRA Rates Moynihan Train Hall Project TIFIA Loan.](#)**

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of BBB- with a Stable outlook to the \$526,135,545 New York State Urban Development Corporation d/b/a Empire State Development Moynihan Train Hall Project TIFIA Loan.

The rating is based on [KBRA's General Property Tax/Assessment Revenue Methodology](#). For certain Rating Determinants, elements of [KBRA's CMBS Property Evaluation Methodology](#) was used in developing the rating assessment.

To access the full report, please click on the link below:

[Moynihan Train Hall Project TIFIA Loan](#)

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### **[Money-Manager Purge Boosts University of California's Return.](#)**

- **State system expects 14% gain after slashing dozens of funds**
- **About 100 venture capital, buyout and hedge funds liquidated**

The University of California's decision to cut back on outside money managers is paying off.

The state system, which oversees more than \$110 billion of assets, slashed about 100 funds in three years to reduce fees and better concentrate its bets, according to Chief Investment Officer Jagdeep Bachher. The strategy is working, with the pension and endowment gaining almost 14 percent in 11 months though May after losing money in fiscal 2016, he said.

"We're starting to see the results," Bachher, 44, said in a phone interview. "There's no change just

for the sake of change.”

The university is among the more extreme examples of institutional investors overhauling portfolios amid lower returns, slashing hedge funds and other money managers. While many endowments expect to report gains of more than 10 percent for the fiscal year ended in June, the average endowment lost money in the prior year, paring annualized gains over the past decade to 5 percent, according to an industry study.

## Lackluster Returns

The California Public Employees’ Retirement System and some other public pensions have eliminated their exposure to hedge funds because of lackluster returns while other institutions have trimmed their allocations and sought to negotiate lower management fees.

The University of California hired Bachher in 2014 from Alberta Investment Management Corp. amid mounting scrutiny from the school’s board and its unions over the performance of its pension and endowment. Bachher, with a staff of more than 60, replaced most senior managers while developing discrete strategies for the pension and endowment portfolios, which used to be managed together.

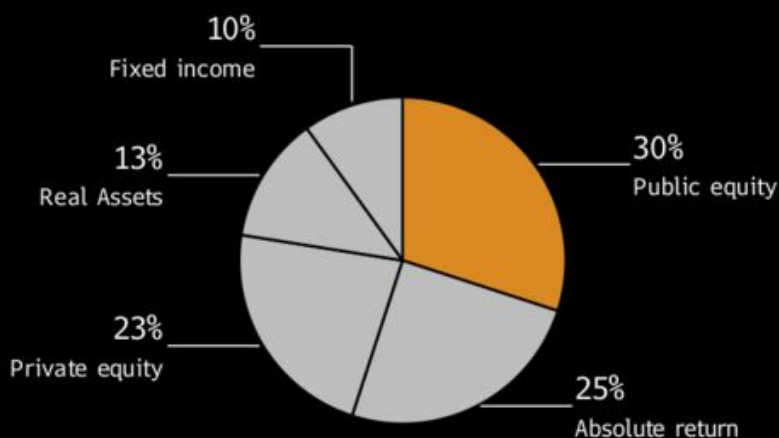
He also promoted and hired people to serve as deputies for different pools of money. In May, Bachher hired Eduard van Gelderen from APG Groep NV to run the \$61 billion pension fund. Edmond Fong, the state system’s managing director of absolute return, was put in charge of the \$10 billion endowment, Bachher said. They will be largely responsible for investing the more than \$4 billion of cash that the endowment and pension funds have amassed.

There are now about 140 funds in the portfolios, down from as many as 250 three years ago, as the university pulled money from dozens of stock and hedge funds, while divesting stakes in private equity, venture capital and real estate funds, he said.

“If you want to outperform, you have to take some risk,” said Thomas Gilbert, an assistant professor of finance and business economics at the University of Washington who studies endowments and investing. “Concentrating your bets is one way to get there.”

## Cal's Allocation Targets

University sees less cash and stocks, more alternatives in endowment in coming years



Source: University of California Regents

**Bloomberg**

The university liquidated about \$1 billion of private equity and venture capital funds in the past three years, while cutting ties with more than a dozen stock and hedge fund managers, including Viking Global Investors, which announced in June that it was returning some money to investors.

Cal also placed new bets. It made a commitment to Key Square Capital Management, which was founded in 2015 by Scott Bessent, the former chief investment officer at Soros Fund Management, according to university documents. And it invested in a joint venture with Owl Rock Capital Corp., a June regulatory filing shows.

The university expects to invest more in alternative assets while trimming its exposure to equities, according to a presentation prepared for a July 11 board meeting. The chief investment office boosted its target for hedge fund allocation to 25 percent of the endowment, up from 18 percent, and plans to double its private equity bets to 22.5 percent.

### **Poor Performers**

The university's largest union, Local 3299 of the American Federation of State, County and Municipal Employees, is skeptical about the push to increase alternatives and issued a report last year criticizing the fees that were paid for poor-performing hedge funds.

The chief investment office "has taken some welcomed steps, but it has not gone far enough to correct its decade-long, failed hedge fund experiment," Claudia Preparata, a research director at the union, said in an email. "Everyone pays the price, but the burden is felt most by UC's most vulnerable workers, its lowest-paid front-line staff."

The investment office said the portfolio changes will help it cut the management fees it pays to fund companies by \$500 million over the next five years, according to the July presentation. Some of that will come from renegotiating lower fees from hedge fund managers as well as imposing performance targets that funds must reach before they can be paid.

"All those things help us pick up nickels and dimes," Bachher told the university's investment committee at last month's meeting, according to a video. "It's the only risk-free return that's left in the market."

### **Bloomberg Markets**

Michael McDonald

August 1, 2017, 3:00 AM PDT August 1, 2017, 8:27 AM PDT

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### **[First Internet Bank Welcomes New Lender, Expands Municipal Lending Team.](#)**

FISHERS, Ind.-(BUSINESS WIRE)-First Internet Bank announced that Nathan Bradds has joined its public finance lending team as Vice President. Mr. Bradds will bolster the municipal lending effort that has financed more than \$175 million in public loans year-to-date under the leadership of Senior Vice President Timothy Dusing. Mr. Bradds will focus on energy efficiency financing projects nationwide.



"Opportunities in the municipal lending market have exceeded our initial expectations during the first half of 2017, and Nathan's expertise is a welcome addition to our team"

"Opportunities in the municipal lending market have exceeded our initial expectations during the first half of 2017, and Nathan's expertise is a welcome addition to our team," said Dusing. "Nathan has a history of successfully structuring, negotiating and closing municipal financial transactions. I am confident he will be a key contributor as we continue to expand and diversify First Internet Bank's municipal loan capabilities."

Over the course of his 16-year career, Mr. Bradds has worked across the banking industry, in consumer, commercial and municipal lending roles, as well as in mergers and acquisitions. Most recently, he helped build Huntington Public Capital ("HPC"), a division of Huntington National Bank, into a key national lender within the public finance industry.

"First Internet Bank has done a great job cultivating a strong presence in the public finance space, and I'm thrilled to support this growing team," said Mr. Bradds. "By tapping my network to further expand our efforts, we're well-positioned to take advantage of this tremendous market opportunity."

Mr. Bradds received his bachelor's degree in Finance from Ohio University and his MBA from Miami University.

#### About First Internet Bank

First Internet Bank opened for business in 1999 as an industry pioneer in the branchless delivery of banking services. With assets of \$2.4 billion as of June 30, 2017, the Bank now provides consumer and small business deposit, consumer loan, residential mortgage, and specialty finance services nationally. The Bank also offers commercial real estate loans, commercial and industrial loans and treasury management services in select geographies. Additional information about the Bank, including its products and services, is available at [www.firstib.com](http://www.firstib.com). The Bank is a wholly owned subsidiary of First Internet Bancorp (NASDAQ: INBK).

July 31, 2017 08:40 AM

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### **[Shunned from Bond Market, U.S. Virgin Islands Faces Cash Crisis.](#)**

ST. CROIX, V.I. (Reuters) - For a glimpse at the precarious financial health of this Caribbean island, visit its public hospital.

Pipes underneath the emergency room collapsed in May, causing waste water to back up through the drains. Now workers and visitors - even patients - use portable toilets set up on the sidewalk. The hospital doesn't have the cash for new plumbing.

For years the U.S. Virgin Islands funded essential public services with help from Wall Street. Investors lined up to purchase its triple-tax-exempt bonds, a form of debt free from municipal, state and federal taxes.

Now the borrowing window has slammed shut. Trouble in neighboring Puerto Rico, which recently filed for a form of bankruptcy after a string of debt defaults, has investors worried that the U.S. Virgin Islands might be next.



With just over 100,000 inhabitants, the protectorate now owes north of \$2 billion to bondholders and creditors. That's the biggest per capita debt load of any U.S. territory or state - more than \$19,000 for every man, woman and child scattered across the island chain of St. Croix, St. Thomas and St. John. The territory is on the hook for billions more in unfunded pension and healthcare obligations.

"We have a government that we can't afford, and now all of it is converging," said Holland Redfield, a former six-term U.S. Virgin Islands senator who hosts a radio talk show about politics in the territory. "We're getting to the point where we may have a potential meltdown."

Ratings agencies have downgraded the islands' credit ratings deep into junk territory. With the U.S. Virgin Islands shut out of the credit markets after a failed January bond issue, officials are scrambling to stabilize its finances after years of taking on debt to plug yawning budget holes.

The government proposes to slash public spending by 10 percent. It recently hiked taxes on liquor, cigarettes, sugary drinks and vacation timeshares. And it has threatened to auction homes and businesses of property-tax deadbeats.

Governor Kenneth Mapp is quick to reassure bondholders that they get first crack at one of the territory's largest funding sources: rum taxes. The money pays debt service before heading to government coffers, a protection called a lockbox.

The U.S. Virgin Islands has "never been late on a payment, much less defaulted on a bond or loan agreement," Mapp said during his State of the Territory address in January.

But how these islands will recover from years of budget deficits and a severe liquidity crisis remains to be seen. The territory lost its single-largest private employer five years ago when a refinery shut down. Gross domestic product has declined by almost one-third since 2008. At times this year the government was operating with just two days' cash on hand.

Locals live with pitted roads, crumbling schools, electricity outages and deteriorating medical care.

At the Juan F. Luis Hospital and Medical Center, plumbing troubles are just the beginning. Doctors have stopped performing some vital procedures, including implanting pacemakers and heart defibrillators, because the facility can't pay suppliers for the devices, officials say.

"We have gone from bad to worse, and the patients are the ones who are suffering," said Dr. Kendall Griffith, an interventional cardiologist who recently left the island to take a job in a Georgia hospital. "It's forcing physicians to make hard decisions."

## FORGOTTEN ISLANDS

Before Puerto Rico imploded under \$70 billion in debt and \$50 billion of unfunded pension liabilities, few in Washington noticed troubles brewing in the other inhabited U.S. territories of American Samoa, Guam, the Northern Mariana Islands and the U.S. Virgin Islands.

Residents of these places are U.S. citizens, but they can't vote in presidential elections and their Washington delegates are non-voting figureheads. Despite high poverty rates and joblessness, the territories receive just a fraction of the federal funding allocated to U.S. states for entitlements such as Medicare and Medicaid.

To bridge the gap, some have turned to the bond market. Bond issues typically fund infrastructure and capital projects. But in the case of Puerto Rico and the U.S. Virgin Islands, officials increasingly relied on borrowed money to fund government operations.

Debt loads for both territories have grown to staggering proportions, now surpassing 50 percent of their respective GDPs. That's higher than anywhere in the nation and sharply above the state median of 2.2 percent, Moody's Investors Service found.

Bond buyers for years whistled past the territories' shaky finances, comforted in the knowledge that these governments couldn't seek bankruptcy protections available to many municipalities.

"There was an idea that because of the lockbox structure and the fact that the territories did not have a path to bankruptcy, they had to pay you," said Curtis Erickson, San Francisco-based managing director of Preston Hollow Capital, a municipal specialty finance company.

That all changed in 2016 when Congress passed legislation known as PROMESA giving Puerto Rico its first access to debt restructuring. The move sparked a ferocious battle among creditors to see who would shoulder the largest losses.

Investors quickly surmised the U.S. Virgin Islands might pursue the same strategy. In December, S&P Global Ratings downgraded the territory by a stunning seven notches to B from BBB+, putting it well below investment grade.

The U.S. Virgin Islands is adamant that S&P and other ratings agencies overreacted. The territory has been unfairly "tainted by Puerto Rico's pending bankruptcy," and has no intention of pursuing debt restructuring, said Lonnie Soury, a government spokesman.

In addition to tax hikes and budget cuts, he said the current administration is looking to do more with its tourism and horse racing industries to boost development.

## BIG DEBTS, FEW OPTIONS

In the meantime, the U.S. Virgin Islands is trapped in a circle of hock that's making it tough to maneuver.

The government and its two public hospitals, for example, owe a combined \$28 million to the territory's water and power authority, known as WAPA. In turn, WAPA owes about \$44 million to two former fuel vendors.

Then there's the \$3.4 billion of unfunded liabilities for public pensions and retiree healthcare. The pension fund is 19.6 percent funded and projected to run out of money by 2023.

Pensioners can wait months before their annuities start, because the government is behind on its contributions. St. Croix resident Stephen Cohen, 67, said it took almost a year after he retired as a high school biology teacher before he received his first check in 2016.

"A lot of people are financially stressed," Cohen said. "They didn't realize how bad things would get."

Territory officials can't say how they will close a projected \$100 million budget shortfall for this fiscal year. That's on top of an accumulated net deficit of \$4.4 billion, according to government financial records.

Back at Juan F. Luis Hospital, officials hope to move the emergency room into the cardiac wing so repairs can begin on the collapsed pipes.

The government has pledged \$3 million for the job, but Tim Lessing, the facility's chief financial

officer, wonders if he'll see it.

"The territory is in a tough position," Lessing said. "Nobody's buying the paper."

## **Reuters**

by Robin Respaut

August 1, 2017 / 10:27 PM

(Editing by Marla Dickerson)

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### **Moody's Upgrades Wisconsin GO to Aa1; Outlook Stable**

Moody's Investors Service has upgraded the state of Wisconsin's General Obligation rating to Aa1. Moody's has also upgraded the state's appropriation backed debt as follows: to Aa2 for Certificates of Participation issued under the state's master lease program; Aa2 for General Fund Annual Appropriation Bonds; Aa2 for Taxable Pension Funding Bonds; Aa3 for Appropriation Revenue Bonds; Aa3 for Milwaukee Public Schools Revenue Bonds Series 2007A and A1 for Milwaukee Public Schools Revenue Bonds Series 2013A. Moody's also affirmed the short-term P-1 ratings on the state's general obligation commercial paper programs based on the bank counterparty ratings and the long-term underlying state rating. The outlook for all the long-term ratings was moved to stable. The upgrade to Aa1 reflects the proven fiscal benefits of the state's approach to granting and funding pension obligations when many other states are experiencing stress from rising costs and heavy liabilities; an economy that delivers steady but moderate growth; conservatively managed budgets; and adequate liquidity. Despite Wisconsin's slightly elevated debt levels, its fixed costs for pensions, debt and retiree health benefits are below the median for Aa1 states and outweigh the credit challenge of the state's negative unassigned fund balances. Appropriation debt is notched off the state's GO rating to reflect risk of non-appropriation since the state is not obligated to appropriate debt service for the bonds. The Certificates of Participation, General Fund Annual Appropriation Bonds, and Taxable Pension Bonds are upgraded to Aa2, one notch lower than the state GO rating, to reflect their average legal structure and essential nature of the projects funded. The Appropriation Revenue Bonds funded a sports facility, which we view as a less essential purpose warranting an upgrade to Aa3, two notches off the state rating. The Milwaukee Public Schools Revenue Bond Series 2007A is upgraded to Aa3, two notches off the GO to reflect the moral obligation of the state to make debt service payments on the bonds. The Milwaukee Public Schools Revenue Bonds Series 2013A is upgraded to A1, three notches lower than the GO rating to reflect weak legal provisions.

#### **Rating Outlook**

The stable outlook reflects the expectation that the state will experience moderate economic growth and will continue its prudent fiscal management practices.

#### **Factors that Could Lead to an Upgrade**

Established trend of recurring structural budget balance reflected in elimination of the negative unassigned GAAP fund balance

Funding and maintenance of the budget stabilization fund to a level sufficient to provide a

meaningful financial cushion in times of revenue volatility

Sustained job and economic growth

Factors that Could Lead to a Downgrade

Departure from prudent fiscal management practices that have aligned spending with the state's moderate economic growth

Return to structural budget imbalance and reliance on non-recurring measures to address budget gaps

Accelerated deterioration of the state's financial position resulting in weakening of liquidity or larger GAAP-negative fund balances

Legal Security

The state's general obligation bonds are secured by its full faith and credit. The state's certificates of participation, general fund appropriation bonds, Neighborhood Schools Initiatives bonds issued by the Milwaukee Regional Development Authority and pension funding bonds are payable from state appropriations.

Use of Proceeds

Not applicable

Obligor Profile

Wisconsin is the twentieth largest state, with a population of 5.7 million. Its GDP ranks twentieth among states.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. The additional methodology used in the lease-backed rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. The additional methodology used in the short-term rating was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

Regulatory Disclosures

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For

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Global Credit Research – 04 Aug 2017

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## **[Saving Illinois: Getting More Bang for the State's Bucks.](#)**

***Illinois is teetering on bankruptcy and other states are not far behind, largely due to unfunded pension liabilities; but there are solutions. The Federal Reserve could do a round of "QE for Munis." Or the state could turn its sizable pension fund into a self-sustaining public bank.***

Illinois is insolvent, unable to pay its bills. According to Moody's, the state has \$15 billion in unpaid bills and \$251 billion in unfunded liabilities. Of these, \$119 billion are tied to shortfalls in the state's pension program. On July 6, 2017, for the first time in two years, the state finally passed a budget, after lawmakers overrode the governor's veto on raising taxes. But they used massive tax hikes to do

it – a 32% increase in state income taxes and 33% increase in state corporate taxes – and still Illinois' new budget generates only \$5 billion, not nearly enough to cover its \$15 billion deficit.

Adding to its budget woes, the state is being considered by Moody's for a credit downgrade, which means its borrowing costs could shoot up. Several other states are in nearly as bad shape, with Kentucky, New Jersey, Arizona and Connecticut topping the list. U.S. public pensions are underfunded by at least \$1.8 trillion and probably more, according to expert estimates. They are paying out more than they are taking in, and they are falling short on their projected returns. Most funds aim for about a 7.5% return, but they barely made 1.5% last year.

[Continue reading.](#)

Published on Monday, July 24, 2017 by Common Dreams

by Ellen Brown

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## **Illinois Convention Center Project Enters Prearranged Bankruptcy.**

### ***Municipal bond-financed project failed to live up to projections***

A Chicago suburb's convention center project corporation entered chapter 11 bankruptcy on Friday, starting a court-supervised process to settle a \$183 million municipal default.

Lombard Public Facilities Corp., a public financing entity in the village of Lombard, Ill., entered court protection having already hammered out a restructuring deal with its largest creditors, municipal bond giants Nuveen Asset Management LLC and OppenheimerFunds Inc.

The corporation's \$183 million in debt was issued to finance an 18-story building project that opened in 2007 with a Westin-branded hotel, convention space and restaurants.

The catalyst for the bankruptcy was the village's refusal, starting in late 2011, to appropriate funds to cover shortfalls between what the project generated in revenue and the scheduled payments due to bondholders.

Reserve funds covered LPFC's debt obligations until January 2014, when the municipal debt fell into default, trashing the credit ratings of both the village and the bond issuer.

Counting accrued interest and principal, the outstanding balance has ballooned to \$247 million, according to court documents.

Under the restructuring deal, the village agreed to contribute \$3 million to boost bondholder recoveries. It would also hand over the proceeds from a 1% increase in its restaurant tax that went into effect in January.

Subject to court approval, the plan would restructure some bonds into senior and subordinate securities and extend debt maturities until as late as 2069. A \$69.5 million slice of the debt would be extinguished.

LPFC is required under the agreement to meet a series of milestones, such as filing a plan of reorganization by Sept. 29 and securing court approval for that plan by Dec. 15. LPFC would exit chapter 11 by Dec. 31.

ACA Financial Guaranty Corp., a bond insurer with \$58 million in guarantees on the line, is also on board with the proposed workout plan.

The case has been assigned to Judge Jacqueline P. Cox in the U.S. Bankruptcy Court in Chicago. Law firm Adelman & Gettleman Ltd. is serving as debtor's counsel in the case, numbered 17-22517.

## **The Wall Street Journal**

By Andrew Scurria

July 28, 2017 6:15 p.m. ET

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

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### **Fitch: Illinois Budget Mixed News For Locals.**

Fitch Ratings-New York-28 July 2017: The recently passed state of Illinois budget will affect local government finances, including those of the city of Chicago, Issuer Default Rating (IDR) 'BBB-/Stable Outlook, the Chicago Board of Education (IDR 'B+ '/Negative Outlook), and Cook County ('A+ '/Stable Outlook), according to Fitch Ratings. Fitch does not expect the budget to result directly in any rating changes for local governments in the state, although school districts remain exposed to a potential impasse in finalizing school funding distributions.

#### **Chicago Impacts: Removes Pension Uncertainty; Places Fee on Sales Taxes**

For the city of Chicago, a big benefit of the state budget was the inclusion of the city's Municipal and Laborers' funds pension reform legislation, which had previously been passed by the legislature and vetoed by the governor. The passage of this legislation removes the uncertainty associated with the implementation of the reform plans for those two pension funds. It commits the city to a higher contribution schedule, with a gradual ramp up to an amount that would achieve 90% funding by 2060, according to actuarial projections. It also creates an additional tier for new employees, which allows the choice of a lower retirement age in exchange for higher employee contributions.

The budget imposes a two percent administrative fee on local sales taxes to generate additional revenue for the state. This should not result in a change to the Chicago sales tax bond ratings ('BBB-/Stable Outlook), which are capped by the city's IDR. The underlying sales tax revenue stream supporting those bonds would support a much higher rating if bondholders were not exposed to the operating risk of the city. New legislation discussed below gives the city a new tool that could accomplish this. In addition, the budget includes a 10% reduction in local government distribution funds (LGDF), which are statewide income taxes distributed to local governments; although, the state believes that more frequent remittance of those funds via direct deposit will offset to some extent the impact of the cut on a cash flow basis. Neither of these changes will have a significant budget impact on the city.

#### **School District Impacts: Potential for Improved Cash Flow, Increased Funding**

The biggest impact to the Chicago Board of Education is the presumption that a fully funded state budget will result in more prompt distribution of state aid to districts, although it is likely that the flow of categorical block grants will only improve to the extent the state's own payment backlog improves. Currently, the district is owed \$304.5 million in categorical block grants. Existing state

statutes require that the block grants be paid no later than Dec. 31, 2017; if not paid by then, the appropriation expires, unless the Governor and Comptroller agree to extend the appropriation.

### School Funding Vulnerable to Additional Legislation

The budget includes large increases in funding for preK-12 education, but distribution of most education funding is contingent upon the passage of what the budget refers to as an evidence-based education funding reform. The legislature has passed such legislation, Senate Bill 1 (SB 1), but has not yet sent it to the governor. He has stated that he intends to use an amendatory veto to bring the legislation closer to the Republican plan. The governor called the legislature into a special session, starting July 26th, to encourage the legislature to pass a new school funding bill by the end of July.

If passed into law, SB 1 would provide for \$221 million of pension aid and \$71 million of new state aid to Chicago schools for a total increase of \$292 million. The Republican plan would result in a state aid reduction of \$73 million and also separate the \$221 million of pension aid out of the base formula and grant it in separate legislation, for a net increase of \$148 million. Chicago schools is the only district in the state which is responsible for paying its own pension costs; other districts participate in the state-run plan and the state bears most of their pension costs. Separating out the \$221 million pension aid would be less advantageous for Chicago schools, as it would make the aid vulnerable to budget appropriation each year. Either version represents a large increase in funding for the CBOE, whose financial position is characterized by chronic structural imbalance, slim reserves and a weak liquidity position.

Fitch is concerned that the requirement for agreement on an evidence-based education funding reform legislation before school monies can flow represents a vulnerability to all Illinois school districts. The state board of education has said that the legislation must be passed by August 3rd in order for state aid to flow to districts before the start of the school year. Fitch will closely monitor the potential impact this may have on Illinois school district ratings and if no legislation is passed by that date, will take action on a case by case basis as necessary.

### New Pension Tier, Cost Shift to Schools

Another big impact of the state budget on school districts and universities/community colleges is the creation of a third tier in the pension system for new hires. New employees will be given a choice between participation in the tier 2 defined benefit plan with a more modest cost of living adjustment or a hybrid plan with a small defined benefit for those employees not covered by social security, plus a defined contribution component. With either choice, the local employer rather than the state will pay the normal cost and also determine the amount of the employer match. This, of course, is a bigger change for school districts outside Chicago, whose pension costs have been mostly borne by the state, than it is for Chicago Schools, which already is responsible for the payment of its pension costs.

### Other Effects on Local Governments

Other effects of the state budget on local governments include a 10% reduction in funding for higher education, although the budget does provide full funding for grants to low income students which should particularly benefit community college districts, like City Colleges of Chicago.

Cook County should benefit from a reduction in delayed Medicaid payments to its health system, which threatened to strain liquidity. The county will also be affected by the 2% administrative fee on sales taxes, a 9% reduction in personal property replacement taxes (PPRT), and the 10% reduction in LGDF payments which may be partially or fully offset by catch up payments on a cash flow basis.



While these are all relatively small impacts on the county's overall budget, they come at a time when the county is still trying to solve for the loss of its sweetened beverage tax, which has been temporarily blocked by the courts.

### New Capital Financing Option

Away from annual budget flows, the state budget made a change that could be significant to capital financing in the state. An amendment to the Illinois Municipal Code (65 ILCS 5) included in the state's fiscal 2018 budget agreement provides a structure by which Chicago and other home rule municipalities in the state can create entities to issue debt that would not be constrained by the Issuer Default Rating (IDR) assigned to the local government by Fitch Ratings. If properly applied by a home rule municipality, the structure could result in ratings higher than and without regard to the IDR. For further information, please see 'Fitch: Illinois Legislation Gives Chicago New Financing Tool' (July 2017), available at [www.fitchratings.com](http://www.fitchratings.com).

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## **[Chicago School Bonds Rally Despite Governor's Veto Threat.](#)**

- **Lawmakers starting special session on school funding Wednesday**
- **Rauner wants to remove what he calls Chicago 'bailout'**

Chicago school bonds are rallying even as Illinois Governor Bruce Rauner repeatedly threatens to veto state aid for the cash-strapped district.

The average price of federally tax-exempt Chicago Board of Education general-obligation bonds due in 2046 was 100.33 cents on the dollar on Wednesday, yielding 6.95 percent, compared to 92.427 cents on the dollar to yield 7.65 percent when the bonds sold on July 10, according to data compiled by Bloomberg.

Lawmakers overrode Rauner's veto of a budget package, including an income-tax hike, to enact Illinois's first spending plan in more than two years on July 6. Tucked into the legislation is a requirement that Illinois use an evidence-based funding model to distribute money to schools. A measure that does just that — Senate Bill 1 — also includes more than \$200 million to help

Chicago's schools pay pension bills.

But Rauner, a Republican, plans to issue an amendatory veto to remove what he calls a Chicago "pension bailout." Democrats haven't sent the bill to his desk yet, prompting Rauner to call lawmakers back to the capital for a special session starting Wednesday to address school funding.

"The market sees Rauner as effectively neutered so his attempts to defund the schools are taken somewhat less seriously than they would have been a month ago," said Matt Fabian, a partner with Municipal Market Analytics Inc.

The nation's third-largest school district, which expects to see enrollment drop by 8,000 students this year, has been struggling to stay solvent because of mounting pension bills. The board has been draining reserves, shortchanging its retirement fund and borrowing at punishing interest rates to stay afloat.

The state owes Chicago schools about \$466.5 million in delayed categorical payments, Moody's Investors Service said on July 6. Passage of a state budget is good news for the district, and an excuse to tighten the bonds, according to Fabian.

"They had over-corrected to the cheap side," Fabian said, "And now they're over-correcting to the rich."

Senate President John Cullerton, a Democrat, said he'll send Rauner the bill on Monday, saying that he wants time to negotiate with the governor and address his issues with the measure. If Rauner does a partial veto, lawmakers will try to override him, Cullerton told reporters in Springfield, and warned that Rauner is at risk of exceeding his constitutional authority if he makes major changes to the bill.

At a separate press conference, Rauner reiterated his demand that the bill be sent to him immediately, and said he'll deal with it in a "fully constitutional way."

## **Bloomberg Markets**

By Elizabeth Campbell

July 26, 2017, 10:19 AM PDT July 26, 2017, 2:06 PM PDT

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## **[S&P: Illinois Public Universities See Monetary Relief From State Budget Action But Recovery From Impasse Could Be Slow.](#)**

On July 7, 2017, Illinois lawmakers overrode a gubernatorial veto and passed a state budget for the first time since fiscal 2015. For the state's public higher education institutions, the approved fiscal 2018 budget and retroactive fiscal 2017 funding provide some monetary relief after two consecutive years of uncertainty and limited funding.

[Continue Reading](#)

Jul. 24, 2017

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## **Puerto Rico's Bondholders File First Suit Against Uncle Sam.**

Hedge funds holding Puerto Rico bonds sued the U.S. government, the first time creditors have tried to put federal taxpayers on the hook for losses suffered in the island's debt crisis.

A bondholder group represented by the Jones Day law firm filed suit in the U.S. Court of Federal Claims, the Washington tribunal that handles claims against the federal government. Creditors have been suing Puerto Rico since early last year over an escalating series of debt defaults, but never before has a group targeted Uncle Sam directly for damages.

Plaintiffs including Glendon Capital Management LP and Oaktree Capital Management LP are facing possible losses on bonds issued in 2008 to prop up Puerto Rico's struggling pension fund. Their lawsuit, filed Wednesday, blames the federal oversight board that was installed by Congress to dig the island economy out from its \$73 billion debt load. The seven-member board placed Puerto Rico's largest public retirement fund under bankruptcy protection in May to restructure those \$3 billion in pension bonds.

"Because the oversight board is so clearly a part of the federal government, its actions are themselves the actions of the United States," the complaint says.

Preventing a taxpayer bailout for Puerto Rico's financial woes was a priority for House Speaker Paul Ryan (Wis.) and congressional Republicans who designed Puerto Rico's rescue package. That law, known by its acronym Promesa, "isn't a bailout," according to a statement from Mr. Ryan's office last year. "It preserved that critical principle of protecting taxpayers."

A spokesman for the oversight board didn't immediately respond to a request for comment.

Promesa empowered the oversight board to write down Puerto Rico's massive pile of municipal debt consensually through negotiated deals, or through court-supervised proceedings if negotiations failed. After a decadelong recession punctuated by high unemployment and poverty rates, the U.S. territory is desperate to stem the migration of its residents to the U.S. mainland.

Like many municipal governments, Puerto Rico has long struggled to keep its pension systems healthy. Proceeds from the pension bonds were supposed to help the Puerto Rico Government Employees Retirement System continue paying benefits until elderly pensioners died off and younger public employees began retiring with less-generous benefit packages. Instead, the value of the system's investments cratered during the financial crisis, bringing the pension system to the brink of insolvency today.

The bonds are payable from the pension contributions paid by public employers toward their workers' retirements. Bondholders thought they would be paid first, but the oversight board last month adopted legislation to move the contributions outside the pension system and beyond creditors' grasp.

The plaintiffs asked for a court order declaring that maneuver an illegal taking of private property under the U.S. Constitution, as well as "compensation equal to payment of the principal amount of the [Employees Retirement System] bonds."

Creditors were optimistic the oversight board would quickly approve consensual settlements and avoid prolonged bankruptcy proceedings, but now that hope is dwindling. Deals to restructure the island's general obligation bonds and its electric utility debt have met the board's veto, despite

prodding from congressional Republicans to honor restructuring deals negotiated with local officials.

## **The Wall Street Journal**

by Andrew Scurria

July 20, 2017 5:46 p.m. ET

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

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### **In Puerto Rico Bankruptcy, Mutual Funds Compete with Themselves.**

(Reuters) – U.S. mutual funds that held onto Puerto Rican debt as its economy crept toward collapse could get drawn into battles that pit their own investors against each other, as the island navigates the biggest government bankruptcy in U.S. history.

The reason for the quandary lies in the territory's Byzantine capital structure, where 18 public agencies owe a combined \$120 billion in bond and pension debt.

Bonds held by the companies' many funds are spread across myriad credits, some in direct competition for recoveries, meaning wins for some investors trigger losses for others.

For OppenheimerFunds and Franklin Advisers, whose combined \$10.3 billion in Puerto Rican debt makes them among the island's biggest creditors, negotiating that minefield is particularly important. (For a related graphic, click [tmsnrts.com/2eRyYw3](https://tmsnrts.com/2eRyYw3))

The funds say their cross-holdings reflect a long-term commitment to Puerto Rico, and give them more of a stake than other creditors in righting the island's ship. Bankruptcy and municipal bond experts say, however, the competing claims raise questions about whether they can represent investors' best interests.

It adds a wrinkle to already complex restructuring talks, muddying the path to recovery for investors who tied up their savings in Puerto Rico.

Struggling with a 45 percent poverty rate and near-insolvent public healthcare, the island in May filed a form of bankruptcy under the federal 2016 rescue law known as PROMESA, confronting creditors with unique challenges.

"This is not something I've seen in the bankruptcy world," said restructuring expert Drew Dawson.

While it is not rare for a creditor to hold multiple tranches of debt, it is less common when the creditor runs many funds with competing investments, said Dawson, a professor at the University of Miami School of Law.

"You run all these funds – which do you side with?" he said. "If I were an investor, I'd be concerned."

As of April 30, Oppenheimer had about \$7.3 billion of total exposure, while Franklin, after offloading some of its Puerto Rico holdings in recent years, had around \$3 billion.

Those holdings, based on face value, may not represent exposure for debt bought at a discount, and some of the debt may be insured, shielding the funds from losses.

## **Playing Two Sides**

The island's \$17 billion of so-called COFINA debt, secured by sales tax, is the main battleground.

COFINA creditors are locked in litigation with holders of Puerto Rico's general obligation (GO) bonds, with both sides claiming a right to sales tax revenue.

Overall, Franklin and Oppenheimer held \$3.2 billion of COFINA as of April 30, more than twice their combined GO holdings. Yet at Franklin, six funds held exclusively GO debt, claims worth a combined \$276 million.

Similar clashes exist between senior COFINA holders, who have first claim on the tax revenue, and junior creditors.

Overall, the companies held nearly four times as much junior as senior COFINA debt. Yet Oppenheimer's Rochester Fund Municipals, for example, had \$384 million of senior debt and just \$83 million of the junior tranche.

Smaller players face similar challenges. The Santander First Puerto Rico Family of Funds ran eight funds each with at least \$28 million of COFINA debt. Three of those had at least two-thirds invested in the junior tranche; five had 70 percent or more in the senior class.

Oppenheimer, Franklin and Santander have formed an ad hoc bankruptcy negotiating group, whose strategy so far has been to maximize total returns across portfolios, rather than advocate for funds whose debt may be more senior, according to a Reuters analysis of court filings and public statements by the funds and their advisers.

"Our advocacy is not centered around particular classes of bonds, but around seeking the best overall return for our shareholders," said Kimberly Weinrick, a spokeswoman for Oppenheimer.

A spokeswoman for Franklin declined to comment for this article, while Ann Davis, a Santander spokeswoman, declined to comment on the cross-holdings. One key exception to the alliance: the Franklin funds that hold exclusively general obligation debt have joined a separate negotiating group comprised only of holders of such debt, according to a July 13 court filing.

The GO and mutual fund groups have taken opposing sides in a handful of court battles, which could prompt questions from a judge or other creditors as to which side Franklin is more closely aligned with, Dawson said.

Cross-holdings are not prohibited in bankruptcy, though judges have the authority to decide whether a party is too conflicted to vote on a restructuring plan, he added.

Rival creditors, too, could try to exploit apparent conflicts to limit the mutual funds' bargaining clout. In June, hedge fund owners of senior COFINA bonds asked a bankruptcy judge to bar the mutual funds from a role in nominating a COFINA fiduciary in settlement talks, citing their "undeniable conflict."

The judge told the sides to try to resolve the issue internally, and talks continue.

## **Sensible but Risky**

For years, mutual funds piled into Puerto Rico's debt because it was exempt from local, state and federal taxes and because until PROMESA's passage in June 2016, the island was barred from

declaring bankruptcy.

Court documents and public statements from the mutual fund negotiating group suggest it tends to side with classes of debt where its funds have the most exposure.

For example, the funds have primarily advocated for the COFINA junior tranche, where they have the greatest exposure, at the expense of senior COFINA and GO creditors.

They have also fought hard for a restructuring deal at Puerto Rico's power utility PREPA, which owes Oppenheimer and Franklin a combined \$1.6 billion, even as Puerto Rico's federally-appointed oversight board warned that a generous deal could hurt Puerto Rico's broader economy.

The strategy is sound, but risky, said Tom Metzold, who spent nearly three decades as a municipal bond portfolio manager at Eaton Vance. By fighting for junior bondholders, the funds raise the odds of a settlement in which everyone gets a fair deal, given that senior creditors are already well represented, Metzold said.

Yet it also opens the funds to criticism that they did not fight hard enough for their senior-most holdings, he said.

"A number of people will be performing autopsies" on whatever decisions the funds make, Metzold said.

"I'm glad I'm not in their shoes."

Reporting by Nick Brown; Editing by Tomasz Janowski

JULY 27, 2017

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### **[Fitch: Pennsylvania Has Capacity to Address Fiscal Challenges.](#)**

Fitch Ratings-New York-24 July 2017: Although Pennsylvania faces a sizable budget gap, the commonwealth's 'AA-' Issuer Default Rating (IDR) and Stable Outlook incorporates Fitch Ratings' expectation that the commonwealth will utilize the significant budgetary flexibility available to most states to respond to its various fiscal pressures adequately.

The commonwealth enacted a spending plan for fiscal 2018, but has yet to enact a revenue package to provide full funding. Pennsylvania also must address a sizable revenue shortfall from fiscal 2017. Legislative leadership and the governor remain engaged in ongoing budget negotiations. Fitch anticipates updating the commonwealth's IDR and related ratings following evaluation of an enacted revenue package.

Pennsylvania ended its last fiscal year on June 30 with a roughly \$1.5 billion general fund revenue shortfall and has enacted a fiscal 2018 spending plan with a reported \$700 to \$800 million gap with revenues available under current law. Given the enactment of a general fund appropriations bill for fiscal 2018 (HB 218), Fitch anticipates further budget balancing will rely on revenue measures. General fund appropriations of nearly \$32 billion include notable savings in recurring expenditures (\$2 billion according to the governor's office), as well as increases in key policy areas such as K-12 education.

Legislative leadership and the governor have indicated their intent to address the estimated combined budget gap of approximately \$2.2 billion (across fiscal years 2017 and 2018) in one set of measures. All parties are reportedly considering a wide range of revenue solutions from one-time sources such as leveraging tobacco settlement revenues or fund sweeps, to recurring sources with varying levels of reliability and certainty. In evaluating a final revenue package, Fitch will assess whether proposed measures include reasonable estimates of anticipated revenues, and whether those revenues are sufficiently sustainable over the long term to address Pennsylvania's ongoing structural budget gap.

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## **[KBRA Releases Report for Miami-Dade County's Aviation Revenue Refunding Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of AA- with a Stable outlook to the Miami-Dade County Aviation Revenue Refunding Bonds Series 2017B (AMT), Series 2017C (Non-AMT), and Series 2017D (Taxable). In addition, KBRA has affirmed the AA- rating and Stable Outlook on the County's outstanding aviation revenue bonds that are not supported by an external third-party credit agreement and are not double-barreled aviation revenue and general obligation bonds.

The airport revenue and revenue refunding bonds are special limited obligations of the county, payable solely from a pledge of the net revenues derived from the Port Authority's properties (PAP), including the operation of the Miami International Airport (MIA), three general-aviation airports, one flight-training airport, and one decommissioned airport. The major components of the PAP are the terminals, grounds, runways, and taxiways. The security for the aviation revenue bonds does not include any mortgage or lien or any security interest in any of the PAP.

To access the full report, please click on the link below:

**[Miami-Dade County's Aviation Revenue Refunding Bonds](#)**

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **L.A. City Council President Wants To Create A Municipal Bank For The Pot Industry.**

Los Angeles City Councilmember Herb Wesson has proposed setting up a municipal bank to enable the recently legalized state cannabis industry to open accounts and secure loans.

"We cannot bury our heads in the sand on the issue of recreational and medical cannabis legalization, instead we must strive to reasonably regulate the emerging industry while creating opportunities for Angelenos," Wesson said in the speech on Tuesday to the City Council, following his unanimous re-election as Council President.

When Californians passed Proposition 64 in November, it paved the way for legal recreational use of marijuana throughout the state (beginning in 2018). However, the legal complexities surrounding the sale profits still remain.

"It left significant questions unresolved," John Chiang, Treasurer of California, told the Los Angeles Times. "How do you handle the taxation of cannabis dollars and the banking of billions of dollars of transactions that are going to take place here in California?"

The Times adds that the state's cannabis industry saw \$3.3 billion in sales for 2016, and that number is expected to hit \$7.5 billion in 2018. Yet, large financial institutions refuse to take the industry's money for fear of legal entanglement with federal regulations that still criminalize marijuana and list it alongside drugs like heroin and cocaine.

In his proposal to establish a municipal bank that would do business with the marijuana industry, Wesson noted that, currently, "[cannabis business owners] are going to go home tonight and sleep on a mattress that's worth \$2 million," while others "have a million and a half dollars in cash buried in the backyard." Wesson continued, "[w]e have to figure out a way to make this industry work."

What further complicates the situation is that, though the city of Los Angeles accepts business tax payments in cash, the State Board of Equalization does not, reports the Los Angeles Daily News.

"We get lots of cash, and sometimes it has been washed — actually washed — because it had been buried out in the backyard," said John Bartholomew, treasurer-tax collector for Humboldt County in Northern California, according to the Times.

"Right now, at the downtown [Los Angeles] office of finance, there's a six-story parking structure 500 yards away. I have to walk through what is essentially a homeless encampment with a duffel bag full of cash, walk across the street, go through security and then sometimes stand in line," said Jerred Kiloh, a dispensary owner in the Valley, while speaking on the complexities paying business taxes to the city. "No one comes in with the type of cash they come in with," Todd Bouey, Los Angeles' assistant director of finance, said of the marijuana industry. "It was taking hours to get through one deposit."

According to the Daily News, Councilman Herb Wesson is expected to introduce a formal motion for his municipal bank proposal to the City Council's Budget and Finance Committee.

"[D]eposits could be used for public benefits including gap funding for affordable housing projects, but the Council President is awaiting further study from various city departments on the topic," Vanessa Rodriguez, communications director for Councilman Wesson, told LAist.



"Should the Bank of Los Angeles proposal move forward, the Council President is committed to ensuring the city meets all banking guidelines set forth by both the Department of Justice and Department of Treasury."

LAIST.COM

BY OREN PELEG

JUL 26, 2017 11:18 AM

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## **Illinois Dodges Downgrade to Junk.**

- **A rating cut is still possible as state has negative outlook**
- **Price of Illinois bonds rallied to highest since September**

The Illinois State Capitol Building, in Springfield. Photographer: Raymond Boyd/Getty Images  
Illinois avoided becoming the first junk-rated U.S. state after Moody's Investors Service opted to leave its grade unchanged, pushing the price of the state's bonds to the highest since September.

Moody's on Thursday confirmed the state's Baa3 rating, the lowest investment grade, after lawmakers overrode Governor Bruce Rauner's veto this month to enact the first budget in two years. While that eased the immediate threat of a downgrade, the outlook is still negative, signaling that another cut is possible to its \$32 billion of debt.

The enacted spending plan "alleviates immediate liquidity pressures, moves the state closer to fiscal balance and should keep pension and other fixed costs at manageable levels at least in the near term," Moody's said in a statement on Thursday. "While budget passage alleviates immediate threats to the state's credit, long-term challenges remain."

Illinois's bonds have rallied since the legislature acted to raise taxes and end a long-running standoff that left the state with a record backlog of unpaid bills as it kept spending more than it brought in. The lawmakers were prodded in part by the threat of further downgrades if they failed to act, a step that would have rattled investors and left some mutual funds unable to buy its bonds.

On Thursday, Illinois's taxable pension bonds due in June 2033 rose to an average of 97.3 cents on the dollar, the highest since September 2016 and up from 96.5 cents Wednesday, according to data compiled by Bloomberg. That pushed down the yield on the securities, the state's most-actively traded, to 5.35 percent from 5.43 percent.

"The Moody's affirmation should help the spread on the bonds tighten a little bit," said Dennis Derby, a money manager in Menomonee Falls, Wisconsin, at Wells Fargo Asset Management, which holds Illinois bonds among its \$40 billion of municipal debt. "It shows that the revenue increases have had a positive effect on investor sentiment as well as the rating agencies."

Moody's is the last of the major credit rating companies to wrap up its review of Illinois since the budget was enacted. S&P Global Ratings affirmed Illinois's BBB- rating on July 12 and Fitch kept the state at BBB on July 17.

Illinois is still the worst-rated state and is struggling with more than \$129 billion of unfunded pension liabilities. The \$36 billion spending plan approved by the Democrat-led legislature with the

help of some Republicans includes income-tax increases to ease chronic budget deficits.

Under the new budget, the state is authorized to sell as much as \$6 billion of long-term bonds to help pay down the bill backlog. If the state comes to market and the backlog keeps growing, that would be “problematic,” Wells Fargo’s Derby said. Moody’s noted that could lead to a downgrade.

“It does give investors a little bit of breathing room,” Derby said. “And then they’ll have to wait to see what the state does with the new debt issue and how they manage.”

## **Bloomberg**

By Elizabeth Campbell

July 20, 2017, 2:25 PM PDT

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### **[KBRA Affirms Ratings to the City of Chicago Sales Tax Revenue Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of AA+ with a Stable Outlook on the City of Chicago Sales Tax Revenue bonds.

This rating is based on KBRA’s [U.S. Special Tax Rating Methodology](#). This methodology defines special tax revenue bonds as bonds that are secured by a lien on revenues derived from the levy of a tax or fee on the sale of goods and services or other specifically defined revenue streams.

To access the full report, please click on the link below:

[City of Chicago Sales Tax Revenue Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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### **[Fitch: California Cap/Trade Bill Lowers Public Power Reg. Risk.](#)**

Fitch Ratings-New York-18 July 2017: California’s extension of its cap-and-trade legal framework through 2030 will reduce regulatory risk for the state’s public power utilities by giving greater clarity on the legal framework beyond 2020, says Fitch Ratings. This in turn will allow for better resource planning decisions.

California’s public power utilities have been successful at managing the state’s numerous and ambitious environmental rules by recovering higher costs from ratepayers and maintaining financial margins. We expect this trend to continue and public power credit quality to remain strong through the second decade of California’s environmental transformation.

California’s cap-and-trade auction platform is the largest of its type in the US. Its original goal was to set an emissions limit equivalent to 1990 levels by 2020. Regular carbon auctions began in November 2012 by introducing hard emissions caps on electricity generators and large industrial sources. The program’s scope was expanded to cover transportation fuels, natural gas, propane and fossil fuels in 2015. The program included free allocations of carbon allowances in the initial years,

and gradually phased those allowances out, providing utilities with a runway to downsize carbon emissions over time.

The original 2006 legislation did not address what would occur with the program beyond 2020, creating uncertainty for market participants. Utilities that expected to continue to have excess allowances after 2020 could not be certain a market would exist on which to resell those allowances. Utilities requiring more time during the transition toward cleaner generation may have needed to accelerate resource investments if the market framework was not extended.

The recently approved legislation allows for carbon allowances to be banked indefinitely, reduces the amount of carbon offsets to a maximum of 6% from 2025 to 2030, includes provisions for price ceilings, and allows for the provision of allowances to support industry efforts to comply with the law and minimize cost disruptions. The target for the extended program is to reduce state wide greenhouse gas emissions to 40% of 1990 levels by 2030.

Public power utilities owned much of the coal-fired generation when the cap-and-trade program began. Since coal-fired generation emits roughly double the amount of greenhouse gases as natural gas-fired generation, downsizing coal-fired generation became a priority. Most public power issuers sold coal-fired generation or are in the process of doing so. This includes the Navajo Generating Station (formerly owned by Los Angeles Department of Water and Power), the San Juan Generation Station (with ownership interests being divested by members of MSR Public Power) and the Southern California Public Power Authority (SCPPA) and plans to repower the Intermountain Power Project in Utah by 2026 (owned by members of SCPPA).

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com). The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at [www.fitchratings.com](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **On Infrastructure, California Goes Back to Basics.**

***The state's transportation chief calls a new \$54 billion transportation package monumental. But the projects it funds will be more mundane than monumental***

For the first time since 1989, California lawmakers this year passed a gas tax hike. The increase — by 12 cents a gallon on gasoline and 20 cents a gallon on diesel — will pay for a decade-long building program that will cost \$54 billion.

California is one of many states this year to raise its fuel taxes, but the state's sheer size makes the new transportation funding law significant. The Trump administration, by comparison, has broadly outlined a \$1 trillion investment in infrastructure over a decade — only \$200 billion of which would come from the federal government.

In other words, over the next decade, California will spend a quarter of what the federal government would spend on the entire country under Trump's plan.

[Continue reading.](#)

GOVERNING.COM

BY DANIEL C. VOCK | JULY 18, 2017

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## **California Developers Test New State 'Certificated' Credits.**

***The new approach is expected to bring higher prices for state housing tax credits.***

Several affordable housing developers are working to close the financing on their latest projects using new “certificated” credits in California.

They will be the first to use the financing tool after California leaders made changes to the law to allow for the certification of state low-income housing tax credits (LIHTCs) under a three-year pilot. The move aims to help nonprofit developers receive higher pricing for their state credits and ultimately raise more equity for their projects.

State credits in California have recently sold for about 65 to 75 cents per dollar of credit, but officials think that the certificated credits could generate 90 to 95 cents per dollar of credit. That could result in about \$20 million in additional equity to California projects and ultimately more affordable housing being built.

Under the program, participating developments must receive at least 80 cents per dollar of credit.

“From the prior floor to 80 cents is a 23% increase,” says Brian D’Andrea, senior vice president of housing at Century Housing. “Our hope and expectation is that we’ll be able to achieve at least that.”

Century Housing affiliate, Century Affordable Development, has chosen to use certificated credits to raise equity to build Beacon Pointe, a 121-unit affordable housing development for seniors in Long Beach, Calif. Sixty-one apartments will be set aside for seniors who have been homeless. The

California Tax Credit Allocation Committee (CTCAC) recently reserved the project nearly \$11 million in state credits.

It's one of the first five developments electing to certificate credits. These initial developments received reservations for about \$30.2 million in state credits. California has an annual state credit ceiling of about \$94 million.

"We're very pleased to have received the allocation, and we're working toward a closing later this year," says D'Andrea.

The Cesar Chavez Foundation, Coachella Valley Housing Coalition, National Housing Corp., and PATH Ventures are the other developers that received reservations for certificated credits from CTCAC.

How it worksTraditionally, LIHTCs are allocated to developers, who then sell them to an investor, usually in the form of a limited partnership interest. Certificated credits differ in that they are sold outright to investors who take no ownership interest in the development. This eliminates the impact of the state credits on an investor's federal tax liability, allowing an investor to offer higher pricing.

CTCAC reserves certificated credits in the name of the nonprofit partner in a development. The nonprofit can then sell the credits to one or more investors, with the law allowing each initial investor to resell the credits one additional time.

The California Housing Partnership Corp. (CHPC) and state treasurer John Chiang co-sponsored and helped draft the legislation by state Sen. Jim Beall (D-San Jose) that opened the doors for the program. Supporters were working on the certificated credit program long before the recent turmoil in the LIHTC market.

Federal LIHTC prices dropped sharply after the November election as the prospects of tax reform increased with Donald Trump in the White House and Republicans in control of the House and Senate. Trump has called for slashing the business tax rate from 35% to 15% while members of Congress will likely be eyeing a rate in the 20% to 25% range. While a change in the tax rate does not affect the value of the tax credits themselves, it can impact depreciation and other tax losses that are part of the investment.

The uncertainty around tax reform caused some investors to pull out of funds or offer lower prices for LIHTCs, creating funding gaps in a number of affordable housing deals. As a result, the opportunity to get more value from the state credit comes at an ideal time.

"Everyone was interested in a way to get more bang for the buck out of the state's existing program," says David Dologite, senior housing finance consultant and policy counsel at CHPC. "It doesn't involve the state spending any more money. The amount of tax credits that investors are receiving is the same. It increases the value of the credit and the price that sponsors are able to receive."

Developers need to make an irrevocable choice upfront on whether to certificate when they apply for credits. The reason for that is CTCAC's underwriting depends on what credit price developers use in their proposals.

Under the program, investors who buy certificated credits must have participated in state or federal tax credits previously, according to the state Treasurer's Office. At least in the pilot stage, this ensures that participants are sophisticated, historic investors.

If the program is successful, supporters hope it will become permanent, Dologite says.

California leaders looked to other states in creating the new program, including Massachusetts, which has been a leader in the certification of housing credits. Other states have also used the approach for historic and economic development credits.

Housing leaders have high expectations for the program in California, with more developers expected to secure reservations for certificated credits in the second allocation round this year.

## **Affordable Housing Finance**

by Donna Kimura

July 17, 2017

### **ABOUT THE AUTHOR**

Donna Kimura is deputy editor of Affordable Housing Finance. She has covered the industry for more than a decade. Before that, she worked at an Internet company and several daily newspapers. Connect with Donna at [dkimura@hanleywood.com](mailto:dkimura@hanleywood.com) or follow her @DKimura\_AHF.

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## **[National Public Finance Guarantee Corporation Takes Legal Action to Lift the PROMESA Stay to Seek the Appointment of a Receiver and Compel a Rate Increase in Accordance with Puerto Rico law and PREPA's Trust Agreement.](#)**

PURCHASE, N.Y.-(BUSINESS WIRE)-National Public Finance Guarantee Corporation ("National"), an indirect subsidiary of MBIA Inc. (NYSE:MBI), today announced that National, along with the Ad Hoc Group of PREPA bondholders, Assured Guaranty Corp., Assured Guaranty Municipal Corp. and Syncora Guarantee Inc. ("the Creditor Group"), has filed a motion in the U.S. District Court for the District of Puerto Rico to lift the PROMESA stay to seek to enforce its right to compel the appointment of an independent receiver in order to pursue increased rates and to oversee certain operations of the Puerto Rico Electric Power Authority ("PREPA").

"As PREPA's single largest creditor, we worked tirelessly for several years with all stakeholders on a comprehensive restructuring that the Oversight Board forced off the table in violation of PROMESA. As a result of the default precipitated by the Oversight Board's unlawful action, we now have little option but to enforce our legal and contractual rights, and to ensure PREPA sets rates and charges that are sufficient to meet its financial obligations," said Bill Fallon, CEO of National Public Finance Guarantee Corporation. "We cannot allow PREPA to continue to ignore its obligations under Puerto Rico law and the terms of our Trust Agreement. Given PREPA's lengthy history of mismanagement and cronyism and the inherent conflicts of interest ignored by the Governor and the Oversight Board, an independent receiver will provide much-needed protection for PREPA, the citizens of Puerto Rico and its creditors. It is imperative that the rule of law is recognized and that the political manipulation of PREPA is halted. We continue to support the utility's long-term viability and access to the capital markets."

Puerto Rico law and the PREPA Trust Agreement require PREPA to set electricity rates at amounts sufficient to enable PREPA to pay its debts, which include approximately \$8.3 billion of outstanding bond debt. Accordingly, today's motion seeks to lift the stay under the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") so that the Creditor Group can enforce their

rights under Puerto Rico law and the Trust Agreement following the payment default by PREPA earlier this month.

Bondholders holding at least 25 percent in principal amount of the PREPA bonds outstanding have a statutory right to the appointment of a receiver following an event of default. National, along with rest of the Creditor Group, represent almost 70 percent of the outstanding bonds.

In addition, National has filed an amended complaint in its lawsuit against the Oversight Board in the U.S. District Court for the District of Puerto Rico, asking the court to award National damages for the Oversight Board's unlawful rejection of the RSA.

### Forward-Looking Statements

This release includes statements that are not historical or current facts and are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "anticipate," "project," "plan," "expect," "estimate," "intend," "will likely result," "looking forward" or "will continue," and similar expressions identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected, including, among other factors, the possibility that MBIA Inc. or National will experience increased credit losses or impairments on public finance obligations issued by state, local and territorial governments and finance authorities that are experiencing unprecedented fiscal stress; the possibility that loss reserve estimates are not adequate to cover potential claims; MBIA Inc.'s or National's ability to fully implement their strategic plan; and changes in general economic and competitive conditions. These and other factors that could affect financial performance or could cause actual results to differ materially from estimates contained in or underlying MBIA Inc.'s or National's forward-looking statements are discussed under the "Risk Factors" section in MBIA Inc.'s most recent Annual Report on Form 10-K, which may be updated or amended in MBIA Inc.'s subsequent filings with the Securities and Exchange Commission. MBIA Inc. and National caution readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. National and MBIA Inc. undertake no obligation to publicly correct or update any forward-looking statement if it later becomes aware that such result is not likely to be achieved.

National Public Finance Guarantee Corporation, headquartered in Purchase, New York is the world's largest U.S. public finance-only financial guarantee insurance company, with offices in New York and San Francisco. Please visit National's website at [www.nationalpfg.com](http://www.nationalpfg.com).

July 18, 2017 02:42 PM Eastern Daylight Time

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## **[Creditors of Puerto Rico Utility Demand a Receiver.](#)**

### ***Bondholders seek installation of a receiver following utility default***

Wall Street investors asked a court to place Puerto Rico's indebted public electric monopoly under receivership, escalating a standoff over reforming the U.S. territory's dilapidated power infrastructure.

Financial creditors filed court papers on Tuesday demanding the appointment of a receiver at the power utility known as Prepa following the collapse of a proposed debt restructuring agreement last month.

Hedge fund bondholders Angelo Gordon & Co., BlueMountain Capital Management and Marathon Asset Management LLC joined in Tuesday's request alongside mutual funds Franklin Resources Inc. and OppenheimerFunds Inc., as well as bond insurers Assured Guaranty Ltd. and MBIA Inc.

Prepa, one of the largest U.S. utilities, is a flashpoint in Puerto Rico's financial crisis. The federal board installed to revive Puerto Rico's economy placed the public corporation under bankruptcy protection this month to write down \$9 billion in utility debt.

The seven-member oversight board had vetoed a proposed restructuring designed to avert bankruptcy, saying the financial settlement would have left too much debt outstanding and thwarted Prepa's transition from a public monopoly to a modern, regulated utility model.

Creditors have argued that restructuring Prepa's debts voluntarily would bolster its creditworthiness and attract private partners. A federal rescue package empowered the oversight board to write down Puerto Rico's \$73 billion in municipal bond debt either through negotiated settlements or through binding, court-supervised proceedings.

Board members and local officials are searching for private investment capital to upgrade outdated power plants and lower electricity costs with the goal of jump-starting the Puerto Rican economy after nearly a decade of recession.

Meanwhile Puerto Rico's governor, Ricardo Rossellò, has consolidated control over Prepa, recently firing an independent board of directors installed under his predecessor. Creditors on Tuesday criticized the governor for "re-politicizing" the utility board to avoid what they called necessary rate increases on Prepa customers.

"The politicization of Prepa has only grown worse under the current administration," the court motion said. "This has resulted in a giant step backwards for Prepa."

The collapse of the proposed settlement was an unwelcome development for creditors, since a judge could impose larger losses than those they had agreed to accept. Prepa's bankruptcy also roiled some Republican members of Congress who wanted the deal quickly blessed as a model for consensual settlements of Puerto Rico's other debts.

Yet planned increases in electricity rates to repay creditors made the deal politically toxic in Puerto Rico, even after the governor obtained additional debt concessions in March to mitigate the hit to consumers. Costly, unreliable utility service remains a drag on family incomes and quality of life in Puerto Rico, where last year a massive blackout left Prepa customers without power for three days.

## **The Wall Street Journal**

By Andrew Scurria

July 18, 2017 3:31 p.m. ET

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

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## **[Puerto Rico's Bondholders File First Suit Against Uncle Sam.](#)**

***Hedge funds seeking compensation from U.S. for potential losses***



Hedge funds holding Puerto Rico bonds sued the U.S. government, the first time creditors have tried to put federal taxpayers on the hook for losses suffered in the island's debt crisis.

A bondholder group represented by the Jones Day law firm filed suit in the U.S. Court of Federal Claims, the Washington tribunal that handles claims against the federal government. Creditors have been suing Puerto Rico since early last year over an escalating series of debt defaults, but never before has a group targeted Uncle Sam directly for damages.

Plaintiffs including Glendon Capital Management LP and Oaktree Capital Management LP are facing possible losses on bonds issued in 2008 to prop up Puerto Rico's struggling pension fund. Their lawsuit, filed Wednesday, blames the federal oversight board that was installed by Congress to dig the island economy out from its \$73 billion debt load. The seven-member board placed Puerto Rico's largest public retirement fund under bankruptcy protection in May to restructure those \$3 billion in pension bonds.

"Because the oversight board is so clearly a part of the federal government, its actions are themselves the actions of the United States," the complaint says.

Preventing a taxpayer bailout for Puerto Rico's financial woes was a priority for House Speaker Paul Ryan (Wis.) and congressional Republicans who designed Puerto Rico's rescue package. That law, known by its acronym Promesa, "isn't a bailout," according to a statement from Mr. Ryan's office last year. "It preserved that critical principle of protecting taxpayers."

A spokesman for the oversight board didn't immediately respond to a request for comment.

Promesa empowered the oversight board to write down Puerto Rico's massive pile of municipal debt consensually through negotiated deals, or through court-supervised proceedings if negotiations failed. After a decadelong recession punctuated by high unemployment and poverty rates, the U.S. territory is desperate to stem the migration of its residents to the U.S. mainland.

Like many municipal governments, Puerto Rico has long struggled to keep its pension systems healthy. Proceeds from the pension bonds were supposed to help the Puerto Rico Government Employees Retirement System continue paying benefits until elderly pensioners died off and younger public employees began retiring with less-generous benefit packages. Instead, the value of the system's investments cratered during the financial crisis, bringing the pension system to the brink of insolvency today.

The bonds are payable from the pension contributions paid by public employers toward their workers' retirements. Bondholders thought they would be paid first, but the oversight board last month adopted legislation to move the contributions outside the pension system and beyond creditors' grasp.

The plaintiffs asked for a court order declaring that maneuver an illegal taking of private property under the U.S. Constitution, as well as "compensation equal to payment of the principal amount of the [Employees Retirement System] bonds."

Creditors were optimistic the oversight board would quickly approve consensual settlements and avoid prolonged bankruptcy proceedings, but now that hope is dwindling. Deals to restructure the island's general obligation bonds and its electric utility debt have met the board's veto, despite prodding from congressional Republicans to honor restructuring deals negotiated with local officials.

**The Wall Street Journal**

By Andrew Scurria

July 20, 2017 5:46 p.m. ET

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## **Puerto Rico's Troubles Create New Opportunities for Investors.**

Puerto Rico entered its own form of bankruptcy in early May, and the financial crisis there is still getting worse. But even as the restructuring process devolves into more lawsuits, defaults, and downgrades, some ripple effects are creating surprising opportunities for investors.

Consider what's going on with MBIA the parent of bond insurer National, which insures about \$4 billion in par value of Puerto Rico bonds. (That's about \$8.5 billion in total debt exposure, including all scheduled interest payments and principal.) MBIA's business plans were torpedoed by a two-notch rating downgrade by S&P Global Ratings in late June. The firm laid off employees and said it would give up trying to write new business, as bond insurers have to be rated higher than municipalities for the insurance to add any value.

Yet, MBIA's shares have been rising ever since. On Tuesday, management told investors to expect shareholder-friendly moves, such as more stock buybacks and perhaps a special dividend—even as it had to increase accounting for losses related to Puerto Rico. Executives say the firm, which has the ability to pay claims equal to \$4.6 billion, is now “unshackled from most of the limitations imposed by the rating agencies,” by not writing new business. The stock has risen to \$10 from \$8 in the past two months.

Investors expect MBIA to be acquired by fellow bond insurer Assured Guaranty. Deal speculation has fueled the gains. CreditSights analyst Josh Esterov thinks it will be challenging for the two companies to reach a deal, but calls the logic behind it “sound.”

Such special situations aren't normally the purview of municipal-bond investors. But the bonds insured by MBIA and Assured may be. Richard Daskin of RSD Advisors believes that investing in insured Puerto Rico paper can be a good opportunity, even though he qualifies that it “should probably be done with professional help.”

Mark Taylor, portfolio co-manager of the Alpine High Yield Managed Duration Municipal fund, has recently added to his fund's stake in insured Puerto Rico munis, raising his allocation to 6% from about 5%. He won't touch uninsured Puerto Rico paper, and he keeps maturities to within five years. For example, he owns some general-obligation bonds maturing in 2020 that now yield 3%, equivalent to a 5% taxable yield for investors in a high tax bracket.

Mr. Taylor was surprised by MBIA's downgrade, which he calls “draconian.” He believes the firm has adequate reserves for at least the next several years. Plus, if MBIA is sold, the bonds it insures would climb in price, he says.

Other muni-fund managers are avoiding Puerto Rico bonds altogether. “I think the ultimate outcomes will be significantly worse than where the bonds are trading now,” says Nicholas Venditti of Thornburg Investment Management. While Puerto Rico's GO bonds are trading at about 60 cents on the dollar, he believes they could ultimately be worth as little as 25 cents. And if Assured, which has higher reserves than MBIA does, has to pay out large amounts in claims, it could get

downgraded.

“These entities live and die by their credit ratings,” Mr. Venditti says. Yet if bond insurers get through Puerto Rico’s restructuring, pay all their claims, and don’t get downgraded, they could have a great sales pitch to boost their business, he notes.

Puerto Rico’s road to restructuring is going worse than expected for creditors so far. “The judge is the one picking winners and losers, and that isn’t a good place to be,” says Mr. Taylor. But for owners of insured Puerto Rico bonds—and even shareholders of beleaguered MBIA—things may turn out just fine.

## **The Wall Street Journal**

By Amey Stone

July 17, 2017 12:05 p.m. ET

Write to Amey Stone at [amey.stone@barrons.com](mailto:amey.stone@barrons.com)

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### **Fitch Downgrades Puerto Rico Pension Bonds to 'D'**

Fitch Ratings-New York-20 July 2017: Fitch Ratings has downgraded the rating on the following bonds issued by the Employees Retirement System of Puerto Rico (ERS) to ‘D’ from ‘C’ and removed from Rating Watch Negative, to reflect the failure to make timely payment of interest on its due date:

-Senior pension funding bonds, series 2008A, 2008B, 2008C.

As a result of the application of the automatic stay in the ERS’ Title III bankruptcy-like proceedings under PROMESA, the ERS missed the scheduled July 1st interest payment, but will make the payment pursuant to a stipulation approved by an order from the U.S. District Court Judge overseeing the Title III proceeding. The ‘D’ rating reflects the failure to make payment on the scheduled due date under the contractual terms of the obligation. The stipulation requires payment of monthly interest from certain “pre-petition” funds through Oct. 1st. The stipulation further provides that the Commonwealth will cause certain amounts to be deposited on certain agreed-upon dates into a “post-petition” account, and the distribution of those amounts will be subject to the judge’s future orders regarding the validity, perfection and enforceability of the ERS bondholders’ liens.

The Commonwealth’s Issuer Default Rating (IDR) remains ‘RD’, indicating that the issuer has defaulted on a select class of its debt.

#### **RATING SENSITIVITIES**

The ratings on the bonds have reached the lowest level on Fitch’s rating scale. Fitch expects to re-examine the commonwealth’s credit profile once debt restructuring plans become more clear.

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## **Top Adviser to Puerto Rico Governor Resigns,' in No Way Pressured'**

NEW YORK — Elias Sanchez, Governor Ricardo Rosselló's liaison to Puerto Rico's financial oversight board who has been criticized over his financial disclosures, resigned on Thursday.

Sanchez, a trusted adviser to Rosselló who was effectively the face of the Puerto Rican government on issues concerning the U.S. territory's massive debt restructuring, said in an interview that he wanted to focus on opportunities in the field of law.

Rossello appointed Christian Sobrino Vega, president of Puerto Rico's Government Development Bank (GDB), as Sanchez's replacement on the board. In a statement, the governor called Sobrino "instrumental in the success of our administration."

Puerto Rico is in a historic economic crisis, with \$72 billion in debt it cannot repay, a 45 percent poverty rate, and insolvent public pensions. Its finances are under the oversight of a federal board that has been given the task of helping the island craft and follow a blueprint for its fiscal turnaround.

As Rosselló's delegate on the board, Sanchez, a former lobbyist, had become a favorite target of investors unhappy with potential cuts to debt repayment.

Specifically, Sanchez was disparaged for his financial disclosure forms - a requirement of all board members. According to critics, he did not provide enough information on the forms about his sources of income and potential conflicts of interest related to his role on the board.

Espacios Abiertos, a Puerto Rico-based nonprofit promoting transparency in government, said in a report this month that Sanchez's disclosures were more deficient in those areas than any of the other seven board members.

One adviser to a major Puerto Rico creditor group said many stakeholders “found it extremely concerning that his disclosures were so sparse.”

“Not only does that undermine the board and Governor Rosselló’s commitment to transparency, but it raises many questions when you’ve been in the lobbying sector,” said the adviser, who spoke on condition of anonymity.

Sanchez, who had worked as a lobbyist in Puerto Rico, did not say whether he planned to return to lobbying.

“Right now I’m evaluating every alternative that I might have,” in Puerto Rico and Central and South America, Sanchez said in a phone interview on Thursday morning.

Sanchez insists the decision to resign was his alone. “In no way was I pressured by anyone,” he said, adding that while he may have come under attack, he is “very comfortable with everything” he did on the board to represent the best interests of the people of Puerto Rico.

In a statement issued in Spanish, Rossello praised Sanchez’s “great professional skills.”

“I wish to thank (Sanchez) for his willingness to serve Puerto Rico, his commitment to our administration and, on a personal level, our respect and esteem,” Rossello said.

As a non-voting member on the board, Sanchez did not have a direct role in board decisions. However, he acted as the governor’s eyes, ears and voice on the board, helping him form positions on financial matters, and communicating them to the board and the public.

Jose Carrion, the chairman of the oversight board, said Sanchez “was always available, committed and dedicated to represent with determination the governor’s postures before the Board.”

## ALWAYS ENVISIONED LEAVING

The liaison position is unpaid, and Sanchez was technically not a government employee.

A spokesman for the governor said Sobrino will continue as president of the GDB, the island’s now-defunct fiscal agent, which is being wound down as part of a liquidation agreement with creditors.

Sobrino, a lawyer, worked as a compliance officer for drug company AbbVie before his appointment to the GDB last December.

In May, Puerto Rico filed the largest bankruptcy in U.S. municipal history, sparking hard-fought litigation between the board and Puerto Rico’s creditors over the fates of the island’s agencies and the loans that back them.

The oversight board, created under the federal 2016 Puerto Rico rescue law dubbed PROMESA, certified a turnaround blueprint for Puerto Rico in March.

Sanchez said he had always envisioned leaving once the plan was in place.

The board and Rossello’s administration have not always seen eye to eye, with the governor resisting some of the board’s proposed austerity measures.

Sanchez attributed the tension to “growing pains associated with a new framework.”

“Puerto Rico had never had something like [PROMESA] before,” he said. “Were we not aligned in

certain circumstances? Yes ... In the net, it's been a positive experience."

By REUTERS

JULY 20, 2017, 1:12 P.M. E.D.T.

(Reporting by Nicholas Brown in New York; Editing by Jeffrey Benkoe and Daniel Bases)

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## **Downgrade in State Oklahoma Could Impact Borrowing Costs.**

Fitch Ratings has downgraded the ratings on several Oklahoma bonds one notch — a move that could increase the state's borrowing costs on a number of projects.

The American Indian Cultural Center in Oklahoma City, the Oklahoma Museum of Popular Culture in Tulsa, some higher education construction projects and a new state Health Department lab are among upcoming bond-financed projects likely to be impacted by the downgrade.

The rating change won't impact Oklahoma Turnpike bonds, because they are backed by revenue generated by the turnpike system and are not dependent on state appropriations for the repayment of bonds.

### **Rating change**

Fitch Ratings, one of the big three municipal credit rating services, announced Tuesday that it was lowering the state of Oklahoma's issuer default rating from AA+ to AA.

Fitch also announced that it was lowering the rating on the state's general obligation bonds from AA+ to AA and reducing the ratings on the state's Oklahoma Capitol Improvement Authority and Oklahoma Development Finance Authority bonds from AA to AA-.

Following the downgrade, Fitch's Oklahoma ratings will closely align to those of Standard & Poor's credit rating service, which lowered Oklahoma's rating March 1, and Moody's rating service, which has been slightly lower than Fitch's for a number of years, said state Treasurer Ken Miller.

"This downgrade is certainly not surprising ... to anyone who has been paying attention to state finance in the last year or so," Miller said.

Miller said he and other state leaders warned before the last legislative session that a downgrade was likely if the Legislature did not take steps to address the structural imbalance that the state has in its revenue sources.

"Clearly, Fitch did not see the necessary corrective steps taken last session and this downgrade is the result," Miller said.

Oklahoma has relied on a continued drawdown of the state's Rainy Day Fund and one-time revenue sources to fill large revenue gaps over the last couple of years rather than broadening the tax base, Fitch noted in its downgrade report.

Investors rely on the credit ratings to evaluate the risk of default and generally demand a higher interest rate for bonds with a lower rating.

A drop from a rating of AA+ to AA or from AA to AA- is not a drastic change because all are considered to be investment grade bonds of very high credit quality.

Still, the change is not insignificant.

For every \$100 million the state borrows under a 20-year repayment structure, a difference between a AA and AA- rating means the state may end up paying around \$2.4 million in additional interest over the life of the bonds, an individual knowledgeable in bond financing told *The Oklahoman*.

In 2016, the state sold \$360.2 million in tax-backed obligations, so if a similar amount were to be issued this year, the difference between a one-notch lower rating could end up costing state taxpayers an additional \$8.64 million or so over the life of the bonds.

State Bond Advisor Jim Joseph cautioned that it is impossible to predict with precision what impact a rating change will have on bond interest rates, noting that many other things factor into the decisions of investors, including the size and structure of the deal and general market conditions.

For that reason, Joseph said he has always declined to predict what interest rates might be.

Miller also pointed out that the other two rating agencies already had Oklahoma rated lower, so the lower evaluation is already likely factored into the interest rates the state has been getting.

Still, it's not going to help, Joseph said.

"Anytime you're downgraded, it's going to end up costing you more money in the long run," Joseph said. "Any investor is going to ask for more yield when they buy a lower-rated bond."

Besides making new projects more costly, higher interest rates also make it more difficult for the state's issuers to refinance outstanding bonds at a savings, he said.

The Oklahoma Museum of Popular Culture project in Tulsa will be among the first to test the impact of the credit rating downgrade. Fitch assigned the \$27.315 million deal a AA- rating. The bonds are expected to be sold through private negotiation later this month.

### **Why the downgrade?**

Fitch cited both economic factors and political factors in a five-page paper explaining the downgrade.

Oil and gas prices have been down and "about one-third of the state's gross state product is attributable to the drilling, production and economic multiplier effects of the oil and natural gas sectors," the credit agency said.

"Volatility related to the energy industry is an inherent part of the state's economy and the industry is expected to be a drag over the medium term," the report said.

"The state has been unable to address its fiscal challenges with structural and recurring measures and revenue collections continue to reflect subdued energy prices," Fitch reported.

The report noted that lawmakers are constrained, somewhat, in their ability to tap new revenue sources by a constitutional amendment that requires either a three-fourths vote of the Legislature or majority vote of the people to pass a tax increase.

Constitutional challenges have been filed to revenue-generating moves by the Legislature last

session. The court will decide on the legality of new fees on cigarettes, measures involving electric and hybrid motor vehicle registration, motor vehicle purchases and personal income tax deductions.

"The validity of the measures, which are forecast to bring in almost \$320 million in fiscal 2018, will be decided by the state's Supreme Court in August," the report said. "If the court rules that the measures are invalid, the state would be required to solve for any resulting budget gaps."

## **The Oklahoman**

by Randy Ellis

Published: July 13, 2017

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### **Hedge Funds Disclose Just How Many Puerto Rico Bonds They Own.**

- **Ad hoc group holds \$3.3 billion of commonwealth debt**
- **Puerto Rico owes \$13 billion of general-obligation debt**

A group of hedge funds that owns \$3.3 billion of Puerto Rico bonds disclosed in court documents the amount that each of them holds.

The disclosure is related to the territory's May 3 bankruptcy, which will allow Puerto Rico and its agencies to reduce the \$74 billion of debt left after years of economic decline and borrowing to cover operating expenses. The group includes distressed-debt buyers and municipal mutual fund Franklin Mutual Advisers LLC.

The group claims that general-obligation bonds must be paid before other types of Puerto Rico debt because the island's constitution gives those securities the highest claim to the government's cash. The group wants Puerto Rico's sales-tax revenue to help repay general-obligation debt. The island sold sales-tax bonds backed by that revenue stream.

The amounts that each firm holds, as of July 12, are as follows:

- Aurelius Capital Management LP: \$470.9 million of general obligations and \$2.5 million of Highways and Transportation Authority bonds
- Autonomy Capital (Jersey) LP: \$937.6 million of general obligations
- FCO Advisors LP: \$422 million of general obligations and \$10.2 million of junior-lien sales-tax bonds
- Franklin Mutual Advisers LLC: \$294 million of general obligations
- Monarch Alternative Capital LP: \$585 million of general obligations and \$21.5 million of highway debt
- Senator Investment Group LP: \$254.7 million of general obligations
- Stone Lion LP: \$310 million of general obligations and \$15 million of highway debt

A portion of debt held by Aurelius, FCO Advisors, Monarch Alternative and Stone Lion is guaranteed repayment by bond insurers.

## **Bloomberg Markets**

By Michelle Kaske



## **PROMESA and Puerto Rico's Political Future.**

Two important events have occurred in Puerto Rico in the last couple months that should be noted. First, on May 3, 2017 the Oversight and Management Board created by the federal legislation PROMESA, filed in Federal District Court of Puerto Rico under its Title III provisions for the protection of the Commonwealth of Puerto Rico from its bondholders and creditors.

This bankruptcy-like proceeding under Judge Laura Taylor Swain promises to be a hard and complex litigation for all parties involved. Second, on June 11, 2017 a plebiscite on the various status options for Puerto Rico was held in which statehood was overwhelmingly favored by a third of able voters, notwithstanding the incoherent call for abstention by the opposing political parties and the bloated voting lists.

Although at first glance apparently unrelated, both events need to be seen as interrelated pieces on the ongoing puzzle that is Puerto Rico's political status question and fiscal and economic spiraling downturn.

As we know, political and legal processes and economic conditions affect one another, at times in unforeseen ways. In July 2016, Congress legislated PROMESA to create an Oversight and Management Board, expressly based on the authority provided by Article IV, Section 3, of the United States Constitution.

Together with the Supreme Court's opinion *Commonwealth of Puerto Rico v. Sanchez Valle* rejecting Puerto Rico's claim of sovereignty for purposes of avoiding the application of the constitutional protection against double jeopardy in criminal cases, this legislation finally put to bed the midsummer's nightmare of those that for decades have argued for the oxymoronic status of "Estado Libre Asociado".

Today, there is no doubt that legally Puerto Rico has been a territory under the plenary powers of Congress since 1898. In this regard, the long held historic fallacy argued by the pro-territory Popular Democratic Party that Puerto Rico had achieved some sort of political autonomy in 1952 not subject to Congress has finally been put to rest.

The underlying causes for the political and fiscal/economic crisis of Puerto Rico can be summarized as a reliance by a top heavy public sector dependent on debt financing and federal transfers and tax exemptions as a strategy for economic development for the last fifty years; a weak private sector dependent on government contracts and patronage; an incompetent and/or corrupt public administration looking out for short term political advantages and private enrichment at the expense of long-term stability and development; a political culture in Washington, D.C. indifferent to the inherent limitations of territorial status, and populist grandstanding by many leading Puerto Rico politicians.

It is a wonder that it took so long for the bubble to burst. It should be noted as a matter of historical record that our fiscal predicament is partly due to the triple exemption tax advantages Puerto Rico bonds had in the municipal bond market for the benefit of all parties, while the going was good. That is, it is the territorial status that has allowed for a beneficial taxation treatment by Congress and the Treasury Department for investors – bondholders as well as "foreign" corporations using Puerto Rico as a tax haven. We should not ignore the fact that the responsibility for our current woes is shared

by many.

There are those — including former New York Gov. George Pataki — that argue now acting as a spokesperson for certain bondholders — that Puerto Rico needs to attend its economic and fiscal problems before addressing the political question of our status. Although there is something to be said to the fact that a change in Puerto Rico's political status under current conditions may seem politically untimely, it is also evident that no headway in our economic development can be achieved unless we address the issue of long-term political stability.

It is a chicken and egg question. As the Bush (2007) and Obama (2011) White House Reports on Puerto Rico made abundantly clear, our political lack of definition has been holding back our economic development. A petition for a change in Puerto Rico's political status will always be untimely for somebody, somewhere.

In this context, the June 11, 2017 plebiscite ratifying the 2012 plebiscite favoring statehood, should be understood as a petition by the people of Puerto Rico that our current territorial status and its lack of economic development needs to be addressed by Congress, the sooner the better for all concerned.

THE HILL

BY ANDRÉS L. CÓRDOVA, OPINION CONTRIBUTOR - 07/14/17 08:30 AM EDT

*Andrés L. Córdova is a professor at Inter American University of Puerto Rico School of Law.*

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## **[The Solution to Puerto Rico's Debt Crisis Isn't Statehood — It's Default.](#)**

In an overwhelming majority, Puerto Rican citizens recently voted in favor of becoming the 51st U.S. state. According to poll results, nearly 97 percent of Puerto Ricans were in favor of statehood. Puerto Rico's governor, Ricardo Rosselló, declared the results a clear victory in favor of becoming a state — the solution he preferred. In a televised speech after announcing the results, he said, “the federal government will no longer be able to ignore the voice of the majority of the American citizens in Puerto Rico.”

What he should have said was the federal government could no longer ignore the voice of 23 percent of the American citizens of Puerto Rico because those are all that bothered to turn out for the vote. In a country where voter turnout is normally closer to 80 percent, a 23 percent turnout is hardly exciting.

Here is a territory that is so thrilled to become a U.S. state that over three-quarters of the population did not bother to even show up at the polls. The reason for this low turnout: they are only considering statehood because it seems like the best option to get out of the more than \$70 billion debt crisis they are in.

### **How Puerto Rico got into this mess**

Puerto Rico was forced to declare a form of bankruptcy in May. Its filing represented the largest municipal bankruptcy filing in U.S. history — seconded only by Detroit's \$17 billion bankruptcy under Chapter 9 bankruptcy code. Notably, the Puerto Rican bankruptcy surpasses Detroit by a vast margin, as it has managed to reach \$123 billion in debt across bonds and pensions payments

outstanding.

To put the territory's size, and proportionate debt, into perspective, there are 20 states that are less populous and have vastly more expansive geographies than Puerto Rico, according to the U.S. Census Bureau. Since Puerto Rico is not a U.S. state, and thus not entitled to the privilege of bankruptcy — which is a recourse for all U.S. state and local governments — it is entering a court-supervised bankruptcy-esque proceeding made possible by legislation enacted by Congress last year.

With an uncertain outlook on just how its obligations will be restructured, to say the island is drowning in debt would not be an understatement. The island previously enjoyed an exemption from U.S. federal taxes that allowed many U.S. companies to set up manufacturing operations there. These tax breaks ended in 2006, leaving the island with a sudden loss of revenue.

The Puerto Rican government tried to offer tax exempt municipal bonds on the U.S. markets to generate ready cash, but this came at the cost of even more debt. Unable to pay off all its obligations, Puerto Rico is turning to the U.S. government for relief. The hope is that if they became a state, the federal government would take more responsibility for the island's overwhelming debt.

As U.S. states are not immune from similar troubles — even ones as wealthy as Illinois, which is possibly headed towards a “junk” credit rating — sheltering Puerto Rico from its obligations by allowing it to become a state is not the solution. Debt of this magnitude cannot be whisked away with a granting of statehood.

### **The solution to get Puerto Rico out**

It's not that the U.S. should do nothing for the territory of more than 3 million, but the government shouldn't pretend that statehood is the best solution. Allowing Puerto Rico to default on its debt would be the best thing the U.S. could do for the territory. Looking to Detroit as an example, its municipal default gave the Motor City some breathing room and has allowed for a nascent economic recovery from its crisis.

The best way to remedy the current and desperate financial condition of Puerto Rico is to stop lending money to the government so it can no longer be squandered. Contrary to what certain governments' and stakeholders' actions might suggest, nothing is too big to fail. It is also the best hope we have of ending the trend of countries, states, and cities needing to be bailed out after borrowing more money than they can repay.

Denying Puerto Rico statehood in its time of need may sound like callous indifference, but at the end of the day, it is the best thing for the island. What Puerto Rico needs more than statehood is to be forced to own up to its obligations. 77 percent of Puerto Ricans made it clear that if the U.S. was their only option, they would rather not vote.

If Puerto Rico becomes a U.S. state, let it be because its people want to be an official part of this nation, not because they are desperate for a way out of their debt.

THE HILL

BY CHRIS MARKOWSKI, OPINION CONTRIBUTOR - 07/10/17 09:00 AM EDT

*Chris Markowski (@ChrisMarko) is an author, investment banker, stock market analyst, and consumer advocate. He is the personality behind Watchdog on Wall Street and the founder of Markowski Investments.*

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## **Gov. Malloy Signs Legislation Changing The Structuring Of Municipal Bonds.**

On July 8, Governor Malloy signed into law Public Act No. 17-147, An Act Concerning State Taxation and Collection, Tax Gap Compliance, Tax Preparers and Facilitators, Changes to the Tax and Related Statutes, a Mental Health Community Investment Account and Municipal Bonds.

The legislation makes noteworthy changes regarding the structuring of municipal bonds. The legislation:

- extends the permitted maximum maturity of general obligation debt issued by Connecticut municipalities from 20 years to 30 years
- permits Connecticut municipalities to issue refunding bonds for a period of up to 30 years; and
- allows such refunding bonds to be secured by a statutory lien on all revenues received by the municipality from its tax levy and collection.

These changes are applicable to obligations issued during the period from July 1, 2017 through June 30, 2022. The refunding provisions require a two-thirds vote of the municipality's legislative body.

Any municipality considering issuing bonds in accordance with this legislation should address the implications of doing so with its municipal financial advisor and bond counsel.

[Click here to read further Insights from Day Pitney](#)

*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: July 13 2017

Article by Judith A. Blank and Namita Tripathi Shah

**Day Pitney LLP**

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## **Moody's Cuts Hartford Rating Further, Citing Bronin's Move To Restructure Debt.**

Moody's Investors Service knocked its rating for Hartford debt down another three notches Thursday from a level that already classified the city's bonds as junk.

With the downgrade, Moody's has Hartford's credit and most of the city's outstanding bonds rated as B2, down from Ba2. That lowers the rating from "speculative" to "highly speculative," both of which are considered non-investment grade, or junk.

"The downgrade reflects the recent increased likelihood that Hartford will pursue debt restructurings to address its fiscal challenges," Moody's said in a report. "The new rating also reflects the city's challenging liquidity outlook in the current fiscal year and weak prospects for achievement of sustainably balanced financial operations."

The move by Moody's follows a downgrade at Standard & Poor's late Tuesday, to BB, which is equivalent to the Ba2 that Moody's assigned last fall.

Hartford Mayor Luke Bronin said Wednesday the city and its newly hired bankruptcy and restructuring law firm, Greenberg Traurig, will immediately approach bondholders in an effort to persuade them to accept lower payments on the city's debt. That could help the city avert bankruptcy, but some experts in municipal finance said the effort has only small chance of succeeding without a court filing.

**As Bronin Seeks Givebacks From Bondholders, Averting Bankruptcy A Huge Challenge**  
The downgrade could lead to lower values for Hartford debt that's traded in the markets. It also decreases the city's ability to borrow additional money, although more borrowing was already difficult and expensive before the latest Moody's action.

Both Moody's and S&P continue to have Hartford on a watch for further downgrades.

Moody's also has a B2 rating for Detroit, which emerged from the nation's largest municipal bankruptcy in late 2014. In all, Moody's has about 3 percent or fewer of 8,500 local governments rated with junk debt, and many of those are higher than Hartford's rating.

The new rating affects about \$550 million out of slightly more than \$700 million in outstanding city debt.

Moody's said in Thursday's report Hartford's budget is "unlikely to provide a pathway to structural balance over the longer term" even if the state fills this year's estimated \$50 million gap — in part because of escalating debt payments coming due over the next several years.

The report also acknowledged, as Bronin has said, that the city's prospect for raising taxes is extremely limited by high current rates and low incomes, and its ability to cut costs is "limited as the city has already gone through multiple round of expense cutting."

## **The Hartford Courant**

by Dan Haar

July 13, 2017

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### **[As Bankruptcy Looms for Hartford, Conn., S&P Downgrades Its Debt to 'Junk'](#)**

Standard & Poor's downgraded Hartford debt to junk bond status late Tuesday, less than a week after the financially troubled capital city hired a New York law firm with expertise in restructuring municipal finances.

The Wall Street ratings agency downgraded most city of Hartford outstanding debt to BB, a level that's classified as speculative, also known as non-investment-grade, or junk, from BBB-. That reflects a strong possibility that Hartford could default on its debt or renegotiate it to pay bondholders less money.

The move, announced on the S&P website just after 4 p.m., follows a series of downgrades by ratings agencies over the last year, as Mayor Luke Bronin has warned that Hartford could file for bankruptcy protection if it doesn't receive tens of millions of dollars in additional aid from the state and concessions from unions.

Moody's Investors Service downgraded Hartford bonds last October to Ba2, which is similar to S&P's BB — non-investment grade, aka junk.

Both Moody's and S&P still have Hartford on a negative watch, meaning more downgrades could happen soon. On Tuesday, S&P also downgraded Hartford Stadium Authority bonds.

The S&P move is related to Hartford on Thursday hiring Greenberg Traurig, a large New York firm, to help sort through options on how to restore the city to financial health.

Even without a bankruptcy filing, one option for the city could be to renegotiate the payback terms of Hartford's outstanding debt. Because of the way the debt was refinanced in recent years, the city's obligations increased sharply this year and will rise further next year.

Bronin confirmed the possibility of bond restructuring negotiations in an interview Tuesday, and in a written statement issued after the S&P action. It's unclear whether such talks would start even before a state budget is reached, as the state began its fiscal year July 1 without a budget — leaving Hartford and other municipalities millions of dollars short in expected state aid.

"I have said for months that we cannot and will not take any option off the table, because our goal is to get Hartford on the path to sustainability and strength," Bronin said in the statement. A long-term solution, he said, "will require every stakeholder — from the State of Connecticut to our unions to our bondholders — to play a significant role."

He added, "Today's downgrade should send a clear message to our legislature, to labor, and to our bondholders that this is the time to come together to support a true, far-sighted restructuring."

Bronin said Tuesday his administration is still actively seeking concessions from city unions, including police.

BY TRIBUNE NEWS SERVICE | JULY 13, 2017

By Dan Haar

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## **Darien Adopts OpenGov for Financial Reporting.**

With the start of the 2017-18 fiscal year the Town of Darien has adopted a new platform for financial reporting. Detailed budget information dating back to 2013 can now be accessed by the public through the [OpenDarien link](#) on the town's website, DarienCT.gov.

Darien's Department of Finance has implemented a module called OpenGov to provide the public with greater financial transparency and clarity on the town budget. Finance Director Jennifer Charneski briefed the Board of Selectmen with an overview of the reporting platform on Monday.

"Darien is excited about our partnership with OpenGov, and the immediate improvements this new platform can bring to our town," Charneski said in a statement. "Through this new site, we will be able to make budgeting and decision making more efficient and effective, and most importantly, better communicate with Darien residents."

Using the online module visitors can organize budget information by department and review monthly expenditures. Data within the program can be organized into a number of different graphs at the

user's request and all of the data is available for export. Information for the OpenDarien platform is provided directly from the Department of Finance's accounting software and will be updated on a monthly basis to reflect ongoing changes to the budget. The OpenDarien portal will also be updated to include information about the town's capital projects, such as the upcoming redevelopment of the town's public works garage.

For town officials the OpenGov platform will make financial information more readily available and organized. The Department of Finance will be able to create specific user groups for town officials to access and organize more specific data within the town's budget. Members of the Board of Selectmen suggested those user groups would be useful during budget season, when members of the Board of Finance or RTM Finance & Budget Committee need to review a wide range of information. Furthermore, OpenGov provides another module that can be used to directly generate budgets and related documents, if the town chooses to adopt it.

"This could be the end for the budget books," Selectmen Marc Thorne joked, referring to the nearly 300-page document used by town officials during budget review.

Currently OpenDarien does not include detailed information on the Board of Education budget as their budget is managed independently from the town's. Charneski said the Board of Education could choose to adopt the software at a lower cost and be connected to the same OpenGov portal. She said that while the town's adoption of OpenGov took several weeks to complete, the company has changed its implementation process.

If more local towns adopt the OpenGov it would also allow them to easily share and compare budgeting information through the platform. Charneski said Darien is the sixth town in Connecticut to move to OpenGov. Contrasting what Darien's peer towns earn in parking revenues or how much they pay in police overtime could provide more clarity on financial decisions and trends in the future. For now, the public can use the [OpenDarien portal](#) to access budget data for the new fiscal year.

## **DarienTimes.com**

By Kevin Webb on July 14, 2017

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## **Fresh From Budget Deal, Illinois Awaits Fate of Credit Ratings.**

CHICAGO — A decision on whether Illinois becomes the first U.S. state whose bond ratings tip into junk was not imminent on Monday as credit rating agencies said they were still reviewing the state's newly enacted budget and tax package.

Analysts at the three major rating agencies, which rate Illinois one or two notches above junk, declined to comment on the timing of their decisions.

With the help of some Republican votes, the Democratic-controlled Illinois Legislature last Thursday overrode Republican Governor Bruce Rauner's vetoes and enacted a \$36 billion fiscal 2018 budget and a \$5 billion income tax increase.

The action ended an unprecedented two-year budget impasse that ballooned the state's unpaid bill backlog to about \$15 billion.



Illinois State Treasurer Michael Frerichs, a Democrat, on Monday unveiled a five-step plan to avoid a junk rating that included Rauner taking steps to issue up to \$6 billion of bonds the legislature authorized to begin paying off bills. He also recommended the governor visit credit rating agencies to assure them he intends to implement the budget package.

A junk rating would make future bond sales more difficult and expensive.

Eleni Demertzis, Rauner's spokeswoman, did not answer questions about the borrowing but underscored the governor's dissatisfaction with the budget.

"Even with the tax increase, this budget remains \$2 billion out of balance for fiscal year 2018," she said. "The best thing we can do is to work collaboratively to pass truly balanced budgets that pay down our debt, reform our pension system, and make the changes necessary to drive economic growth in our state."

Moody's cited the budget's "substantial implementation risk" when the state's Baa3 rating was placed on review last week for a possible downgrade to junk. Analyst Ted Hampton said risks include revenue and cost-saving assumptions built in to the budget for the fiscal year that began July 1.

Hampton and S&P analyst Gabriel Petek said they expected Rauner to implement the budget as required by law.

John Humphrey, co-head of credit research at Gurtin Municipal Bond Management, said optimism that Illinois finally has a budget should be tempered against the state's strained finances and how much execution risk remains.

"I think Moody's has been pretty clear that they view the state's political dysfunction combined with continued unaddressed long-term liabilities, and unfavorable baseline revenue performance as casting some degree of skepticism on the state's ability to manage out of the very fragile financial situation they are in," he said.

By REUTERS

JULY 10, 2017, 5:30 P.M. E.D.T.

(Reporting by Karen Pierog and Dave McKinney; Editing by Matthew Lewis)

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## **[Troubled Chicago School System Sells \\$500 Million Bonds at High Rates.](#)**

CHICAGO — The financially troubled Chicago public school system will pay hefty interest rates for a general obligation bond issue that was doubled in size on Monday to \$500 million, up from the \$250 million that the district announced last week.

The refunding portion of the deal was increased on Monday to \$215 million from the previous \$50 million, while the new money portion was raised to \$285 million from \$200 million, according to a preliminary pricing scale.

Underwriters led by J.P. Morgan priced the unrated general obligation bonds targeted at "qualified institutional buyers," with a final 7.65 percent yield and 7 percent coupon for new bonds due in 2046, according to the district. The bonds were initially priced to yield 7.75 percent.



The repricing of refunding bonds due in 2042 dropped the yield 5 basis points to 7.55 percent with a 7 percent coupon. The yield on refunding bonds due in 2030 with a 6.75 percent coupon remained at 7.25 percent.

Escalating pension payments have led to drained reserves, debt dependency and junk bond ratings for Chicago Public Schools (CPS), the nation's third-largest public school system.

"CPS successfully completed the issuance of its GO bond offering, with more than \$1 billion in orders for \$500 million in bonds," Ron DeNard, the district's senior vice president of finance, said in a statement.

The bonds' spreads over Municipal Market Data's benchmark triple-A yield scale ranged from 474 basis points to 489 basis points, indicating the U.S. municipal market was demanding fat yields for the debt. Those so-called credit spreads were narrower than spreads in the district's February 2016 bond sale, in which yields topped out at a massive 8.5 percent.

The refunding will restructure outstanding bonds in a "scoop and toss" that pushes out payments on the bonds. The prospectus included nine pages of potential risks for buyers.

By REUTERS

JULY 10, 2017, 8:09 P.M. E.D.T.

(Reporting By Karen Pierog; editing by Diane Craft)

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## **What Ending Illinois's Record Budget Impasse Means for Chicago.**

- **City won pension fix, averting looming insolvency for funds**
- **Fate of cash-strapped, junk-rated school system is uncertain**

Illinois enacted a full-year budget for the first time in more than two years, ending a record-long stalemate that cast financial uncertainty across the state. Here's three big takeaways for the city of Chicago, which has been contending with its own fiscal struggles:

- **Pensions:** Chicago won state approval to overhaul its municipal employee and laborer retirement funds, which had been on track to run out of money by 2025 and 2027, respectively. The changes allow Chicago to boost contributions to those pensions and have new city employees pay more into their retirement plans, part of Mayor Rahm Emanuel's efforts to put all four of the city's pensions on a path to solvency. The measure became law despite Governor Bruce Rauner's veto.
- **Borrowing:** State budget includes provisions that allow a home-rule municipality like Chicago to sell debt secured by state funds they receive. By providing greater protection against default, that "should be favorably received by investors and is likely to lower the borrowing cost to the extent that" the city utilizes it, said Richard Ciccarone, the Chicago-based president of Merritt Research Services LLC, which analyzes municipal finances. This could especially come in handy for the city, given that it is rated below investment grade by Moody's Investors Service and pays a steep premium to sell traditional general-obligation debt.
- **Schools:** Chicago public schools, along with districts statewide, are still in limbo. The enacted state budget dictates that general aid for schools now be doled out through an evidence-based funding model. While the Democrat-led legislature passed legislation that rewrites the formula to do that, its fate is uncertain because Rauner has threatened to veto it, calling it a bailout for the

city. Emanuel said Monday that enacting that law is his “number one effort.”

## **Bloomberg Politics**

By Elizabeth Campbell

July 12, 2017, 2:00 AM PDT

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### **[Cook County Illinois Soda Tax Temporarily Blocked.](#)**

- As previously covered on this [blog](#), a number of local jurisdictions throughout the U.S. – like Berkeley, CA; Philadelphia, PA; San Francisco, CA; Oakland, CA; and Boulder, CO – have sought to introduce legislation to tax sweetened beverages. Late last year, on November 10, 2016, the Cook County Illinois Board of Commissioners passed the Cook County Sweetened Beverage Tax Ordinance which would impose \$0.01 per ounce on the retail sale of all sweetened beverages in Cook County. The tax was slated to go into effect on Saturday, July 1, 2017. But on June 27, 2017, the Illinois Retail Merchants Association – which represents more than 20,000 stores – and several grocers filed a [complaint](#) against the Cook County Department of Revenue to block the sweetened beverage tax, arguing that the tax is unconstitutional and too vague for stores to implement. The Plaintiffs further contend that: (1) Cook County’s penny-per-ounce beverage tax violates the state constitution by imposing different taxes on similar beverage products and (2) the tax would make retailers vulnerable to becoming ineligible for the federal Supplemental Nutrition Assistance Program (SNAP) as the program prohibits purchasing food that has a state or local sales tax.
- On Friday, June 30, 2017, Cook County Circuit Judge Daniel Kubasiak granted the Plaintiff’s request for a temporary restraining order (TRO), effectively putting Cook County’s penny-per-ounce tax on sweetened beverages on hold at least until July 12, 2017.
- Looking ahead, it remains to be seen what, if any, impact the outcome of this lawsuit will have on the appetite of other U.S. jurisdictions to pursue such legislation.

## **National Law Review**

Wednesday, July 5, 2017

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### **[KBRA Affirms AA+, Stable Outlook, for Municipal Assurance Corp.](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the insurance financial strength rating of AA+ with a Stable Outlook on Municipal Assurance Corp. (MAC). MAC demonstrates an ability to withstand KBRA’s conservative stress case loss assumptions and to satisfy all claims in full and on time.

As a major part of its analysis, KBRA determined a level of stress losses to be applied to MAC’s insured portfolio. MAC’s ability to pay these aggregated claims, together with other expenses, was assessed in KBRA’s Bond Insurer financial model and MAC met all requirements with a comfortable balance remaining.

Please click on the link below to access the full report:

[Municipal Assurance Corp.](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **[KBRA Affirms AAA Rating and Stable Outlook on the State of Texas' General Obligation Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of AAA with a Stable Outlook on the State of Texas' general obligation bonds. This rating applies to all of the state's outstanding general obligation bonds, excluding bonds backed by a letter of credit or liquidity facility.

This rating is based on KBRA's [U.S. State General Obligation Rating Methodology](#). KBRA's rating evaluation of the long-term credit quality of state general obligation bonds focuses on four key Rating Determinants:

- Management Structure, Budgeting Practices and Policies
- Debt and Additional Continuing Obligations
- Financial Performance and Liquidity Position
- State Resource Base

In the process of rating the State of Texas, KBRA has reviewed multiple sources of information and spoken with representatives of the State.

Please click on the link below to access the report:

[State of Texas' General Obligation Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **[KBRA Comments on Chicago Public Schools Latest Transaction.](#)**

Kroll Bond Rating Agency (KBRA) has released a public finance research report commenting on the Board of Education of the City of Chicago's recent issuance of Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2017A & 2017B.

On July 10, the Board sold a limited offering of \$500 million General Obligation Bonds Series 2017A & Series 2017B. KBRA understands that, prior to delivery of the bonds, the Board intends to establish an additional security feature, the Post Default Security Mechanism, by entering into a State Aid Revenues Escrow Agreement. The Board has stated that it will authorize the state comptroller to intercept state-aid revenues into the escrow fund. In the event of a default, the escrow agent will be required transfer funds to the security account within the escrow fund until 100% of debt service is collected. It is our understanding that this additional security feature will apply only to Alternate Revenue Bonds payable from state aid. The Board has stated that this security feature is intended to apply to all alternate revenue bonds payable from state aid, subject to changes to the legal documents of existing bonds. The legal documents associated with the current

issuance have not yet been made available to KBRA. KBRA will evaluate the credit implications of this transaction after we have completed a review of the legal documents.

Please click on the link below to access the full report:

[Chicago Public Schools' Latest Transaction](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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### **KBRA Releases Rating Report for the OCTA Toll Revenue Senior Bonds, 2017 TIFIA Series.**

Kroll Bond Rating Agency (KBRA) announces the preliminary rating of BBB- for the Orange County Transportation Authority Toll Revenue Senior Bonds, 2017 TIFIA Series, which evidences the \$627 million loan from the United States Department of Transportation to the Orange County Transportation Authority (OCTA). The TIFIA Loan constitutes federal project credit assistance under the Transportation Infrastructure Finance and Innovation Act for the Interstate 405 Improvement Project ("the Project") located in Orange County, California.

The TIFIA loan will have a senior-lien priority in project revenues. The interest rate will be set at closing at the 30-year U.S. Treasury State and Local Government Series rate plus 0.01%. The actual maturity of the TIFIA Loan is limited to the earlier of 35 years after substantial completion of the Project (68 months after financial close) or December 1, 2057. Interest on the TIFIA loan will be paid semi-annually while principal will be paid annually. The TIFIA loan will fully amortize by the projected maturity date, and therefore there is no refinancing risk in the transaction. Proceeds of the TIFIA loan will be used to fund a portion of design-build and other costs for the Project, which are currently estimated at \$1.9 billion. Other sources of funds for such costs include OCTA's Measure 2 sales tax revenue, sales tax revenue bonds issued in relation thereto and various federal and State funds and grants. Senior debt service coverage ratios for the TIFIA Loan average 3.35x under KBRA's rating case and stressed assumptions KBRA used in analyzing project cash flows include higher construction and O&M costs, and lower traffic volumes.

Please click on the link below to access the report:

[Orange County Transportation Authority Toll Revenue Senior Bonds, 2017 TIFIA Series](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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### **KBRA Releases Rating Report: Riverside County Transportation Commission Toll Revenue Bond, 2017 TIFIA Series**

Kroll Bond Rating Agency (KBRA) announces the preliminary rating of BBB for the Riverside County Transportation Commission Toll Revenue Bond, 2017 TIFIA Series. The bond evidences the \$152.5 million loan ("the TIFIA Loan") from the United States Department of Transportation to the Riverside County Transportation Commission (RCTC). The TIFIA Loan constitutes federal project

credit assistance under the Transportation Infrastructure Finance and Innovation Act for the I-15 express lanes project ("the Project") located in Riverside County, California.

The TIFIA Loan will have senior lien priority in project revenues. The interest rate will be set at closing at the 30-year U.S. Treasury State and Local Government Series rate plus 0.01%. The maturity of the TIFIA Loan will be limited to the earlier of 35 years after substantial completion of the Project (currently projected for July 1, 2020) or June 1, 2056. Interest on the TIFIA Loan will be paid semi-annually while principal will be paid annually. The TIFIA Loan will fully amortize by the projected maturity date, and therefore there is no refinancing risk in the transaction. Proceeds of the TIFIA Loan will be used to fund a portion of design-build and other costs for the Project, which are currently estimated at \$471 million. Other sources of funds for such Project costs include RCTC's Measure A sales tax revenue and Measure A sales tax bonds issued in relation thereto and various federal grants. Senior debt service coverage ratios for the TIFIA Loan average 3.13x under KBRA's rating case and stressed assumptions KBRA used in analyzing Project cash flows include higher construction and O&M costs and lower traffic volumes.

Please click on the link below to read the full report:

[Riverside County Transportation Commission Toll Revenue Bond, 2017 TIFIA Series](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **The Cost of Water Is Rising. Philadelphia Has an Unprecedented Plan to Make It More Affordable.**

***It's the first city to set water rates based on income.***

This week, Philadelphia is launching a first-of-its-kind program to address a common problem: Late and unpaid water bills can leave low-income people without the ability to shower or cook food in their homes.

In Philadelphia, more than 40 percent of the city's water utility customers are delinquent in paying their water bills, amounting to about \$242 million in uncollected revenue, according to the Philadelphia Water Department.

The city's solution? Charge residents based on how much money they make.

[Continue reading.](#)

GOVERNING.COM

BY J.B. WOGAN | JULY 5, 2017

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## **Illinois Bonds Rally on End of Impasse That Triggered Downgrades.**

- **Gap between yields on Illinois debt and benchmark narrows**
- **Despite action, Moody's warns that cut to junk still possible**

Illinois bonds climbed after the state enacted its first full budget in two years and raised taxes to reduce its chronic deficits, ending a long-running impasse that triggered multiple downgrades and pushed the state's rating to the precipice of junk.

The securities were the most actively traded municipal bonds Friday, a day after the legislature overrode Governor Bruce Rauner's vetoes to enact the spending plan. Without that step, Illinois was at imminent risk of another downgrade, which could have scared off individual investors who dominate the market and left some mutual funds unable to buy its debt. That's remains a possibility, with Moody's Investors Service saying this week that it has placed the state on watch for a potential downgrade.

"Investors are breathing a sigh of relief," said Vikram Rai, a municipal-bond analyst with Citigroup Inc. "If it weren't for the overhang of the Moody's downgrade after the recent statement, the bonds would have rallied more."

Over \$21 million of Illinois general-obligation bonds due in 2023 traded Friday morning, according to data compiled by Bloomberg, and the average price rose of 101.4 cents on the dollar from 98 cents on Thursday. That pushed the yield to 2.3 percentage points more than benchmark securities, down from 2.9 percentage points.

The push for lawmakers came largely from major rating companies, which threatened to pull Illinois's investment-grade rank if the government did not produce a budget for the year that began on July 1. Though that deadline was missed, lawmakers worked through the weekend and on the July 4 holiday to avoid the cut, which would have reduced Illinois's rating to an unprecedented low for a U.S. state.

## **Bloomberg Markets**

By Kristy Westgard

July 7, 2017, 9:29 AM PDT

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### **[Los Angeles Schools Face Fiscal Woes.](#)**

- **District challenged by deficits, pensions, falling enrollment**
- **Bonds are trading at better levels than that of Texas**

Los Angeles Unified School District has credit ratings others would envy — yet faces challenges that if left unchecked could undermine its stellar reputation with investors.

The bonds of the nation's second-largest school system are ranked AAA by Fitch Ratings and Aa2 by Moody's Investors Service though the district, like others in California, wields little power to raise revenue and relies on a state funding formula pegged to student enrollment. And that enrollment is in steady decline, with the 2019-2020 class rolls projected to be more than a third lower than in 2003.

So far, its borrowing costs don't seem to be reflecting any concern, as a sample of the district's 5-year and 10-year general-obligation bonds shows them yielding less than similar debt from Texas, a state that carries the top rank from all three major credit raters, data compiled by Bloomberg show.

The school administration, which forecasts deficits within two years, saw contracts for all but one of its bargaining units expire Friday. It's a "significant" time for officials, who haven't built in any related cost increases for future budgets, said Moody's analyst Helen Cregger. Meanwhile, contributions for pensions and lifetime retiree health-care benefits are escalating.

"We may be at an important inflection point," Cregger said. "Going forward, annual increases in state funding may be more moderate. So the pressures will be compounded."

Los Angeles officials are taking action, laying off and reassigning some employees while hoping through contract negotiations to slow the growth in retiree health-care liabilities that have reached \$13.6 billion, or 366 percent of payroll. The district must also contend with a rising pension tab as general-fund contributions for retired teachers will reach \$497 million in fiscal 2021 from \$215 million seen in 2014.

Ksenia Koban, municipal strategist at Payden & Rygel, anticipates the district's debt rating falling within three to five years to the A-level category and spreads over benchmark bonds widening. While the rating companies assign the district a stable outlook, their analyst reports and interviews flag the potential for the school system's challenges to deepen. Administration officials declined to comment on the prospect of future ratings downgrades.

"The fundamental problems it has to address are almost insurmountable," said Koban, who has stopped adding to the firm's holdings of district bonds. "I don't know how you can get out of this in two years, forget ten."

## **Bloomberg Markets**

By Romy Varghese

July 5, 2017, 2:00 AM PDT

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### **[Illinois House Overrides Rauner's Veto to End Budget Impasse.](#)**

- **Lawmakers override governor's veto to end record budget fight**
- **S&P warned of likely downgrade without budget by July 1**

For the past two years, nearly Illinois Governor Bruce Rauner's entire time in office, his state was locked in a political paralysis that battered its universities, left contractors waiting to be paid and undermined its standing on Wall Street.

Then on Thursday, faced with the risk of becoming the only U.S. state with a junk bond rating, Democrats who control the legislature and almost a dozen of the governor's fellow Republicans voted to override his vetoes of a \$36 billion spending plan and across-the-board tax hikes, enacting a budget for the first time since mid-2015.

"If we don't have a budget, with virtual certainty, we will go to junk status," said Representative David Harris, a Republican who broke ranks with the governor. "At least with a budget, we hold off."

The resolution will ease the cash-flow crisis that threatened to halt payments to pensions, schools and government workers. It will allow the state to borrow money to pay down a record pile of unpaid bills that tripled to \$15 billion during the impasse. Social service providers and universities starved



of aid will get some relief. And Illinois will have an actual spending plan for the next 12 months, instead of haphazardly running deeper into the hole by spending more than it's taking in because of court orders and continuing appropriations.

After the deal came together over the last week, with votes during the weekend and on the Fourth of July holiday, Illinois bond prices rallied on signs that the elected leaders would finally tackle the government's long-building financial strains. On Friday, the state's bonds were the most actively traded municipal securities, with taxable Illinois bonds due in 2033 rising to an average of 96.8 cents on the dollar, up from 91.5 cents on June 30, according to data compiled by Bloomberg. That pushed the yield down to 5.4 percent from 5.9 percent.

The House of Representatives on Thursday followed the Senate by approving the budget bills despite Rauner's objections that it would unduly burden residents by raising their taxes. House Speaker Michael Madigan, a Democrat, praised the the end of a "destructive" impasse while noting there's still work to do.

Even though it's over, the risks to the state may not be. While officials clashed over the budget, the state's obligations to its deeply underfunded pensions grew to about \$130 billion. On Wednesday, Moody's Investors Service, in anticipation of the successful override, said it could still downgrade the state over the next few months, citing potentially optimistic revenue assumptions and the massive retirement fund debts.

"This budget will not solve all our problems tomorrow," Comptroller Susana Mendoza, a Democrat, said in a statement Thursday, praising the passage of the budget, but noting that vendors still won't get paid as fast as they want. "We haven't won the lottery."

The fight between Rauner, who in 2015 became the first Republican to lead the state in more than a decade, and legislative Democrats was stoked in part by the expiration of temporary tax increases just as he took office. Rauner has held the line against any plan that failed to include elements of the agenda he says he was elected to enact, including a property-tax freeze, legislative term limits and changes to the workers' compensation insurance system to cut costs for businesses.

Rauner had said he vetoed the budget measures because they were insufficient. On Thursday, he said the "tax-and-spend plan is not balanced, does not cut enough spending or pay down enough debt, and does not help grow jobs or restore confidence in government."

The break in the record-long impasse came after S&P Global Ratings and Moody's last month dropped Illinois's credit rating to one step above junk and warned of further downgrades if the government failed to take steps to stanch the bleeding. A cut below investment grade would be unprecedented for a U.S. state. That possibility hasn't entirely receded, though Fitch Ratings earlier this week called the budget plan "concrete progress" and S&P said it was a "meaningful step."

"Even with this override, it is one step in a long journey that Illinois is going to need to stay on in order to stabilize its finances," said Laurence Msall, president of the Civic Federation, a Chicago nonprofit that tracks state and municipal finance. He added that there doesn't appear to be a "silver bullet" for addressing the state's unfunded pension liabilities.

Even with the resolution, John Humphrey of Gurtin Municipal Bond Management said he wants to see a more stable political atmosphere before buying Illinois's debt. Gurtin doesn't hold any Illinois general-obligation or sales tax bonds, he said.

"In the short-term yes, they stanching the most immediate liquidity pressures that they were facing,"



said Humphrey, Gurtin's Chicago-based head of credit research. "But the amount of fiscal discipline that's going to be required each year, every year remains to be seen, especially given the political environment."

## **Bloomberg Politics**

By Elizabeth Campbell

July 6, 2017, 2:33 PM PDT July 7, 2017, 6:12 AM PDT

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### **Hartford Hires Restructuring Firm as Fiscal Strains Build.**

- **Mayor Bronin: law firm was hired 'to examine all options'**
- **City facing \$50 million deficit, nearly 10 percent of budget**

Hartford, Connecticut, capital city of the wealthiest U.S. state, hired Greenberg Traurig LLP to evaluate restructuring options for the cash-strapped city, including a potential bankruptcy, as the state's failure to pass a budget put further pressure on its finances.

Hartford, where a third of its 123,000 residents live in poverty, faces a \$50 million deficit, nearly 10 percent of its budget, and may not receive a lifeline from the state, which hasn't adopted a budget for the fiscal year that began July 1. Last week, Aetna Inc., its fourth-largest taxpayer, said it was moving its headquarters to New York from the city it's called home since 1853. Hartford's credit rating may be downgraded deeper into junk by Moody's Investors Service.

Greenberg Traurig's team will be led by Nancy Mitchell, a co-chair of the firm's restructuring practice, the city said in a news release. When Hartford was soliciting proposals from firms that specialize in bankruptcy, Council President Thomas Clarke told the local newspaper that looking into seeking court protection from creditors would only be a last ditch option.

"Nancy Mitchell and the team at Greenberg Traurig have extensive experience in municipal restructuring, and they will be working with us to examine all options for putting the city of Hartford on a sustainable path," Mayor Luke Bronin said in a statement. "As we start a new fiscal year without a state budget and with significant uncertainty, we will have the advice and counsel of an experienced and highly respected restructuring firm."

Hartford's tax base of about \$4.1 billion is about two-thirds that of neighbor West Hartford, which has far fewer residents, because half of property — state buildings, hospitals, universities, non-profit agencies — is tax-exempt. The city has \$672 million in debt, including \$228 million uninsured bonds, according to data compiled by Bloomberg. It also guarantees about \$70 million in debt for a minor-league baseball stadium downtown and Aetna, Hartford's fourth-largest property-taxpayer, is moving 250 jobs to New York City. It will still have thousands working in Hartford.

In 2016, Bronin, a Democrat, took over a city that'd been delaying its fiscal reckoning by pushing debt payments into the future, draining reserves and resorting to one-time measures, such as selling a parking garage, while its debt swelled by 52 percent from 2011 to 2015, according to Moody's Investor Service figures.

Since taking office in 2016, he's cut 100 jobs and renegotiated leases and energy contracts. Bronin's been less successful in getting concessions from unions: The city's fiscal 2017 budget assumed \$16.5

million of concessions, the bulk of which haven't materialized. Hartford managed to strike a deal with its firefighters that saves about \$4 million a year through 2020 by freezing pay increases, increasing pension contributions, lowering salaries for new hires and requiring employees to pay more for health care.

Bronin is lobbying the state to fully fund a program that compensates local governments for revenue lost to tax-exempt properties, which alone would provide enough money to close next year's deficit, and has joined with cities pushing to raise Connecticut's 6.35 percent sales tax to 6.99 percent to provide more aid. He also persuaded Hartford Financial Services Group Inc., Travelers Cos. and Aetna to pledge \$50 million to the city over five years as part of a "comprehensive and sustainable solution for Hartford."

Hartford could renegotiate labor contracts and cut debt and pensions in bankruptcy, as a handful of cities have done since the recession. It would need the governor's consent to file chapter 9.

Connecticut, facing a \$5 billion two-year deficit failed to adopt a biennial budget by July 1. Governor Dannel Malloy is controlling spending while legislators continue negotiations.

## **Bloomberg Markets**

By Martin Z Braun

July 6, 2017, 11:24 AM PDT July 6, 2017, 2:17 PM PDT

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### **[In America's Richest State, the Capital Flirts With Bankruptcy.](#)**

- **Hartford hires law firm to explore 'all options' available**
- **Officials haven't ruled out filing for bankruptcy protection**

The hedge-fund enclave of Greenwich, on the Connecticut Gold Coast, is about 100 miles and a world away from the state capital.

But the fiscal crisis in Hartford, the historic center of the American insurance industry, is fast becoming more representative than mansions or yachts of the wealthiest state in the U.S. The city is edging closer than ever to the breaking point, waiting for the financially troubled state government to step in.

It may seem crazy that a place as rich as the Nutmeg State, which counts among its residents hedge-funds masters like Ray Dalio and Steven A. Cohen and legions of Wall Street bankers, could be in such fiscal trouble. Last year, the per-capita income there was \$71,033, the highest in the nation, according to the U.S. Bureau of Economic Analysis.

For all that, state-worker pensions have been underfunded for decades. Tax increases aimed at closing deficits have put a strain on an economy struggling from the loss of high-paying finance jobs, leaving it among the few that still haven't recovered from the recession. The hedge fund industry fell on hard times, with about 1,060 shuttering globally last year. UBS Group AG abandoned the world's largest trading floor in Stamford after the financial crisis, and the Royal Bank of Scotland downsized its office there. Pension, debt and health-care costs just kept growing.

"There's a limit to how much you can tax and there's a limit to how much you can cut before you

damage the viability and attractiveness of the city,” Mayor Luke Bronin said in May. “Right now, from a fiscal standpoint, you have a capital city fighting with its hands behind its back.”

Like many other local governments across the country, Hartford — city of Mark Twain and the young John Pierpont Morgan — has been grappling with budget problems for years. On the same day that Illinois lawmakers finally scraped together a long-overdue budget, Hartford hired the law firm Greenberg Traurig LLP to evaluate its options, which include bankruptcy. It would be the first prominent U.S. municipality to seek protection from its creditors since Detroit did so in 2013.

As for Connecticut, it faces a projected two-year deficit of \$5 billion that lawmakers haven’t figured out how to close, even though the new fiscal year began on July 1.

In Hartford, the woes have been piling up for a while. Like Puerto Rico, which filed a record-setting bankruptcy in May, or even Greece, the city came to the edge in the usual way: slowly, then suddenly. The population declined 23 percent between 1960 and 2000 and has remained stagnant ever since. A third of its residents live in poverty, a higher share than in Baltimore or Newark. From 2010 to 2014, the metropolitan area saw the fifth-biggest decline in employers in the nation, according to the Economic Innovation Group, a Washington-based public policy organization.

Hartford’s tax base of about \$4.1 billion is about two-thirds that of neighbor West Hartford, which has far fewer residents, because half of the property — state buildings, hospitals, universities, non-profit agencies — is tax-exempt. Hartford has the highest property tax rate in the state and faces a \$50 million deficit, nearly 10 percent of its budget. The city’s credit rating may be downgraded deeper into junk by Moody’s Investors Service.

Uninsured Hartford bonds maturing in 2024 traded at yields of more than 6 percent in late June, compared with about 4.4 percent in January, as investors’ jitters mounted. The city has \$672 million in debt, including \$228 million of uninsured bonds, according to data compiled by Bloomberg. It also guarantees about \$70 million in debt for a minor-league baseball stadium downtown.

Governor Dannel Malloy and Republican and Democratic leaders in the legislature agree the bankruptcy of the state’s capital isn’t another negative headline they need. General Electric Co. has decamped from Fairfield to Boston, and last week Aetna Inc. said it was moving its corporate headquarters from Hartford, where it has been since 1853, to New York. About 250 jobs are going with it, though thousands will stay in town.

“The state needs a budget that supports Hartford, its residents and its employers,” said Chris McClure, a spokesman for Malloy. “In the absence of action by the General Assembly on a budget vote, it’s entirely appropriate that the city explore all its options and prepare for every contingency.”

Greenberg Traurig’s team will be led by Nancy Mitchell, a co-chair of the firm’s restructuring practice, the city said in a statement. When Hartford was soliciting proposals from firms that specialize in bankruptcy, Council President Thomas Clarke told the local newspaper that looking into court protection from creditors would only be a last ditch option.

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## **Bloomberg Politics**

By Martin Z Braun

July 7, 2017, 2:00 AM PDT

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### **[Fitch Downgrades Puerto Rico Electric Power Auth's IDR and Rev Bonds to 'D'](#)**

Fitch Ratings-New York-06 July 2017: Fitch Ratings has downgraded the Puerto Rico Electric Power Authority's (PREPA) Long-Term Issuer Default Rating and power revenue bond ratings to 'D' from 'C'. The action follows the authority's failure to pay principal and interest due on the revenue bonds on July 3, 2017 and the commencement of insolvency proceedings under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) on July 2, 2017.

Both ratings have been removed from Rating Watch Negative.

PREPA had previously disclosed a restructuring plan and related support agreement that anticipated the reduction of existing debt by means of a proposed distressed debt exchange but could have resulted in the continuing performance of certain securities. However, the plan and support agreement were effectively terminated following a vote on June 29, 2017 by the Financial Oversight and Management Board appointed under PROMESA not to certify the agreement as eligible for debt modification procedures under Title VI of PROMESA. On June 30, 2017, the Board certified PREPA to file a voluntary petition under Title III of PROMESA.

#### **RATING SENSITIVITIES**

The Puerto Rico Electric Power Authority's Issuer Default Rating and power revenue bond ratings have reached the lowest level on Fitch's rating scale. It is Fitch's intent to continue to monitor

PREPA's Issuer Default Rating and reexamine PREPA's credit profile once debt restructuring plans become clear.

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## **Puerto Rico's Power Authority Effectively Files for Bankruptcy.**

Puerto Rico's troubled power company defaulted on a deal to restructure roughly \$9 billion in bond debt and sought court protection from its creditors, the government said on Sunday.

The government said the move to, in effect, file for bankruptcy was the only way to reduce the existing debt of the Puerto Rico Electric Power Authority "to a sustainable level." The utility, known as Prepa, had previously negotiated an out-of-court deal to reduce its bond payments by about 15 percent. The bondholders now seem likely to sustain larger losses under court supervision.

Puerto Rico's Fiscal Agency and Financial Advisory Authority, which announced the move, said it did not expect any disruption of service to Prepa's residential or commercial customers on the island.

Bondholders had hoped that Prepa's debt could be reduced consensually, as planned. Some questioned the legality of moving into federal court to redo the deal.

Bill Fallon, the chief executive of National Public Finance Guarantee Corporation, a bond insurer, called the move "improper" and warned that it "would leave Prepa years away from attracting the private investment necessary to modernize."

Electrical power has long been a drag on the island's economy. Prepa's antiquated generating plants burn imported oil to produce electricity. Efforts to modernize the plants and shift to clean and

renewable fuels have been delayed repeatedly. Customers pay rates that follow oil prices up and down, and while the rates are relatively low at the moment, they are vulnerable to rising again.

In addition, there are longstanding accusations that Prepa's fuel-purchasing office for many years bought dirty oil sludge as fuel, charged consumers the much higher price of cleaner distillates, and then created a slush fund with the difference. The Puerto Rican senate held a series of hearings on Prepa's fuel-purchasing irregularities, and has referred its findings to the Federal Bureau of Investigation.

Prepa got into severe financial trouble before the rest of the Puerto Rican government, when it was unable to pay for fuel in 2014. Its creditors extended fuel-purchasing credit that year, and subsequently negotiated a deal to restructure about \$5.7 billion of Prepa's \$9 billion in total debt.

The deal was held up as a model at the time, because it was achieved without the sort of leverage that can be exerted in bankruptcy. In addition to taking a 15 percent loss, the bondholders had agreed that Prepa could put a portion of the savings toward its long-promised modernization and conversion to cleaner sources of power.

But the agreement also called for Prepa to continue paying down its remaining debt by adding an unpopular increase in power customers' monthly bills. It also required the restructured debt to be secured to an investment-grade rating, an insurmountable challenge with the island's central government itself effectively bankrupt, and its economy in a painful decline.

Last week, the federal oversight board that is guiding Puerto Rico's finances voted to authorize Prepa to seek debt relief under Title III of Promesa, which is similar to Chapter 9 municipal bankruptcy. Natalie Jaresko, the board's executive director, said then that talks could continue, and the utility's bondholders said they still hoped to pursue the consensual deal. They also offered to cover a \$170 million interest payment that Prepa was required to make to bondholders on Saturday.

But Prepa declined that offer, defaulting on the payment and paving the way for the move on Sunday for court protection.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

JULY 2, 2017

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### **[Puerto Rico Bankruptcy-Related Statement Filed.](#)**

The Commonwealth of Puerto Rico's ad hoc group of general obligation bondholders, Ambac Assurance, Assured Guaranty, Assured Guaranty Municipal, Mutual Fund Group, National Public Finance Guarantee and Puerto Rico Funds (collectively, "Responding Creditors") filed a statement in response to the Commonwealth's status report regarding (a) financial disclosures to creditors and (b) status of settlement discussions. Because the Responding Creditors occupy different positions in the capital structure of the Commonwealth and its instrumentalities, their interests are diverse and, in certain respects, in conflict with one another; however, the statement notes that all parties are united in their rejection of certain fundamentally misguided and misleading positions set forth by the Oversight Board the status report.

The statement notes, “The Oversight Board’s Status Report rests on a breathtakingly overbroad conception of the Oversight Board’s authority under the Puerto Rico Oversight, Management, and Economic Stability Act (‘PROMESA’). In the Board’s view, PROMESA confers upon the Board a unilateral – and unreviewable – power to dictate the amount of revenues that will be available to service the debts of the Commonwealth and its instrumentalities, through the certification of a Fiscal Plan. All that is left for creditors to do, the Oversight Board asserts, is ‘negotiate to divide up the money available for debt service under the fiscal plan.’...The Oversight Board therefore contends that creditors may not even obtain discovery regarding the analyses, judgments, and projections that underlie the certified Fiscal Plan...The Oversight Board’s position fundamentally misunderstands PROMESA.”

In addition, “To make matters worse, Commonwealth officials have been engaging in a mad dash to pay certain creditors before a restructuring plan is proposed – trade creditors, tax refund claimants, and others are being paid in full at a rapid rate, without any regard for lawful liens or priorities. The Oversight Board’s insistence that it may dictate to creditors, rather than negotiate with them, also dooms any possibility for a consensual resolution of these Title III cases.”

## BANKRUPTCY COMPANY NEWS

BY BRANDY CHETSASON

JUNE 28, 2017

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### **[For Sale: Puerto Rico.](#)**

#### ***Territory seeks private companies to run ports, airports, ferries, and more; utilities could be next***

Puerto Rico has no cash and can’t borrow money anymore. So it is looking to sell itself off in parts.

The troubled U.S. territory is preparing to seek bids in coming months from private companies willing to operate or improve seaports, regional airports, water meters, student housing, traffic-fine collections, parking spaces and a passenger ferry, according to a government presentation reviewed by The Wall Street Journal.

The goal is to attract more than \$500 million in investment starting this summer, according to a spokesman for the Puerto Rico Public-Private Partnerships Authority. Future possibilities include the island’s power utility, water and sewer system and waste management, according to presentations made in April to private investors.

Puerto Rico officials haven’t disclosed exactly how they plan to use any proceeds. The government currently needs cash to pay down debt, run operations and for other purposes.

Potential deals are a cornerstone of a new plan to revitalize the territory, which in May was placed under court protection, the largest-ever U.S. municipal bankruptcy. Gov. Ricardo Rosselló predicts public-private partnerships launched over the next three years will bring \$5 billion in new investment and 100,000 jobs to Puerto Rico. Economic projections in the commonwealth’s revitalization plan are based in part on the completion of public-private partnership deals.

It’s an ambitious goal. U.S. public-private transportation projects—the most common type of

partnerships—have attracted about \$30 billion in total private and public investment since 1993, according to Public Works Financing newsletter's P3 Projects Database.

"I hope it happens but I recognize it's aggressive," former Puerto Rico Gov. Luis Fortuño, who created the Public-Private Partnerships Authority, said of the \$5 billion target.

In public-private partnerships, the government allows private firms to lease and operate public infrastructure for decades in exchange for upfront cash or a promise of long-term improvements. Some arrangements also involve building new infrastructure. Unlike municipal bonds, public-private partnerships insulate investors from the government's financial distress: The money typically flows straight to the private operator without ever passing through government officials' hands.

Proponents say privately run projects are typically more efficient and well-run than public projects, creating savings that lower the overall cost.

Critics of the partnerships say governments are pledging away revenues they need to fund core services in exchange for infrastructure improvements that could cost less if publicly financed. In one example, after Chicago leased its parking meters to a private firm in 2008, the city's inspector general found the firm's \$1.157 billion upfront payment was \$974 million less than what the city would have gotten from operating the meters itself.

"Just as it is imprudent to sell your house to make a monthly credit card payment, valuable governmental assets shouldn't be viewed as a one-shot budget solution," said Chris Hamel, head of municipal finance at RBC Capital Markets, speaking generally about public-private partnerships.

Puerto Rico has had issues in the past with private partners.

Former Gov. Alejandro García Padilla tried to find partners for a passenger ferry from the mainland to the islands of Culebra and Vieques. But the government couldn't afford to put down collateral to guarantee to a private operator that it would make payments to supplement ferry fares, and prospective partners lost interest.

Rick Newman, a developer and owner-operator of hotels in Puerto Rico who runs a private ferry service, opted against bidding to operate the Culebra and Vieques ferry under Mr. García Padilla's plan. He said the proposed partnership carried too much risk. He said he would consider a new partnership, but not if the private partner is expected to rely solely on passengers for revenue.

"If the request for proposals comes out and says you have to live off of the fare box, the government may not find a private operator," Mr. Newman said.

Other public-private partnerships in Puerto Rico have done better.

In 2009, then-Gov. Fortuño pushed through legislation creating an authority that could move forward with public-private deals without legislative approval. Puerto Rico's largest airport is run by a public-private partnership.

The authority's first major deal was a decision to lease the island's busiest road, the José de Diego Highway, and a shorter nearby road. Puerto Rico got \$1.08 billion in upfront cash—almost all of it went to pay off debt—and a promise from the private firm, Autopistas Metropolitanas de Puerto Rico LLC, to invest about \$350 million in the roads, according to the Federal Highway Administration.

The private firm made a range of improvements, paving and widening the expressway and enhancing toll-collection efforts. It also raised prices for drivers by 20% since 2011; driving from end



to end now costs \$4.45.

Mr. Fortuño said without private investment, he wouldn't have had the upfront capital to make needed safety improvements. "I didn't have a choice," he said.

The private operator's owners, Goldman Sachs Infrastructure Partners and the Spanish infrastructure firm Abertis, each received about \$40 million in earnings before interest, tax, depreciation and amortization from the road last year, according to people familiar with the matter.

Prices on the toll road's bonds have risen by about eight cents on the dollar since October and now are trading at par value. Puerto Rico highway bonds, in contrast, are trading at close to 50 cents on the dollar after the island's highway authority entered a court-supervised bankruptcy process last month.

"This is the solution that Puerto Rico has to move forward," said Wilson Ortiz-Vega, advisory leader with the insurance brokerage Aon, which worked on a previous public-private partnership with Puerto Rico. "They don't have access to capital markets at a reasonable rate, and they don't have the resources."

Even so, Carlos A. Colón De Armas, a professor of finance at the University of Puerto Rico Graduate School of Business, said the commonwealth would have been better off continuing to operate the José de Diego Highway. His 2011 study found the present value of the revenue the government would have collected over 40 years was \$2.1 billion.

## **The Wall Street Journal**

By Heather Gillers

June 26, 2017 7:00 a.m. ET

Write to Heather Gillers at [heather.gillers@wsj.com](mailto:heather.gillers@wsj.com)

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### **Opinion: Privatize Puerto Rico's Power.**

***It would reduce the cost of living and spur economic growth.***

*This article was written by Andrew G. Biggs, Arthur J. Gonzalez, Ana J. Matosantos and David Skeel, four of the seven members of the Financial Oversight and Management Board for Puerto Rico. They were appointed by President Obama based on recommendations by the Democratic and Republican Congressional leadership.*

In July 2016, Puerto Rico defaulted on its more than \$70 billion of debt, putting at risk those liabilities as well as more than \$50 billion in public pension obligations. Just before the default, Congress had enacted the Puerto Rico Oversight, Management and Economic Stability Act, or Promesa, which established the Financial Oversight and Management Board for Puerto Rico. Today, under the board's guidance, Puerto Rico is undertaking the largest municipal restructuring in U.S. history, with the goal of sorting out its longstanding fiscal issues and reigniting economic growth.

The board has worked steadily toward these goals over the past year. After rejecting turnaround plans submitted by two successive Puerto Rican governors, last March the board approved an

amended plan that includes a nearly 30% cut in government health spending, sizable reductions in government subsidies, school closings, consolidations of government agencies, and the most extensive public-employee pension reforms ever passed in the U.S.

This week, after much deliberation, the board rejected the Puerto Rico Electric Power Authority's request to move forward with a restructuring support agreement with its creditors. Puerto Rico's electricity costs are two to three times as high as mainland levels. The board concluded that lowering the price of electricity and spurring economic growth depended on reforming Prepa's operations, not merely restructuring its credit. Affordable electricity could boost growth by up to half a percentage point annually, raising family incomes on the island, stemming outmigration and increasing funds available to repay creditors.

Successful reform will require a true transformation of Puerto Rico's power sector. As the Center for the New Economy, a Puerto Rican think tank, put it in a 2009 report: "PREPA's operations are substantially less efficient than the operations of its U.S. counterparts and it underperforms in virtually every area of operations under consideration." While mainland utilities have reduced costs by shifting to natural gas, Prepa relies on outmoded oil-fired generating plants. The company also loses 12% of sales revenue to faulty billing and theft, three times the U.S. average. Prepa has languished under heavy administrative overhead and politicized management, which contribute to its failure to deliver reliable, cost-effective energy.

We believe that only privatization will enable Prepa to attract the investments it needs to lower costs and provide more reliable power throughout the island. By shifting from a government entity to a well-regulated private utility, Prepa can modernize its power supply, depoliticize its management, reform pensions, and renegotiate labor and other contracts to operate more efficiently. A reformed Prepa is key to restoring opportunity for the people of Puerto Rico.

Prepa's credit restructuring proposal would make effective privatization impossible. Under the proposal, bondholders would grant Prepa a five-year reprieve from principal payments and some would accept a 15% reduction in debt. In return, those bondholders would be guaranteed repayment of remaining debt through an electricity surcharge. If demand for electricity continues to decline, the surcharge will have to rise to compensate the creditors. The Prepa proposal and its guarantee to current creditors would increase costs to ratepayers while leaving new investors—the ones Prepa needs to transform its operations—assuming all the risk.

Private investors would not involve themselves with Prepa on those terms, meaning the company would lack the capital to modernize. Electricity costs would remain high, and economic growth, families and bondholders would suffer. The board's economists estimate that without pro-growth energy reforms, funds available to pay Puerto Rico's creditors would be reduced by \$15 billion.

The Board's decision was not easy. Promesa gave preferential treatment to the credit support proposal, not requiring it to satisfy the same criteria as other debt restructuring settlements. Some members of Congress have suggested that Prepa's credit agreement should have been considered a "done deal." But not all the proponents of Promesa understood its provisions in that way. The law clearly expresses that the board must authorize any voluntary debt restructuring, and the agreement proposed by Prepa itself explicitly requires board authorization.

The board cannot amend the Prepa agreement, as it did with the fiscal plan submitted by Puerto Rico's government. But the board will pursue improved terms of agreement for creditors, and more equal sharing of risk between current creditors and new investors.

Transformation of Puerto Rico's energy sector is only one part of a broader reform agenda, which

must include fundamental public pension and welfare reforms, as well as the modernization of labor laws. Prepa's viability must be addressed in the context of these larger solutions to Puerto Rico's fiscal and economic crisis. But unless Prepa can be modernized, Puerto Rico's economic recovery and its ability to repay its debts will suffer.

## **The Wall Street Journal**

June 29, 2017 6:55 p.m. ET

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### **Illinois Is in Deep Trouble: What Investors Need to Know.**

#### ***Here are answers to questions investors may be asking***

Illinois is locked in a political stalemate, and in danger of becoming the first U.S. state to have its debt downgraded to junk status. S&P Global Inc. threatened to take that action if Gov. Bruce Rauner and Democratic Speaker of the House Michael Madigan can't agree on a package of spending and taxes by the start of the next fiscal year on Saturday. Below is a breakdown of what this unprecedented event would mean for everyone from individual investors to large Wall Street money managers.

#### **Who owns Illinois's debt?**

Much of Illinois's \$25 billion in outstanding general obligation debt is held by individual investors seeking a stable source of income, according to analysts' estimates. But Wall Street is also exposed via mutual funds, hedge funds and insurers that purchased the state's bonds. Money management giant Vanguard Group has \$1.2 billion spread across seven mutual funds. It is the biggest holder among all mutual-fund firms that had a total of \$4.5 billion in Illinois bonds, according to the most recent figures from research firm Morningstar.

#### **What would a downgrade do to those investments?**

Not much, say analysts. They predict prices would drop only a few cents in the event of a junk downgrade. The state's uninsured general obligation debt traded this week as high as 95 cents on the dollar. Junk bonds don't usually trade near par, but state general obligation debt is considered safer because states have broad power to tax and lack the legal ability to declare bankruptcy.

#### **Will investors still get paid?**

A junk rating won't affect the state's ability to pay bondholders. State officials have said those payments are their No. 1 priority.

#### **What does a 'junk' rating mean, anyway?**

Ratings firms rank debt according to how safe an investment they believe it is. The 12 safest tiers are considered "investment grade," meaning investors have what S&P terms "adequate" protection against the risk of default. Below that, bonds are considered junk, or "speculative grade," meaning they face "large uncertainties" or "major exposure to adverse conditions," according to S&P. Investors who buy junk may earn greater profits if the bonds perform well but they also face greater danger of losses.

## **Are mutual funds even allowed to own junk municipal bonds?**

Most mutual funds have rules limiting their investment in junk-rated debt, but when bonds drop below investment grade they may not be required to sell them. At Vanguard, mutual funds are allowed to hold a “modest allocation” of junk bonds, a spokesman said. Vanguard’s municipal bond team, a spokesman said, is “comfortable with the risk/reward” of investing in Illinois bonds.

## **How are investors expected to react to a downgrade?**

Bonds are still likely to change hands as holders spooked by the state’s deteriorating credit sell and high-yield investors take advantage of the opportunity to buy. Mutual funds have already sold more than \$100 million in Illinois general obligation bonds since the end of 2016, according to Morningstar, and buyers have been taking advantage of temporary dips. Howard Cure, director of municipal bond research at Evercore Wealth Management, said some of his clients might buy more Illinois bonds if prices drop further.

## **How would a downgrade affect Illinois?**

The most immediate impact would likely be a rise in borrowing costs, making it more expensive to raise money for new projects. Analysts predict investors could demand an additional half-percent to a percent in interest, meaning the state would pay an additional \$5 million to \$10 million for every \$1 billion it borrows. Illinois already pays a premium. When it last sold tax-exempt debt in November 2016, the state paid yields of 4.4% for 20-year bonds. In contrast, 20-year bonds issued by the state of Wisconsin around the same time yielded 2.8%.

## **Is Illinois on its way to becoming the next Puerto Rico?**

Analysts say no, noting that Illinois’s problems are largely political. Unlike Puerto Rico, which is in the midst of a court-supervised restructuring, Illinois has a strong underlying economy and annual revenues that are about 10 times its yearly debt service payments. Puerto Rico, on the other hand, has endured more than a decade of economic distress. “There’s no risk of Illinois losing market access,” said Matt Fabian, a partner at Municipal Market Analytics.

## **Will a junk downgrade spill over affect other states and cities?**

It could. New Jersey and Connecticut, among the lowest-rated states after Illinois, may face more scrutiny from investors, analysts said. Both are wrestling with budget problems and mounting liabilities. But New Jersey and Connecticut still have a long way to go to match Illinois’s ratings dilemma. They are rated several notches higher by S&P and Moody’s Investors Service.

## **The Wall Street Journal**

By Heather Gillers

June 29, 2017

Write to Heather Gillers at [heather.gillers@wsj.com](mailto:heather.gillers@wsj.com)

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**[Puerto Rico Electric Bonds Fall as Restructuring Pact Dashed.](#)**

- **Bonds had been sliding as board delayed approval of deal**
- **Agreement would have given investors 85 cents on the dollar**

Puerto Rico's government electric company bonds tumbled after the island's federal oversight board rejected an agreement with creditors to restructure \$9 billion of debt, pushing the agency toward bankruptcy.

The price of Puerto Rico Electric Power Authority bonds due in 2040, one most actively traded Wednesday, changed hands for an average of 52.7 cents on the dollar, down 15 percent from when they last traded on June 14, according to data compiled by Bloomberg.

A rout followed the board's announcement late Tuesday that it shot down the agency's deal with insurers and investors that would have allowed bondholders to receive 85 cents on the dollar. Prepa, as the utility's known, first struck the agreement in 2015, before Congress enacted emergency rescue legislation that placed Puerto Rico under federal oversight and gave the island the option to file for bankruptcy.

"It's pretty negative from the perspective that you have an agreement and it's been out there for a long time," said Daniel Solender, head of municipals at Lord Abbett & Co., which manages \$19 billion of state and local debt, including Puerto Rico bonds. "It makes it hard to proceed going forward with them if agreements don't hold up."

The restructuring of Prepa, the largest U.S. public power utility by customers and revenue, will likely happen using a form of bankruptcy called Title III, the board said. Puerto Rico's central government took that step on May 3 after negotiations with creditors failed.

Investors had been speculating that the Prepa deal could unravel, given that the board had failed to approve revisions that Governor Ricardo Rossello made nearly three months ago. Without it in place, Prepa may default on a \$423 million principal and interest payment due July 1. It would be the first missed payment for the agency after it negotiated for nearly four years with hedge funds, mutual funds and bond-insurance companies to find an out-of-court solution.

Board members have questioned the deal's ability to lower electricity rates and sufficiently modernize the system.

"Affordable and reliable electricity is central to Puerto Rico's economic turnaround, without which customers will seek alternative measures to satisfy their needs resulting in increased pressure to increase the rates to the remaining customer base, thereby inhibiting growth and long-term viability," the board said in a statement Tuesday.

The board voted four to three against the deal, according to a person familiar with the vote who asked not to be named because the meeting wasn't public.

The vote comes after MBIA Inc.'s National Public Finance Guarantee Corp. and units of Assured Guaranty Ltd. sued the board Monday in U.S. court in Puerto Rico, seeking to prevent the panel from blocking Prepa's restructuring agreement.

Congress last year passed legislation, known as Promesa, that allows Puerto Rico and its agencies to file Title III to force creditors to take losses on their investments. The legislation included language that directed the board to approve any already-crafted creditor agreement. U.S. Representative Rob Bishop, chairman of the Natural Resources Committee, which drafted Promesa, earlier this month urged the board in a letter to approve Prepa's restructuring deal.

The board's decision was criticized by a group of Prepa bondholders, including OppenheimerFunds Inc. and Franklin Advisers, that were involved in the negotiations.

"We do not understand the board's decision to block this deal after more than three years of cooperative, good faith negotiation by all stakeholders, exhaustive third-party review and explicit statements from the chair of the Congressional committee that drafted PROMESA that the law wasn't intended to give the board the power to take this action," the group said in a statement. "At this stage we remain open to working with the oversight board but are considering all options."

## **Bloomberg**

By Michelle Kaske

June 28, 2017, 9:13 AM PDT June 28, 2017, 11:08 AM PDT

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### **[Fitch: Rising Debt Expected for Florida Water Utilities.](#)**

**Fitch Ratings-New York-26 June 2017:** Florida water utilities have seen a rise in debt outstanding over the past three years, according to Fitch Ratings' 2017 Florida Water and Sewer Sector Update. Fitch believes this will continue as concurrent increases in capex have not resulted in declines in the average age of water plants.

Renewal and replacement of water infrastructure has driven the majority of capital spending for Florida water and sewer utilities. However the average age of the state's water utilities has remained mostly stable, at 14.5 years in fiscal year 2016.

"Increasing focus on alternative water sources and efforts around water quality most likely mean more financing will be required to meet needs that go above and beyond regular renewal and replacement," says Eva Rippeteau, Director, U.S. Public Finance.

Regulatory requirements for wastewater quality, storm water and flood mitigation are major capital spending drivers throughout the state.

Nutrient reduction, in particular, remains a big focus and has both environmental and economic implications. In early May, Governor Scott authorized a \$1.5 billion plan aimed at mitigating algae blooms caused by nutrient accumulation in Lake Okeechobee, the largest such plan to date. Increasingly, storm water capture and disposal systems are under greater scrutiny due to persistent flooding and pollution risk. Utilities requiring system changes to address these methods may require additional financing.

Some utilities have on-going requirements to expand or seek alternative water sources to accommodate renewed population growth. Certain supply projects can be expensive and necessitate regional coordination in order to finance, operate and sustain. One example is the Central Florida Water Initiative, which spans five counties, three water management districts, the Florida Department of Environmental Protection and other stakeholders.

Despite the increase in debt, most Florida water and sewer utilities saw significant improvements in finances in fiscal 2016 relative to the year prior. Four upgrades and only one downgrade comprised the year's ratings changes. The ratings for 34 other systems were affirmed. The average Florida water and sewer utility rating continues to be 'AA'. Fitch anticipates credit quality will remain high.

The 2017 Florida Water and Sewer Sector Update was published in conjunction with the 2017 Fitch Analytical Comparative Tool (FACT) for Florida Water and Sewer credits. The 2017 FACT contains financial data for 58 water and sewer utilities in Florida, including historical statistics and metrics going back to 2012.

The FACT includes a dashboard feature to plot annual issuer metrics and median performance, a peer analysis tool which allows users to review and compare metrics of two issuers, and a charting tool which generates a comparison of issuer metrics against rating category medians.

The full reports, "Florida Water and Sewer Sector - 2017 Update," and "Florida Water & Sewer - Fitch Analytical Comparative Tool (FACT) - 2017," are available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Fitch: New York State Leaves Local Tax Revenue in Limbo.**

**Fitch Ratings-New York-23 June 2017:** The New York State legislature is expected ultimately to approve extending key revenue sources for local governments, despite adjourning its 2017 session without approving the extensions, says Fitch Ratings. However, there may be a lapse in tax collections by local governments if the legislature does not arrive at an agreement prior to its next scheduled session in 2018.

The legislature adjourned its 2017 session on Wednesday without an agreement on a bill that would extend the right for 53 counties to charge sales taxes above the 3% base sales tax rate and New York City to continue its current income tax rate. Many counties levy an additional 1% or more, some of which may be shared with their municipalities. This tax must be renewed biennially by the legislature. The bill would also have continued mayoral control of the New York City public school system.

We do not believe the legislature's intention was to deprive local governments of a revenue source that for many funds a significant portion of their budgets. However, the parts of the bill concerning the schools were highly politicized.

State officials are reportedly discussing arrangements to vote on a bill incorporating the tax

extensions before the next session. Fitch expects the extensions to ultimately be extended before they expire, but Fitch will take any rating actions it deems appropriate if this expectation is not met.

In addition to potentially affecting government operations, failure to extend taxes would impact debt service coverage for a number of state-created authorities whose bonds are secured by sales tax revenue. The New York City Transitional Finance Authority's (TFA) bonds are secured by both sales and income tax revenues. While only a minimal portion of the city's sales tax revenue is at risk, the loss of the extension of the current income tax base rate and 14% surcharge could result in a loss of tax revenues of \$8.1 billion by fiscal 2021, according to an analysis by the TFA. Debt service coverage on TFA bonds is very strong, as it is for bonds issued by the Nassau County Interim Finance Authority, the Buffalo Fiscal Stability Authority and the Erie County Fiscal Stability Authority - all rated 'AAA'/Stable.

TFA reports the effects on fiscal 2018 revenues of a reduction in the income tax rate, effective Jan. 1, 2018, would be \$2.9 billion. This has a modest impact on TFA coverage yet would create a gap in the city's fiscal 2018 budget (beginning July 1, 2017) as the income taxes reduced represent 3.4% of budgeted revenues. However, for those with fiscal years ending December 31 and taxes expiring on November 30, current year budget adjustments would be needed.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com). The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at [www.fitchratings.com](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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### **[Fitch: Mixed Outcome in Southern California Water Rate Litigation.](#)**

Fitch Ratings-Austin-26 June 2017: On June 21, in a decision that Fitch Ratings found to be credit-neutral, the California Court of Appeal gave both parties reason to claim victory in its decision on litigation between the Metropolitan Water District of Southern California (Metropolitan, rated 'AA+'/'Stable') and the largest of its 26 member agencies, the San Diego County Water Authority (CWA, rated 'AA+'/'Stable'). The court ruled in favor of the CWA on most points, but the ruling favored Metropolitan on the core financial aspect of the case. The appellate court affirmed the legality of the aspect of Metropolitan's rate-setting methodology that includes State Water Projects (SWP) costs, reversing the trial court decision of Nov. 2015. We believe the most recent appellate court ruling is credit-neutral for Metropolitan in that the bulk of its transportation rate was found to be appropriate, and credit-neutral for San Diego CWA, since it could receive some relief in the



transportation rate that would be credited back to its members. The case is expected to be appealed to the State Supreme Court.

### **Water Transportation Rate at Heart of the Case**

CWA pays water transportation rates to Metropolitan for the movement of imported water CWA purchases from the Imperial Irrigation District. Metropolitan's transportation rate-setting methodology includes SWP charges (charges associated with the 444-mile California aqueduct that moves water from northern California to southern California), which CWA has contested as costs that are more appropriately characterized as water supply costs and not allocable to transportation costs. Based on the 2010 legal filing, CWA asserted that the inclusion of SWP costs resulted in an overcharge of at least \$24.5 million per year and inclusion of the water stewardship rate resulted in a further overcharge of \$5.4 million per year, in comparison to CWA's full payments to Metropolitan of approximately \$328 million in recent typical years.

The trial court, in its 2015 decision, had awarded San Diego CWA \$188.3 million in breach of contract claims to San Diego CWA for rate overcharges (both SWP and water stewardship rate) during the years 2011-2014 plus additional amounts for interest and legal costs. While there is legal precedent that affirms water transportation rate methodology can include system costs broader than just the facilities used to convey specific water supplies in an individual contract, the trial court found Metropolitan's inclusion of the SWP charges improper because the SWP is not directly owned by Metropolitan. However, the appellate court's recent ruling reversed the trial court's determination, finding that the SWP, while not owned by Metropolitan, is an integral component of its water supply system and can be included in the transportation rate.

The remaining points in the litigation on which the appellate court found in favor of the CWA are 1) in regard to the exclusion of Metropolitan's water stewardship rate in its water transportation charge methodology (in agreement with the Nov. 2015 trial court decision); 2) the more generous calculation methodology of CWA's rights to preferential water during a shortage (also in agreement with the trial court decision); and 3) a finding that CWA has standing to challenge an unconstitutional component of Metropolitan's water conservation program contracts that allowed Metropolitan to cut off conservation program funding to a member that is in active litigation to challenge the Water Stewardship Rate. The trial court had found this aspect of the conservation program to be unconstitutional but determined that CWA lacked the standing to challenge the provision.

### **Credit Rating Outcomes Expected to be Relatively Neutral**

Fitch believes the current credit ratings of Metropolitan and CWA provide sufficient room to incorporate any potential outcomes in the case pending ultimate resolution. Fitch believes Metropolitan is positioned to absorb the costs and required rate restructuring required by the appellate court ruling if it were upheld. This outcome would allow Metropolitan to include SWP costs but exclude the water stewardship rate in its transportation rates and pay certain damages to CWA, assumed to be substantially less than those awarded by the Nov. 2015 trial court decision. The appellate court's decision would lower the transportation rates charged to CWA in the future by removing the water stewardship rate but Metropolitan could recover those lost revenues through an incremental rate increase to other members. Metropolitan's revenue stability will depend on the timeliness of rate restructuring to recover the revenues at issue from other members. Metropolitan's cash reserves were spent down in fiscal 2016 related to the state drought but should recover to more typical robust levels prior to a final decision by the Supreme Court. Reserves could be necessary to provide financial cushion until rate restructuring could be put into place. If a final ruling is instead consistent with the original trial court decision, resulting in a more urgent need for

rate restructuring among Metropolitan's members, strong reserves and rapid Board action will become more critical credit considerations.

San Diego CWA's credit quality is unlikely to shift regardless of the outcome, given the upside potential of receiving financial damages and the intent to return any funds directly to customers. If the appellate court ruling is upheld, CWA would receive a smaller portion of the damages being sought but the higher rates have already been paid to Metropolitan and recovered in CWA's own rates charged to its customers. CWA has committed to returning any funds received from the litigation to its customers (net of legal costs). Fitch believes the credit impact would be neutral for San Diego regardless of whether the final ruling includes the large \$188.3 million settlement awarded by the trial court or the smaller amount related only to the water stewardship rate component implied by recent appellate ruling. Future water rates may be higher than what CWA had hoped, but CWA has cautiously assumed a continuation of current rates in its conservative forecast planning and rate methodology.

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## **Illinois Blows Budget Deadline, Pushing It Closer to Junk.**

- **House plans Sunday vote after adjourning without agreement**
- **S&P warns of downgrade if the impasse isn't soon resolved**

Republican Governor of Illinois Bruce Rauner. Photographer: Scott Olson/Getty Images  
Illinois entered its third straight fiscal year without a budget as Republican Governor Bruce Rauner and Democratic lawmakers struggle to agree on how to rein in the government's chronic deficits, pushing it closer toward becoming the first junk-rated U.S. state.

State legislators failed to enact a budget by the end of Friday, the last day of the fiscal year, though negotiations continued. Speaker Michael Madigan, a Chicago Democrat, said in a statement on Saturday the House would vote Sunday "on a revenue package that is modeled on the bill supported by the governor, and House and Senate Republicans."

The failure marked a continuation of the unprecedented impasse that's left Illinois without a full-year budget since mid-2015. Without a deal around July 1, S&P Global Ratings has warned that the

nation's fifth-most-populous state will likely get downgraded again, losing its investment-grade status.

After Madigan, 75, appeared briefly on the House floor, Republicans stood and chanted in objection, with one member shouting "Speaker Junk" as Madigan left the floor.

On Friday, Madigan, who controls much of the legislative agenda, pleaded with rating companies to "temporarily withhold judgment" as lawmakers negotiate.

### **'Job Done'**

"Much work remains to be done," Madigan said on the floor of the House Friday, before the chamber adjourned for the day. "We'll get the job done."

Without a spending plan, the state has effectively been on autopilot, leaving it with a record \$15 billion of unpaid bills as it spent over \$6 billion more than it brought in over the past year. The impasse has devastated social-service providers, shuttering services for the homeless, disabled and poor. The lack of state aid has wrecked havoc on universities, putting their accreditation at risk.

If the standoff isn't resolved, Illinois officials have said they won't be able to pay contractors and road construction will shut down, putting thousands out of work. The yields on the state's bonds have risen as investors anticipate a downgrade.

At its root, the fight is a showdown between former private equity executive Bruce Rauner, who in 2015 became the first Republican to lead Illinois since 2003, and Madigan, who's served as speaker for decades. The two can't agree on how to end deficits that were exacerbated when tax hikes expired just as Rauner took office.

The partisan gridlock has created the longest budget standoff ever for a state, according to the National Conference of State Legislatures. Rauner has demanded any plan come with parts of his self-described pro-business reforms, like a property-tax freeze and legislative term limits. Democrats have resisted, saying his agenda would devastate the middle class. They've passed some of his initiatives, but Rauner argues they didn't go far enough.

### **School Funding**

Without a budget that includes borrowing to pay down the bill backlog, Illinois by August will run out of money for key expenses for the first time since the stalemate began, according to Comptroller Susana Mendoza, a Democrat. That means school funding, state payroll, and pension payments could be affected, she said. There won't be enough money for these mandated or court-ordered payments.

This won't jeopardize debt-service payments, she said. Illinois hasn't missed any bond payments and state law requires it to make monthly deposits to its debt-service funds.

Investors have been punishing Illinois for its fiscal woes. Yields on the state's 10-year bonds have soared to 4.8 percent, 2.8 percentage points more than those of benchmark debt. That's the highest yield of all 22 states that Bloomberg tracks.

"Recognizing that they're continuing to work through the weekend, it doesn't look good to adjourn halfway through your last day," said John Humphrey, the Chicago-based head of credit research for Gurtin Municipal Bond Management, which oversees about \$10.1 billion of state and local debt.

### **Bloomberg Politics**

By Elizabeth Campbell

June 30, 2017, 9:01 PM PDT July 1, 2017, 2:53 PM PDT

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## **Citigroup Likes Illinois's Fundamentals, Dislikes Its Politics.**

- **The state's G.O. bonds offer attractive spreads for HY buyers**
- **Build Illinois Bonds (BIBs) 'somewhat on par with GOs'**

Illinois general-obligation debt may be attractive for high yield investors as the state contends with a two-year budget impasse that has its rating on the verge of junk, according to Citigroup's municipal research team led by Vikram Rai.

General-obligation bonds are trading from 1.55 percentage point to 2.05 percentage points more than securities with the lowest investment-grade ratings, though large-scale, forced selling in the event of a downgrade to junk is unlikely, the analysts stated in a note. Investors should show a preference to the 5- to 7-year part of the curve, they said.

### **The analysts also note:**

- Build Illinois Bonds (BIBs) are "somewhat on par with GOs" as state law provides for irrevocable and continuing appropriation in much the same manner seen for the GOs and sales-tax revenue bonds. In addition, the amount outstanding is low and payment is backed by a first lien on the state's share of sales tax revenue.
- The state's appropriated debt (Metropolitan Pier & Exposition Authority) have already been downgraded to junk and have outperformed GOs of late; this may continue as the notional amount is just about \$3.6 billion and is backed by dedicated sales tax revenues.
- Taxable pension obligation bonds have limited upside.
- Expect Illinois bonds to rally only after a budget passes; even a stopgap measure should lead to some price improvement.
- The state "has the ability to continue to pay for most debt service and pension contributions" whether or not a budget is passed. State law mandates a monthly set aside for debt service on GOs and sales-tax revenue bonds and this mandate has not been breached.

The state's budget impasse shows little sign of resolution by the end of the week. Republican Governor Bruce Rauner, who called a special session to breach the stalemate between the Democratic-led legislature, called the first few days of talks "a waste of time."

### **Bloomberg Markets**

By Kristy Westgard

June 27, 2017, 1:59 PM PDT

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## **A Model for Regulating the Ride-Sharers.**

***By putting the burden on the companies, Chicago is keeping its costs low while providing an efficient framework and better mobility.***

Around the country, cities are grappling with the question of how best to regulate the rapidly expanding ride-sharing industry. While many mayors and local transportation regulators are pre-empted by their state legislatures, others are free to test different policy solutions and experiment with how best to conduct background checks on drivers, ensure vehicle safety, set insurance requirements and ultimately decide who gets to be on the road.

Chicago's approach may be one that could serve as a model for other cities. In Chicago, regulators and transportation network providers (TNPs) such as Uber and Lyft agreed early on that getting good drivers on the road with minimal friction would be a key priority for the city. When ride-sharing services were first becoming popular in Chicago, the city worked with (and sometimes at odds with) TNPs to devise a licensing and regulatory framework that aims to guarantee basic safety standards for passengers while minimizing permitting expenses for drivers, ultimately giving the city new mobility options while keeping the city's overhead costs low.

To ensure baseline safety standards for ride-sharing drivers, Chicago regulators required that each prospective operator take courses and be tested on the rules of the road, how to transport passengers safely and how to provide access to people with disabilities, among other essential skills. The city tasked ride-share companies with developing the courses and administering the tests. Rather than subject prospective drivers to expensive multi-day, in-person instructional programs, TNPs instead designed their coursework to be accessed via smartphones, which made the classes far less onerous for prospective drivers.

The city also set requirements for background checks that must be undertaken for each driver. The TNPs use third-party vendors to perform these checks by running drivers' names and Social Security numbers through a series of databases and public records, singling out individuals with violations who don't meet the city's minimum standards. Background-check reports are submitted to the city, and the TNPs must keep drivers' personal information — name, contact information, address and driver's license number — up to date with the city.

And whereas city vehicle inspections are typically costly and wait times build up quickly, TNPs worked with the city to develop and partner with certified inspection shops to ensure that cars can be seen in just a few minutes for as little as \$20. A standard form is used by each TNP to guarantee that a car's essential safety components, such as lights, brakes and suspension, are in good working condition. Once a car is inspected, the form is submitted to the city and the driver must keep a copy in the car. To minimize the risk of fraud, the city maintains wide discretion to review documentation, request information and impose penalties on rule-breakers.

Once the city has ensured baseline safety standards, it utilizes the TNPs' internal customer feedback systems, such as app ratings and customer support, to identify unsafe drivers and driving practices. Each TNP must have in place a process to notify the city of any driver who has been deactivated due to complaints from riders that give rise to public safety concerns. Moreover, the city requires that each car has a 311 sticker so that riders are aware of how they can take complaints directly to the city.

Chicago has done well to put the burden of training, background checks, inspection and disclosure on its ride-sharing companies. By doing so, regulators have kept obstacles to becoming a driver to a minimum while helping to ensure customer safety and keeping the city's regulatory costs low. And by partnering with TNPs, the city has enhanced job opportunities and consumer choice while expanding Chicagoans' mobility options.

## **Public vs. Private Financing for KCI? Officials Say the Details will Count.**

Tax-exempt bonds are usually the best, lowest-cost way to finance major public projects, but it's not yet possible to say that's superior to privately financing Kansas City International Airport improvements, city finance officials said Wednesday.

Other factors can include speed of construction, capitalized interest, other financing costs, timing of when bond funds versus private funds become available, and private equity in a project, City Finance Director Randy Landes told the council's finance and airport committees.

"We would encourage you to be open-minded," Landes urged the council members as they weigh the best financing approach to building a \$1 billion single terminal at KCI.

One assurance from both Landes and Aviation Department Chief Financial Officer John Green was that, regardless of financing, the city will retain ownership of the airport and operations would not be privatized.

Green said basic maintenance and operation expenses would be covered first, with surplus funds going for debt service or capital lease costs. He said the airlines would cover any debt service gap or private lease obligation, as they always have, and no general city taxpayer dollars would be at risk. The additional cost of a \$1 billion terminal, financed over time, would allow Kansas City to remain among the country's more affordable airports.

In early May, Mayor Sly James and City Manager Troy Schulte announced their support for a proposal from Kansas City-based engineering firm Burns & McDonnell to design, build and privately finance a new single terminal at KCI.

Burns & McDonnell and supporters argued the private financing option could be as affordable as public airport revenue bonds, and the airport improvements could be completed two years faster, in 2022 instead of 2024. They also said private financing would assure a skeptical public that no taxpayer dollars are used, even though the airport is already totally funded by user fees and other enterprise funds, not by Kansas City general taxpayer dollars.

But Councilwoman Katheryn Shields and some others argued that public financing is cheaper and still does not involve taxpayer dollars, so it could be the preferable option for airport improvements and should be given fair consideration.

Shields has sponsored an ordinance that the committees considered Wednesday, calling for a Nov. 7 election and authorizing up to \$990 million in aviation bonds, which would clearly signal voter preference for the public financing alternative. The committees took no action Wednesday, and Shields' idea remains on hold.

Shields argued Wednesday that, because KCI is healthy financially and has a good credit rating, and because public financing usually carries a lower interest rate, the public approach could potentially save \$400 million in interest payments over 30 years, at no risk to taxpayers.

"It is only the revenue at the airport that will pay off those bonds," she said, adding that she thought a design-build approach could be just as swift as a private construction model. She said voters need

a clear comparison between public and private airport financing to judge the best solution.

But Landes and Green said it's not possible yet to make a fair cost comparison with private financing, since the Burns & McDonnell pro forma and other engineering firm proposals haven't yet been submitted.

After the Burns & McDonnell proposal surfaced, the city decided it was more fair to open up the bid process to other engineering firms. The deadline for firms to submit qualifications and airport concepts is July 27.

The city may then narrow the field before asking the finalists to submit their financing plans by Aug. 10. Presentations are expected Aug. 14.

All of this is a tight timeframe, because the City Council still wants to put an airport improvement plan to voters in November. The council's deadline to adopt ballot language for the November election is Aug. 24.

Councilman Scott Wagner asked whether the city can realistically evaluate the private financing proposals against a public finance model between Aug. 10 and Aug. 24.

"It's a matter of how much we sleep," quipped Assistant City Attorney Galen Beaufort.

"This is arithmetic," Landes replied. "It should work."

Several economic development and labor representatives reiterated their support Wednesday for Burns & McDonnell as the hometown team with a reputation for hiring a diverse local workforce. They argued voters are more likely to support private financing in November, because they equate public financing with public taxes, even though that's not accurate for the airport.

But Jim Fitzpatrick, a former longtime Kansas City Star reporter and editor and now a blogger, said public financing gives the public more control and more assurance of the best cost, and he said voters are smart enough to figure that out.

THE KANSAS CITY STAR

BY LYNN HORSLEY

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## **Ratings Firms Warn Albany Over Tax Extenders.**

### ***Lawmakers fail to approve routine measure tied to legislation over mayoral control of New York City***

Albany lawmakers failed to approve a series of tax extenders tied to an elusive agreement over mayoral control of public schools, leading to stern warnings from the three major credit-ratings firms.

Fitch Ratings, S&P Global Ratings and Moody's Investors Service said Albany lawmakers had failed to approve a routine measure allowing New York City to levy personal income taxes, a critical source of revenue. That tax extender went unapproved when lawmakers linked it to deadlocked legislation

extending mayoral control of New York City schools.

The legislature also failed to pass measures affecting tax revenues in 53 counties and three other cities outside New York City.

New York Gov. Andrew Cuomo has summoned Albany lawmakers back to session to reach a deal on mayoral control. The ratings firms said they expected the tax extenders would eventually be approved before they were allowed to sunset in November and December. But they said any lapse of the extenders could have a severe impact on local governments.

If the measure allowing New York City to levy personal income tax isn't approved by Dec. 31, when it expires, the city could lose \$2.9 billion in personal income tax revenue, Fitch said, leading to an immediate budget gap. Moody's said Tuesday the city's personal income tax revenue would decline by more than 60%.

Fitch said a lapse could also ultimately affect credit ratings for New York City municipal bonds, and those of several other cities across the state secured by personal income taxes.

"Fitch expects the extensions to ultimately be extended before they expire, but Fitch will take any rating actions it deems appropriate if this expectation is not met," the ratings firm said June 23.

On Tuesday, S&P said it estimated revenues for the Transitional Finance Authority, which funds the city's capital projects, could decrease by 15% in fiscal year 2018 if the tax extender is allowed to lapse. Fiscal year 2018 begins July 1 and ends June 30 of next year.

Maria Doulis, a vice president of the Citizens Budget Commission, a nonpartisan watchdog group, said it was unfathomable Mr. Cuomo and lawmakers would allow the series of tax extenders to lapse.

"The personal income tax is so essential to New York City and to funding its operations that there is no way this won't be renewed," Ms. Doulis said. "We're not terribly worried about it. We think it will be in whatever deal they come up with on mayoral control."

But Dick Dadey, executive director of the Citizens Union, a good-government group, said it was "extraordinarily irresponsible" for Albany lawmakers to use local taxing authority to gain political leverage.

"It's these kind of shenanigans the legislature and governor are able to participate in that puts the health at the state's economy at risk," Mr. Dadey said. "It just shows how brazen our elected officials have become in thinking they can play with taxpayer dollars."

## **The Wall Street Journal**

By Mara Gay

June 27, 2017 4:01 p.m. ET

Write to Mara Gay at [mara.gay@wsj.com](mailto:mara.gay@wsj.com)

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## **[Chicago Schools to Pay Hefty 6.41 Percent Rate on Second Note Tranche.](#)**

CHICAGO — The Chicago Public Schools finalized the second and last part of a short-term loan,



placing \$112 million of notes with J.P. Morgan at a huge initial interest rate of 6.41 percent, the cash-strapped district reported on Monday.

The rate on the grant anticipation notes is even higher than the 6.39 percent initial rate on \$275 million of similar variable-rate notes CPS placed with the bank earlier this month. All of the notes mature on March 30, 2018.

By contrast, top-rated debt due next March was yielding just 0.92 percent on Municipal Market Data's short-term debt scale on Monday, indicating the junk-rated district is paying a big penalty due to its financial woes.

The Chicago Board of Education approved the note sale last month as a way to avoid ending the current school year early and to help make a \$721 million pension payment due to its teachers' retirement system on Friday, the end of the district's fiscal year.

Escalating pension payments have led to drained reserves, debt dependency and junk bond ratings for the nation's third-largest public school system.

The notes are backed by delayed grant funding owed the district by the state of Illinois, which is struggling through a second-straight fiscal year without a complete budget. As a result, the state has been forced to delay payments to vendors and others, ballooning its unpaid bill pile to about \$15 billion.

"Governor (Bruce) Rauner's total failure to fully fund education in a timely way means that hundreds of districts around the state including Chicago are scrambling to make up for the state's funding shortfall," CPS spokeswoman Emily Bittner said in a statement.

The Republican governor's veto of a bill giving CPS \$215 million in one-time state money to help make its pension payment punched a hole in the district's \$5.41 billion fiscal 2017 budget. The hole grew bigger with delayed state grants, totaling about \$467 million to cover items such as transportation and special education. The initial rates on the notes will expire next week and will be reset monthly at 70 percent of the LIBOR rate plus 550 basis points.

By REUTERS

JUNE 26, 2017, 6:21 P.M. E.D.T.

(Reporting by Karen Pierog; Editing by Matthew Lewis)

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## **[Chicago Mayor Proposes City Ordinance to Boost Pension Funding.](#)**

CHICAGO — Chicago Mayor Rahm Emanuel on Wednesday proposed an ordinance that would lock in higher city payments to two pension funds after state legislation to do so became mired in Illinois' political stalemate.

The ordinance would put payments for the city's municipal and laborers' pensions on a five-year ramp to reach actuarial levels that would make the retirement systems 90 percent funded by the end of 2058. The city has already put into place a tax on water and sewer usage and a telephone surcharge to fund the higher payments.

Without the additional money, the two pension funds would become insolvent within 10 years.

The mayor told reporters he decided to seek city action on pension payments to send a positive signal to credit ratings agencies and to ease city workers' possible concerns about their retirement security.

Emanuel said using this "home-rule" option offers a way to address the city's pension problem given opposition from Governor Bruce Rauner.

"We are taking steps to wall ourselves economically and financially and fiscally off from Springfield - and specifically Governor Rauner's chaos," he said, referring to the state capital.

The Republican governor vetoed a bill in March that would have mandated the payment plan in state law, saying it would lead to a city tax hike and that a fix for Chicago needed to be part of broader, statewide pension funding changes. Those cost-saving changes are a factor in Illinois' ongoing political impasse that has left the state without a complete budget for two years.

A second identical bill for Chicago was subsequently passed by the Democratic-controlled legislature but has not been sent to Rauner.

Molly Poppe, a city spokeswoman, said the mayor still wants to codify the payment plan in Illinois law, and needs the state to enact a bill requiring higher pension contributions from some employees.

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 its four retirement systems.

S&P Global Ratings, which rates Chicago BBB-plus, earlier this year called pension funding "critical" to the city's budget stability and said a delay in boosting pension contributions could lead to a downgrade.

By REUTERS

JUNE 28, 2017, 4:42 P.M. E.D.T.

(Editing by Matthew Lewis)

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## **[New Jersey Government Shuts Down Over Budget Standoff.](#)**

Kim Fetsko sat on the border of Island Beach State Park in New Jersey as a park ranger patrolled the coastline on Saturday. State lawmakers and Gov. Chris Christie were unable to agree on a budget, forcing the closure of state-run parks and beaches. Credit Tom Brenner for The New York Times

The New Jersey state government was forced to shut down at midnight on Friday, as the State Legislature remained locked in a standoff with Gov. Chris Christie that left them unable to agree on a budget plan.

The most immediate effect of the shutdown will be on those headed to state-run parks and beaches for the holiday weekend. Mr. Christie's office indicated that those parks and beaches would be closed, although their municipal counterparts will remain open.

Mr. Christie declared a state of emergency and called for a special session of the Legislature for 11 a.m. Saturday. Essential government services were to continue operating.

Mr. Christie is demanding that the \$34.7 billion budget negotiated by the Legislature, which is controlled by the Democrats, include a provision requiring that Horizon Blue Cross Blue Shield spend some of its reserve fund on public health initiatives — particularly his drug treatment initiative. Without that provision, Mr. Christie, a Republican, has threatened to veto any budget that lawmakers send him.

The Democrat-controlled State Senate had passed a form of the legislation Mr. Christie is demanding, but Vincent Prieto, a Democrat and the speaker of the State Assembly, said on Friday that he would “absolutely not” pass the Horizon bill.

In a news conference late Friday afternoon, Mr. Christie, who has six months left in office, tried to shift the blame to the Legislature.

“I’m upset because this will inconvenience the people of New Jersey,” Governor Christie said on Friday. Credit Michael Catalini/Associated Press

“I’m upset because this will inconvenience the people of New Jersey,” he said. “That’s the only reason I’m upset. Otherwise, legacy, all that other stuff, please. There will be a long list of things pro and con on my legacy.”

The government shutdown is the first in New Jersey in more than a decade, and it came as many in the state were heading to the Jersey Shore and its many state parks to celebrate Independence Day. The state’s casinos and racetracks will remain open, however, because of a law passed after a shutdown in 2006.

While the state will continue to provide emergency services and other functions that are deemed essential, it was less clear throughout Friday how other agencies would operate during the shutdown. The governor’s office sent a letter at midnight on Friday detailing which agencies would be closed and to what extent government operations would continue.

In addition to the closing of state parks and beaches, all public events within parks and historic sites would be canceled. Some rest stops and travel and tourism centers would be closed, as well as many administrative offices in major state agencies, from the Motor Vehicle Commission to the Department of the Treasury.

During the day on Friday, the state offered no guidance to anyone traveling to the parks and beaches, and calls by reporters to the relevant agencies went unreturned. Many settling in for the holiday weekend were left anxious, angry and in limbo.

Just before midnight, the Ocean County Sheriff’s Office announced that Island Beach State Park would be closed on Saturday because of the shutdown.

Earlier Friday, Sue Deck said that she, her husband and two children had come to the park in their R.V. and had planned to fish through the holiday weekend.

They were not pleased about the possibility of having to cut their trip short, she said.

“We will not be very happy, to put it nicely,” said Ms. Deck, 50, of Jackson, N.J., who added that the outing is a weekend ritual for her family. “This is our spot.”

Her sentiment was echoed by other beachgoers who flocked to the park to swim, sunbathe, fish and,

in the case of Wayne Morley, photograph birds. Mr. Morley, a 74-year-old retired schoolteacher from West Creek, N.J., hiked three miles for a glimpse of a rare piping plover on Friday morning.

"It would be a huge hit to the state park system," he said of a shutdown. "A real problem."

Robert Hanley, 69, a retired dock builder, vented his anger at state politicians as he let air out of his pickup truck's tires to better drive to his favorite fishing spot across the soft sand.

"I've been coming here for 18 years. I love it; it's the best place in New Jersey," he said. "If I can't come here maybe I should go down to the governor's mansion. I want to go down and find Christie and find where he's spending his weekend."

THE NEW YORK TIMES

By NICK CORASANITI

JUNE 30, 2017

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## **Michigan's Robust Municipal Finance Model.**

### ***Taxpayer protections don't stop revenue growth***

*(Editor's Note: The following is a modified version of a presentation given by James Hohman, assistant director of fiscal policy, as part of a debate hosted by the Midland Chamber of Commerce on June 19, 2017.)*

So there are some things that I think the [Michigan Municipal League] and I are going to agree on. For instance, that unfunded liabilities for pension benefits and retiree health care are a huge cost driver for local governments. But we are not here to talk about the things we agree on but instead the things that we disagree on. So I am going to talk about our remarkably robust municipal finance system, while I assume that Anthony [Minghine] is going to talk about the broken municipal finance system.

In building the case for my opinion, I'll emphasize one point most of all: From 2000 to 2007, Michigan went through a one-state recession. Michigan was down one out of every 11 jobs.

Then the rest of the nation joined us for the prolonged Great Recession. At the worst of it, Michigan had just one-third of the auto jobs that existed in 2000. Of course, not everything else in Michigan was as bad as that. Michigan didn't lose two-thirds of its GDP. Nominal GDP was flat from 2000 to 2009, real GDP was down 13 percent, by far the worst in the country.

This meant major changes to government as well. State revenue was down 2 percent from 2000 to 2009. Now, that has to be taken with a grain of salt since lawmakers did a lot of spending outside of the budget. They ramped up refundable tax credit programs over that period, for instance, which lowers the total revenue available to spend in the budget.

Yet even with that, property tax revenue — the largest source of revenue for local governments — increased. While everything else was going down in Michigan, the state was still participating in the housing boom. That was in a much more muted way, but still an increase. Property tax revenues increased from \$9.5 billion in 2001 to \$14.1 billion in 2009, a 49 percent increase at a time when

few other things were growing as much. Local governments only get a share of that, of course, but it's a share of a growing pie.

So it's not surprising that the discretionary payments that the state makes to local governments is down. The state's total revenue sharing payments to local governments declined from \$1.6 billion to \$1 billion over the period. Note that the decline is far less than the \$1.9 billion increase in city, village, township and county property tax growth over that period.

It was the same for the money that the state gives to state universities. The state was struggling and schools were not. The schools would be fine with fewer dollars — they'd just have to have to raise tuition more than otherwise. Hence, real cuts to state universities.

(And it was not as if the state even had the money to keep tuition from increasing if it wanted to, given the ever-inflating costs of higher education. But that's a lecture for another day.)

Now things are different. Michigan is rebounding. It's attracting people back to the labor force. Wages, personal income and production are all up.

That's meant more money in the state budget and more money going to local governments. Revenue sharing increased from \$1 billion to \$1.2 billion.

State payments to local governments went beyond that. As part of the personal property tax package approved by voters in 2013, local governments are being reimbursed for the money they lose out on new exemptions. But the amounts approved in the bills over-reimburse governments, this year to the tune of \$135 million.

Plus, there's been more money for local roads and road commissions. The 2015 road package ramps that up another \$700 million over time.

There is one lagging piece in the recovery: construction. Housing construction fell from roughly 4,500 units per month in 2004 to around 1,000 units per month from 2009 to 2012. And it's been a slow recovery. We're around 2,000 now and there is upward trend.

This is very important for local governments. New construction is exempt from Headlee calculations, which automatically lowers property tax mill rates when property values grow without approval of an overriding vote. The exemption of new construction is one of the reasons why local property taxes increased faster than inflation.

And it's the reason that total property taxes are not back to their peaks. They are up from their troughs, though even with newer property tax exemptions. And perhaps this growth will continue.

So with these two general purpose spending sources — the larger property tax sources and the smaller revenue sharing — here's what's happened over the past 16 years. It's kept up with inflation at a time when few things did before the recession, even as the state cut revenue sharing.

During the Great Recession, there was a reduction in local government revenue of 6 percent. Since then, it's increased above the inflation rate.

Here's my takeaway about our revenue system. It's been remarkably robust through a historic change in the state economy. And it's rebounding.

It's unreasonable to expect that the taxpayer financing of our local governments should continue to increase regardless of the state of the taxpayers that support them. And during a time when there

have been profound economic changes, our local governments have been remarkably protected.

I wanted to comment on a couple of the proposed policy changes. In the past, and I presume today, our friends at the Michigan Municipal League have recommended two things: give more state taxpayer money to local government and loosen constitutional restrictions.

As to revenue sharing, we are giving more of it in addition to other assistance.

But let's talk about this further. If our friends at the MML are interested in making the case for more, they ought to say how much, what residents will get out of it, and where it will come from. There aren't too many options for where it will come from — either from ongoing growth, from somewhere in the budget specifically, or from a specific increase in taxes.

I would also question some of the necessity. There are some important declines in government service cost drivers. Violent and property crime is down 30 percent from 2007 to 2015, according to data from the state police. In 2006, local agencies reported 35,000 fires. That was down to 22,000 fires in 2016. Those are impressive improvements in public safety, and ought to provide some very positive fiscal effects on local governments.

The next recommendation that has been made is a request to loosen constitutional taxpayer protections from the 1978 Headlee Amendment and the 1994 Proposal A.

There are two limitations on local government provided by the Headlee Amendment: when a community's tax base is broadened through property value growth above inflation, tax millage rates get automatically rolled back. This prevented what was considered unfair and unpopular increases in the burden of government. But even this limitation still allows for above-inflation growth since new construction is exempt. Officials can also call for voters to approve overriding the automatic rollbacks. The other limitation is to require new millages to be voted upon. But both ensure that local tax policy carries direct popular support. And you should want your residents to directly support your tax policies. If you don't, then we have to have a much different discussion about democracy in municipal government.

Proposal A prevents individual property assessments from increasing faster than inflation. This protects people on fixed incomes from being taxed out of their homes if their neighborhood takes off. But it also provides some general tax protections to individual homeowners that I imagine are both popular and preferred. While we hope that our homes increase in value over time, it's rarely something that is in our direct control and people probably don't want to be penalized much for it.

I think there are some ways that we can ensure that local governments have the resources to provide important services to residents. But I think the revenue side of the equation has been remarkably robust, while there are glaring improvements that need to be made on the spending side.

### **Mackinac Center for Public Policy**

James M. Hohman on June 27, 2017 at 12:00pm

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### **[Garcia Proposes Restricting Campaign Donations to County Assessor.](#)**

Cook County Commissioner Jesus "Chuy" Garcia filed an ordinance Thursday that would bar

attorneys, law firms and other businesses that file property tax assessment appeals from contributing to the political campaigns of the county assessor.

He will introduce the measure when the board meets on July 19. The same day, Berrios is scheduled to appear before the full board during a meeting of the finance committee, where he'll testify about assessments produced by his office.

Garcia, a former Chicago mayoral candidate, was among the first commissioners to push a resolution last week calling on Berrios to testify in the wake of the Tribune series "The Tax Divide." The investigation documented deep flaws in assessments under Berrios that punished the poor while giving wealthy homeowners financial breaks.

The new measure, Garcia said, stems from findings in the series that revealed a steep increase in property tax appeals at a time when the bulk of campaign contributions Berrios collected came from property tax attorneys or other businesses involved in the appeals industry. As part of a collaboration with the University of Chicago's Municipal Finance Center, the Tribune found that residential appeals make an already unequal system more unfair.

"The series the Tribune published in collaboration with other experts, including the University of Chicago, has raised many questions about the system," Garcia told the Tribune. "I've been getting calls and questions from my constituents who appear to have been impacted. Just reading about how much money has been raised, it's begging for answers. That's why we're looking forward to the assessor's appearance."

Garcia represents and lives in Little Village, a neighborhood where homes were routinely overvalued by the assessor, according to a Tribune analysis of more than 100 million property tax records. More affluent neighborhoods, meanwhile, were undervalued.

Known as regressivity, these types of disparities in the assessments led to inequities in property tax bills. That finding was documented by the Tribune's analysis as well as the U. of C. study on appeals done in conjunction with the newspaper.

The county assessor has long been a relatively low-profile elected position. But among insiders, it is considered one of the most powerful political offices in the state, affecting the interests of real estate developers, law firms and wealthy individuals.

The ordinance limiting contributions to the assessor is among a growing list of headaches for Berrios, who is also the Cook County Democratic Party chairman.

State Sen. Daniel Biss, D-Evanston, a candidate for governor, also wants limits on contributions to local assessors from tax attorneys who appeal assessments as well as other changes to the state's property tax system.

And, last week, the Tribune learned that the inspector general for Cook County has begun investigating issues raised in the Tribune's series.

Berrios and Cook County Board President Toni Preckwinkle, also a Democrat, have agreed to bring in a third party to examine the county's property tax system. The effort appears to include all aspects of the county's complex system rather than focusing solely on the assessor's office.

Contacted for comment on Garcia's proposed ordinance, Berrios' campaign spokesperson, Jacob Kaplan, said the assessor had not been contacted about the legislation and hadn't seen a copy of it.

"We would be happy to review it, and we always follow the law," Kaplan said in a written statement. "However, any ordinance, or, indeed, any legislation should apply equally to all officials — including the Cook County commissioners."

Garcia, who said he shared the new ordinance with Commissioners Larry Suffredin and John Fritchey, said he was open to including other officials in the legislation but pointed out that "no one has a role as unique as the assessor's office."

by Jason Grotto

June 29, 2017

**Chicago Tribune**

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### **[A Restructuring Deal That Helps Investors, Not Puerto Rico.](#)**

While it's not clear if there are sharks in the waters surrounding Puerto Rico, the island does have sharks of a different kind — ones that hail from mainland hedge funds, municipal bond funds and insurance companies that insure against bond defaults.

The human sharks have been circling Puerto Rico's bonds, given that the island has more than \$70 billion of debt that has defaulted or is in danger of doing so.

Some investors have been holding the island's debt for years, but others have more recently snatched up Puerto Rico-related bonds for significantly less than 100 cents on the dollar. They want a debt restructuring that gives them a big fat profit.

The fighting is particularly fierce at the moment over what will happen to \$9 billion worth of bonds that were issued by the Puerto Rico Electric Power Authority.

After several years of difficult negotiations, the authority, known as Prepa, reached an agreement in April with its creditors, which include the hedge fund Blue Mountain Capital, bond funds managed by Oppenheimer and Franklin Templeton and insurance companies like MBIA and Assured Guaranty, which are obligated to make up the difference between the negotiated recovery of the bonds and 100 cents on the dollar.

Like everything having to do with Puerto Rico and its finances, the deal cut between the power authority, which is owned by the municipal government, and its creditors is complex.

But the gist of it is that the creditors are hoping to get a present value recovery of around 75 cents on the dollar: new bonds with a face amount of 85 cents on the dollar, issued at a below market interest rate.

It's great deal for the creditors, given what rough shape Prepa is in operationally. Puerto Ricans pay some of the highest electricity rates around — in the vicinity of 27 cents per kilowatt-hour. By contrast, New Yorkers pay around 13 cents per kilowatt-hour, one of the highest rates in the United States.

There are also problems with patronage and the high costs of labor, pensions and the fuel that powers the electricity generators. The authority's physical plant is woefully in need of repairs and an



upgrade, which are likely to cost billions of dollars.

The deal with the creditors does not address those serious problems at the authority. Nevertheless, it does somehow come to the conclusion that electricity rates on the island will decrease to 21 cents per kilowatt-hour. But there will also be a monthly surcharge on the bills of consumers and businesses in Puerto Rico that will be dedicated to pay the interest and principal payments on the newly issued debt.

In other words, if the restructuring deal as proposed is approved, Prepa's customers — both consumers and businesses — effectively will be taxed in order for the hedge funds and other creditors that bought the bonds at a discount to make a profit. That's a profit that cannot be renegotiated if Prepa again finds itself in financial distress down the road because the new revenue generated from the surcharge will be placed in a new, bankruptcy-remote entity for the creditors' benefit.

Worse, as electricity use falls with the continuing exodus of the island's residents and businesses, those that remain will pay higher and higher surcharges to meet the Prepa debt payments.

It is unfair to tax the people and businesses of Puerto Rico so that investors can make hundreds of millions of dollars in profit. It makes no sense to restructure the debt of the company without fixing its operational problems, or at least to have a restructuring that addresses both operational and financial problems.

Puerto Ricans deserve a restructuring plan that provides them with affordable electricity on a realistic future timetable. What is being proposed virtually guarantees that they will still pay unusually high rates for electricity so that a few hedge funds and bond funds can make a profit and so that the insurance companies can avoid paying up for their poor underwriting decisions.

The restructuring with the bondholders started before the June 2016 passage of the Puerto Rico Oversight, Management and Economic Stability Act, known as Promesa. That law allowed Puerto Rico's other debts to be restructured in a way similar to how bankruptcy works in the United States, with a judge approving a deal that issues new debt based upon what a debtor can reasonably be expected to pay while also making necessary operational fixes, too.

The power authority's creditors claim the company received a waiver exempting it from Promesa. That's not fair, since the new act gives debtors like Prepa far more leverage to negotiate — leverage the power authority didn't have years ago when it started the negotiation with its creditors.

The deal the authority cut with its creditors before Promesa should be junked. It's a windfall for hedge funds and the insurance companies and it brutalizes the people and businesses of Puerto Rico. Prepa should restart the negotiation with creditors, under the auspices of the Promesa law, and make sure that any debt restructuring is paired with the operational fixes that the power authority desperately needs.

The creditors know they have a great deal for themselves. That explains why they are lobbying Republicans in Congress and are working overtime to persuade the independent Prepa board to approve the restructuring as is.

The creditors' lobbying is having an effect. On June 15, Representative Rob Bishop, Republican of Utah and chairman of the House Committee on Natural Resources, wrote a letter to José B. Carrión III, the chairman of the financial oversight and management board of Puerto Rico, urging the board to approve the Prepa restructuring as is.

A day later, two other members of Congress, Representatives Nydia M. Velázquez, Democrat of New York, and Raúl M. Grijalva, Democrat of Arizona, urged Mr. Carrión to reject the restructuring. "Higher electricity costs are detrimental to the local economy, causing businesses both large and small to operate with reduced margins, leaving them less able to expand and hire new employees," they wrote. The restructuring "will only accelerate the out-migration of residents and businesses. This downward spiral will deplete what is left of the island's economic foundation," they said.

It's hand-to-hand combat. And the latest deadline to decide what to do is Friday. It could still be pushed back again.

Regardless, it's clear that the deal as currently drafted is not fair to the people and businesses of Puerto Rico. It will keep electricity rates on the island at absurdly high levels and negatively affect the island's ability to recover economically. It's a recipe for future disaster, and all so that a few rich people can get even richer.

THE NEW YORK TIMES

By WILLIAM D. COHAN

JUNE 23, 2017

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## **Illinois Bond Trading Hits Five-Month High.**

- **Volume shows market remains liquid despite downgrade risk**
- **'Bonds are already trading as if below investment grade'**

Illinois bond trading volume has increased amid a two-year long budget impasse that's left the government at imminent risk of becoming the first U.S. state to have its bond rating cut to junk.

The average daily trade volume of Illinois debt has jumped to \$616 million this month from \$346 million in May, with \$1.14 billion changing hands on Wednesday, the most since January 20, according to data compiled by Bloomberg. Daily trading three times this month has exceeded \$1 billion, a level previously not breached since January.

The figures show that the bonds remain liquid despite widespread anticipation they'll lose their investment-grade rating, which would prevent some mutual funds from purchasing them and could scare off the individual investors who are the biggest buyers of municipal bonds.

The yields on Illinois securities have risen since S&P Global Ratings and Moody's Investors Service downgraded the state to one step above junk on June 1, with S&P warning that another cut could come around July 1 if a budget isn't enacted. The state's 10-year debt yields about 4.6 percent, or 2.8 percentage points more than top-rated bonds, according to Bloomberg's indexes. That spread jumped to as much as 3.4 percentage points earlier this month.

"If you look at your benchmark maturities in block size, bonds are already trading as if below investment grade," said Jeffrey Lipton, head of municipal research at Oppenheimer & Co. "The downgrade had already been baked in."

Municipal analysts have said they don't anticipate a massive sell-off of Illinois debt if the rating is cut because the move has been telegraphed well in advance, giving investors who want to reduce their

holdings ample time to do so. Some of the biggest mutual funds that hold the state's bonds have said the loss of an investment-grade rank won't force them to dump the securities.

Lipton said he'll be keeping an eye out for "any pick up in hedge fund interest when coming into a downgrade," with the funds seeking to profit by snapping up steeply discounted bonds.

## **Bloomberg Markets**

By Kristy Westgard

June 23, 2017, 12:37 PM PDT

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### **[Here's One Record Illinois Doesn't Want to Attain: QuickTake Q&A](#)**

Illinois may soon become the first state on record to have its bond rating cut to junk. Behind that financial trouble is an intractable political impasse and drama that's been building for more than two years as Republican Governor Bruce Rauner and the Democrat-led legislature battle over how to close the state's chronic budget deficits. Illinois is on track this fiscal year to spend over \$6 billion more than it brings in, and public universities are reeling from the loss of state aid. On June 1, S&P Global Ratings warned that the loss of its investment-grade rating is likely unless action comes soon.

#### **1. Can Illinois go bankrupt?**

No. States aren't eligible to petition U.S. courts to escape from their debts, the way cities such as Detroit have. While Congress amended the law to allow for Puerto Rico to do so, any effort to extend that to states is extremely unlikely, would face intense opposition and may not pass constitutional muster. When the idea was raised in Congress after the last big recession, it was roundly opposed by governors and U.S. lawmakers from both parties who said it would rattle the bond market and punish even financially prudent governments. Some saw it as a tool to gut the pensions of public employees.

#### **2. Is Illinois the next Puerto Rico?**

Its fiscal squeeze isn't nearly as bad as the one gripping Puerto Rico, which in May agreed to use bankruptcy-like proceedings to slash its debt. A U.S. territory, Puerto Rico is contending with a shrinking economy, years of deficit borrowing and a declining population. It owes more than twice as much to investors as Illinois, a state with a larger, wealthier pool of residents and an expanding economy that's vastly bigger. While Illinois's financial challenges are significant, the crisis is largely politically self-inflicted.

#### **3. What are the politicians fighting about?**

Rauner and Democrats who control the legislature can't agree on how to eliminate budget shortfalls that persisted after a temporary tax hike expired in January 2015, just as the governor took office. Rauner has pushed for any fiscal fix to include key elements of his agenda, such as property-tax curbs, an overhaul of the workers' compensation insurance system to cut costs and legislative term limits. Democrats say they've passed compromise measures that incorporate some of his goals, but Rauner says they don't go far enough to enact real change.

#### **4. What will happen once Illinois is cut to junk?**

The downgrade will likely force Illinois to pay higher interest rates whenever it needs to raise money in the financial markets. Mutual funds that are only allowed to own investment-grade securities would be unable to purchase its bonds, leaving it potentially more dependent on non-traditional buyers such as high-yield and hedge funds. That's what happened after Puerto Rico was cut to junk in 2014. The stigma could also scare off some individual investors, who hold more than 40 percent of all municipal securities directly in their portfolios. Individual investors are sometimes prone to react to negative news reports, a phenomena municipal analysts refer to as "headline risk."

## **5. Will there be a big selloff of Illinois bonds?**

Probably not. Some of the biggest money-management firms that own Illinois bonds have said they could continue to hold them if the rating is cut. Matt Fabian, a partner at Municipal Market Analytics, said that funds that would have to sell their bonds have likely already done so, given that the downgrade is widely expected and was telegraphed in advance. Prices have already declined considerably since the last downgrades on June 1. The yields on Illinois 10-year bonds have jumped nearly half a percentage point to around 4.8 percent, some 3 full percentage points more than those on top-rated securities, according to data compiled by Bloomberg.

## **6. Is Illinois going to default?**

Putting the state's bonds just one step below investment grade indicates that's a fairly distant possibility. S&P says that a BB rated borrower is "less vulnerable to nonpayment than other speculative issues," though it faces major ongoing uncertainties that could undermine its capacity to make good on its debts. Despite the lack of a budget, debt service has continued to be paid and Illinois can draw on any unrestricted funds to ensure that it is. No state has defaulted since Arkansas did in the Great Depression.

## **7. Will this pressure Illinois into passing a budget?**

Possibly. Rauner on June 15 called lawmakers back to Springfield to act on a Republican compromise plan before the new fiscal year begins on July 1. But a string of previous ratings downgrades didn't break the logjam. Democrats and Republicans have each blamed the other side for the paralysis, leading to speculation that their impasse will continue through the 2018 elections, when Rauner can seek a second term.

## **Bloomberg Markets**

By William Selway, Elizabeth Campbell, and Martin Z Braun

June 19, 2017, 9:01 PM PDT

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## **[Indiana to Cancel Public-Private Interstate Contract.](#)**

INDIANAPOLIS (AP) — The state of Indiana has reached agreements to take control of a long-delayed section of the Interstate 69 extension three years after hiring a private developer to complete the work, the Indiana Department of Transportation said Friday.

The Indiana Finance Authority, the privately run I-69 Development Partners and the company's bond holders reached settlement agreements in principle for the state of Indiana to assume control of the halfway-completed Section 5 between Bloomington and Martinsville by July 31, state officials said.

The deal is subject to approval by the Finance Authority's board.

Dan Huges, Indiana Public Finance director, said the deals will not increase the overall project cost to taxpayers and may provide some savings. The original cost of the project in current dollars was about \$590 million over 35 years, and the new agreements and financing structure total about \$560 million, he said.

Section 5, which is about 21 miles long, has been plagued by delays since work started on it in 2014. It was originally scheduled to be completed in October 2016, but the Finance Authority said in a notice to bond holders earlier this month that it estimates work on Section 5 to be substantially complete by Aug. 31, 2018.

"I am delighted for Indiana taxpayers that we have reached an agreement for the State to assume control and finish this project," Governor Eric J. Holcomb said in a statement.

The Finance authority will issue lower-interest highway-revenue bonds that are expected to be rated AA+. Those will fully replace the developer's private-activity bonds, which were originally rated at BBB-, Indiana officials said. I-69 Development Partners will provide an additional \$12 million to bondholders and \$50 million to the Finance Authority as part of the settlement, INDOT said.

A message seeking comment was left for I-69 Development Partners on Friday.

The agreements will release the state from future liabilities or claims with bondholders, I-69 Development Partners, the design-builder Isolux Corsan and insurance and surety companies, state officials said. However, the state will assume all future financial risk to operate, maintain and preserve the roadway over 35 years. The developer previously had assumed that risk.

Currently, more than 30 subcontractors are working on the roadway and that will continue, state officials said.

Subcontractors have repeatedly halted work because of payment disputes with Isolux Corsan. Sections 1 through 4 of the I-69 extension between Evansville and Bloomington are complete. INDOT has started surveying work on Section 6 from Martinsville to Indianapolis.

By: Associated Press June 19, 2017 9:41 am

KEN KUSMER

Associated Press

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## **[S&P: Texas Budget Scorecard: The 2018-19 Biennium.](#)**

On June 12, 2017, Texas Governor Greg Abbott signed the \$217 billion biennium budget, but not before vetoing \$120 million. The two-year budget is about \$360 million higher than in the prior biennium (an increase of 0.2%).

[Continue Reading](#)

Jun. 19, 2017

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## **S&P: Alaska 'AA+' GO Debt Rating Placed On Watch Negative Due To Fiscal Plan, Budget Impasse.**

S&P Global Ratings has placed its 'AA+' general obligation (GO) rating, 'AA' appropriation rating, and 'A+' moral obligation rating on the state of Alaska's debt on CreditWatch with negative implications.

[Continue Reading](#)

Jun. 20, 2017

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## **Big Illinois Bondholders Unlikely to Sell if Rating Cut to Junk.**

(Bloomberg) — If Illinois' debt gets downgraded to junk status next month, it's unlikely there will be a stampede to the exits by the largest bondholders.

The seven largest holders of the debt, who collectively hold about \$5.9 billion of the \$23 billion in outstanding state general-obligation bonds, according to data compiled by Bloomberg, all said they will not be forced to sell should the bonds fall below investment grade.

The firms, each of which run mutual funds, said they can own varying amounts of junk-rated debt and can exercise their discretion to avoid unloading bonds under fire-sale conditions.

Illinois' debt was cut to one step above junk by Moody's Investors Service and S&P Global Ratings on June 1, giving it the lowest ranking on record for a U.S. state, because of a clash between the Democrat-controlled legislature and Republican Gov. Bruce Rauner that has left the government without a full-year budget for nearly two years.

If the state doesn't enact a plan that reins in its chronic deficit, S&P warned, Illinois will likely lose its investment-grade status around July 1.

Here are the seven largest holders of Illinois state debt, from largest to smallest. All derivatives, fully refunded and insured bonds are excluded from these calculations. Any zero coupon bonds are shown at accreted value.

### **Fidelity Investments: \$1.77 billion**

Fidelity, without addressing Illinois specifically, said in an email from spokeswoman Sophie Launay that its taxable and tax-exempt bond funds may invest in securities of less than investment-grade quality.

### **Vanguard Group: \$1.44 billion**

Vanguard spokesman Freddy Martino said in an email that the firm's actively managed investment grade national municipal bond funds are allowed to have as much as 5 percent of assets invested in junk-rated securities and that currently the funds were not close to that threshold.

### **Nuveen Investments: \$854 million**

John Miller, co-head of fixed-income at Nuveen, said the company's Illinois debt is held in funds that can own debt rated below investment grade. Some of the funds can have as much as 50 percent of their money in that category, he added.

#### **Dodge & Cox: \$561 million**

The \$50 billion Dodge & Cox Income Fund can own up to 20 percent in non-investment grade debt, spokesman Steven Gorski wrote in an email.

#### **AllianceBernstein: \$545 million**

Guy Davidson, director of municipal bonds at AllianceBernstein, said in an email his firm could continue to hold its Illinois bonds if they were cut to junk.

#### **Wells Fargo Asset Management: \$441 million**

"Our fund prospectuses allow for flexibility to retain securities that fall below investment grade, specifically to reduce the need to pressure sales following a downgrade," Lyle Fitterer, head of tax-exempt fixed income at Wells Fargo Asset Management, wrote in an email.

#### **BlackRock: \$334 million**

Peter Hayes, head of municipal bonds at BlackRock, said his company could continue to hold its Illinois bonds if they were cut to junk.

#### **Crain's Chicago Business**

June 21, 2017

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### **[Chicago Schools Now Paying 9% on Adjustable Rate Bonds.](#)**

- **Distict pays penalty yields after choosing not to remarket**
- **Rising variable-rate debt costs recall 2008 credit crisis**

Chicago's school system is paying bond-market penalties similar to those seen during last decade's credit crisis.

The junk-rated district, reeling from escalating pension costs and fallout from the Illinois budget gridlock, has been stuck paying punitive interest rates on \$167.5 million of adjustable-rate bonds after choosing not to attempt to remarket the bonds. The rate on the bonds, which are supposed to stay extremely low because investors can resell them to banks periodically, jumped to a maximum 9 percent on March 1 from 4.64 percent the week before and has stayed there ever since, according to data compiled by Bloomberg.

The spiraling interest bills are reminiscent of the chaos that erupted in the wake of the Lehman Brothers Holdings Inc.'s bankruptcy in 2008, when state and local governments were stung by soaring costs after investors sold the variable-rate securities en masse just as banks were scrambling to raise cash. In Chicago's case, though, it reflects how skittish investors have become about holding the debt of the cash-strapped school system.

"Chicago Public Schools has been unable to create a fiscally responsible budget and it relies on



outside sources that, as we see, sometimes comes through and sometimes don't," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages \$6 billion of municipal bonds, including about \$3 million of insured Chicago school debt. "That's unsettling investors."

The school district agreed this week to pay a rate of 6.39 percent — subject to adjustment — for a short-term \$275 million loan from JPMorgan Chase & Co. to help make a pension payment and cover the cost of staying open through the end of the school year. The schools didn't receive \$215 million more in state aid to make the retirement-fund contribution after a measure was vetoed by Governor Bruce Rauner. Illinois has failed to pass a budget for more than two years as the Republican governor and Democrat-led legislature battle over how to close the state's chronic budget deficits.

Michael Passman, a spokesman for Chicago's schools, wrote in an email that the district is waiting for "a more opportune time" to remarket the bonds.

## **Bloomberg Markets**

By Martin Z Braun

June 20, 2017, 11:21 AM PDT June 21, 2017, 11:58 AM PDT

Bloomberg clients: We'll be doing a TOPLive Q&A on Thursday, June 22 at noon ET, moderated by Martin Z. Braun, in which you can ask Joe Mysak questions about the latest with Connecticut, its debt downgrades, budget deficit and more. You can watch it here. If you want to ask a question, please send to [TOPLive@bloomberg.net](mailto:TOPLive@bloomberg.net)

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## **[A Risky Fix to Repair a City's Guttled Streetlight Grid.](#)**

TULSA, Okla. — For years, residents in this cash-strapped city watched helplessly as thieves gutted 33 miles (53 kilometers) of streetlight wiring, plunging long stretches of roadway into darkness. The thousands of dollars criminals pocketed at off-the-books salvage yards wreaked millions of dollars in damage.

Now Tulsa is scrambling to make patchwork repairs to its decimated grid, opting for a quick fix to appease frustrated motorists, including 48-year-old resident Bill White, who says broken streetlights could become a liability for the city and a hazard for drivers, not to mention an eyesore.

"If I'm visiting the city from the airport, what's going to be my first impression?" White said. "Am I still in the country?"

Copper thieves have pillaged lighting grids in cities large and small across the nation, causing municipal budgets to skyrocket. Law enforcement agencies estimated that the copper theft racket was costing cities \$1 billion a year. At peak demand, copper went for around \$4 per pound; it fetches about half that now. Scrap aluminum hovers around 40 cents.

The lighting dilemma in Tulsa also tells the larger story of the country's deteriorating infrastructure due to decades of neglect, deferred maintenance and unwillingness by officials to make tough funding decisions. Many bridges and overpasses are obsolete; roads are pocked with potholes; sewer systems are time bombs. Some federal officials estimated it would take about \$1 trillion to fix the mess.



"Tulsa has the problem that almost every city in the country has: Their maintenance costs are outside what they can afford, so they're making piecemeal repairs just because of the cash flow," said Sean Crotty, an assistant professor of geography at Texas Christian University.

Cities that can afford more expensive solutions have overhauled their lighting grids with solar or LED technology. Last year, Detroit completed a \$185 million conversion of its archaic streetlight system to LED — light-emitting diode — after emerging from bankruptcy. The cost of an LED overhaul, though, could get "staggeringly expensive," explained Crotty, referencing San Diego as one example.

"Just the pole itself on a highway is a shocking, expensive thing: \$60,000 per post," said Crotty, who's also a faculty member in the university's Center for Urban Studies.

In an effort to switch most of the lights back on by December, the city is using cheaper, less-durable aluminum wiring instead of more reliable copper and gambling that theft-deterrent doors and stickers affixed to light poles exclaiming in English and Spanish, "We Use Aluminum Wire" will be enough to thwart would-be criminals.

But what the state's second-largest city is looking to save for the sake of convenience and immediacy could end up throwing its streetlight grid into chaos again, city officials and urban designers say.

"Even with aluminum, really, as long as these materials remain valuable, there's no magic bullet," said Terry Ball, the director of Tulsa's streets and storm water department, which began tracking the thefts in 2014. "There's no one approach you can take."

There's also no guarantee how long aluminum wiring will hold up, especially given Oklahoma's wild weather swings. Many of the light poles themselves date to the 1960s and 1970s. One industry group says copper is still the better option, even if it costs more.

"Copper is the standard conductor metal against which all other conductor materials are measured," said Thomas Passek, the president of the Copper Development Association Inc. "Although first-time cost may favor other materials, municipalities should consider the total cost of ownership."

But in these dire budget times, Tulsa's mayor, G.T. Bynum, said his city of about 400,000 people has little choice but to go with "the least expensive, still expensive option" to the tune of around \$3 million.

Ilyas Bhatti, an associate professor of design and construction management at the Wentworth Institute of Technology in Boston, said cities such as Tulsa run the risk of having "the same problems, trading one precious metal for another metal."

"To some, (criminals) may think (aluminum) is silver" when they cut the line," Bhatti said.

In Tulsa, which allocates only \$68,000 a year for streetlight repairs, the cost to outfit its 6,000 or so lights with LED would be somewhere between \$12 million and \$15 million, said Tracy Nyholm, the traffic operations planning manager.

Ball, the streets and storm water department director, said the only way the city will be able to afford better technology is through a sales tax, bond package or grant. And even then, those options could be at least five or more years off, he said.

Until then, Tulsa is gambling on a quick fix and hoping cheaper options come along sooner than later.

"The thing when you get into electronics, you buy it one day and the next day, it's obsolete," Ball said. "Two years from now, there may be a whole new light bulb we don't even know about."

By THE ASSOCIATED PRESS

JUNE 25, 2017, 11:57 A.M. E.D.T.

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## **After Puerto Rico's Debt Crisis, Worries Shift to Virgin Islands.**

CHARLOTTE AMALIE, V.I. — The United States Virgin Islands is best known for its powdery beaches and turquoise bays, a constant draw for the tourists who frequent this tiny American territory.

Yet away from the beaches the mood is ominous, as government officials scramble to stave off the same kind of fiscal collapse that has already engulfed its neighbor Puerto Rico.

The public debts of the Virgin Islands are much smaller than those of Puerto Rico, which effectively declared bankruptcy in May. But so is its population, and therefore its ability to pay. This tropical territory of roughly 100,000 people owes some \$6.5 billion to pensioners and creditors.

Now, a combination of factors — insufficient tax revenue, a weak pension system, the loss of a major employer and a new reluctance in the markets to lend the Virgin Islands any more money — has made it almost impossible for the government to meet its obligations. In January, the Virgin Islands found itself unable to borrow and nearly out of funds for basic government operations.

The sudden cash crunch was a warning sign that the financial troubles that brought Puerto Rico to its knees could soon spread. All of America's far-flung territories, among them American Samoa, Guam and the Northern Mariana Islands, appear vulnerable.

"I don't think you can say it's a crisis, but they have challenges — high debt, weak economies and unfunded pensions," said Jim Millstein, whose firm, Millstein & Company, advised Puerto Rico on its economic affairs and debt restructuring until this year and has reviewed the situation in Guam and the Virgin Islands. He called the combination of challenges in the territories "a recipe for trouble in the future."

For decades, these distant clusters of islands in the Caribbean and the Pacific have played critical roles as American listening posts, wartime staging grounds, practice bombing ranges and even re-entry points for astronauts splashing down in the Pacific.

The military presence buoyed their small economies, and a federal tax subsidy made it relatively easy for them to issue bonds. Over the years, they have collectively borrowed billions of dollars to build roads, run schools, treat drinking water and fund hospitals.

Congress has generally relied on the Government Accountability Office to monitor the financial health of the territories, but it did not intervene over the years when the auditors brought back reports of "formidable fiscal challenges" or "serious internal control weaknesses" on the islands. Not, at least, until Puerto Rico went over the edge.

Now the G.A.O. auditors are back, re-examining the debt and repayment ability of each territory, amid concerns that other crushing debt burdens may have escaped notice. An agency spokesman,

Fuller O. Griffith, said it would report by the end of the year on “federal options to avert the future indebtedness of territories.” It is not clear what those options will be.

“Washington can’t appropriately manage its relationship with the states, much less the territories,” said Matt Fabian, a partner at Municipal Market Analytics.

Even the states are not immune, despite their legal status as sovereigns. Illinois, stuck in political gridlock, is just days from entering its new fiscal year without a balanced budget, in violation of its own constitution. The ratings agencies warn that Illinois’s bond rating is in peril of being downgraded to junk. Once that happens, as the territories show, hedge funds move in and economic management becomes a series of unpleasant choices.

American Samoa, one of the smallest territories, lost one of the biggest engines of its economy in December when a big tuna cannery closed after being required to pay the federal minimum wage. Moody’s Investors Service then put the territory’s debt under negative outlook, citing its fragile economy.

In the Northern Mariana Islands, the depleted public pension fund was wreaking such fiscal havoc in 2012 that the territory declared it bankrupt, but the case was thrown out. The government then tried cutting all retirees’ pensions 25 percent, but the retirees have been fighting the cuts, and the fund is nearly exhausted anyway.

Even Guam, which enjoys the economic benefit of several large American military installations, has been having qualms about its debt after Puerto Rico’s default.

“Puerto Rico’s troubles provide a teachable moment for Guam,” said Benjamin Cruz, the speaker of the legislature, who recently helped defeat a proposal to borrow \$75 million to pay tax refunds. “Spending borrowed money is too easy.”

But the debt dilemma is now most acute in the Virgin Islands — the three main islands are St. Thomas, St. Croix and St. John — where the government has been struggling ever since a giant refinery closed in 2012, wiping out the territory’s biggest nongovernment employer and a mainstay of its tax base.

Its troubles began to snowball last July, when Puerto Rico defaulted on most of its debts.

Last August, Fitch downgraded the Virgin Islands’ debt to junk, citing the territory’s chronic budget deficits and habit of borrowing to plug the holes, like Puerto Rico.

More downgrades followed, and in December, Standard & Poor’s dealt the territory a rare “superdowngrade” — seven notches in one fell swoop — leaving it squarely in the junk-bond realm. That scared away investors and forced it to cancel a planned bond offering in January.

The failed bond deal meant there was not enough cash to pay for basic government operations in February or March. As a stopgap, the territory diverted its workers’ pension contributions.

The Virgin Islands’ governor, Kenneth E. Mapp, said he had no intention of defaulting on any bonds.

“I didn’t ask anybody for debt relief, so don’t put me in the debt-relief boat,” Mr. Mapp said in an interview at Government House, the ornate seat of the territorial government, perched on a hillside overlooking the lush palms and bougainvillea of the capital, Charlotte Amalie, located on St. Thomas.

Still, Mr. Mapp is contending with many of the same problems that proved too much for Puerto Rico,

driving it in May to seek bankruptcylike protection under a new law for insolvent territories, known as Promesa. Puerto Rico is now embroiled in heated negotiations over how to reduce its roughly \$123 billion in debts and unfunded pensions.

When Congress drafted the Promesa law last year, it made it possible for the other American territories to seek the same kind of help.

Now, even though the Virgin Islands maintains it has no intention of defaulting on its debts — and has even given creditors new protections — the mere prospect of bankruptcy has spooked the markets, putting borrowed money beyond the territory's reach and greatly limiting its options.

In something of a self-fulfilling prophecy, by giving territories the option to declare bankruptcy, Congress seems to have made such an outcome more likely.

"That innocuous provision, when sent to the bond market, said, 'Here's an escape valve for your debt obligations,'" said Mr. Mapp. "That changed the whole paradigm."

The problem is that in Puerto Rico, Promesa is turning out to shred the many legal mechanisms that governmental borrowers use to make their debts secure. These include liens and allowing creditors access to the courts.

"Under Promesa, all the security structures are dissolving," Mr. Fabian said.

Investors who thought they were secured creditors before now find themselves holding moral obligation pledges, which are not enforceable.

After the Virgin Islands' bond offer fell through in January, the fuel supplier to its electric authority stopped shipments, saying it had not been paid; the authority was already in court with its previous fuel supplier, which had not been paid either.

Then came the House of Representatives' plan to repeal and replace the Affordable Care Act. Mr. Mapp saw the federal money that the Virgin Islands relies on for its public hospitals going up in smoke.

Mr. Mapp scrambled. He reactivated a five-year economic plan that had been languishing and pushed higher taxes on alcohol, cigarettes and soft drinks through the legislature. He fought for a permanent electric rate increase. He got \$18 million in new federal funds for health care. He struck a deal to tax Airbnb rentals.

He hired collection agents to go after delinquent property and income taxes. He scheduled auctions for delinquent properties. He hired a team to work on the pension system, which is in severe distress, with only about six years' worth of assets left.

Until recently, the pension system was chasing high returns by investing in high-risk assets, like a \$50 million placement in life viaticals — an insurance play that is, in effect, a bet that a selected group of elderly people will die soon. It also made loans to an insolvent inter-island airline, a resort that went bankrupt, and a major franchisee of KFC restaurants. The territory's inspector general has declared the loans illegal.

Mr. Mapp said he hoped to start restructuring the pension system in the fall. Already, he said, the government had stopped diverting the workers' pension contributions, as residents began filing their tax returns and payments in April. The tax payments eased the immediate liquidity crisis.

Recently, he met with the Treasury Secretary, Steven Mnuchin, to discuss possible incentives to attract tech business to the Virgin Islands. And he hopes to return to the capital markets.

"The fact that we didn't complete the sale in January gives the impression that our market access is constrained," said Valdamier O. Collens, the territorial finance commissioner.

Investors have nothing to worry about, said the governor. For decades, the Virgin Islands has used a lockbox arrangement that makes default all but impossible.

Merchants collect sales taxes and send the money to a trustee for the bondholders. Not a cent goes to the territorial government, including the pension fund, until the bond trustee gets enough to make all scheduled bond payments for the coming year.

"We have no access to the moneys before the bondholders are paid," Mr. Mapp said. "These moneys are taken out of the pie before the pie is even in the oven. Our debt has never been in jeopardy."

But in Puerto Rico, such lockbox arrangements have turned out to be one of the thorniest disputes of the bankruptcy proceedings. And Mr. Collens, the finance commissioner, is all too aware that the same dynamic could upend the Virgin Islands, too.

"We know that there has been a contagion effect with Puerto Rico," Mr. Collens said. "The market saw that by the stroke of a pen, Congress could create a Promesa for the rest of the territories."

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

JUNE 25, 2017

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## **[KBRA Releases Rating Report for MTA's Transportation Revenue Bonds.](#)**

MTA's Transportation Revenue Bond Anticipation Notes, Series 2017B

Kroll Bond Rating Agency (KBRA) has assigned a short-term rating of K1+ to the Metropolitan Transportation Authority's (MTA) Transportation Revenue Bond Anticipation Notes, Series 2017B in an approximate amount of \$700 million. The Notes will be sold during the week of June 19, 2017.

KBRA also affirms the short-term rating of K1+ on the outstanding MTA Transportation Revenue Bond Anticipation Notes: Series 2017A-1; Series 2017A-2; Series 2015B-2e (Taxable); and Series 2015B-2f (Taxable).

MTA's Transportation Revenue Bonds, Series 2017B (Climate Bond Certified)

KBRA has assigned a long term rating of AA+ to the Metropolitan Transportation Authority's (MTA) Transportation Revenue Bonds, Series 2017B in an approximate amount of \$500 million. The Bonds will be sold during the week of June 26, 2017.

KBRA also affirms the long-term rating of AA+ with a Stable outlook on the outstanding MTA Transportation Revenue Bonds, except for bonds backed by a letter of credit or liquidity facility.

To access the full report, please click on the link below:

## [MTA's Transportation Revenue Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## [\*\*KBRA Rates the City of Los Angeles General Obligation Bonds Series 2017-A \(Taxable\) & General Obligation Refunding Bonds Series 2017-B \(Tax-Exempt\)\*\*](#)

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of AA with a Stable Outlook to the General Obligation Bonds Series 2017-A (Taxable) and the General Obligation Refunding Bonds Series 2017-B (Tax-Exempt) for the City of Los Angeles. KBRA has also affirmed the AA rating and Stable Outlook on the City of Los Angeles' outstanding general obligation (G.O.) bonds. This rating applies to all of the City's outstanding general obligation bonds except for bonds backed by a letter of credit or liquidity facility.

This rating is based on KBRA's U.S. Local General Obligation Rating Methodology. KBRA's rating evaluation of the long-term credit quality of local government general obligation bonds focuses on four key rating determinants:

- Governance, Management Structure and Policies,
- Municipal Resources Base,
- Debt and Additional Continuing Obligations, and
- Financial Performance and Liquidity Position.

To access the full report, please click on the link below:

[City of Los Angeles G.O. Bonds Series 2017-A and 2017-B](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## [\*\*KBRA Assigns AA Rating to Wisconsin's GO Refunding Bonds, 2017 Series 1\*\*](#)

Kroll Bond Rating Agency (KBRA) has assigned a AA long-term rating and Stable Outlook to the State of Wisconsin's General Obligation Refunding Bonds of 2017, Series 1. Concurrently, KBRA has affirmed the AA long-term rating and Stable Outlook on the state's outstanding general obligation bonds, excluding bonds backed by a letter of credit or liquidity facility, unless otherwise noted.

KBRA has also affirmed the K1+ ratings on the state's general obligation commercial paper (CP) program, the general obligation (GO) CP 2016 Series A Notes, and the State's GO extendible municipal commercial paper program.

Please click on the link below to access the report:

[State of Wisconsin G.O. Refunding Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **S&P: Los Angeles' Balanced Budget Reflects Prudent Management And Strong Local Support.**

In our view, Los Angeles' \$9.2 billion budget-which was adopted by the City Council on May 24, 2017 and signed by the mayor on May 25, 2017-is balanced and includes reasonable revenue assumptions paired with restrained spending.

[Continue reading.](#)

Jun. 12, 2017

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## **S&P: Los Angeles GO Bond Rating Raised to 'AA', Due To Resolution Of LADWP Litigation, Robust Economy, And Strong Management.**

S&P Global Ratings raised its long-term rating on the city of Los Angeles, Calif.'s outstanding general obligation (GO) bonds to 'AA' from 'AA-' and raised its rating to 'AA-' from 'A+' on the city's outstanding lease revenue and judgment obligation bonds.

[Continue reading.](#)

Jun. 9, 2017

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## **S&P: Pennsylvania Pension Reform Doesn't Address Near-Term Credit Pressures.**

Pennsylvania Governor Tom Wolf signed a pension reform measure into law on June 12, 2017. While the bill represents a bipartisan effort to address the commonwealth's long-term liabilities, it does not address the state's acute budgetary stress.

[Continue reading.](#)

Jun. 13, 2017

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## **S&P: Minnesota 'AA+' General Obligation Debt Rating On Watch Negative On Nonappropriation Of Certificates Of Participation.**

S&P Global Ratings has placed its 'AA+' rating on the State of Minnesota's general obligation debt on CreditWatch with negative implications.

[Continue reading.](#)

Jun. 15, 2017

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## **Construction Team to Deliver AZ's First P3 Highway 3 Years Early.**

### **Dive Brief:**

- The Arizona Department of Transportation has reported that the public-private partnership (P3) constructing the \$1.9 billion Phoenix-area Loop 202 South Mountain Freeway will deliver the project in late 2019, three years ahead of schedule, according to Equipment World.
- The P3's private component, Connect 202 Partners — which is made up of Fluor Enterprises, Granite Construction, Ames Construction and WSP — restructured the 22-mile project so that the last section could be built all at once instead of as nine separate projects as the state originally planned.
- This is the first time a P3 has been used for a highway project in Arizona. Connect 202 Partners will also maintain the Loop 202 addition for 30 years.

### **Dive Insight:**

ADOT awarded the project to Connect 202 Partners in December 2015, but it was an unsolicited proposal in 2013 that pushed the agency to consider entering into a P3 for Loop 202. ADOT previously projected that, upon completion, the new highway would provide a \$200 million economic benefit to the area by saving commuters 15 million hours of drive time every year.

This isn't the only P3 to be inspired by unexpected pitches from the private sector. In May, Kansas City, MO, construction firm Burns & McDonnell sent city officials a \$1 billion proposal in which they offered to finance a new Kansas City International Airport terminal. Two weeks later, international engineering and construction giant AECOM sent the city a letter suggesting integrated project delivery was the way to build a new terminal and asked to be part of the process.

Soon after, Kansas City officials decided to move forward with a P3 for delivery of a new terminal and issued a request for proposals for a 750,000-square-foot, \$1 billion terminal and parking garage. Bids for the project are due next week.

In February, Los Angeles County Metrorail officials also reported that they had received several unsolicited P3 proposals from teams — including Skanska USA-Kiewit Infrastructure and Parsons Transportation Group-Cintra US Services — that wanted to deliver two major transportation projects, the Sepulveda Pass Transit Corridor and the West Santa Ana Branch Transit Corridor. The agency said using a P3 could help bring the projects on line 14 to 15 years earlier than planned.

Government agencies are increasingly using P3s to take on large transportation projects, typically those with lengthy operations and maintenance components. Organizations like the American Road & Transportation Builders Association say P3s will continue to play a role in future projects, and they will also be a key component of President Donald Trump's \$1 trillion infrastructure plan.

However, not all P3 projects see such positive results. Earlier this month, Indiana Finance Authority officials said they want to take over a delayed and reportedly financially troubled highway project that is currently being constructed under a P3 structure. Completion of the Interstate 69 Section 5 project, which has been pushed back four times, is now set for August 2018.

### **Construction Dive**

by Kim Slowey



June 13, 2017

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## **American Dream Deferred: Goldman Delays Pricing of Mall Bonds**

- **Offering statement for mall project has 36 pages of risks**
- **Pricing of sale, initially set for Wednesday, is postponed**

Goldman Sachs Group Inc. delayed its sale of the American Dream.

The investment bank pushed off the planned pricing of \$1.1 billion of unrated municipal bonds to finance the long-stalled shopping and entertainment center in New Jersey's Meadowlands, about 10 miles (16 kilometers) west of Manhattan, according to three people familiar with the matter.

The deal for the project, named for the national belief that anyone can succeed, was supposed to price today. Speculative debt offerings sometimes take longer than initially planned because bankers need to drum up buyers and address the questions of would-be investors. Goldman Sachs spokesman Michael DuVally declined to comment. It may still come as soon as Thursday, according to Bloomberg data.

The Las Vegas-inspired mega complex will pair an indoor amusement park and water park, skating rink, ski slope, Ferris wheel, aquarium, and performing-arts theater with 500 stores, anchored by Saks Fifth Avenue and Lord & Taylor.

"This thing is going to be all things to all people," said Robert Amodeo, head of municipals in New York for Western Asset Management. "I can't recall another credit that looks like this."

The debt offering — the largest of unrated municipal bonds this year — comes amid a steady drumbeat of headlines about the death of the American shopping mall. Credit Suisse Group AG predicts that one-quarter of them will close over the next five years as Internet shopping grows and wages stagnate. In addition, flows into high-yield municipal funds have been a modest \$4.4 billion since the start of the year, according to Lipper US Fund Flows data, suggesting that the securities are being issued at a time when investors are becoming more risk averse.

The bonds will be sold through a Wisconsin agency, the Public Finance Authority, that specializes in acting as a conduit for risky debt. Borrowers for speculative projects sometimes forgo credit ratings rather than risk the taint of being labeled junk.

The 2.9 million square-foot complex is targeted to open in 2019, 15 years after prior developers broke ground. More than 20 million people live within 50 miles of the Meadowlands and the developers Triple Five Group are also "salivating" over the 62 million tourists who come to New York City, said Don Ghermezian, whose family controls the Triple Five Group. The billionaire family owns the Mall of America and the West Edmonton Mall.

"When we took the project over the last thing we wanted was to build another shopping center," said Ghermezian at an investor presentation. "New Jersey doesn't need another shopping center."

Triple Five Group is issuing \$800 million of bonds backed by payments in lieu of property taxes and \$300 million that are secured by New Jersey grants it will receive if the project meets sales-tax revenue targets.

Investors purchasing the American Dream bonds will need to weather the potential pitfalls: The 1,136-page offering statement includes 36 pages of risks, ranging from whether the project will be completed on time to the “difficulty, expense, unfamiliarity and time-consuming nature” of getting to the center.

American Dream is across the highway from MetLife Stadium, the home of the National Football League’s New York Giants and New York Jets. Events at the stadium could adversely affect attendance.

Lisa Washburn, a managing director at Municipal Market Analytics, was skeptical that tourists coming to New York, with all of its culture, entertainment and shopping, would get on a train or bus to the Meadowlands, “a difficult to-get to destination in a relatively unattractive part of New Jersey.”

“Parking and transportation is really substandard in this area,” said Washburn.

If American Dream doesn’t make the full payment in lieu of taxes, bondholders can take over the property, according to Western Asset. Bondholders can also come out ahead if it’s a success: the securities also have a “turbo” feature, which means that they will be paid off faster if revenue comes in better than projected.

“The good part is you get prepaid so there’s less risk in your portfolio, this being a non-rated security and there’s some hair on it,” said Amodeo, the investor with Western Asset. “‘But if they’re cash-flowing more than their debt service requirement that’s an improving credit situation and you’d like that to stay outstanding for longer. It’s a Catch-22.”

The projected payments in lieu of taxes of \$16.43 per square foot is comparable to the Mall of America’s taxes at \$15.83, according to the official statement.

The total cost of the project is estimated at \$2.8 billion, which will be covered by the tax-exempt bonds, \$500 million from the developer, payments from tenants and nearly \$1.7 billion in loans from JPMorgan Chase & Co.

## **Bloomberg**

by Martin Z Braun

June 14, 2017

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### **[Fitch: I-69 Issues Do Not Present Credit Risk for Indiana.](#)**

**Fitch Ratings-New York-12 June 2017:** Recent issues regarding a public private partnership project (PPP) to rebuild a portion of I-69 are unlikely to affect the state of Indiana’s credit profile, according to Fitch Ratings. Fitch recently downgraded the rating on private activity bonds (PABs) issued by the Indiana Finance Authority (IFA) on behalf of the developer (I-69 Development Partners LLC) to ‘CC’/Rating Watch Negative. The state is not obligated on those bonds. IFA recently disclosed that it is actively negotiating a state takeover of the project that would include redemption of the PABs and assumption of project completion risk. Fitch’s IDR for Indiana (‘AAA’/Stable Outlook) already incorporates the par amount of the outstanding PABs, and the estimated exposure for completion risk is well within the state’s capacity to absorb at the current rating.

Fitch's recent rating actions on the I-69 PABs reflect various challenges, including substantial construction delays, unresolved disputes between the construction contractor and the IFA and the deteriorated credit quality of Isolux Corsan SA (Isolux), parent of the construction contractor Corsan-Corviam Construcccion SA. This has all culminated in an inability to reach a global solution between all stakeholders on the project to avoid a default on the bonds.

As the grantor, IFA (acting on behalf of the state) has been heavily involved in the negotiations. In a recent disclosure, IFA indicated that it has offered to redeem the \$240 million in outstanding PABs with the redemption to be funded by proceeds of a separate IFA issuance. IFA is the state's issuer for appropriation-backed debt, which Fitch rates 'AA+' /Stable Outlook, linked to the state's 'AAA' IDR and Stable Outlook.. Under Fitch's U.S. tax-supported rating criteria, the par amount of the PABs are already incorporated into the long-term liability burden analysis since the project is an availability payment based PPP with the IFA as the public sector counterparty. Fitch uses the par amount of debt issued by project companies as a proxy for a state grantor's liability on availability payment based PPPs.

The IFA's disclosure also indicated that based on current estimates, the gap between currently available resources within the transaction, and remaining construction costs and outstanding claims costs is \$165 million. Fitch considers this amount, whether met through the state's cash on hand, additional financing, or a mix, to be immaterial to Indiana's credit profile.

At the end of fiscal year 2016 the state maintained available balances of over \$2 billion. Fitch anticipates those levels, while down modestly for planned one-time uses this fiscal year, are still substantial and in excess of \$1.5 billion. Fitch's calculation of the state's long-term liability burden includes \$2.5 billion in debt (including \$900 million for two availability-payment based PPPs). Indiana could absorb additional issuance of \$165 million to fully fund the estimated additional costs of the I-69 project without changing Fitch's 'aaa' assessment of its long-term liability burden.

Fitch will continue to monitor the I-69 PABs and IFA's role in the project. Default on the PABs will not have a direct effect on the state's IDR or appropriation-backed ratings, given Fitch's criteria approach and Indiana's credit profile as described above. Issues around this transaction may affect the state's willingness to enter into future similarly structured PPP transactions. Fitch notes the state recently implemented legislation to increase various transportation taxes and fees, and to explore tolling of interstate highways, providing additional financing and funding methods for infrastructure needs.

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## **Pennsylvania Lawmakers Compromise on Pension-Overhaul Bill.**

### ***Measure will move most future state and public school workers at least partly into 401(k)-style plans***

Pennsylvania Gov. Tom Wolf signed a pension-overhaul bill Monday that the nonpartisan Pew Charitable Trusts says will be one of the most comprehensive state-level reforms in the U.S.

The compromise measure will move most future state and public school workers at least partly into 401(k)-style plans to help shore up the deeply underfunded pension system and shift market risk from taxpayers to employees. An independent analysis estimates the state will save \$5 billion to \$20 billion over 30 years, depending on investment performance.

"I think we have a road map to actually move out of the nightmare that we've been in for the last 20 years," Gov. Wolf, a Democrat, said in an interview Monday.

Pennsylvania is one of many states, including New Jersey, Illinois and Connecticut, grappling with rising pension costs and huge unfunded liabilities—the gap between promised benefits and the funding available to meet those obligations. A 2015 Pew report found that the nation's state-run retirement systems had a collective \$968 billion shortfall.

Pennsylvania's pension crunch dates to a 2001 move by the legislature to sweeten benefits, combined with subsequent underfunding by state government and school districts, and weak investment returns, particularly after the 2008 financial crash.

A 2010 law boosted the government pension contributions, and Mr. Wolf said the current bill represents a key second step.

Republicans and Democrats in the GOP-led state legislature hashed out the bipartisan deal along with the governor and his aides.

The Pennsylvania School Boards Association applauded the bill, saying school districts have faced growing financial pressure because legally required pension contributions have risen at an unprecedented rate.

Current and retired employees will remain under the traditional "defined benefit" pension that provides set retirement payments. The two pension systems for state and public school employees have about 863,000 active, vested and retired members. The new law won't apply to state troopers or correctional officers.

Greg Mennis, director of Pew's public-sector retirement systems project, said the bill breaks new ground.

"Our research indicates that this would be one of the most—if not the most—comprehensive and impactful reforms any state has implemented," he wrote in a letter to lawmakers.

Critics of the legislation say it would do little to address the state's roughly \$62 billion in existing pension debt.

"Pension debt is the sole reason for doing pension reform and yet, ironically and bizarrely," the bill doesn't address existing unfunded liabilities, Republican state Rep. John McGinnis said during a recent debate. "We're not making history, we are repeating it."

Gov. Wolf said the criticism amounts to "crying over spilled milk," adding: "A big part of that is because the commonwealth didn't pay its bill and kicked the can down the road" until the 2010 change.

Republican House Speaker Mike Turzai acknowledged the state isn't likely to see major savings for years under the pension overhaul, but said it is time to follow the private sector into 401(k)-type retirement plans, where the market determines future benefits.

"At a certain point you've just got to turn off the spigot, and you've got to move to where the private sector's been," he said in a video on his website.

His office says 18 states have enacted some 401(k)-style plan for state workers, and notes that the state's Independent Fiscal Office estimates pension payments by Pennsylvania taxpayers will account for nearly 10% of the state's general fund budget by 2019.

Gov. Wolf, who vetoed a 2015 GOP pension bill that he deemed unfair, said one key element of the current bill is a push to cut Wall Street investment fees by \$3 billion over three decades. Pennsylvania has the fifth-highest fee levels of any state, according to Pew.

The union representing more than 65,000 Pennsylvania state employees said it can "live with" the bill because it lets current employees keep their plans and offers retirement security for new employees.

"Ultimately, this proposal may be as good as it gets with a Republican-controlled legislature that has constantly been going after pension reform," said David Fillman, executive director of the American Federation of State, County and Municipal Employee Council 13, on the union's website.

Starting in 2019, the retirement age for new employees will rise to 67 from 65.

Mr. Wolf said the new approach offers portability that better suits many workers. "There are a lot of people who might want to stay in public service four or five years," he said, but it takes employees 10 years to vest in the state pension system.

## **The Wall Street Journal**

By Scott Calvert

June 12, 2017 11:33 a.m. ET

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### **[Christie Betting That Lottery Can Bail Out Troubled Pensions.](#)**

New Jersey Gov. Chris Christie is betting that the lottery is the ticket to shoring up one of the state's most vexing money problems: ever-growing obligations to the pensions for public employees.

The idea of linking the lottery to pensions has been around for years, but legislation backed by the Republican governor was introduced this week to make the lottery the property of the pension system for 30 years.

Analysts and advocates say the deal — an arrangement that would be unique to New Jersey — probably won't hurt, but there's not a consensus on how much it might help.

"Where it does provide tremendous relief is optically," said Lisa Washburn, managing director at Municipal Market Analytics, a firm that analyzes government bonds. "The numbers look better on a whole lot of levels. Whether or not they're truly better is questionable."

Since Christie took office in 2010, the state has contributed more than \$6 billion to retirement funds to which past governors have often skimmed on payments — or skipped them entirely. Still, the gap between the money expected to be in the funds and that which is owed to retirees has only grown. By any measure, it's among the biggest unfunded pension liabilities in the country.

Trying to solve the problem makes it harder for officials to expand other government services or make major tax cuts.

State Sen. Paul Sarlo, a Democrat sponsoring the legislation, called it an "intriguing" proposal that deserves to be debated. He said there's a long-term benefit under the administration's projections. "The next governor will have the huge benefit after five years of being able to reduce the pension payment," he said.

Here's how the measure that will now be debated by the state's Democratic-controlled Legislature would work:

#### THE CLEAR BENEFIT — AND COST

There's a consensus that the lottery deal would give the state a guaranteed stream of money coming in to make a portion of its pension contributions.

That income — a projected average of more than \$1 billion annually — is a bit more than one-fifth of the \$5 billion the state would have to annually contribute to fully fund the pension funds.

Christie's budget proposal for the fiscal year that starts July 1 calls for about \$2.5 billion in pension contributions — which would be a record.

But the lottery revenue isn't found money: It is currently used to help pay for institutions including the state's universities, psychiatric hospitals and a home for disabled soldiers. The state would still need to pay for those programs; officials say the move would not increase costs for taxpayers.

#### ADDRESSING THE UNFUNDED LIABILITY

The state treasurer's office is promoting a second benefit of the lottery deal. This is the part Washburn and others are skeptical about.

Christie's administration says the value of the lottery, assessed at \$13.5 billion, could be used to offset the unfunded liabilities in the pension funds.

The administration says that would immediately shrink the gap — which it pegs at \$49 billion, but some other calculations say could be as high as \$136 billion.

Using the state's evaluation of those unfunded liabilities of \$49 billion, that would shrink the gap significantly and immediately. Under accounting rules, it would mean the state could recalculate how much it needs to pay into the fund to meet its obligations. That could mean the state would need to contribute less each year. A better pension position could result in a better bond rating for

the state, allowing it to get more favorable borrowing rates.

Hetty Rosenstein, the New Jersey director of Communications Workers of America, the biggest union of state government workers, said she isn't taking a position on the idea because she doubts it would reduce the liability anywhere but on paper. "At the end of the day, you can't pay out pieces of the lottery," she said.

Tom Byrne is a former chairman of the state Democratic State Committee who currently heads the Council on Investment, which oversees investment of pension funds. He says that the move could be helpful, despite the doubts of union leaders.

"Their brows might be a little furrowed," he said. "They're saying, 'It's not cash, so is this real?' From an accounting standpoint, it is."

By THE ASSOCIATED PRESS

JUNE 13, 2017, 3:52 P.M. E.D.T.

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## **Connecticut Bill Would Force Fee Disclosures for Teacher Retirement Plans.**

Public schoolteachers and other education workers in Connecticut should soon have an easier time figuring out how much they are paying for their retirement investments.

These costs should not be a mystery, yet they are often difficult to find and even more challenging to understand, particularly for employees in public schools. These workers are commonly sold expensive and complex investments inside their 403(b) plans, which are retirement accounts offered to educators, nonprofit employees and many hospital workers. Most of these plans leave employees more vulnerable because they are more lightly regulated than their better-known counterparts, 401(k) accounts.

A bill passed by the Connecticut Legislature tries to improve this situation by requiring all 403(b) retirement plan providers to disclose fees and compensation to state and municipal workers. The legislation, which unanimously passed in the state Senate last week, is headed to Gov. Dannel P. Malloy for his signature.

The bill was written by Matthew Lesser — a Connecticut state representative who leads the House banking committee — after he read a series of articles published in The New York Times that documented the problems in 403(b) plans.

The legislation — which will take effect in 2019, but could be changed to 2018 as language in the bill is completed — would require companies that operate 403(b) plans to disclose the charges and returns (after subtracting fees) for each investment offered. It would also require plan administrators to disclose fees paid to any person "who for compensation provides investment advice."

The disclosures must be made to all plan participants when they enroll, and every year after that. Alternatively, a provider can follow federal disclosure rules — as part of the Employee Retirement Income Security Act of 1974 — that govern 401(k)'s and other retirement plans.

"This bill grants teachers the same fee and conflict-of-interest disclosures available to private sector

workers having a 401(k) and allows the comptroller to make lower-cost plans available directly to local boards of education,” said Mr. Lesser, a Democrat.

Mr. Lesser was referring to a state-run 403(b) plan, overseen by the state comptroller, which includes several low-cost funds and a low administrative fee. He said the process of crafting the legislation brought a renewed focus on other ways to help school employees, which includes giving them access to low-cost retirement plans already in place and offered through the comptroller’s office. The comptroller already has the authority to market the state’s 403(b) and 457 plans — another type of retirement plan offered to state and local government workers — to school districts and other municipal employees.

A spokeswoman for Kevin Lembo, the Connecticut state comptroller, said his office was analyzing ways to make those plans more readily available. “I am hopeful that we can encourage more opportunities for municipalities, particularly school districts, to partner with the state,” Mr. Lembo said in a statement, “including through both the 457 and 403(b) plans.”

Joshua B. Gottfried, a financial planner in Connecticut who works with many teachers, has said he often tells them to avoid the 403(b) altogether, given the dismal lineup of available investments and the high fees.

He said the state-run plan is a better option. “Compared to many of the products we see in local districts, it does provide a better platform by offering teachers the benefits of low-cost funds and diversification,” Mr. Gottfried said.

THE NEW YORK TIMES

By TARA SIEGEL BERNARD

JUNE 15, 2017

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## **[In Atlanta, Murals as Art, and as Zoning Law Test Cases.](#)**

ATLANTA — Next to Fabian Williams’s fresh mural and around a corner from a wasp-infested wall where he had painted another one, the graffitied doors along Flat Shoals Avenue seemed like an ideal canvas.

“So, I did this,” Mr. Williams said last week as he stood between a weave shop and a tax preparation office and a few feet from a recently finished aerosols-and-acrylics depiction of James Baldwin, the novelist and social critic.

The owner of the tax business loved the painting, which hardly seemed out of place in a city full of colorful visual tributes to cultural figures, civil rights heroes and local music. But to some here, the Baldwin mural is like many other works of street art on private property: potentially illegal because it is in public view and displayed without a series of government approvals detailed in a seldom-enforced 2003 city ordinance.

This spring, the city abruptly suggested that it might begin to carry out the ordinance, leaving Atlanta in a dispute of art and municipal zoning that turns on constitutional principles and quickly landed in court.



Atlanta is hardly the only American city increasingly marked by wall-size splashes of color and design. But it the latest place to contemplate whether and how it can regulate murals that can be reflections of neighborhood pride, artistic visions, and local debates over commercialization and gentrification.

Artists contend that the First Amendment is their surest shield against rules that municipal officials argue are necessary to prevent works that some find obtrusive.

"It can be an extremely politicized road," said Olga Garay-English, a former executive director of the Department of Cultural Affairs in Los Angeles, where she was involved in a battle over mural rules. "Once you start bringing in elected officials to be arbiters of what is a mural and what isn't, my opinion is that it's very tempting to start looking at content when that's really the first thing you're not supposed to be doing."

In Atlanta, where the streets can sometimes seem like galleries, the controversy ignited after a surprising threat to invoke a longstanding, but mostly ignored, ordinance that effectively requires murals on private property to receive approvals from five sources, including the mayor, the City Council and a representative of the Urban Design Commission.

City officials are also supposed to examine whether a proposed work will "constitute a traffic hazard or undue or dangerous distraction to motorists or pedestrians" and ensure that it is "not inconsistent with the City of Atlanta's public art program."

Violators risked jail time, but compliance and enforcement were sporadic. Then the city stunned muralists in April when it quietly introduced a sweeping amnesty program to allow artists to receive retroactive, streamlined certifications. Murals that remained unsanctioned and defied a June deadline, an Atlanta official warned, were "subject to removal."

The dispute renewed a debate about street art that has percolated for more than a decade at neighborhood meetings, acts of protest and City Hall debates.

Mr. Williams, who said he thought the sudden shift was an effort to sanitize Atlanta's culture and appease developers, joined other artists in going to Federal District Court.

"The city is not empowered to regulate or prohibit or criminalize, in this case, artistic expression on a person's own property," said Gerry Weber, a lawyer who represents Mr. Williams and who, in 2006, negotiated a settlement to a separate graffiti ordinance. "We're not saying the city doesn't have a significant amount of discretion in saying what art goes on public property."

Mayor Kasim Reed said that there was "no city policy to remove artwork on private property" and that "any communications from the city suggesting otherwise were a mistake, and do not represent the city's position."

Mr. Reed, who was not in city government when the ordinance took effect and who represented performing artists when he was a practicing lawyer, said that Atlanta's existing standard warranted reconsideration. But he said Atlanta did "need some standards to govern art on private property which can be viewed by the public."

"Of course we must and will be mindful of the First Amendment and, consistent with the First Amendment, protect against offensive and harmful content," Mr. Reed said. "At the same time, we can and should create space for artists to express themselves through their work, and bring more vibrancy and beauty to our city."

The city has not filed its answer to Mr. Williams's lawsuit, but lawyers are discussing a settlement.

"At the beginning, the champions of zoning did not emphasize that because of their fear that zoning would be struck down as too arbitrary because beauty is in the eye of the beholder," said Michael Allan Wolf, a law professor at the University of Florida, who was written extensively about zoning and land use. "In reality, it cannot be denied that one of the reasons we have land use regulation is because it looks better, and a community that looks better is a healthier community, a more vibrant community."

But Atlanta's requirements, experts said, could trouble the courts if Mr. Williams's case ever went to trial. The ordinance appeared "to be pushing the envelope," Professor Wolf said, because it involves art on private property.

The city does not seem to want to test the professor's prediction. A judge ordered an update on settlement negotiations by June 23, and Mr. Reed suggested that Atlanta could revise the city code "in the next few weeks."

THE NEW YORK TIMES

By ALAN BLINDER

JUNE 15, 2017

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## **[Muni Bond Expert On Puerto Rico: 'It's Going To Be More Than A Haircut'](#)**

Puerto Rico's bankruptcy, with \$74 billion in debt at stake, is the largest municipal default in history.

Despite the scope of the U.S. territory's financial troubles, one of the bond business' most respected analysts said Puerto Rico's debt is unlikely to break the foundation of the muni market.

Lou Schimmel, 80, is a retired former executive director of the Municipal Advisory Council of Michigan and emergency manager in the Michigan cities Pontiac and Hamtramck. Today, Schimmel does turnaround consulting on a contract basis.

The buying of municipal bonds represents a loan from bondholders to government, and they should be paid back, Schimmel said. But that's isn't always possible.

"At some point, when [finances] get bad enough, you go to bankruptcy. Not all bankruptcies are the same, but they are the same in the sense that somebody's not going to get 100 cents on the dollar."

The restructuring case before U.S. District Judge Laura Swain includes \$74 billion in debt and \$49 billion in unpaid pension liabilities.

The recovery level for Puerto Rico's 500,000 bondholders could range from 5 cents on the dollar to 75 to 80 cents on the dollar, depending on the type of debt, Puerto Rico Clearinghouse analyst Cate Long told Benzinga in a recent interview. Puerto Rico's proposed 2018 budget dedicates one-fifth of its \$9.6 billion in spending on pension payments, according to Bloomberg. The territory's pension systems are projected to go broke by July, the wire service said.

Every stakeholder in Puerto Rico's restructuring will take some kind of loss, Schimmel said.

"In Puerto Rico, it's going to be more than a haircut. It's going to be part of the scalp as well."

## **Lessons From Detroit**

Detroit's July 18, 2013, filing for Chapter 9 bankruptcy with \$18 billion in debt didn't have the rub-off effect on other municipal debt that some expected, Schimmel said.

"It didn't ruin everybody next door. You look at what you're buying," he said, adding that "each individual credit" should be evaluated separately.

"I don't believe Connecticut is going to have a higher interest rate because Puerto Rican bonds are in trouble."

In Detroit, the plan of adjustment approved Nov. 7, 2014 by U.S. Bankruptcy Judge Steven Rhodes incorporated a \$800 million "Grand Bargain" package of public and private funds.

The money allowed the city to exit bankruptcy without selling pieces from the Detroit Institute of Arts to raise capital.

The appearance of a third party in the Puerto Rico case — for example, assist with pension shortfalls — wouldn't surprise Schimmel.

"You never know in the situation who's going to show up," he said. "If there's an outside source, all the better for the bondholders."

## **'There Was No Other Option'**

When Schimmel served as emergency manager in Pontiac, a city of 60,000 located 30 miles north of Detroit, he paid off \$87 million in debt.

Pontiac never declared bankruptcy, but Schimmel said the city had more options than Detroit or Puerto Rico.

"There was no other option," Schimmel said of Puerto Rico's May 3 bankruptcy filing under PROMESA, a restructuring law signed by former President Barack Obama.

"And that's why the bondholders made the mistake of misjudging who they loaned money to. I'm on the side of the bondholder until it becomes impossible to get repaid."

Schimmel compared a bond default to taking out a mortgage without any intention of paying it back.

"You honor it until it's [not possible]. You're going to have to break a promise."

A unique challenge for governments in distress is that they must continue to provide basic services while a restructuring is underway.

"You've got to provide basic services above all else," Schimmel said.

"I've closed economic development authorities. I've closed all sorts of things. You've got to have police, fire [and] public works. That was first."

## **Benzinga**

by Dustin Blitchok

June 07, 2017

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### **S&P: Houston's Pension Reform Is A Step In The Right Direction.**

In its latest session, the Texas legislature formally adopted significant pension reforms for the City of Houston (AA/Negative), which are a step in the right direction toward improvement in the city's pension plans' funded status and plan sustainability.

[Continue reading.](#)

Jun. 9, 2017

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

The creditworthiness of Kansas cities and counties remains stable in 2017, despite potential challenges that could stem from the state itself.

[Continue reading.](#)

Jun. 9, 2017

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### **Why Big Bondholders are Sticking with Illinois.**

(Bloomberg)—Some of the top holders of Illinois debt aren't bailing out, even as the state slides toward a junk bond rating. The reason? They say Illinois isn't an economic basket case, just the victim of a political logjam that will one day be broken.

"Illinois' problems are self-inflicted," said Guy Davidson, director of municipal bonds at AllianceBernstein Holding, which owns about \$550 million of the bonds. "They have the resources to pay their debt and we think they ultimately will."

Illinois' debt was downgraded June 1 to one step above junk by Moody's Investors Service and S&P Global Ratings, giving it the lowest ranking on record for a U.S. state, because of a clash between the Democrat-controlled legislature and Republican Gov. Bruce Rauner that's left the government without a full-year budget for nearly two years.

If the state doesn't enact a plan that reins in its chronic deficits, S&P warned that Illinois will likely lose its investment-grade status around July 1, an unprecedented step for a state that would bar certain funds from buying its securities and has stoked speculation that some investors would sell off their holdings en masse.

Fidelity Investments is the biggest public holder of Illinois general-obligation bonds, with about \$1.8 billion, according to data compiled by Bloomberg. Vanguard Group holds about \$1.6 billion, and Nuveen Asset Management about \$920 million. Three other firms—Dodge & Cox, AllianceBernstein and Wells Fargo Asset Management—hold more than \$500 million each.

BlackRock, the world's largest money manager, wouldn't have to dump its Illinois bonds if the rating is cut, a move the company sees as a strong possibility, said Peter Hayes, head of municipal bonds at the company. Illinois accounts for less than 1 percent of its \$122 billion holdings of state and local debt.

Like other money managers, Hayes sees Illinois as a state with a solid economy but serious political problems. "In that sense, it is very different from places like Detroit and Puerto Rico," he said.

While Illinois has drawn comparisons to Puerto Rico, which collapsed into bankruptcy after the U.S. gave it legal power to escape from its debt, the differences are vast. Illinois' bond debt is less than half the Caribbean island's, even though the state's population is more than three times as big.

Illinois' \$800 billion economy—more than 10 times the size of Puerto Rico's—is growing, albeit slower than the rest of the nation. It has been adding jobs, sending its unemployment rate tumbling to 4.7 percent from more than 11 percent in the aftermath of the recession. State law requires the government to appropriate sufficient money to pay debt service and it can draw from all unrestricted funds to do so. Illinois has never defaulted.

Dropping the state's already historically low rating to junk won't unleash a wave of selling, said John Miller, co-head of fixed income at Nuveen, who oversees about \$124 billion of municipals.

"Illinois' taint is a fairly well known fixture of the municipal-bond market," Miller said. "What's happening in Illinois is not being replicated across other states."

Investors have been steadily driving up the yields on Illinois bonds, relative to top-rated debt, as the state's gridlock persisted. Its 10-year bonds yield 4.5 percent, 2.6 percentage points more than those on benchmark debt. That gap, a measure of the perceived risk, is the highest since at least January 2013 and more than any of the other 19 states tracked by Bloomberg.

Illinois' plight reflects in part the expiration of temporary tax increases that helped the state deal with the toll of the recession. Facing a \$13 billion deficit in 2011, it boosted the income tax from 3 percent to 5 percent. It dropped to 3.75 percent in 2015 and officials have been at loggerheads over how to eliminate the deficit ever since.

Pushing the tax back to 5 percent would go a long way to plugging the state's ongoing deficit, said Lyle Fitterer, head of tax-exempt fixed income at Wells Fargo, where he oversees \$40 billion. Fitterer, who has held an outsized allocation of Illinois bonds for five years, said a cut to junk could be the catalyst that compels politicians to act.

"The market will ultimately force them to pass a budget or they will lose access to the capital markets," said Fitterer. "Something will have to give."

While the money managers agreed now was not the time to sell, they were divided on whether Illinois might represent a buying opportunity.

"We would not be a buyer right now," said BlackRock's Hayes. "We don't think you are being compensated for the risk at current spreads. There is more bad news to come."

At AllianceBernstein, Davidson agreed there was no rush to buy more Illinois. "We might add more if the bonds get cheap enough after a downgrade," he said.

Nuveen might add to its position, depending on how much more yields widen against other securities, Miller said.

Sophie Launay, a Fidelity spokeswoman, declined to comment. Steve Gorski, a spokesman for Dodge & Cox, declined to comment. Freddy Martino, a spokesman for Vanguard, said the company's municipal specialists said it made sense to continue holding Illinois based on their confidence the state will find a path through the budget impasse.

June 07, 2017

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## **Puerto Rico Bond Traders Still Find Buyers Despite Epic Collapse.**

- **Trading volumes have edged up since unprecedented bankruptcy**
- **It may be easy to sell, but prices are still near record low**

Puerto Rico bondholders who don't want to roll the dice in the island's record bankruptcy can still find a quick way out.

The volume of trading in Puerto Rico securities has ticked up since the island turned to a federal court last month to cut its \$74 billion debt, showing that the market hasn't seized up despite the U.S. territory's defaults and the prospect of deep haircuts faced by investors.

A daily average of \$267.4 million of commonwealth debt changed hands in the past 50 days, higher than the \$195.9 million average seen over the past 200 days, according to data compiled by Bloomberg. That 50-day average reached \$291 million on May 24, the highest since September 2015.

Puerto Rico's bonds were for years among the most actively traded in the U.S. municipal-debt market because they were tax-exempt everywhere in the U.S., giving them a national base of buyers. While mutual funds spurned the debt once Puerto Rico's credit rating was cut to junk more than three years ago, it still found buyers among hedge funds who wagered it wouldn't go broke.

But it since has, and a federal board installed to oversee the government's finances approved a fiscal plan in March that allocates less than a quarter of the \$33.4 billion the commonwealth owes in principal and interest payments through fiscal 2026. After negotiations with creditors failed to advance, Puerto Rico on May 3 filed a form of bankruptcy protection created by Congress last year to allow the island to force its creditors to take losses in court.

Since that filing, the 50- and 200-day moving averages for daily trade volume have increased by 17 percent and 6 percent, respectively.

"It has become more clear that there isn't much money," said Matt Fabian, a partner with Municipal Market Analytics Inc. "Maybe Puerto Rico investors were too optimistic in what they thought the control board would do or what Puerto Rico could theoretically pay them."

While the securities are easily sold, some are still hovering near record lows.

An index of commonwealth securities has fallen 6.7 percent since March 1, according to S&P Dow Jones Indices. General obligations with an 8 percent coupon that mature in 2035, the island's most-actively traded fixed-rate security, changed hands May 25 at an average 58.9 cents on the dollar, the lowest since the bonds were first sold in 2014, Bloomberg data show. The debt traded Tuesday at an average 59.8 cents.

## Bloomberg Markets

by Michelle Kaske

June 7, 2017, 2:00 AM PDT

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### [Uber, Lyft Asked by San Francisco to Turn Over Driving Records.](#)

#### ***City says there are concerns about fatigued drivers, traffic congestion and pollution***

Uber Technologies Inc. and Lyft Inc. are in the crosshairs of the city of San Francisco, as the city attorney said the ride-hailing companies have received subpoenas to turn over four years of records on driving practices, disability access and service.

City Attorney Dennis Herrera said Monday the records from Uber and Lyft are needed in response to growing concerns about commuting from long distances before starting 12- to 16-hour shifts, potentially elevating the risk of accidents with other drivers or pedestrians. He said there are also concerns from residents about the impact the companies are having on traffic congestion and efforts to reduce greenhouse gas emissions, since the companies have a combined 45,000 vehicles on San Francisco roads.

The city said Monday that a public records request has also been sent to the California Public Utilities Commission for the information. He said the request to the commission seeks annual reports from Uber and Lyft dating back to 2013.

"No one disputes the convenience of the ride-hailing industry, but that convenience evaporates when you're stuck in traffic behind a double-parked Uber or Lyft, or when you can't get a ride because the vehicle isn't accessible to someone with a disability or because the algorithm disfavors the neighborhood where you live," Mr. Herrera said.

An Uber spokeswoman responded, "We're more than happy to work with the city to address congestion, but it should be a comprehensive solution including construction, the city's population increase, and the rise of online delivery services."

Lyft said it "has always been focused on improving transportation access for people across all cities in which we operate. In San Francisco, nearly 30% of rides take place in underserved neighborhoods and 20% of Lyft rides begin or end at a public transit station. We also have a track record of working collaboratively with policy makers who regulate us, including the CPUC here in California, to ensure that our service complements existing transportation options."

Uber is already engaged in a legal battle with the city about whether it has to comply with a city subpoena seeking contact information for drivers. The city sued Uber last month in San Francisco Superior Court, seeking records to determine whether the company's drivers are properly registered to do business.

The company has resisted providing information, requesting that permission be sought from individual drivers before it is shared publicly.

Municipal, state and federal governments have turned up scrutiny on Uber and Lyft in recent years as the companies have become a larger part of the transportation picture.

Mr. Herrera said Uber and Lyft have 15 days to comply with the subpoenas.

## **The Wall Street Journal**

By Bowdeya Tweh

June 5, 2017 4:15 p.m. ET

Write to Bowdeya Tweh at [Bowdeya.Tweh@wsj.com](mailto:Bowdeya.Tweh@wsj.com)

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### **[San Francisco Investigating Whether Uber, Lyft Are Public Nuisances.](#)**

SAN FRANCISCO — San Francisco has issued subpoenas to Uber Technologies Inc [UBER.UL] and Lyft Inc for a broad scope of records on driving and business practices as part of an investigation to determine whether the ride-services companies have become a public nuisance.

City Attorney Dennis Herrera said on Monday he was seeking records to investigate whether Uber and Lyft fail to adequately serve poor neighborhoods and the disabled and whether their drivers create hazards on the road.

Herrera said the subpoenas sought four years of records from the companies, which are based in San Francisco and have an estimated 45,000 total drivers in the city. The sweeping request includes hours and miles logged by drivers, driver incentives, traffic infractions and city zip codes visited by drivers.

“No one disputes the convenience of the ride-hailing industry, but that convenience evaporates when you’re stuck in traffic behind a double-parked Uber or Lyft, or when you can’t get a ride because the vehicle isn’t accessible to someone with a disability or because the algorithm disfavors the neighborhood where you live,” Herrera said.

The subpoena sets up San Francisco and Uber for yet another legal battle, as the two are already locked in a fight over the city’s demands for drivers’ names and addresses. Herrera sued Uber last month to compel the company to comply with the data request, which Uber has said is an invasion of driver privacy.

Investigating whether Uber and Lyft are a public nuisance in the city is an unusual approach for San Francisco. An influx of cars driving for the two companies often clog city streets and block bicycle lanes and double-park while they wait for passengers, according to the city.

Such concerns reflect how large the two companies have grown in their hometown.

A Lyft spokeswoman said that 30 percent of rides in San Francisco take place in underserved neighborhoods, and 20 percent begin or end at a public transit station, underscoring its collaboration with public transit agencies.

“Lyft has always been focused on improving transportation access for people across all cities in which we operate,” said spokeswoman Chelsea Harrison.

Uber pointed to a report by the San Francisco Municipal Transportation Agency which says it has the goal of making ride-sharing one of the “preferred means of travel” by 2018. Spokeswoman Eva Behrend said Uber is “more than happy to work with the city to address congestion,” but that the



city needs to also look at contributing factors such as construction and population growth.

Herrera added that the “long-distance” Uber and Lyft drivers who travel hours from the Central Valley and small communities elsewhere to find rides in San Francisco are a potential “threat” to public safety. They are on the road for such long shifts that they become drowsy, making the streets unsafe.

Herrera also requested four years’ of documents and data submitted by Uber and Lyft to the California Public Utilities Commission, the state agency that regulates ride-services companies and collects much of the data the city is looking for.

The commission did not immediately respond to a request for comment.

By REUTERS

JUNE 5, 2017, 5:03 P.M. E.D.T.

(Editing by Jeffrey Benkoe)

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## **Illinois Bonds Hit Hard After U.S. Judge's Medicaid Ruling.**

CHICAGO — Illinois general obligation bond prices plummeted and yields soared in the U.S. municipal market on Thursday, a day after a federal judge ordered the cash-strapped state to find more money to pay Medicaid providers.

Yields on bonds due in 2024 climbed to 5.15 percent in secondary market trading where the yield on a top-rated bond maturing that same year was only 1.42 percent, according to Municipal Market Data.

“It’s a real meltdown today,” MMD analyst Randy Smolik said.

Illinois already had the widest so-called credit spreads among the 50 states over MMD’s benchmark triple-A yield scale. The spread on its 10-year bonds widened to a record 335 basis points at the end of trading on Thursday from 280 basis points on Wednesday, MMD reported.

For 20-year bonds, the spread widened to a record 290 basis points from 256 basis points. This signals even higher borrowing costs for the nation’s fifth-largest state.

“This drop today should be a wake-up call,” said John Mousseau, director of fixed-income at Cumberland Advisors, adding that the market appears to be reaching a tipping point on bad news about Illinois.

Late on Wednesday, U.S. District Court Judge Joan Lefkow said Illinois’ action to make only minimal payments to healthcare providers in the Medicaid program for the poor and disabled due to an ongoing budget impasse does not comply with existing federal consent decrees.

While the judge did not specifically push Medicaid payments ahead of other state priorities like debt service on bonds and pensions, she set a June 20 deadline for Illinois and healthcare advocates to reach a deal resulting in “substantial compliance” with the decrees that stem from federal court cases filed in 1992.

That could be tough given the state's nearly \$14.8 billion unpaid bill pile as of Wednesday and \$1.85 billion of monthly priority payments that flow to bonds, pensions, schools, payroll and other mandated areas that consume 90 percent of Illinois' monthly revenue.

Illinois is limping toward the June 30 end of a second-straight fiscal year without a complete spending plan due to a political stalemate between its Republican governor and Democrats who control the legislature.

Lawmakers ended their spring session on May 31 without a fiscal 2018 budget deal, triggering downgrades that pushed Illinois' credit ratings from S&P and Moody's Investors Service to a step above junk.

By REUTERS

JUNE 8, 2017, 3:57 P.M. E.D.T.

(Editing by Chizu Nomiya and Matthew Lewis)

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### **[Texas's Tough Pension Laws May Not Apply in Other States.](#)**

DALLAS — Texas recently enacted two laws that state and local officials hope will stabilize the Dallas Police and Fire Pension and a similar one affecting Houston's police, fire and municipal workers.

The state stepped in after the Dallas fund saw about 20 percent of its assets withdrawn in about four months last year, pushing it closer to insolvency.

Pension members say the impact of the new laws will be painful with reductions in retiree benefits and increases in worker contributions, but something had to be done to save the systems that had billions of dollars in unfunded liability.

The Dallas pension near-meltdown is part of a national malaise in public pensions. But the Texas cure may not work in many states, which have stricter laws on altering pension benefits.

By THE ASSOCIATED PRESS

JUNE 10, 2017, 11:36 A.M. E.D.T.

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### **[KBRA Releases Surveillance Report: Chicago Midway Airport](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of A with a Stable outlook on the City of Chicago, Chicago Midway Airport Second Lien Revenue Bonds, with the exception of Series 2004C-1 and Series 2004C-2, Series 2004D, and Series 2014 C Bonds, which are backed by direct pay letters of credit.

Please click on the link below to access the report:

**[City of Chicago, IL Chicago Midway Airport Second Lien Revenue Bonds](#)**

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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### **[KBRA Affirms AA- and Revises Outlook from Stable to Negative on the State of Connecticut's GO Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of AA- and revised the outlook from Stable to Negative on the State of Connecticut's outstanding general obligation bonds. This rating applies to all of the state's outstanding general obligation bonds, but excludes bonds backed by a letter of credit or liquidity facility. The state has approximately \$19 billion of general obligation debt outstanding.

Please click on the link below to access the report:

[State of Connecticut General Obligation Bonds](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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### **[S&P: Jacksonville Adopts Pension Reform, But The Ultimate Impact On Credit Quality Remains Uncertain.](#)**

Jacksonville, Fla.'s city council unanimously approved legislation finalizing its pension reform package late last month. In our view, the overall reform package represents an improvement to the previous pension framework, but we believe there are still some inherent risks with this strategy that largely cancel out its immediate benefits to Jacksonville's credit quality.

[Continue reading.](#)

May 24, 2017

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### **[S&P: Dallas' Adopted Pension Reforms Look To Stabilize The System, But More Work Remains To Ensure Long-Term Sustainability.](#)**

During its latest session, the Texas legislature formally adopted pension reforms for the City of Dallas (AA-/Negative), which is a first step in stabilizing the city's police and fire pension plan and addressing some of the structural issues that led to rapid declines in the pension's funded ratio over the past year.

[Continue reading.](#)

Jun. 1, 2017

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## **In Scranton, Pa., Fiscal Progress Comes With Political Costs.**

***The city is on the brink of making a speedy turnaround. Many worry that the tough financial decisions it took to get there could reverse some of its political progress.***

After a quarter-century of being branded by the state as “fiscally distressed,” Scranton, Pa., is the closest it’s ever been to shedding that label. If its finances remain stable, the city is expected to exit the state’s Act 47 distressed cities program — which it entered in 1992 — in the next three years.

What makes the news remarkable is the tailspin that Scranton was in just a few short years ago. When Mayor Bill Courtright took office in 2014, he inherited a city that had balanced its budget for five straight years using onetime revenues and deficit financings. “In early 2014, everyone wrote us off,” says Courtright. “It was like we had a disease.”

But thanks to what observers are calling a new era of political cooperation between the mayor and council, Scranton has made considerable progress. City officials have approved several tax increases aimed at balancing the budget, including a hike in property taxes and garbage fees. Those, combined with a new commuter tax, have injected \$16.2 million in new annual revenue into the \$90 million general fund.

Courtright credits a team that stubbornly adhered to a financial recovery plan devised with the help of a financial consultant. The mayor, also a former councilmember, says he and the current council have communicated better and worked to move beyond the infighting that dominated public meetings in previous years. “We knew we had to change the image between past mayor and past council,” he says. “We knew we wouldn’t get the financial community to go along with us if we couldn’t cooperate amongst ourselves.”

But this kind of swift financial progress usually comes with a political cost. To understand the political implications, one must first understand how Scranton came to its current state.

### **Making Tough Choices**

Facing a new state law in 2014 that would have placed the city in receivership if it didn’t make progress, Scranton conquered several key financial demons in recent years.

For starters, the city reached a settlement with police and fire unions over a multimillion-dollar back pay lawsuit first filed more than a decade ago. The Pennsylvania Supreme Court sided with the unions in 2011, but the city couldn’t afford to pay the initial \$24 million settlement and instead let the award collect interest.

Last year, Courtright announced the city had agreed to pay the unions most of what it owed — now \$30 million — in exchange for reforms to the city’s troubled public safety pension. The biggest concessions were that workers would increase their pension contributions over time and that the pension funds would be managed by a third-party professional administrator. The administrative transfer also included more stringent guidelines for determining whether an employee is eligible for a disability pension.

In the name of budgetary stability, the city has unloaded a couple of albatross assets as well.

Officials negotiated a long-term lease of its parking authority, which had gone into receivership after the default in 2012 because of political infighting between the council and previous mayoral

administration. Last year, the city entered into a lease concession agreement that turns over the system's day-to-day operations and long-term maintenance to the nonprofit National Development Council and ABM, a parking operator. After they pay off the parking authority's outstanding debt, ownership of the system will be returned to the city.

The final deal has perhaps been the most controversial and may even be responsible for upending the political harmony the city has achieved. Late last year, elected officials approved the sale of the city's sewer authority to the private company Pennsylvania American Water for \$195 million. The city expected to net \$95 million from the sale, but various costs, such as easement acquisition, reduced the net to \$83 million.

To Courtright, the sale is something of a crowning achievement. Selling the system gave Scranton cash to help pay off some of its pension and high-interest debt. It also unloaded an EPA-required \$140 million upgrade to the system to protect the Chesapeake Bay onto Pennsylvania American Water. The requirements would have meant a 5 percent rate hike each year for 25 years. Instead, the sale stipulated the private company could raise rates no more than 1.9 percent on average for the first 10 years.

### **A Political Cost?**

That deal, however, has not been cheered by everyone. Councilmember Bill Gaughan says it was ill-advised and lacked transparency. He points to a closed-door meeting in February with Council President Joe Wechsler, Councilmember Wayne Evans and Jason Shrive, the new sewer authority director, that discussed the sewer's lower price tag.

Adding fuel to the fire was a report in early May by local ABC television affiliate, Newswatch 16. The station reported that the sale's fees were a whopping \$3.1 million charged by 50 different attorneys.

The controversy has taken its toll: In Scranton's Democratic primary election, Wechsler failed to win nomination while Gaughan sailed ahead easily.

Jean Wahl Harris, a professor of political science at the University of Scranton, said that while the council president voiced concerns about the sale, he wasn't as adamant as others. "I'm not sure why Wechsler was picked out," she says, "except that the other two [incumbents] spoke up a little more against the mayor and called for accountability in the sewer sale."

Many worry that the fallout could affect the political cooperation the city has achieved. Still, most agree that Scranton — politically and financially — is in a much better place than it was just a few years ago. "The times following the political meltdown [in 2012] called for someone willing to look at a different direction and someone with a different style," says Gerald Cross, executive director of the Pennsylvania Economy League, Scranton's recovery coordinator. "I think we have the right people in the right place."

"They used to be insane," Cross adds of those council meetings in which tensions between elected officials and the public got so high that metal detectors were installed at one council meeting in 2007. "But it's hard to argue now with balanced budgets and progress downtown. The budget is stable, now we have to strive for sustainability — and that's all very boring."

GOVERNING.COM

BY LIZ FARMER | MAY 30, 2017

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## **Illinois Budget Crisis Is About to Get Even Harder to Solve.**

- **Starting Thursday, three-fifths majority needed to pass budget**
- **State at risk of being first cut to junk since at least 1970**

Illinois leaders will blow past a deadline that will leave the state careening toward the third straight year without a budget.

The Illinois House isn't voting on a budget on Wednesday, which means the gridlock-prone government won't pass a spending plan by midnight. That means approving a budget — a usually routine task that has eluded the state for 700 days — will become even more difficult because a three-fifths majority will be required. Democratic lawmakers, who control both chambers, and Republican Governor Bruce Rauner have repeatedly failed to agree on how to solve chronic budget deficits worsened by the expiration of tax hikes in January 2015.

"We are probably approaching that point of impaired ability to function at basic level," said John Humphrey, the Chicago-based head of credit research for Gurtin Municipal Bond Management, which oversees about \$10.1 billion of state and local debt and has steered clear of Illinois. "We've already probably passed that point. We haven't seen this in a modern state before."

The self-inflicted crisis has left the fifth most-populous state with a record \$14.5 billion of unpaid bills, ravaged entities like universities and social service providers that rely on state aid and undermined Illinois's standing in the bond market. Unless a surprise deal emerged before midnight, it's increasingly likely that Illinois enters its third fiscal year on July 1 without a budget.

Democratic House Speaker Michael Madigan, who controls much of the legislative agenda, blamed Rauner for "holding the budget hostage" to his agenda, and said in an emailed statement Wednesday that Democrats will keep working on a budget and hold public hearings, starting in Chicago on June 8.

In turn, Rauner criticized the Democrats, calling the failure a "complete dereliction of duty by the majority in the General Assembly" and said there should be no tax hikes without a property tax freeze and local control of those levies.

Bond-rating companies have warned of further ratings cuts, signaling that Illinois could be the first state since at least 1970 to lose investment-grade status.

Investors have long punished the state for its financial woes, and the penalty has only gotten worse amid the impasse. Its 10-year bonds yield 4.4 percent, 2.5 percentage points more than those on top-rated debt. That gap — a measure of the perceived risk — is the most since at least January 2013 and more than any of the other 19 states tracked by Bloomberg.

Rauner, who in 2015 became the first Republican to lead the state since 2003, wants any spending plan to be tied to his key priorities, such as property tax-freeze. The Senate on Tuesday approved measures that would lock most local real estate levies in place for two years, but Republicans said they didn't go far enough.

In the meantime, Illinois is spending more than it's taking in because of consent decrees, court orders and other appropriations that have kept the government from shutting down despite the lack of a budget. Its current-year operating deficit is about \$6 billion, Moody's Investors Service said in a March report.

Moody's and S&P Global Ratings have warned that Illinois could be downgraded deeper if no budget is enacted. The companies rank the state at Baa2 and BBB, respectively. That's two levels above junk.

The unpaid bills are also adding to the fiscal squeeze. The comptroller has estimated that the state will owe at least \$800 million in interest and fees on overdue bills by the end of June.

That backlog is "headed in the direction of being a factor that just by itself really threatens the sort of financial foundations of the state," Ted Hampton, Moody's lead analyst on Illinois, said in an interview, citing litigation from those demanding payment. "There is kind of an uncertain but very real legal and political limit to the state's ability to keep deferring payments."

A group of school superintendents from districts statewide held a press conference in the Illinois State Capitol on Wednesday, calling for the passage of a full-year budget, instead of just a temporary stopgap, and changes to the school funding formula. Illinois owes districts \$1.1 billion, which is "unconscionable," said Tony Sanders, chief executive officer of the state's second-largest school system, in Elgin.

Despite the gridlock, Illinois hasn't missed any bond payments and state law requires it to continue making monthly deposits to its debt-service funds. Still, the fighting has impeded any progress on bolstering a state retirement system that has more than \$129 billion of unfunded liabilities — a source of stress that has helped drive its rating down.

## **The Clock Is Ticking**

State leaders still have the month of June to find an agreement before the start of fiscal year 2018 on July 1. Last year, lawmakers approved a six-month, stopgap budget to keep schools open and operations going.

So far, consensus has proven elusive. The Illinois Senate approved a spending plan on May 23, with only Democratic votes, that raised income taxes and expanded the sales tax levy. It still needed House approval as of Tuesday afternoon.

Rauner has called for freezing property taxes before raising any income tax increase is considered, but he rejected the two-year property tax freeze that the Senate approved Tuesday. Eleni Demertzis, a spokeswoman for Rauner, called the move "a phony two-year freeze riddled with holes." It exempted Chicago, and Rauner had pushed for a lengthier time frame.

The impasse is decimating social services agencies that help the most vulnerable citizens, including school children, the elderly and the mentally ill, according to a coalition of groups including the Civic Federation, which tracks the state's finances.

"Forty-nine other states would never try this experiment," Laurence Msall, president of the Civic Federation, said in a press conference last week. "Only Illinois, which has seen its credit rating crumble, which has seen its social service infrastructure weaken, which has seen its higher education punched into the stomach in terms of what its future looks like, would try this experiment. It's not working. We have to have a state budget to move forward."

## **Bloomberg**

by Elizabeth Campbell

May 31, 2017, 5:23 AM PDT May 31, 2017, 3:13 PM PDT

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## **California's Brown Steers \$9 Billion School Bond Into Slow Lane.**

- **Voters approved debt issue for school construction in November**
- **It may be more than a decade before some districts get funds**

A potential deluge of bond sales for California schools may be more like a trickle.

Although state voters in November approved borrowing \$9 billion for school construction, the sales may span more than a decade, according to the nonpartisan Legislative Analyst's Office. Democratic Governor Jerry Brown, who opposed the debt measure, wants to tighten requirements on eligibility and oversight that kindergartens through high schools must adhere to before bonds are sold for their projects.

To prevent delays, advocates are lobbying legislators to limit the changes to be included in the budget due June 15, said Dennis Meyers, assistant executive director of governmental relations for California School Boards Association. About \$600 million of general obligations authorized by the voters would be sold in the fiscal year starting in July, according to Brown's finance department. Supporters of the debt issue want the funds raised at a faster pace.

"The worst-case scenario is that the bond funds would be stalled indefinitely," said Meyers, who argues that it would hurt the creation of construction jobs. "Our goal is to let legislators know the importance of getting these funds out the door under current law and to act quickly."

A subdued approach to the debt sales may help support prices of bonds issued by California, the biggest issuer in the \$3.8 trillion municipal market. The state's securities have gained as the booming economy erased once massive budget shortfalls, allowing Brown to pay down debt built up during previous downturns. California's 10-year securities yield about 2.16 percent, or just 0.2 percentage point over benchmark debt, a third of the premium investors demanded four years ago.

The state has seen its credit rating rise to the highest in more than a decade, in part because of the decision to pay down debt and sock away more into its reserves. California's outstanding general-obligation and lease-revenue debt has declined to \$84 billion in May from about \$86 billion in June 2016, according to the treasurer's office.

Even with rates low, investors have clamored for bonds from issuers in California as the amount of maturing securities outstrips new debt. About \$1.3 billion in California bonds are expected to be sold within 30 days, down from about \$4.5 billion in the middle of last month, according to data compiled by Bloomberg.

The governor's approach to the school bond sale would prevent a surge in the supply of debt. The regulations would ensure proceeds are being spent appropriately, considering a state audit last year that showed that previous bond funds were used on ineligible items such as golf carts, said H.D. Palmer, a spokesman for Brown's finance department.

"We will be able to put in place a process that provides further guarantees to the taxpayers who approved this multi-billion dollar bond authorization that these dollars are in fact being spent in the manner in which they were told would be spent," Palmer said.

Californians embraced the first statewide education bond in a decade despite Brown's objection that it will benefit richer school districts with stronger tax bases. Under the program, school districts raise local dollars and apply for matching state dollars for projects. Low-income communities can



also request grants.

Of the \$9 billion, \$2 billion is dedicated to community colleges and the rest for K-to-12 schools. A delay in bond funds could see a court challenge from those who seek expeditious action since the voters indicated they want the bonds sold, according to the Legislative Analyst's Office. It encouraged lawmakers to adopt a plan with a quicker pace.

Some of the provisions the administration is proposing are "changing the rules mid-stream" and could set precedent by allowing any funds that the state may seek to claw back from school districts to come from aid for operating costs, said Meyers, the school board association lobbyist.

The measures are clarifications of existing regulations, Palmer said. The passage of the bond didn't "reverse the administration's concerns and focus on adopting additional reforms."

## **Bloomberg**

by Romy Varghese

May 31, 2017, 2:00 AM PDT

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### **Hartford's Credit Rating May Be Cut Deeper Into Junk by Moody's.**

Hartford, the beleaguered Connecticut capital, may have its credit rating cut deeper into junk by Moody's Investors Service amid uncertainty over whether the state will extend a lifeline to help the city close a \$50 million budget shortfall.

Moody's rates Hartford's \$550 million of general-obligation bonds Ba2, two steps below investment grade. The company said Tuesday that it's conducting a 90-day review of the city that will take into account how much Connecticut, which is facing a two-year deficit of about \$5 billion, can give Hartford in the budget to be adopted over the next several weeks. Connecticut was downgraded by all three major bond rating companies earlier this month, after plummeting income-tax collections widened the government's deficit.

"Unable to generate significant incremental revenues internally or to cut expenses further, the city is primarily relying on increased state aid to close its budget gap," Moody's wrote in a report. "At the same time, the state of Connecticut's fiscal position has become weaker over the last year."

Hartford's ability to increase property-tax collections, a key source of revenue, is constrained by its already high levies and sluggish real estate market, Moody's said. About half of the property in Hartford is tax-exempt. A proposal by Governor Dannel P. Malloy to allow municipalities to levy a property tax on hospitals hasn't gained traction in the legislature.

Cost-cutting opportunities in the city are limited because the city has already gone through previous rounds and labor negotiations haven't led to concessions, Moody's said.

The city's large deficits are driven by escalating costs for debt service, pensions and health care, without sufficient revenue growth to offset them. The city has considered soliciting proposals from law firms that specialize in municipal bankruptcy, according to the Hartford Courant newspaper.

"While reflecting prudent contingency planning for a shortfall in state funding without a viable

alternative solution, we believe it also indicates increased willingness by the city to entertain bankruptcy as a tool to address its growing fiscal pressures,” Moody’s wrote.

## **Bloomberg**

by Martin Z Braun

May 30, 2017, 4:00 PM PDT

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### **Meadowlands Mall Builder Sets the Year's Top Unrated Muni Sale.**

- **Goldman Sachs Group Inc. will manage \$800 million bond issue**
- **American Dream features indoor water and amusement parks**

The Canadian developer building the long-stalled mega-mall in New Jersey’s Meadowlands plans to sell \$800 million of tax-exempt municipal bonds next week to help complete the construction of the complex begun more than a decade ago.

Goldman Sachs Group Inc. is managing the deal, the largest sale of unrated municipal bonds this year, for mall owner Triple Five Group, run by the billionaire Ghermezian family. The bonds are backed by payments in lieu of property taxes and will be issued through a Wisconsin agency, the Public Finance Authority, that specializes in acting as a conduit for risky debt. Borrowers for speculative projects sometimes forgo credit ratings rather than risk the taint of being labeled junk.

The sale may benefit from a rally in the tax-exempt securities market as investors steer money into municipal-bond mutual funds, pushing yields to the lowest since early November. As investors seek bigger returns, high-yield state and local bonds have delivered gains of 6.1 percent this year, compared with 3.6 percent for the overall market, according to Bloomberg Barclays indexes.

Initial construction on the project in East Rutherford, about 10 miles (16 kilometers) west of Manhattan, began in 2004, only to be halted after the initial developers ran short of funds. Triple Five took over the project in 2011 and will receive \$350 million in grants from New Jersey if the project meets sales-tax revenue targets.

The 2.9 million square-foot (270,000 square-meter) American Dream, originally called Xanadu, will feature an indoor amusement park and water park, an 800-foot (245-meter) ski slope, a 300-foot Ferris wheel, aquarium, 1,500-seat performing-arts theater, skating rink and a 1,400-seat movie theater with “wind, rain, snow, fog and scents all synchronized to the on-screen action,” the company says. It will also have 500 stores, restaurants and food shops.

The total cost of the project is estimated at \$2.8 billion, which will be covered by the tax-exempt bonds, \$500 million from the developer, payments from tenants and nearly \$1.7 billion in loans from JPMorgan Chase & Co.

Last year, a New Jersey appeals court rejected a non-profit group’s challenge to the bond sale.

## **Bloomberg Markets**

by Martin Z Braun

May 30, 2017, 10:57 AM PDT May 30, 2017, 12:24 PM PDT

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## **S&P Downgrade Brings Illinois Debt One Step Closer to Junk.**

### ***Illinois may become the first U.S. state to be given a junk rating***

Illinois is on the verge of becoming the first U.S. state with a junk-bond rating following downgrades from two of the world's largest ratings firms.

S&P Global Inc. warned that Illinois could be downgraded to junk status next month if it doesn't solve its partisan gridlock. Illinois hasn't had a budget for two years due to a standoff between the Republican governor and Democratic legislature.

Illinois is one of many cities and states that, despite a generally strong U.S. economy, are struggling to close budget gaps because of pensions and other entitlements. State and local retirement liabilities have ballooned after the financial crisis, and most governments don't have enough assets to cover all future obligations.

S&P on Thursday dropped its grade on the state's general-obligation bonds one level to BBB-minus, the lowest possible investment-grade rating, citing Illinois's inability to pass a budget. Moody's Corp. also dropped its Illinois rating to one notch above junk. Fitch Ratings has rated Illinois at two notches above junk.

A downgrade to a junk rating would worsen Illinois's financial straits by likely increasing interest rates on all future borrowings.

"By letting the state get downgraded, Illinois's government is only making its own budget problems worse," said Matt Fabian, a partner at Municipal Market Analytics

Gov. Bruce Rauner and the state's Democratic House speaker, Michael Madigan, have been deadlocked over taxes and spending since Mr. Rauner took office in 2015.

"Madigan's majority owns this downgrade because they didn't even attempt to pass a balanced budget, get our pension liability under control, and other changes that would put Illinois on better financial footing," a spokesman for Mr. Rauner said Thursday.

A spokesman for Mr. Madigan couldn't be reached for comment, but a spokesman for Illinois Senate President John J. Cullerton, a Democrat, said "our worst fears are being realized daily as this impasse lingers...I urge the governor to recognize the need for compromise...and end this chaos that has gone on far too long and hurt far too many."

State lawmakers can continue to work toward a budget in the coming weeks, but they will need more votes. After the regular session of the General Assembly ended Wednesday, three-fifths of both houses must support the budget, instead of a simple majority.

Investors didn't react severely to Thursday's actions from the Wall Street ratings firms. Prices on some Illinois general-obligation bonds fell to about 99 cents on the dollar Thursday after trading as high as 105 cents earlier in May.

Even in the face of high pension costs and stretched budgets, most U.S. states maintain high ratings in large part because they have the power to tax residents and lack the ability to declare bankruptcy.

New Jersey, the next lowest-rated state after Illinois, is pegged at four notches above junk by both

S&P and Moody's despite burdensome pension liabilities and a persistently imbalanced budget. Moody's also rates Connecticut at that level.

Other states have had their ratings fall nearly as low and been able to engineer a turnaround. California has largely recovered from fiscal distress that drove its rating down to two notches above junk by S&P in 2003 and kept it low for much of the next 10 years.

The state regained the confidence of rating analysts in part by making regular deposits to a rainy-day fund, according to reports from S&P.

Puerto Rico last month was placed under court protection in what amounts to the largest-ever municipal bankruptcy, owing \$73 billion to creditors. That dwarfed the roughly \$9 billion in bond debt owned by the city of Detroit when it entered what was previously the largest municipal bankruptcy in 2013.

Puerto Rico created problems for itself by borrowing money to buy time while its economy deteriorated.

But no state had gone without a budget for over a year since the Great Depression until Illinois. The stalemate originated with ideological differences between two major political figures in the state. Gov. Rauner has called for broad changes, including curbs on unions he argues would save the state and businesses money. Democrats, who are led by Mr. Madigan, have said those issues are unrelated to the budget.

In the meantime the state's backlog of bills has swelled to roughly \$15 billion, or 40% of the state's operating budget, according to Moody's. The state's budget deficit is more than \$5 billion, according to S&P and Moody's.

The current problems are aggravated by burdensome debts that eat into the money available to run the state. Illinois's pension debt last year reached \$251 billion, according to Moody's calculations. Retirement and health benefits combined with debt payments now absorb 29% of the state's general fund expenditures, S&P said.

"Legislative gridlock has sidetracked efforts not only to address pension needs but also to achieve fiscal balance," said Ted Hampton, a Moody's analyst, in a release. "During the past year of fruitless negotiations and partisan wrangling, fundamental credit challenges have intensified enough to warrant a downgrade, regardless of whether a fiscal compromise is reached in an extended session."

The budgetary issues in Illinois have rippled well beyond the state capital of Springfield, denting everything from infrastructure spending to the amount of books in elementary schools.

Public universities have been among the hardest hit with many schools pausing on any new construction and forced to stop hiring for vacant positions. Some universities including Northeastern Illinois, Governors State and Southern Illinois are weighing fixes such as raising tuition, cutting academic programs or laying off student workers.

While the state is still funding certain core functions, many nonprofits have had to shut down or reduce operations and lay off staff after going without payments from the state.

If Illinois does get downgraded to junk it would have to make millions of dollars in termination payments on contracts designed to stabilize interest payments on some state debt, according to S&P.

Those penalties would be about \$10 million in the event of a downgrade to junk by one rating firm, would reach \$19 million if two firms gave the state a junk rating and could reach \$108 million in the event of further downgrades, according to estimates by S&P based on current market conditions.

"In our view, the unrelenting political brinkmanship now poses a threat to the timely payment of the state's core priority payments," S&P analyst Gabe Petek said in his ratings report Thursday.

## **The Wall Street Journal**

By Heather Gillers

Updated June 2, 2017 2:54 p.m. ET

Write to Heather Gillers at [heather.gillers@wsj.com](mailto:heather.gillers@wsj.com)

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### **Connecticut's Tax Comeuppance.**

***With the rich tapped out, the state may resort to Puerto Rico bonds.***

The Aetna insurance company has been based in Hartford, Conn., since 1853, but this week it said it is looking to move to another state. Governor Dannel Malloy has pledged to match other states' financial incentives, but taxpayer money can't buy fiscal certainty and a less destructive business climate. That's the real problem in Connecticut, which saw GE vamoose to Boston last year and which even Mr. Malloy now seems to recognize.

"As a huge Connecticut employer and a pillar of the insurance industry, it must be infuriating to feel like you must fight your home state policymakers who seem blind to the future," Mr. Malloy wrote in a May 15 letter to Aetna CEO Mark Bertolini. "The lack of respect afforded Aetna as an important and innovative economic engine of Connecticut bewilders me."

Now he tells us. Gov. Malloy has spent two terms treating business as a bottomless well of cash to redistribute to public unions. Now that his state is losing millionaires and businesses, he has seen the light. But the price of his dereliction will be steep.

Last month the state Office of Fiscal Analysis reduced its two-year revenue forecast by \$1.46 billion. Since January the agency has downgraded income-tax revenue for 2017 and 2018 by \$1.1 billion (6%). Sales- and corporate-tax revenue are projected to fall by \$385 million (9%) and \$67 million (7%), respectively, this year. Pension contributions, which have doubled since 2010, will increase by a third over the next two years. The result: a \$5.1 billion deficit and three recent credit downgrades.

According to the fiscal analyst, income-tax collections declined this year for the first time since the recession due to lower earnings at the top. Many wealthy residents decamped for lower-tax states after Mr. Malloy and his Republican predecessor Jodi Rell raised the top individual rate on more than \$500,000 of income to 6.99% from 5%. In the past five years 27,400 Connecticut residents, including Ms. Rell, have moved to no-income-tax Florida, and seven of the state's eight counties have lost population since 2010. Population flight has depressed economic growth—Connecticut's real GDP has shrunk by 0.1% since 2010—as well as home values and sales-tax revenues.

Corporate revenues also took a hit after General Electric relocated to Boston. Mr. Malloy then offered tax breaks to hedge funds and companies to stay in Connecticut, which has further eroded

revenue.

The Governor—a slow learner—seems finally to have accepted that raising taxes on the wealthy is a dead fiscal end. Democrats are now proposing higher taxes on tobacco, expanding casinos and eliminating some tax breaks, though they don't want to touch an exemption for teacher pensions. The state teachers union warns that axing the exemption would impel retired teachers to relocate. A quarter of pension checks are currently sent out of state.

Mr. Malloy is also seeking \$1.6 billion in concessions from unions, which would be easier to achieve if collective bargaining weren't mandated by law. He's suggested increasing municipal pension contributions and cutting state-revenue sharing, both of which could drive up property taxes and imperil insolvent cities like Hartford. Mr. Malloy's budget includes a \$50 million bailout for Hartford to prevent bankruptcy, which might occur in any case if Aetna—its fourth largest taxpayer—leaves.

The state treasurer has advocated "credit bonds" securitized by income-tax revenues to reduce the state's borrowing costs. Investors beware: Puerto Rico tried something similar with its sales tax, and bondholders might not get back a penny. Maybe Democrats should follow Jerry Seinfeld's advice to George Costanza and do the opposite of the instinct that has brought the state so low: Cut taxes.

THE WALL STREET JOURNAL

June 2, 2017 6:52 p.m. ET

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## **[U.S. Judge Freezes a Puerto Rico Debt Payment Subject to Competing Claims.](#)**

NEW YORK — A federal judge on Tuesday ordered the trustee for Puerto Rico's COFINA bonds not to make a \$16 million payment due on June 1, allowing creditors to litigate competing claims to the money that could be central to how the bankrupt U.S. territory restructures debt.

Judge Laura Taylor Swain made the ruling during a hearing in her Manhattan courtroom, putting a freeze on the payments while stakeholders hash out central disputes over who is to be paid first and from which revenue sources.

Puerto Rico, with \$70 billion in bond debt and another \$49 billion in pension liabilities, is embarking on the biggest financial restructuring in U.S. municipal history. Sorting out obligations of the COFINA sales tax authority, which owes some \$17 billion, is arguably the biggest task in the restructuring.

Swain's ruling granted a request by the COFINA trustee, Bank of New York Mellon, for "interpleader," a move authorizing the bank to hold onto the interest payment due on Thursday without fear of liability, while claims over the money are resolved.

Judge Swain did not rule on the underlying claims, a process that could take months, but said "their existence makes it clear that interpleader is warranted."

Senior creditors of COFINA argue the authority has already defaulted, through the Puerto Rican government's indications that it plans to cut debt repayments. They say junior COFINA creditors should therefore stop being paid, to ensure payment for seniors.

Meanwhile, holders of Puerto Rico's \$18 billion in general obligation (GO) debt argue that COFINA's

assets belong to them, under a constitutional guarantee giving them first claim on all the island's resources.

By freezing Thursday's payment, Judge Swain is giving sides the green light to litigate at least parts of these issues, though the primary dispute is the one between senior and junior COFINA creditors. Judge Swain stressed she was not ruling immediately on whether GO holders would be allowed to intervene.

Separately on Tuesday, Puerto Rico's government said it would make a \$13.9 million payment on June 1 to bondholders of the Employees Retirement System, the island's largest pension, settling a lawsuit filed last week.

By REUTERS

MAY 30, 2017, 3:36 P.M. E.D.T.

(Reporting by Nick Brown; Editing by Meredith Mazzilli)

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## **In Texas, Some Rare Good News About Cities With Pension Woes.**

Detroit. Stockton. Puerto Rico. The list of places bankrupted by ballooning pension obligations and other debts is growing. But now comes some good news about two cities, Dallas and Houston, that have pulled back from the brink.

Just six months ago, the mayor of Dallas, Michael S. Rawlings, was warning that his city might need to declare bankruptcy after a panic led stampeding retirees to pull half a billion dollars out of its pension fund for police officers and firefighters.

But instead of going to bankruptcy court, Mr. Rawlings went to Austin, the state capital, to lobby for state pension laws that would stop the bleeding. So did the mayor of Houston, Sylvester Turner, who faced other pension problems and had persuaded the city's labor groups to agree to concessions worth \$1.3 billion over the next 30 years.

The resulting legislation — which essentially averts crises in Texas' biggest and third-biggest cities — was signed into law by Gov. Greg Abbott on Wednesday.

Each city had its own bill, because each had its own unique problems. But both bills involve measured reductions in pension accruals for workers and retirees — mainly in secondary benefit categories like inflation adjustments and lump-sum payouts. In exchange, the pension funds will receive more money from the cities to protect the core benefits.

Most important, both bills establish financial benchmarks for the coming years. If the pension funds do not meet them, there will be more benefit cuts, some of which could be steep. The point of this is to keep elected officials from giving the can one good kick down the road now, then declaring victory and turning their backs while the same intractable problems are festering under the surface.

"The key to all this is, not one retiree's pension check is going to be reduced one penny," said Ray Hunt, the president of the Houston Police Officers Union. "It just means that future increases are slowed or stopped. I believe the majority of our members think this is the responsible way."

As happy as the resolution may seem, the steps that Texas took are illegal in other places where public pensions are imperiling the finances of cities and states. Illinois, California, Oregon, Pennsylvania and Kansas are among the states where, by law, public pensions cannot be reduced — not even the pensions that current workers hope to earn in the future.

That doctrine, known as the California Rule, explains why California cities like Vallejo and Stockton reduced their payments to other creditors when they went into bankruptcy but did not touch their workers' costly pension plans.

Of all labor groups in the public sector, police and firefighters' unions tend to be the California Rule's most ardent champions. When Memphis recently tried to scale back pensions, for example, half the police force called in sick and hundreds of others resigned.

Police unions in California are now pushing a critical test of the California Rule through the courts, after a lower court ruled that they did not have "an immutable entitlement" to the best pension they could hope for, but "only to a 'reasonable' pension." Final adjudication appears to be many months away.

Against that forbidding backdrop, Dallas and Houston show there is still room for compromise (although Houston's firefighters did withdraw their support for the bill that was just signed into law).

Both cities were spurred to act by the risk of credit downgrades and by a recent accounting change that calls for cities to calculate the number of years before their pension funds will run out of money — a once-unthinkable catastrophe that has come to pass in Prichard, Ala.; Central Falls, R.I.; and now Puerto Rico.

Those developments — and Detroit's bankruptcy — have shown that Washington will not bail out government pension funds that go bust; officials had to patch together money from other sources, and even then, the retirees of Prichard, Central Falls and Detroit had their benefits cut. Cuts are expected soon in Puerto Rico, too.

Seeing that, and knowing that the doomsday clock was also ticking in Dallas and Houston, made labor leaders in those cities conclude that fighting concessions to the finish would not, in the end, protect their members. The Dallas pension fund was on track to run out of money in 10 years, and Houston's in less than 15.

And in both cities, the police and firefighters have opted out of Social Security, something state and local workers often do in hopes of avoiding the Social Security payroll tax. Federal law allows that, but if a government pension fund collapses, older adults are left without a backstop.

"We have to have a fair pension system, both for us and for taxpayers," said Mr. Hunt of the Houston police union. "It's either that or take a 100 percent pension cut in the future, when you have no pension fund."

Josh McGee, the chairman of the Texas Pension Review Board, a state oversight body, called Houston's overhaul "one of the most comprehensive I've seen in the country," and all the more notable because the mayor who pushed it through is a labor-friendly Democrat.

As for the Dallas pension measure, Mr. McGee called it a good first step.

"Dallas waited until they were in crisis before they did anything, so it's really, really painful, and it's going to take more actions in the future to solve the problem," he said.



Dallas's measure includes raising the retirement age, slowing benefit accruals, ending most cost-of-living increases and raising each worker's required pension contribution to 13.5 percent of pay, from 8.5 percent.

Importantly, the new law for Dallas also bans the kind of big, one-time withdrawals that caused last year's run, in which retirement-age police and firefighters stripped about \$500 million out of their pension fund, leaving it tattered almost beyond repair.

Such lump-sum withdrawals were allowed under a fairly common program known as a DROP, for deferred retirement option program, but they caused a stampede after workers learned that the pension fund had been overstating its assets.

The workers started to grab cash for fear that it would not be there later if they waited. Hundreds of people qualified for payments over \$1 million each, in addition to their regular pensions.

The changes approved Wednesday are not expected to turn the fund around, only to stabilize it. The law calls for Dallas to stress-test the fund in seven years and to make more cuts if it fails. City officials have warned that they may still claw back some of the money people took during last year's run.

On Thursday, Fitch, the credit-rating agency, said it would review Dallas's rating. The city had been on a watch list for likely downgrades because of pension risks.

Houston had different pension troubles, dating to 2001, when officials decided that the bull market of the 1990s justified big benefit increases. The dot-com crash quickly showed that the decision was a mistake, but instead of revoking the increase, the city coped by not making its yearly contributions to the fund.

"The city was on a path to bankruptcy, and we just realized we were going to have to have some kind of reform," said Mark Watts, the head of the Greater Houston Partnership's municipal finance task force.

Under the new law, Houston reduces certain secondary pension benefits, like a DROP feature and cost-of-living increases, in exchange for better funding.

If costs still keep rising too sharply, the law calls for further reductions. And if that does not work, the system automatically shuts down the defined-benefit plan and switches to a hybrid, called a cash-balance plan.

"That caps the city's downside risk," said Mr. McGee, of the Texas Pension Review Board.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

JUNE 1, 2017

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## **[Illinois' Troubled, Tempting Muni Bonds.](#)**

Some of Illinois' debt is sliding toward junk status, and that's a wakeup call for muni investors, writes InvestmentNews.

The state's financial troubles are "a reminder that financial advisers should pay extra attention to underlying holdings in muni bond funds," the publication writes.

High-quality muni funds can contain junk, and vice-versa. A recent Citigroup report said Illinois' high-yielding debt could present a buying opportunity, because the state has room to "tax and grow" its way toward safe ground.

But Ronald Bernardi, president of Chicago-based Bernardi Securities, tells InvestmentNews he won't touch the state's 10-year bonds, which yield 4.45%. His reasoning: At twice the yield of the highest-quality muni bonds, they're too dangerous.

Those willing to bet on Illinois can do so through a number of mutual funds with meaningful exposure to the state's munis.

Gurtin National Municipal Opportunistic Value Fund, with \$117 million, is 23.7% allocated to Illinois' muni bonds. Hartford Municipal Income Fund and Wells Fargo CoreBuilder Share Series each have a little more than 20% weightings.

## **Barron's**

May 31, 2017 4:30 p.m. ET

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### **Illinois GO and MetPier Bonds Fall After Downgrades.**

Nuveen's John Miller calls it "stunning" that MetPier's rating can fall so far due to politics when its economics remain healthy.

The muni market can be quite slow moving — for example, Puerto Rico's bonds have been falling pretty gradually for about two weeks since it declared a version of bankruptcy.

But muni investors are pretty swift to sell when there is a major downgrade — which happened with Illinois bonds Thursday.

The state's general obligation bonds and Metropolitan Pier & Exposition bonds were both wider by approximately 25 basis points Thursday afternoon, estimates John Miller, who heads municipal bond investing at Nuveen Asset Management.

MetPier bonds were rated triple-A not that long ago, notes Miller. Plus, revenues (sales and tourism taxes) have actually increased the great majority of years. "Debt coverage is excellent," he adds.

But since the MetPier revenues now essentially pass through the state budget, the bonds have to be downgraded when the state is.

Miller calls it "fairly stunning" to see what dysfunctional politics can do to a bond rating even when the finances of an issuer are healthy. "The economy is moving along and yet the politics are so bad that the bond went from triple-A to double-B-plus purely on politics," he says.

## **Barron's**

By Amey Stone

## **New York City Suspends Municipal Business with Wells Fargo.**

New York City voted on Wednesday to suspend Wells Fargo from its municipal debt issuance operations, citing a rating tied to doing business in low and moderate-income communities as having fallen below a “satisfactory” level.

The commission also cited last year’s scandal, in which the bank was caught creating bogus customer accounts to boost performance measures.

The New York City Banking Commission, in a unanimous 3-0 vote, decided it will give no new bond underwriting mandates or renew existing contracts with Wells Fargo. The decision follows a Federal Community Reinvestment Act (CRA) rating of “needs improvement” for the San Francisco-based bank.

The decision adds New York City to other states and municipalities that have banned the bank from handling their funding operations.

The commission was composed of Mayor Bill de Blasio, Comptroller Scott Stringer and Commissioner of Finance Jacques Jiha.

“What happened at Wells Fargo was fraud – and there must be consequences for wrongful behavior,” Stringer said in a statement.

Wells Fargo, however, was given a conditional designation as a New York City bank. That means it can still hold funds under current contract because it would be too disruptive to immediately disentangle the city from the bank.

“The ban will be revisited only when the bank’s rating is raised,” de Blasio and Stringer said in a joint statement prior to the vote.

The Wells Fargo scandal and the repercussions on its municipal banking operations contributed to a slump in its underwriting business, Reuters reported earlier this month.

Prior to the vote, the bank told Reuters it appreciated the continuing dialogue with the city.

“More than four years have passed since the end of our last CRA evaluation period and we are seeking an expedited review of the 2012-2015 exam,” Wells Fargo spokesman Gabriel Boehmer said in an email.

Wells Fargo holds \$227 million of collected city taxes and fees and acts as a trustee to the New York City Retiree Health Benefits Trust, currently holding its roughly \$2.6 billion in assets.

The ban will suspend the bank’s role as a senior book-running manager for the city’s General Obligation as well as Transactional Finance Authority bond sales.

“The only allowable exemption will be for affordable housing financing, which has a direct benefit to New York City residents,” the joint statement said.

REUTERS

By Dan Freed | NEW YORK

Wed May 31, 2017 | 6:10pm EDT

(Reporting by Dan Freed; Additional reporting and writing by Daniel Bases, editing by G Crosse and Dan Grebler)

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## **Puerto Rico Seeks Court's Help to Save Public Pension System.**

SAN JUAN, Puerto Rico — Puerto Rico is seeking help from federal court to restructure the debt of the U.S. territory's public pension system, which is projected to run out of money this year.

A federal control board overseeing the island's finances said Monday that the move was taken in part to shield the government from a flurry of lawsuits.

"The government's liquidity and solvency problems are massive, and Title III has now become necessary to protect the people of Puerto Rico," the board said in reference to the court-supervised restructuring process.

Gov. Ricardo Rossello said late Sunday that his administration requested the board approve a court-supervised process because it had been unable to reach a deal with creditors to whom it owes some \$3 billion.

"Given the system's uncertain situation ... its eventual insolvency in upcoming months and the inability to reach a deal with creditors ... I have no other option to protect our retirees," he said.

The U.S. territory is increasingly turning to the courts to restructure portions of the \$73 billion public debt it holds as it struggles to emerge from a decade-long recession. The board on Monday also said it will seek to restructure via courts more than \$4 billion in debt held by the island's Highway and Transportation Authority.

Rossello said retired workers will still receive their pensions, and that the government will dip into its general fund once the pension system itself runs out of money.

Roberto Aquino Garcia, president of the Association of Retired Puerto Rico Government Workers, said he doubts a court-ordered restructuring will bring substantial relief to the more than 150,000 former government workers who depend on a system underfunded by some \$50 billion.

"We hold very little hope, because unless the system receives a significant cash infusion to stay afloat, it will collapse," he said in a phone interview.

Aquino said many retirees worry the general fund will not be able to fund their pensions because it is already low on cash.

"We don't know what the government's priorities will be," he said. "Do we fall under essential services?"

The government is Puerto Rico's largest employer, and the overall liability of its three main retirement systems grew by \$10 billion from 2009 to 2013, prompting the previous administration to increase retirement ages, reduce benefits and increase employer and employee contributions.

Puerto Rico's average public pension is roughly \$1,100 a month, but more than 38,000 retired government employees get only \$500 because of the type of job they had and the number of years worked.

A federal control board overseeing the island's finances is now seeking more cuts. It has said the system will switch to pay-as-you-go funding, and that teachers and public safety workers will be enrolled in Social Security by 2020. Currently, teachers and police officers in Puerto Rico do not receive Social Security.

Aquino said a nonprofit group representing nearly 100,000 retired Puerto Rico government workers has hired the same attorney who represented retired workers in Detroit, which had less than \$20 billion in debts when it filed for bankruptcy in 2013 in the biggest U.S. municipal bankruptcy ever.

"There's going to be a humanitarian crisis," Aquino warned. "The government made a commitment to us since 1951 when it created the pension system. It's a contract that all of us have held up on our end."

Puerto Rico economist Vicente Feliciano said it's unlikely the government will be able to fulfill that contract.

He noted that retirees in Detroit were hit with a 5 percent cut, and anticipated that those in Puerto Rico will face a similar or worse fate.

"The majority of retirees will get their pensions cut," he said. "Everybody must take a hit."

By THE ASSOCIATED PRESS

MAY 22, 2017, 10:27 A.M. E.D.T.

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## **[KBRA Releases Rating Report: City of Chicago's Second Lien Wastewater Transmission Revenue Bonds.](#)**

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of AA- with a Stable outlook to the City of Chicago's Second Lien Wastewater Transmission Revenue Bonds, Project Series 2017A and Second Lien Wastewater Transmission Revenue Bonds, Refunding Series 2017B. KBRA has also affirmed the outstanding AA- rating and Stable outlook on the City of Chicago's outstanding Second Lien Wastewater Transmission Revenue Bonds.

The bonds are limited obligations of the city having a claim for payment solely from Second Lien Bond Revenues that are derived from the net revenues available for bonds in the city's sewer fund, and deposited into the Second Lien Bond Account, which claim to the net revenues available for bonds is subordinate to the claim of Senior Lien Bonds. The senior lien is open but there are no plans to issue any additional senior lien debt.

Please click on the link below to access the report:

**[Second Lien Wastewater Transmission Revenue Bonds](#)**

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **KBRA Releases Rating Report: City of Chicago, IL's Second Lien Water Revenue Bonds.**

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of AA with a Stable outlook to the City of Chicago, IL's Second Lien Water Revenue Refunding Bonds, Series 2017. KBRA has also affirmed the outstanding AA rating and Stable outlook on the City of Chicago's outstanding Second Lien Water Revenue Bonds.

The City of Chicago's Second Lien Water Revenue Bonds are limited obligations of the city having a claim on payment solely from Second Lien Bond Revenues derived from net revenues available in the city's water fund, and deposited into the Second Lien Bonds Account, which claim is subordinate to the claim of Senior Lien Bonds. The senior lien is open, but has not been utilized since 2001 and KBRA is comfortable with the city management's assurances that no further senior-lien issuance is contemplated.

Please click on the link below to access the report:

[Second Lien Water Revenue Refunding Bonds, Series 2017](#)

If you have any difficulties accessing the report, please contact [info@kbra.com](mailto:info@kbra.com) or visit [www.kbra.com](http://www.kbra.com).

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## **King County Achieves Highest Rating for New Green Bond Program.**

King County's commitment to environmental protection and sustainability has earned a "dark green" designation – the highest rating awarded by an international research institute – for its environmentally friendly green bond program that was launched this week to fund County projects with multiple benefits.

The County's new certified green bond program offers investors the opportunity to finance public projects that help the County continue its commitment to protecting the environment and confronting climate change.

In crafting its green bond program, the County followed financial market and industry best practices by submitting its program to a review by an internationally recognized leader of second opinions, the Center for International Climate and Environmental Research (CICERO).

As is the case with traditional municipal bonds, King County's green bonds are secured by the County's full faith and credit and benefit from the County's high municipal credit rating. What's unique about green bonds is that the entities issuing them can apply the borrowed funds only toward environmentally beneficial projects, such as green-energy projects, or projects that help respond to climate change impacts.

The County's first sale of green bonds today features Citigroup Global Markets as underwriter. The County is selling limited tax general obligation bonds to provide \$35.2 million of funding for the capital program of the King County Department of Natural Resources and Parks' Solid Waste Division, primarily for development and construction of transfer stations and the restoration of closed landfill sites.

The County is anticipating that other projects in the future will also be good candidates for the green bond program. Such projects involve clean transportation conversions to zero-emission buses; habitat restoration to offset greenhouse gas emissions; and design and construction of green-built facilities that include recycled and energy saving materials, improve air quality, reduce water use, and achieve high ratings for sustainable construction.

As an independent, not-for-profit research institute, CICERO has been providing independent reviews of green bonds since the market's inception in 2008. CICERO works with numerous international institutional investors, banks, companies and municipalities.

CICERO second opinions are graded "dark green," "medium green" and "light green" to give investors insight into the environmental quality of green bonds.

The organization, which has been rated as the best provider of independent green bond reviews, gave King County's green bond program its highest certification of "dark green."

"CICERO's 'dark green' rating affirms King County's leadership and commitment to environmental sustainability," said Ken Guy, King County Finance Director. "We expect the green bond program, combined with our historically strong credit ratings, will encourage an increasing number of environmentally-conscious investors to participate with King County in our efforts to create a greener future."

To learn more about King County's unique green bond program, contact Felix Amerasinghe, Chief Financial Officer, King County Department of Natural Resources and Parks, at 206-477-7586.

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## **Illinois Bonds an Opportunity for 'Bold' Investors, Citi Says.**

- **Debt paying highest yields over benchmark since at least 2013**
- **Multi-notch downgrade into junk is unlikely, Citi says**

Illinois's nearly two-year budget impasse has created a buying opportunity for municipal-bond investors willing to bear the risks, according to Citigroup Inc.

With the Democrat-led legislature and Republican Governor Bruce Rauner unable to forge agreement on how to close the state's chronic budget deficits, Illinois's 10-year bonds yield 4.43 percent, or 2.45 percentage point more than top-rated municipal borrowers, according to data compiled by Bloomberg. That's the biggest premium since the indexes were started in January 2013.

That may mean it's a good time to buy, according to Citigroup. Despite the governmental gridlock, the fifth most-populous state has "strong fundamentals" and the power to tax and grow its way out of the financial hole, the bank said in a report to clients this week, citing the diverse economy and strong legal security backing its debt. While Illinois hasn't had a full-year budget in place since June 2015, it hasn't missed any bond payments and state law has required it to continue making monthly deposits to its debt-service funds.

"The state's credit rating and bond prices have suffered and may present opportunity for a bold investor," analysts Vikram Rai, Jack Muller and Loretta Bu, said. "We strongly encourage investors to take advantage of the cheapness of the front and intermediate IL GOs."

The crisis stems from a fight between Rauner and the legislative leaders over how to plug budget



shortfalls that were worsened by the expiration of income-tax increases in January 2015. With agreement elusive, entities like public universities have been stung by the loss of state aid, triggering cuts to their credit ratings.

Citigroup published its report before Illinois Senate Democrats approved an income-tax hike and spending plan without Republican support, making the outlook for a bipartisan, comprehensive solution even more uncertain. The Senate bills still need approval by the House. The state has until May 31 to approve a budget by a simple majority. Starting June 1, a three-fifths majority is needed, making a deal even more difficult.

Moody's Investors Service and S&P Global Ratings have warned of potential rating cuts if the state enters a third year without a budget. Many of Citigroup's clients expect a one-notch downgrade, and that drop looks like it's already been priced in, according to the bank's analysts. A multi-notch downgrade to junk isn't likely, Citigroup said.

## **Bloomberg Markets**

by Elizabeth Campbell

May 24, 2017, 9:34 AM PDT

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### **[S&P: Stock Market Gains Lift Revenues In California's Revised Budget Plan For Fiscal 2018.](#)**

California's revised budget proposal for fiscal 2018 aims to keep the state's finances on a structurally oriented path while adding to its budget reserves, in S&P Global Ratings' view.

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May 15, 2017

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### **[Fresh Off Another Downgrade, Connecticut Has a Plan to Lower Borrowing Costs.](#)**

***But observers disagree about whether it will work.***

Besieged by budget shortfalls, Connecticut's credit rating was downgraded in recent days by Fitch Ratings and Moody's Investors Service. The downgrades were the state's fourth and fifth in the past year alone. But if State Treasurer Denise Nappier gets her way, that credit hit might not matter the next time Connecticut goes to sell bonds.

Nappier wants the state to start offering investors revenue bonds that are paid back directly from the state's income tax revenues. Called tax-secured revenue bonds, these new bonds would be offered in place of general obligation bonds, which are backed by the state's general revenue collections. Nappier's office believes the dedicated income stream would mean the bonds would fetch ratings as high as AAA, resulting in a better interest rate and lower debt service costs.



The idea has received mixed reviews. While some observers call it a product that will offer comfort to bondholders wary of Connecticut's troubles, others say it's a "financial engineering gamble" designed to game the market. "To create something out of nothing — they're not being more fiscally responsible by doing it this way," says Municipal Market Analytics' Lisa Washburn.

In the past year, Fitch has downgraded the state's credit rating twice, and Kroll, Moody's and S&P Global Ratings have each downgraded it once. The latest action puts the credit rating at A+. It is the result, in part, of the state's third straight budget shortfall. Currently, Connecticut is facing a \$2 billion hole over the next two fiscal years. The deficits, caused mainly by weak income tax revenues and burdensome debt costs, have all but drained the state's rainy day reserve and made it difficult to keep up with its mounting pension obligations.

Deputy Treasurer Lawrence A. Wilson says the tax-secured bonds will insulate investors from the budget and pension concerns they have expressed. Instead, the bonds are "focusing on one of our highest credit positives, which is the high wealth of our state."

If approved by the General Assembly, the state would issue about \$2 billion in revenue bonds a year. Any interest rate savings would be directed into the state's rainy day fund. Wilson says he expects those savings to total \$980 million in fund deposits over 12 years.

When asked if state lawmakers would be tempted to keep raiding the rainy day fund, given the state's deficit struggles, Wilson acknowledged that was a possibility. "This is the part we can control," he says. "It's still a positive contribution."

Revenue bonds are common with lower levels of government and with housing and transit authorities, but are rarer at the state level. In 2001, New York state created a revenue bond program for streamlining purposes. Rather than having a handful of state authorities individually issuing tax-backed debt, New York's program created sales and income tax-backed bonds for them.

When it comes to assuring investors they'll be paid back, most states tend to opt for statutory or constitutional pledges. Illinois, for example, hasn't passed a budget in two years and has also suffered multiple ratings downgrades. But its constitution contains a "non-impairment" clause that prohibits action by the General Assembly that would damage the state's ability to pay back bondholders. State law also allows bondholders to sue the state to compel payment.

Belle Haven Investments' Tamara Lowin says Nappier's proposal is simply another way to assure investors they'll get their money back with interest. "This market loves the transparency of being able to see a direct revenue stream," she says. "It's a way to offer a credit designed with the ratings agencies in mind."

But Washburn isn't so sure that potential investors will be reassured by the new bonds and be willing to take a lower interest rate on the debt. "The likelihood that Connecticut will ever default and be in a situation where you have to test the structural provisions is really, really low," she says. "But would I want to give it a pricing benefit as an investor? It's definitely questionable."

GOVERNING.COM

BY LIZ FARMER | MAY 17, 2017

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## **Illinois Punished by Market as Deadline Nears Amid Fighting.**

- **State's yields rise to record over benchmark amid gridlock**
- **Less than two weeks remain in regular legislative session**

With less than two weeks left in the regular legislative session, Illinois lawmakers and Governor Bruce Rauner are still divided on how to end the worst-rated state's nearly three-year budget impasse. Investors aren't pleased.

Bondholders are demanding yields of 4.49 percent on Illinois's 10-year bonds, some 2.45 percentage points more than those of benchmark tax-exempt debt. That's the biggest gap since the Bloomberg indexes began in January 2013.

After May 31, a three-fifths majority will be required to pass anything, making a deal even more difficult to reach. Senate Democrats advanced several bills that had been considered part of a bi-partisan compromise on Wednesday, but they were unable to pass a spending plan for lack of Republican support.

"We're two weeks away from the 31st and that's the deadline that's set," said Dennis Derby, a money manager in Menomonee Falls, Wisconsin, at Wells Fargo Asset Management, which holds Illinois bonds among its \$40 billion of municipal debt. "They've had substantial time to work on this. So far we haven't seen any substantial progress."

Lawmakers are continuing to push forward legislation in an effort to resolve the stalemate by the end of the month. The unprecedented impasse has left the state without a full-year spending plan since July 2015 as Rauner, the first Republican to lead the state since 2003, and the Democrat-led legislature can't agree on how to plug chronic budget deficits. The gap worsened after temporary income tax hikes expired in January 2015. The gridlock has sunk Illinois's credit rating and forced state-supported entities like public universities and social service providers to slash programs and furlough workers.

Moody's Investors Service and S&P Global Ratings have warned that the state's credit could deteriorate further if it enters a third year without a budget. The rating companies rate Illinois Baa2 and BBB, respectively, which is two levels above junk. Both have a negative outlook on Illinois.

Rauner has called for any spending plan to be tied to structural changes like a property tax-freeze and an overhaul of workers-compensation practices. Without a budget in place, the state is still spending money through consent decrees, court orders and continuing appropriations. Its current-year operating deficit is about \$6 billion, Moody's said in a March report, citing the governor's office of management and budget.

"We should never give up in getting a balanced budget," Rauner told reporters in Chicago on Thursday. He said he was encouraging lawmakers to keep working on a deal.

On Wednesday, Senate Democrats approved a plan to allow the state to borrow as much as \$7 billion to pay down the state's record \$14.5 billion of unpaid bills. Legislation to allow local government consolidation and expand gambling were approved and received some Republican votes. Measures that would change the state's procurement practices and pension system won bipartisan approval. They still need to be approved by the House.

Democrats also passed an overhaul of school funding practices, including giving \$215 million to the cash-strapped Chicago school system. The measure received no Republican votes and was immediately rejected by Rauner who called it a "bailout at the expense of every other school district

in the state.”

## **Bloomberg Markets**

by Elizabeth Campbell

May 18, 2017, 8:49 AM PDT May 18, 2017, 2:51 PM PDT

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### **Santander Becomes Target of Puerto Rican Anger Over Bond Losses.**

Carlos Burgos Alvarado sank the \$50,000 he inherited from his father into “bonos.” He believed they were safe, high-yielding, tax-exempt bonds issued by Puerto Rico. He was wrong.

According to Burgos, the Santander Securities LLC broker who sold him the investment in April 2013 didn’t tell him its credit rating had been downgraded the previous December, making it riskier to own. She didn’t tell him that Santander had underwritten the debt, sharing \$15.6 million in fees. She didn’t tell him that the bank was in the process of selling its own inventory of the bonds.

Burgos said he didn’t discover any of this until late last year, when he hired a lawyer, who’s trying to figure out whether what Burgos bought came from Santander’s own portfolio. Santander Holdings USA Inc. said it was common for broker-dealers to both underwrite and sell the bonds and the bank obeyed all laws and regulations.

“Very bad, very bad,” Burgos said in an interview. “It made me very angry.”

Puerto Rico’s \$74 billion debt crisis has been cast as a wrestling match between the government and the hedge funds that bought distressed debt on the cheap. But tens of thousands of bondholders are people like Burgos, Puerto Rico residents who invested a total of \$7 billion in bonds, much of them low-rated, to fund their retirements.

“A lot of the stuff that went on in Puerto Rico would not have been allowed on the mainland,” said Craig McCann, founder of Securities Litigation & Consulting Group in Fairfax, Virginia, and a former economist at the Securities and Exchange Commission.

### **Closed-End Funds**

McCann points to the absence in Puerto Rico of what investors in the 50 states take for granted: a conflict-of-interest prohibition for banks. Democratic Representative Nydia Velazquez of New York called this discrepancy “unconscionable treatment of Puerto Ricans as second-class citizens.” She sponsored legislation, which passed the House this month, to close the loophole. Senate approval would make it law.

Unlike Burgos, who owned the bonds directly, many locals bought government debt through closed-end funds — products similar to mutual funds which were purchased by locals who wanted to own government debt. Santander and UBS Group AG’s Puerto Rico unit, among the island’s biggest brokerages, sold closed-end funds. Unlike most mutual funds, however, the funds used as much as 50 percent borrowed money, meaning a downturn would cause amplified losses.

Santander’s funds “complied with all applicable laws, regulations and requirements, including those

established by Puerto Rico's securities regulator, and these requirements were fully disclosed in the funds' prospectuses," Ann Davis, a bank spokeswoman, said in a statement. "Each fund's prospectus also included an extensive discussion of risk factors associated with investing in the fund."

Peter Stack, a UBS spokesman, said in a statement that despite the island's economic woes, "these funds have to date paid out over \$4 billion in dividends to Puerto Rico investors."

As much as the island's situation differs from the mainland's, there are parallels, too. There's the timing of ratings companies' downgrades and the role of retail investors, whose sleep-at-night money fueled a profit machine that benefited everyone — until the island's dismal economic condition ground it to a halt.

On the island, the May 3 municipal bankruptcy filing, the biggest in American history, pits a half-dozen or so investor classes against Puerto Rico and against one another for a piece of a pie that's too small to satisfy everyone. The commonwealth says it can only cover about \$8 billion of \$33.4 billion in bond payments due through 2026.

## **Bad Advice**

There are two types of local bond investors, said Sergio Marxuach, policy director at the Center for the New Economy in San Juan. "There's a group of people that got bad advice from their financial adviser or their broker," he said. And then there are those who "decided to go all in on Puerto Rico bonds just to reduce significantly their tax liabilities," he said. Those people "knew that was a very risky strategy."

For local bond investors, the wheels began to come off in 2013, soon after Burgos invested the money, which was more than he'd ever made in a year. In August, a Barron's cover story on the risks of the island's securities sent prices tumbling. By the end of that year, many of UBS's closed-end funds lost half or nearly half their value, according to research conducted by McCann.

## **Something Wrong**

Burgos said his broker told him not to worry even as his principal shrank, that he would get his investment back when the bonds matured. According to McCann, Santander should have known the bonds were effectively junk when it sold them to Burgos.

"By the time you get to the end of 2012, sophisticated market professionals, including the ones at Santander, knew that Puerto Rican municipal bonds should be considered junk," he said. "Even though they hadn't been downgraded to junk status yet, they were trading at credit spreads consistent with them being junk bonds."

Between late 2012 and October 2013, Santander marketed more than \$280 million in Puerto Rico municipal bonds and its closed-end funds to clients while unloading its holdings of the securities, according to Financial Industry Regulatory Authority documents. UBS and Santander would eventually agree to pay fines through settlements with Finra for inadequately monitoring the risks of closed-end funds. Santander's Davis had no comment on the settlements.

## **'Protected Themselves'**

"They protected themselves and sold their positions but left their clients holding the bag," said Peter Mougey, a Florida-based attorney at Levin Papantonio who represents local investors filing Finra claims against the banks.

Arbitration claims are mounting. More than 1,870 have been filed, according to Securities Litigation & Consulting Group, and more than \$200 million doled out as awards. McCann said he expects that the number of claims will rise now that the island has begun a bankruptcy proceeding. Mougey's law firm says it's set to represent 400 clients.

One of them is Burgos, now 65. After the bonds he held stopped paying interest, he said he's had to turn to his partner's children to help pay medical bills.

"I'm always paying the bills late," Burgos said. "We take it day by day, and we're always behind on things each month."

He said he's seen his Santander broker when she appears in newspaper society pages. The bank settled eight arbitration claims filed against her for fraud and breach of fiduciary duty, Finra data show. At least 14 other claims are pending.

"Call me a cynic, but the firms had to find a home for the bonds they were underwriting," said Mougey, the plaintiffs' attorney. "They had to move them out the back door and the funds and the clients were the mechanisms to do that."

## **Bloomberg Quint**

by Rebecca Spalding and Michelle Kaske

May 17, 2017, 6:37 am

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### **[Puerto Rico Strikes Second Restructuring Deal with Bondholders.](#)**

Puerto Rico reached a restructuring agreement with bondholders invested in the commonwealth's Government Development Bank, officials announced Monday in San Juan.

Parties to the agreement include the Ad Hoc Group of Bondholders, whose members are funds managed or advised by Avenue Capital Management II, Brigade Capital Management, Fir Tree Partners and Solus Alternative Asset Management. The group's financial adviser, Bradley Meyer of Ducera Partners in New York, said in a statement that the agreement "is fair to all parties."

Puerto Rico's Federal Affairs Administration said in that statement that GDB creditors "have agreed to substantial discounts to the principal," but did not provide further details on the agreement, which calls for bondholders to exchange claims for one of three tranches of bonds issued by a new municipal entity. The new bonds will have varying principal amounts, interest rates, collateral priority, and other payment terms.

Restructuring agreements must be approved by the Financial Oversight Management Board and the U.S. District Court in San Juan. Mr. Rosello said in the statement that the agreement "is an example that the government is regaining the credibility it had lost over the past few years."

PENSIONS & INVESTMENTS

BY HAZEL BRADFORD · MAY 15, 2017 2:55 PM · UPDATED 7:41 AM

