Mets Postseason Run Raises Fortunes of Citi Field Bondholders.

The New York Mets swept their way into the franchise's first World Series in 15 years, and Citi Field bondholders are cheering along with the team's fans.

Riding on this season's playoff run, the team projects total 2016 attendance will rise by 500,000 to 3.1 million, generating an additional $25 million in revenue, according to a person familiar with the estimate. That's on top of a 20 percent attendance increase this year.

The Mets beat the Chicago Cubs 8-3 on Wednesday night in Chicago, taking the seven-game series 4-0 and qualifying for the World Series. That's good news for fans who suffered as the team cut payroll after the the majority owners of the club, led by Fred Wilpon, lost millions investing with Ponzi scheme swindler Bernie Madoff. It's also good news for holders of almost $700 million Citi Field bonds, who've seen the ball park's attendance and revenue fall below projections.

When the 42,000-seat Citi Field opened in 2009, the team projected an average attendance of about 37,980 in 2013, according to a bond offering statement. Instead, the Mets sold an average of 26,366 tickets per game that year, according to Baseball-Reference.com, falling short of projections by 31 percent. Last year, the Mets sixth consecutive losing season, turnout averaged 26,528.

Royals Boost

Boosting attendance to 3.1 million in 2016 would bring the average to 38,272. The Mets didn't project attendance beyond 2013 in their bond offering statement. Mets spokesman Harold Kaufman declined to comment.
Attendance at Kansas City Royals games has increased almost 40 percent this year to 2.7 million, one year after they won the American League championship. The Royals lost to the San Francisco Giants in last year's World Series. The Royals are one game away from the World Series.

A 500,000 increase in Mets attendance would result in a 'meaningful" increase in the ratio of revenue available to pay debt service, said John Miller, co-head of fixed income at Nuveen Asset Management in Chicago. Nuveen is the largest holder of the longest-dated Citi Field bonds.

"I'm sure this season is going to help," he said.

Scarcity Value

The Mets sold $613 million municipal bonds in 2006 backed by payments in lieu of property taxes, lease revenue and installment payments to finance the construction of Citi Field. The team also issued $82.3 million of insured debt in 2009, the year the ballpark opened. The 2006 bonds are rated Ba1 by Moody's Investors Service and BB+ by Standard & Poor's, one step below investment grade.

Citi Field bonds don't trade frequently because investors hold them for their higher yields, Miller said. Citi Field bonds with a 5 percent coupon and callable in January 2017 traded Monday among

dealers at a yield range between 2.8 percent and 3.4 percent. Top-rated bonds maturing in one-year yield 0.3 percent.
“There’s certain scarcity value to them that’s helping their performance,” Miller said.

In 2014, Citi Field generated about $117 million in revenue and had about $84 million in expenses, including a $43 million payment in lieu of taxes, according to a financial statement filed by Queens Ballpark Company LLC, a Mets subsidiary.

Citi Field bonds are rated below investment grade in part because of inadequate reserves to make up any deficits that may result from a players’ strike or an economic downturn, according to S&P. Debt-service reserves are guaranteed by a unit of Ambac Financial Group Inc., which had its rating cut to junk in 2009 because of losses it suffered insuring derivatives during the financial crisis.

An attendance boost alone won’t be enough for a rating change, said S&P analyst Ben Macdonald. “If there was enough liquidity then it could be higher,” Macdonald said. “There isn’t at this point.”

Bloomberg News

by Martin Z Braun

October 21, 2015 — 12:42 PM PDT Updated on October 22, 2015 — 7:20 AM PDT

Puerto Rico Development Bank Ends Debt Talks With Creditors.

Puerto Rico’s Government Development Bank said talks with a group of bondholders over a restructuring of the agency’s debt and potential financing have ended after they failed to reach an agreement.

The development bank, which is closely tied to other government borrowers because it acts as a lender to the commonwealth and its localities, said in an e-mailed statement Wednesday that it continues to focus on a broader restructuring that would allow bondholders to voluntarily exchange their securities for new ones.

All seven of the members in the bondholder group exited the talks, according to two people with knowledge of the matter. The investors include Avenue Capital Management, Brigade Capital Management, Candlewood Investment Group, Claren Road Asset Management, Fore Research & Management, Fir Tree Partners and Solus Alternative Asset Management, said the people, who asked not to be named because the investor identities weren’t made public.

Representatives for each of the investment firms either declined to comment or didn’t immediately return messages left for comment.

Senate Hearing

The debt-swap talks ended as the GDB faces a $345 million principal and interest payment due Dec. 1, with $267 million of the bonds guaranteed by the commonwealth. The breakdown comes a day before Governor Alejandro Garcia Padilla, who is seeking to reduce the island’s $73 billion in debt, is scheduled to testify at a Senate hearing on Puerto Rico’s financial crisis. Officials have said the island may run out of cash in November.

“We do not believe that Puerto Rico has the ability to offer a strong enough exchange security to incentivize legacy holders to trade in their paper,” Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, said in a note. “We further believe that the negotiating creditors, who likely made this clear to the GDB before beginning their negotiations, might be annoyed that the GDB did not have a good faith plan for exchanging debt when they sat at the negotiating table.”

Exchange Proposal

GDB bonds maturing February 2019, the bank’s most-actively traded security in the past three months, sunk nearly 3.3 cents when they were last traded Oct. 15 to an average of about 36.8 cents on the dollar, to yield 41 percent, according to data compiled by Bloomberg. That was the lowest average in more than five weeks, the data show.

The proposed transaction would have exchanged existing debt at prices equal to 130 percent of market value, according to an event filing posted on the Municipal Securities Rulemaking Board’s website, called EMMA. The new cash notes would have been priced with an 8.5 percent coupon at a 10 percent yield.

“We strongly believe that a voluntary adjustment of the terms of the commonwealth’s debt that allows the measures contained in the Fiscal and Economic Growth Plan to be implemented is the best way to maximize recoveries for creditors,” Melba Acosta, president of the GDB, said in a statement. “The GDB and the Working Group are engaging constructively with key stakeholders to achieve a comprehensive path forward, and we have begun the process of signing non-disclosure agreements and initial due diligence with a number of creditors.”

The U.S. territory had been seeking to restructure some of the development bank’s roughly $5.1 billion of obligations. The GDB on Sept. 30 offered the group of bondholders to exchange $850 million of existing GDB notes and sell $750 million of new tax-exempt debt issued by the Infrastructure Financing Authority and backed by taxes on petroleum products and guaranteed by the commonwealth, according to the filing.

The GDB has been working with Citigroup Inc. to help oversee its financial restructuring.

Bloomberg News

by Michelle Kaske and Laura J Keller

October 21, 2015 — 6:19 AM PDT Updated on October 21, 2015 — 10:18 AM PDT

California's Zombie Agencies Beat Rally as Mass Defaults Averted.

Since California shut down 400 authorities that redeveloped blighted neighborhoods, the $30 billion of bonds left behind have rallied as local governments defied speculation about widespread defaults.

Debt from the agencies returned 42 percent in the four years that ended Aug. 31, almost double the overall municipal market and beating the 28 percent for California tax-exempt bonds, according to an analysis by Nuveen Asset Management. Only two cities have missed payments on the securities since Governor Jerry Brown shuttered the agencies in early 2012 to help close the state’s budget shortfall.

The bonds, which are financed with local property taxes, have benefited from an orderly payment process overseen by the state and surging real estate prices. The assessed value of California properties increased 4.4 percent to $4.8 trillion in the year ended June 2014, exceeding the peak reached in 2009 before the full impact of the housing-market crash rippled through local tax rolls.

“Whenever there’s noise, there’s often opportunity,” said Stephen Candido, senior research analyst in Chicago at Nuveen, which holds the debt among its $230 billion of assets. “The market is often fearful. We were more focused on the long-term upside, knowing from early on that repaying these bonds would be a priority.”

Brown and his fellow Democrats in the legislature abolished the agencies to redirect about $1 billion of their funds to schools, which eased the financial pressure on the state in the aftermath of the recession.

Some consultants to cities warned at the time that they may be unable to cover the agencies’ debt bills. In 2012 Moody’s Investors Service downgraded $11.6 billion of the securities to junk, citing uncertainty about whether localities would renege on the obligations.

While San Bernardino, a city of 215,000 east of Los Angeles, said the burden contributed to its 2012 bankruptcy, elsewhere the impact has been more limited. The only cities that have missed bond payments are Riverbank, near Modesto with $15.4 million of the debt, and Monrovia east of Los Angeles, which has $11.75 million, according to Municipal Market Analytics in Concord, Massachusetts.

Legacy Debts

Municipalities once used the agencies to borrow for projects that improved blighted areas. A portion of the real-estate taxes that resulted were used to pay off the bonds. Since the agencies were closed, local governments have been required to outline their obligations every six months to the state Finance Department, which has the authority to require them to prioritize payments to bondholders.

The process has gone smoothly, said H.D. Palmer, a spokesman for the department.

The outcome contrasts with investors’ initial concerns, said Matt Fabian, an analyst with Municipal Market Advisers.

“RDAs are performing better in the market because much of the uncertainty about the sector’s transition has gone away,” Fabian said by e-mail. “Plus the turmoil in the last few years likely shook loose a fair bit of the retail owner base, leaving the bonds in institutional hands, implying a bit more trading and liquidity than most municipal sectors.”

Bonds Gain

The $85 million of San Jose redevelopment agency bonds maturing in 2030 traded Tuesday for an average price of $1.04 on the dollar, up from 77 cents in December 2011. That reduced the yield to 2.1 percent from 6.4 percent. Bonds sold by Stockton’s authority, which come due in 2036, traded Wednesday for 100 cents on the dollar, up from 87 cents in late 2011.

Moody’s no longer takes a dim view of the sector, said Robert Azrin, a senior analyst for the company. The median rating for California redevelopment debt is Baa1, three ranks above junk, he said.

“At the time, they were valid concerns, but with each year that’s passed, we’ve seen that these payment schedules have gone smoothly," Azrin said. "With the passage of time, a lot of the risks we identified haven't come to fruition."

Many redevelopment bonds may also be refinanced in the next couple of years as securities issued in 2006 and 2007 reach their 10-year calls, which allow the local governments to pay them off early at face value, said Candido, the Nuveen analyst. He said he expects the bonds to remain popular among investors because governments have been meeting their obligations.

"Here we are in 2015 and they're finally addressing the concerns of investors," he said.

Bloomberg News

by James Nash

October 20, 2015 — 9:01 PM PDT Updated on October 21, 2015 — 10:03 AM PDT

[Banks May Balk at Financing $68 Billion California Bullet Train.]

California is counting on private companies to kick in as much as $35.5 billion toward the most expensive public-works project in U.S. history, a proposed high-speed rail line linking San Francisco with Los Angeles. Banks and other contractors who've studied the plan say not so fast.

Even as builders clear land and begin work on viaducts near Fresno for the bullet train's initial segment, financiers solicited by the state rail agency are calling on California to pitch in more than the $10 billion in bond funds already committed in order to give potential investors confidence that the project will become reality.

Their responses point out a dilemma for Democratic Governor Jerry Brown and other supporters of the line: persuading reticent taxpayers to ante up more than already approved under a 2008 bond measure as support for the project declines, though private investors may stay away unless they see a bigger public buy-in.

"We still have a funding gap," rail authority chairman Dan Richard said at an Oct. 6 board meeting at which officials outlined responses from 36 firms and groups of companies asked to outline potential funding packages. "But we're going to build this project notwithstanding that, because we can close that funding gap."

Barclays Plc, AECOM and Kiewit Corp. were among the builders, lenders and contractors who responded to the California High-Speed Rail Authority's request for expressions of interest by companies. The authority released the responses under a public-records request.

Large Financing

"Given the proposed delivery approach and available funding sources, we believe there are a number of concerns which the authority must address," Kiewit, which reported $10.4 billion in revenue last year, said in its response. "The ability to service raised financing does not mean that such a large financing amount could in fact be raised."

Backers of the train are counting on the private sector to finance most of the costs, after voters in 2008 authorized $9.95 billion in general-obligation bonds. Other sources of money include $3.2

billion in federal grants and 25 percent of the proceeds from auctioning credits to emit greenhouse gases under the state's cap-and-trade program, which is estimated to yield the project $500 million a year.

Brown spokesman Evan Westrup did not immediately respond to an e-mail asking whether the state could increase its funding pledge. Lisa Marie Alley, spokeswoman for the rail authority, said the responses from the firms confirmed that "ridership and revenue would be available once the system is in operation and revenue is demonstrated."

Critics including Congressman Jeff Denham, a Turlock Republican who represents an agricultural area to be bisected by the rail line, have called the project a "boondoggle" that will run out of money before it reaches population centers. Construction is under way in the lightly populated San Joaquin Valley on the first 29 miles (47 kilometers) of what's envisioned as an 800-mile network with trains speeding as fast as 220 miles per hour.

Richard said that the state is constrained because the 2008 ballot measure approved by 53 percent of voters allowed only for $10 billion. Several polls since then have shown support for the project slipping below 50 percent.

Boost Commitment

Even so, the state and federal governments need to boost their commitment both to narrow the funding gap and persuade investors that the train will pay dividends, several companies said in their responses to the authority.

As of 2012, there were no similar projects anywhere in the world where the government paid less than half of the cost, according to John Laing Group Plc, a London-based investor and manager of infrastructure projects, including rail in its home country.

"Thus, we would anticipate the project would require comparable levels of capital contributions during construction," the company said.

AECOM suggested that the state break down financing into a series of smaller segments of no more than $5 billion to attract investors. The Los Angeles-based infrastructure company also advised "significant" government contributions.

The state should be able to borrow $10 billion to $12 billion against the annual cap-and-trade revenue, Barclays said. The London-based bank invested in a high-speed rail project in South Africa that linked Johannesburg and Pretoria in 2010, and has underwritten municipal bonds in California.

Legal Challenges

California will need to prevail in legal challenges against devoting cap-and-trade proceeds toward rail, create a mechanism to borrow against the proceeds, extend the carbon-trading program beyond 2020 and lock in a 25 percent commitment of the revenue for high-speed rail as long as the obligations are outstanding, Barclays said.

California also would need to subsidize operations for at least a decade, according to Cintra Infraestructuras SA, a subsidiary of Ferrovial SA, a Spanish builder of roads, rail and airports in Europe, North America, Australia and the Middle East.

"It is doubtful that there is enough capacity in the debt markets for this type of project," Cintra concluded.

Bloomberg News

by James Nash

October 19, 2015 — 2:00 AM PDT

[Without Ticket Revenues, St. Louis Area Having Trouble Funding Police.]

The aftermath of racial turmoil in Ferguson, Mo., is exacting a toll on St. Louis-area communities that built their finances around speeding tickets, thanks to a state law limiting the income they can draw from traffic fines.

The city council of Charlack last week decided the community of 1,400 can't afford an eight-officer police force under the new law, which says traffic citations in St. Louis County municipalities can't exceed 12.5 percent of annual operating revenue, down from 30 percent. Policing in Charlack and in nearby Wellston, which dissolved its 23-officer force in May, is now handled by a recently created cooperative of local departments.

The 2014 police shooting of 18-year-old Michael Brown in Ferguson forced a national re-examination of what critics call "taxation by citation," a situation exacerbated by the sheer number of departments, 18,000 throughout the U.S. A bill is pending in Congress to restrict the amount of revenue local governments can collect from traffic citations. In St. Louis County, which has 90 municipalities and 59 individual police departments, more communities are expected to follow the lead of Charlack and Wellston.

"This will have lawmakers around the country taking a second look at their agencies and making certain that the sole purpose of their existence is not for revenue, but to serve the public interest," said Chuck Wexler, executive director of the Police Executive Research Forum, a Washington nonprofit. "Police departments should not exist if their sole purpose is to generate revenue. That's what we have tax collectors for."

Tense relations between the majority-black residents of Ferguson and the city's mostly white police force grew in part from the excessive issuance of tickets. Some area municipalities were generating more than half their annual operating revenue from citations.

Charlack Mayor Frank Mattingly said disbanding the police and joining the local cooperative will save the city about $170,000. There was no alternative to shutting the department, which cost $520,000 to operate, roughly half the town's annual budget.

"A lot of police officers aren't writing tickets because they're afraid they'll get in trouble," Mattingly said. "Why were we singled out?" Mattingly said more towns will be forced to consolidate their police with neighboring communities, which he said he believes is the intent of the new law.

"There's nothing else they'll be able to do," he said.

St. Louis County, a suburban area of 1 million people, forms a crescent around its namesake city. About a third of the 59 departments cover less than one square mile, according to an April 30 report from the Police Research Forum.

"In many municipalities, policing priorities are driven not by the public safety needs of the community, but rather by the goal of generating large portions of the operating revenue for the local government," the report said.

Missouri state Sen. Eric Schmitt, a Republican from St. Louis County and sponsor of the new law, said some municipalities have "broken down the trust" between residents and the police.

"Some of these communities have used their citizens as ATMs with these speed traps," Schmitt said, pointing to economic pressures.

In the six years since the closing of the Northwest Plaza mall, the suburb of St. Ann increased the number of traffic citations 10-fold. Edmundson Mayor John Gwaltney reminded his town's sergeants and patrolmen in an April 2014 memo that "tickets that you write do add to the revenue on which the P.D. budget is established and will directly affect pay adjustments at budget time."

The Ferguson turmoil has expanded the national focus beyond frictions between blacks and police departments to the practice of ticket-writing, regardless of race.

In Colorado, the town of Nunn, which is about 31 miles south of Cheyenne, Wyo., depends on speeding citations for about 30 percent of its revenue, said Police Chief Joe Clingan. With 440 residents _ mostly senior citizens _ and few businesses, the city lacks the revenue sources that support most municipal governments, he said.

"We don't have any tax base and no retail," Clingan said. "If they want a town government, someone has to pay for it."

It shouldn't be drivers, said U.S. Rep. Emanuel Cleaver, a Missouri Democrat and sponsor of the proposed federal law restricting ticket revenue.

"That is a poor excuse and a bad plan for economic development," Cleaver said.

Cleaver's bill would establish a 30 percent limit on all municipalities and, he said, would have the effect of encouraging small police departments to merge with those of neighboring towns or have their patrolling done by the county.

"It would cost a lot less for these small towns to pay money to the county and have the county police patrol the area than to do it on their own," Cleaver said.

BY TRIBUNE NEWS SERVICE | OCTOBER 23, 2015

By Tim Jones

(With assistance from Jennifer Oldham in Denver.)

A Bullet Train Into a Fiscal Swamp?

Construction is underway on California's $468 billion bullet train connecting Los Angeles and San Francisco. But the closer you look at the project, the shakier its finances appear.

The good news is that 36 companies from around the world responded to the California High-Speed

Rail Authority's request for suggestions about how to complete the project, and many expressed a willingness to participate. The bad news is that several of the respondents expressed serious concerns about the bullet train's finances.

Perhaps the biggest concern was whether fare revenues would cover operating costs. The plan that state voters approved to fund the project bans the use of public subsidies for the operation of passenger service. State officials have long claimed that the line will turn a profit as soon as the first 300-mile segment between the San Fernando and Central valleys opens, but that hardly seems certain.

In its response to the authority's request, Spanish construction company Sacyr wrote that "it is our opinion that revenue from ridership may not be sufficient to cover all [operation and maintenance] cost." If Sacyr is right, does anybody doubt that maintenance is what would lose out? Skimping on maintenance saves money in the short run but dramatically increases costs over time and degrades service quality.

Subsidiaries of the Spanish company Ferrovial SA wrote that "it is highly unlikely that the [California system] will turn an operating profit within the first 10 years of operation and that "more likely, [the system] will require large government subsidies for years to come."

The Ferrovial subsidiaries also noted that most high-speed rail systems around the world require operating subsidies and suggest that the same will probably be true for California's. That is certainly at odds with High-Speed Rail Authority Chair Dan Richard's assertion that every major high-speed rail system in the world operates without subsidies. It's also at odds with the argument made by other high-speed rail boosters, that "every form of transportation requires government investment."

If any high-speed rail line is likely to require subsidies, it's California's. The Los Angeles Times looked at a number of major rail corridors. Fares range from 25 cents per mile on Italy's Milan-t--Salerno line to 50 cents per mile for Amtrak service between Boston and Washington, D.C. California's bullet train plans to charge 20 cents per mile.

There is also uncertainty around the project's capital funding. The state is committed to provide up to $500 million per year until at least 2020 from money it expects to collect from companies to offset carbon emissions. But these greenhouse gas fees are untested as a funding source, and post-2020 public funding is uncertain. While a number of firms have expressed a willingness to participate in the project, none have yet offered to put up their own money.

Since what feels like the beginning of time, governments have built transportation assets with revenue sources that are inadequate to fund ongoing operation and maintenance costs. California's bullet train takes this bad practice a step further because the state only has on hand about half of the $31 billion needed to build the initial segment of the line.

Few public assets are more important to regional economies than transportation infrastructure. But moving forward on those projects without sufficient revenue sources usually results in a trip to a quagmire.

GOVERNING.COM

BY CHARLES CHIEPPO | OCTOBER 23, 2015

BlackRock Infrastructure Joins Michigan's Freeway Lighting P3.

BlackRock Infrastructure will participate in a public-private partnership to upgrade and maintain Michigan's freeway lighting system.

The international investment management firm will join forces with the Michigan Department of Transportation (MDOT) and Freeway Lighting Partners, which announced the P3 in August.

BlackRock-managed funds will finance the replacement and upgrade of approximately 15,000 freeway and tunnel system lights in the metropolitan Detroit region with energy-efficient LED lights. Blackrock will be responsible for ensuring that 95 percent of the lights remain operational for a 15-year term, which includes a two-year construction period.

More than 85 percent of metro Detroit's freeway lights are outdated high-pressure sodium or metal halide fixtures, and about 30 percent of them don't work. The state expects to save $35 million by using a P3 to replace and maintain them, MDOT spokesman Jeff Cranson said, according to Crain's Detroit Business.

The contract is valued at $123 million. MDOT will receive an additional $79 million in federal funds for the project, which, with energy consumption factored in, has an estimated cost of $145 million.

NCPPP

October 23, 2015

Broward County Airport Deal is Largest U.S. Muni Sale Next Week.

Oct 22 – Broward County, Florida, plans to issue $488.9 million of airport system revenue bonds, the largest sales to hit the U.S. municipal market next week, according to Thomson Reuters data.

Altogether, U.S. municipal bond issuers are expected to offer about $4.1 billion of municipal bonds and notes, down from about $8 billion this week, the data showed.

The sale in Broward County, which operates the Fort Lauderdale-Hollywood International Airport and the North Perry Airport, comes as the municipal airport sector has recently seen signs of improvement. The 20 busiest airports have all experienced growth in passenger boarding revenue and above-average growth at international gateways. Two of the nation's largest airports, Chicago's O'Hare and Atlanta's Hartsfield Jackson, were upgraded.

Airport bond volume is on pace to be flat in 2015 and 20 percent below average since 2008, according to Wells Fargo Securities. Primary market issuance was $12.1 billion in 2012 and $18.6 billion 2010.

"We see airports as resistant to the challenges faced by state and local governments with respect to post-employment benefits," Wells Fargo reported last week. "Demand is not all that surprising as investors in municipal airports have been rewarded over the past three years with relatively attractive returns as have toll road investors."

Airports have benefited from lower energy prices and a gradually improving economy. They have also weathered the most recent cycle of airline consolidation, which added stability to the sector, according to Janney Fixed Income Strategy.

The mergers may impact airports disproportionately, however. American Airlines, for example, now has nine hubs, which “may be more than needed,” Janney noted in a report earlier this month. That may leave airports, such as Philadelphia, particularly vulnerable to traffic decline if American Airlines were to cut back.

The Broward County airport sale is rated A+ by Standard & Poor’s Ratings and A1 by Moody’s Investors. The lead manager is Raymond James.

REUTERS

(Reporting by Robin Respaut; Editing by Frances Kerry)

Municipal Bond Sales Poised to Decelerate as Redemptions Rise.

Municipal bond sales in the U.S. are set to decrease in the next month while the amount of redemptions and maturing debt rises.

States and localities plan to issue $7.8 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $11.2 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Broward County, Florida, Airport System plans to sell $489 million of bonds, Tennessee has scheduled $416 million, Florida State Board of Education will offer $230 million and California State Public Works Board will bring $223 million to market.

Municipalities have announced $13.8 billion of redemptions and an additional $10.6 billion of debt matures in the next 30 days, compared with the $21.3 billion total that was scheduled a week ago.

Issuers from New York have the most debt coming due with $2.63 billion, followed by California at $1.15 billion and Michigan with $695 million. New York City Transitional Finance Authority has the biggest amount of securities maturing, with $767 million.

Fund Flows

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors added $617 million to mutual funds that target municipal securities in the week ended Oct. 14, compared with an increase of $558 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $211.3 million last week, boosting the value of the ETFs 1.19 percent to $18 billion.

State and local debt maturing in 10 years now yields 100.4 percent of Treasuries, compared with 102.3 percent in the previous session and the 200-day moving average of 102.6 percent, Bloomberg data show.

Bonds of Tennessee and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Tennessee's securities narrowed 7 basis points to 2.05 percent while Michigan's declined 2 basis points to 2.32 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 64 to 10.67 percent and Illinois's rose 28 basis points to 3.96 percent.

Bloomberg News

by Kenneth Kohn

October 26, 2015 — 3:59 AM PDT

Montgomery County, Md., Must Meet MS4 Permit Obligations Despite Rulings: Holland & Knight.

HIGHLIGHTS:

- Maryland courts have issued two important decisions regarding assessing and collecting stormwater management fees in Montgomery County.
- Court rulings have held that Montgomery County must do a better job explaining how it will achieve its water restoration goals and how it charges its Water Quality Protection Charge (WQPC) to ultimately fund such work.
- Given the rising costs of compliance, Montgomery County and other counties across Maryland may best be served by greater private sector participation in the delivery and financing of stormwater projects.

Maryland courts have issued two important decisions pertaining to the ability of Montgomery County, Md., to assess and collect stormwater management fees from a private landowner and the validity of the Municipal Separate Storm Sewer System (MS4) Permit issued by the Maryland Department of the Environment (MDE) to Montgomery County.

MS4 permits are required under federal and state law to address stormwater runoff impairing water quality and to ensure that the municipalities manage, implement and enforce stormwater management programs to comply with Maryland's receiving water quality standards. In *Maryland Department of the Environment, et al. v. Anacostia Riverkeeper, et al.*, the Maryland Court of Special Appeals held that the MS4 permit requires the county to "implement or install best management practices on 20 percent of the impervious surfaces within the county in an effort to restore the pollution reductions functions performed by undeveloped land" and to submit "a long term schedule for completion of detailed assessments of each watershed in the County." In order to fund these projects, Montgomery County assesses a Water Quality Protection Charge (WQPC) against all property (including businesses, HOAs and non-profit organizations) based on the potential for a property to contribute to stormwater runoff.1

In one case, the court held that the MS4 permit was faulty because it was not specific enough concerning the manner in which the county measures compliance with water quality goals. In the other, the court held that the county's collection of a fee from a developer was inconsistent with state law. While these cases may be seen as a setback to Montgomery County, they do not alleviate the need of the county (and like counties in Maryland) to continue retrofitting impervious acres and finding a way to pay for it. Assuming the decisions stand, both the county and state can address the courts' concerns with greater explanation of the rationale behind their decisions. Meanwhile, jurisdictions and counties across the region have begun looking at unique, alternative delivery mechanisms, such as public-private partnerships as a means to adhere to MS4 requirements while being more cost-effective. Given that overall requirements to clean up the Chesapeake Bay remain, creative solutions such as public-private partnerships may look increasingly attractive. These court rulings should not affect such creative solutions. In fact, they may make them more attractive.

Stormwater Fees

In *Paul N. Chod v. Board of Appeals for Montgomery County*, the Montgomery County Circuit Court heard a challenge to Montgomery County's stormwater remediation fee (Section 19-35 of the County Code), also known as the WQPC. The challenge was brought by developer Paul Chod in response to an $11,000 WQPC bill assessed against his Shady Grove Development Park in Gaithersburg. Chod's property had several stormwater management ponds that collect and treat all of the stormwater that drains from the park and surrounding private and public properties. In 1991, Chod entered into a Declaration of Stormwater Management Facility with the county that obligated Chod to provide landscaping and trash removal maintenance and the county to provide structural maintenance of the ponds, at the county's discretion. In 2013, the county assessed a WQPC on the petitioner's property for $14,932.17, and the petitioner applied for a credit of the charge. The county eventually proffered a partial credit, which prompted Chod to file suit.

At issue is §4-202.1 of the State Environment Article, the recently amended law2 requiring all 10 local jurisdictions subject to a MS4 permit to adopt a stormwater remediation fee. The underlying Maryland law provides the following:

(e)(3)i) If a county or municipality establishes a stormwater remediation fee under this section, a county or municipality shall set a stormwater remediation fee for property in an amount that is based on the share of stormwater management services related to the property and provided by the county or municipality.

(ii) A county or municipality may set a stormwater remediation fee under this paragraph based on:

1. A flat rate
2. An amount that is graduated, based on the amount of impervious surface on each property
3. Another method of calculation selected by the county or municipality

Typically, a larger, more developed property produces more runoff, and therefore, is assessed a higher WQPC. During trial, the county indicated that it uses the amount of impervious surface on a property to calculate the WQPC. The county further testified, however, that Chod's retention ponds control the quality and quantity of stormwater for the entire 150-acre drainage area and that the county's services are "essentially nonexistent."

The court considered the following two questions concerning the WQPC: (1) whether the WQPC is invalid for failing to adhere to §4-202.1; and (2) whether the petitioner, Chod, was entitled to a full credit for the fee.

Consistency with §4-202.1

The county took the position that §4-202 was inherently flexible, allowing a charge to be imposed as a fee unrelated to the services provided. The court rejected this argument, holding that "the WQPC is not valid simply because it uses one of the methodologies permitted in subsection (e)(3)(ii), which in this case was the amount of impervious surface on the property. The statute still requires that the

WQPC be based on the county's stormwater management services that are related to the property." Thus, the court "finds that the WQPC is invalid per se because this Charge need not reasonably relate to the stormwater management services provided by the County."

WQPC as Applied to Chod

Chod also challenged the WQPC under the theory that the county's stormwater management services to the property were essentially nonexistent. The court noted that the stormwater retention ponds service an area three times the size of the Shady Grove Development Park and receive essentially no services from the county in return. It found that, "as applied, the Charge does not take into account the services provided by the property owner compared with the services provided by the county. Property owners like the Petitioner are thus being burdened with the same charge as other property owners despite bearing the cost of managing the property themselves. Such an application of the statute clearly violates the intentions behind the law, thus creating an arbitrary and onerous burden on the Petitioner."

Significance

While the court did set aside the WQPC as applied to Chod, it did not enjoin the county from continuing to assess stormwater fees. Therefore, this decision should be considered limited to the facts and circumstances of Chod. The county is free to continue assessing WQPCs consistent with the ruling (i.e., making sure that they address the services they provide related to the property – such as maintenance, repair and inspection of BMPs). While parties may see Chod as a roadmap to argue that no fee should be assessed if their system retains all stormwater on site, the county, equipped with information regarding the specific services provided related to the properties, is well positioned to argue that WQPCs are valid.

MS4 Permit

In *Maryland Department of the Environment, et al. v. Anacostia Riverkeeper, et al.*, the Maryland Court of Special Appeals held that the MS4 permit issued by the MDE to Montgomery County violated the Federal Clean Water Act (CWA) and state law.

Montgomery County obtained its MS4 permit in 2010, requiring the county to restore 20 percent of impervious surfaces and complete a 10 percent restoration requirement from its previous permit term. In December 2013, Montgomery County Circuit Court Judge Ronald B. Rubin held that the MS4 permit did not meet federal or state requirements. The lower court judge found that MDE improperly failed to spell out how the agency would measure compliance. The court further held that "the permit's requirements to restore 20 percent of impervious surface is simply too general to show how permittees will meet water quality standards."

Level of Specificity in Permit

On appeal, the Court of Special Appeals held that the permit was not specific enough to allow for adequate public comment and did not provide meaningful deadlines to measure compliance with water quality goals. Specifically, the court held that permit "fails as a substantive matter because it does not contain ascertainable metrics that defines how the County must comply, or whether at some point it has complied with what all agree are two of the Permit's most important terms: regulation of TMDLs and the twenty percent requirement." The court reasoned that the permit does not "connect specific or measurable BMPs or various management programs [and] requires no justification for why a BMP strategy was selected and how that program or strategy will reduce discharges to the maximum extent practicable." The court concluded that the permit fails to explain how “anyone can define the universe of impervious surfaces or how specific BMPs will achieve the 20 percent impervious restoration requirement under the permit.” The court appeared troubled by MDE’s reliance on references to the stormwater manual and other BMP guidance documents, which it found “indecipherable,” and expressed frustration that there is no way of knowing which BMPs the county will select until after the work is completed.

Significance

The court sent the permit back to MDE, but held the following:

Importantly, though, we hold that the Department and the County had the law right: the Permit falls short not for failing to hold the County to State water quality standards, as the challengers urge, but because it did not afford an appropriate opportunity for public notice and comment and because it lacks crucial details that would explain the County’s stormwater management obligations.

Thus, the overall impact of this ruling implicates the process and the level of detail in the permit. Upon remand, MDE must do a better job of explaining its calculations and BMP assessments. It is unclear how specific MDE can actually be given that BMPs usually are applied on a case-by-case basis. In turn, while the court found MDE’s guidance documents “indecipherable,” stormwater professionals have relied on them for years and appear to have little difficulty applying such documents.

Conclusion

Montgomery County experienced a one-two punch in the courts over the past several months. If the decisions stand upon appeal, the county will have to do a better job demonstrating how it will achieve its restoration goals and how it charges its WQPC to ultimately fund such work. Regardless, the obligation to continue the restoration work remains while MDE makes changes to the permit. Given the rising costs of compliance, Montgomery County may best be served by allowing for greater private sector participation in the delivery and financing of stormwater projects in conjunction with, or exclusive of, its current efforts. Counties in Maryland and elsewhere across the country can look to the green stormwater retrofit public-private partnership in Prince George’s County, Md., as an example of how to involve the private sector in developing innovative solutions to help meet their MS4 requirements.

Footnotes

1 Under recent revisions to State law sought by Governor Hogan, other Maryland counties may, but are not obligated to, assess stormwater fees. They do, however, have to ensure adequate funding for MS4 restoration work.

2 While Montgomery County was exempt from amendments to Section 402.1 pursuant to the Watershed Protection and Restoration Programs Revisions, under the law, the county is obligated to file a financial assurance plan that clearly identifies actions it will take to meet its MS4 permit; projected five-year costs; projected annual and five-year revenues; sources of funds to meet the requirements and actions and expenditures undertaken the previous fiscal year. In addition, the county has to demonstrate that it has “sufficient funding in the current fiscal year budget to meet its estimated annual costs.” MDE must approve the plan.

Last Updated: October 16 2015

Article by Rafe Petersen

Holland & Knight

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.

Illinois Bond Rating Cut Again Over Budget Impasse.

CHICAGO — Illinois' ongoing failure to enact a fiscal 2016 budget due to political wrangling led to a second major credit rating agency downgrading the state's debt to the low investment grade triple-B level this week.

Moody's Investors Service cut the state's general obligation bond rating one notch to Baa1 with a negative outlook on Thursday. The move occurred three days after Fitch Ratings dropped Illinois to BBB-plus.

Both ratings are now just three steps above the "junk" level.

Moody's cited the potential that Illinois' financial position could weaken further due to an impasse between the state's Republican governor and Democrats who control the legislature that has left Illinois without a budget for the fiscal year that began on July 1.

"What we are seeing is the very real possibility of deterioration as the finances weaken with no plan in place," said Moody's analyst Ted Hampton.

The downgrade by Moody's, which affects $26.8 billion of GO bonds, also pointed to Illinois' inaction on its huge $105 billion unfunded pension liability. An Illinois Supreme Court ruling in May voided a law aimed at reducing that liability by cutting benefits, leaving the state limited options for dealing with the problem.

Worsening pension problems and a growing pile of unpaid bills could result in a further downgrade, Moody's cautioned. Illinois' bill backlog stood at $7 billion on Thursday, according to the state comptroller.

The downgrade by Moody's marked the 17th by major credit rating agencies for Illinois since 2003 and the second under Governor Bruce Rauner, a political newcomer who took office in January with an agenda to turn around the state's sagging finances.

A spokeswoman for Rauner said the latest downgrade confirms his contention the state needs pro-business and structural reforms that Democratic lawmakers have rejected.

Democrats, in turn, pointed the finger of blame at Rauner.

"Since Governor Rauner has taken office, revenue is down, the bill backlog is up, services are cut, jobs growth has slowed and now our credit rankings are lower," said Rikeesha Phelon, a spokeswoman for Senate President John Cullerton.

Even before this week's downgrades, Illinois had the lowest credit ratings among the 50 U.S. states. Ratings histories from the three major credit rating agencies indicate few states have ever had their GO ratings fall below the A level.

Robert Amodeo, a portfolio manager at Western Asset in New York, said bond investors are frustrated by the lack of progress in the fifth-largest U.S. state. Still, Illinois is contemplating a return to the municipal bond market this fiscal year after an absence of nearly 1-1/2 years.

“They will find a clearing level even at triple-B, but they will be penalized for it,” Amodeo said.

Illinois has been paying a hefty market penalty for a while. Its so-called credit spread over Municipal Market Data’s benchmark yield scale for triple-A-rated bonds is 190 basis points for 10- and 30-year debt.

Moody’s also downgraded Illinois’ sales tax revenue bonds to Baa1 from A3 and cut the rating on state appropriation dependent Metropolitan Pier and Exposition Authority bonds to Baa2 from Baa1.

By REUTERS

OCT. 22, 2015, 6:06 P.M. E.D.T.

(Additional reporting by Dave McKinney in Chicago; Editing by Bill Rigby and Matthew Lewis)

This U.S. State Could End Up Like Debt-Troubled Puerto Rico.

Like the U.S. territory, New Jersey is borrowing to cover its budget holes.

Mike Myers’ 1997 movie Austin Powers has a scene in which a character is squashed by a steamroller. The film is a comedy, and the humor in the scene comes from how avoidable the tragedy is. The steamroller starts far away, and moves pretty slowly. But instead of moving to avoid the steamroller, the victim just stands there, screaming “Oh no!” until he’s flat.

Puerto Rico and its creditors are now under the steamroller. As in Austin Powers, the steamroller did not move very quickly. Analyst Sergio Marxuach, for example, warned in 2006 that the Commonwealth’s finances were on an unsustainable path. Marxuach pointed out in his warning that in other cases of municipal distress, for example New York in the 1970s, fiscal discipline had been imposed from above. Puerto Rico’s peculiar status as a commonwealth has meant that discipline from above has so far been unavailable. And discipline from capital markets, though now severe, has been late to arrive.

So after years and years of borrowing, including borrowing to cover operating deficits, Puerto Rico and its government-chartered corporations now have a total debt of $72 billion. This is approximately a year of the island’s Gross National Product. As former U.S. Congressional Budget Office director Douglas Holtz-Eakin said in his September testimony before the Senate Finance Committee, a 10% ratio of interest payments to revenues marks something of a ‘bright line’ way to identify distressed sovereign borrowers, and Puerto Rico crossed that threshold in March of 2015. In August, Puerto Rico Governor Alejandro Garcia Padilla announced that the island’s debt was unpayable.

So I believe that it is now safe to describe the situation as a crisis. Two competing teams of former IMF economists are now laying out their prescriptions. One team, commissioned by the Commonwealth’s Government Development Bank, says that the only way forward is to impose some debt restructuring on the island’s bondholders. The release of this report coincided with Governor Padilla’s announcement that the island’s debt was unpayable. A second team of former IMF economists, commissioned by a group of hedge funds that hold some of Puerto Rico’s debt, claims that with sufficient fiscal austerity the island can, in fact, pay its capital market obligations. I conclude this from the two competing reports: the end of a long career at the IMF does not mean the end of opportunities to do well-compensated work in warm places.

One can create caricature versions of these two different views that are not as far apart as they seem at first glance. The (caricature) first report: the current debt is unpayable without imposing unprecedented and unacceptable austerity on the island's residents. The (caricature) second: the current debt can be paid. You just have to impose unprecedented austerity on the island's residents. The second set of economists make the point that stiffing today's creditors will make it much more expensive to borrow in the future. The island must choose between firing its teachers today and being unable to finance new schools for the children of tomorrow.

Regardless of which generation of children we decide to punish in this crisis, the blame belongs to yesterday's and today's adults. This steamroller did not fall out of the sky – year after year the island failed to balance its books, and closed the difference by borrowing. Without a change in this pattern, the crisis was inevitable.

Whatever happens to the debt, some restructuring of the Puerto Rican economy is essential. Inefficient government monopolies raise the cost of electricity and water on the island. The Puerto Rican minimum wage is the same as in the mainland U.S., even though labor productivity is much lower. And I cannot imagine any serious economist coming out in support of the Jones Act, a protectionist measure that protects the U.S. shipbuilding industry. This much-discussed policy hurts the mainland economy a bit, but is much more damaging for Puerto Rico because of the island's greater dependence on shipping.

Returning to the debt, competing reports now emerge about potential federal intervention in the situation. Democrats in Congress have introduced legislation that would give government entities in Puerto Rico access to Chapter 9 bankruptcy protection, but this legislation does not appear to have a realistic path towards enactment. Apparently credible reports of a Treasury-sponsored 'superbond' plan, through which the island's debt would be consolidated, have now been denied by Treasury spokesperson, although officials have met with the indebted U.S. territory's leadership to discuss how the federal government could help.

One type of federal intervention would be a bailout, but the current prices of Puerto Rican bonds seem to indicate that this is unlikely. On the other hand, a presidential election is on the horizon, and Puerto Rican voters in Florida are an important group in a potentially decisive swing state. I suspect that either of our political parties, if offered the presidency for the price of a bailout, would find a way to get comfortable with it. But Puerto Rico is just one issue in a very complicated election season, so I think that any help from the federal government simple enough to be described only with the word 'bailout' seems unlikely.

All that I am confident about now is that there will be litigation, that the litigation will be expensive, and that the people of the island, one way or another, will bear most of the costs.

Are there any lessons in the Puerto Rican experience that might be applied elsewhere? Well, at the end of 2010, Meredith Whitney created a stir in the municipal finance market, warning, in effect, that the steamroller was upon us. She claimed that a massive wave of municipal defaults would materialize in a matter of months.

At the time, many market participants argued that Whitney's predictions were way off the mark. Harvard's Randy Cohen and I wrote a paper in response to her statements, but our voice was just one among many. We argued then that in most places, there was still time, with responsible political behavior, to avoid the steamroller. Now five years later, the massive wave of defaults Whitney predicted has not materialized on anything close to the timetable she described.

But we are now five years on, and there are certainly places where the steamroller is closer in 2015 than it was in 2011. One feature of American municipal finance is that states and municipalities, in general, have rules that prevent them from borrowing in order to cover budget deficits. In practice, this rule means only that they have to employ trickery in order to accomplish the economic substance of borrowing to cover deficits while technically complying with balanced budget rules. The most important channel for this trickery has been through pensions, as Robert Novy-Marx of the University of Rochester and Joshua Rauh of Stanford have highlighted in a series of papers. There are other channels as well.

In the humorously named 'Truth and Integrity in State Budgeting,' the Volcker Alliance examines the situation in New Jersey. The report focuses on the recent financial chicanery that the state has employed in order to 'balance' its budget. A relatively simple example (and New Jersey is not alone here) is the issuance of bonds whose above-market coupons mean that they can be issued at prices above par, with the difference between the offering price and par value being used as revenue in the current fiscal year. This trick is just a back-door way for New Jersey to do borrow to close a budget shortfall, just like Puerto Rico.

Other examples are more complicated. The coverage of New Jersey's catastrophic recent tobacco bond refinancing by Cezary Podkul of ProPublica has been an example of great journalism about an extremely convoluted financial topic. I think that only the deal's complexity has prevented this and other similar transactions from becoming even greater national scandals than they have been. Tobacco bonds stem from the 1998 Tobacco Master Settlement Agreement, through which states gave up legal claims against tobacco manufacturers in exchange for future payments tied to tobacco consumption. Like many states, New Jersey years ago securitized much of it future payment stream, selling the future receipts off to investors in exchange for upfront cash.

The recent tobacco bond refinancing transaction boils down to this: New Jersey received $93 million in budget relief today in exchange for $400 million over the next several years. Some additional net payments based on smoking patterns decades into the future give the deal enough complexity that, should the need arise, a team of suitably incentivized experts will be able suppress their laughter while certifying that the deal was a good idea for the state.

But it's bogus. It is borrowing to cover a budget hole, like Puerto Rico in 2006. It is a step in the direction of the steamroller that is now on top of Puerto Rico.

FORTUNE

by Daniel Bergstresser

OCTOBER 19, 2015, 12:11 PM EDT

Daniel Bergstresser is an associate professor of finance at Brandeis International Business School. The views expressed here are his own and not necessarily those of Brandeis. Bergstresser is also engaged in consulting activities for financial institutions, but he has no direct or indirect financial stake in the performance of municipal bonds issued out of either Puerto Rico or New Jersey.

Illinois Will Delay Pension Payment Because of Cash Shortage.

Illinois will delay payments to its pension fund as a prolonged budget impasse causes a cash shortage, Comptroller Leslie Geissler Munger said.

The spending standoff between Republican Governor Bruce Rauner and Democratic legislative leaders has extended into its fourth month with no signs of ending. Munger said her office will postpone a $560 million retirement-fund payment next month, and may make the December contribution late.

“This decision is choosing the least of a number of bad options,” Munger told reporters in Chicago on Wednesday. “For all intents and purposes, we are out of money now.”

Munger said the pension systems will be paid in full by the end of the fiscal year in June. The state still is making bond payments, and retirees are receiving checks, she said.

“We prioritize the bond payments above everything else,” Munger told reporters.

The pension payment delay was inevitable, said some who have been watching the budget gridlock.

“This is just the tip of the iceberg,” said Ralph Martire, executive director of the Chicago-based Center for Tax and Budget Accountability, which monitors Illinois finances.

“Every month they go without resolving the impasse on the budget means it’ll cost more to ultimately resolve it,” Martire said. “This is a natural, predictable consequence if you do something called math.”

Bond Doldrums

Investors have long penalized the state for its fiscal woes. Illinois holds the lowest credit rating among U.S. states with an A3 from Moody’s Investors Service, four steps above junk, and an equivalent A- from Standard & Poor’s. Municipal investors demand an extra 1.9 percentage points to buy 10-year Illinois bonds instead of benchmark munis, according to data compiled by Bloomberg.

“We’re looking for signs that the we’re going to hit a level patch,” said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which holds Illinois debt among its $11 billion of municipal securities. “But this is an indication we’re still going down the hill.”

Bloomberg News

by Elizabeth Campbell and Tim Jones

October 14, 2015 — 11:39 AM PDT Updated on October 14, 2015 — 1:21 PM PDT

Puerto Rico Bonds Show Skepticism for Relief From Treasury.

Puerto Rico bond prices suggest that investors are doubtful of a proposal being floated that would have the U.S. Treasury assist the commonwealth in the restructuring of its debt.

General obligations maturing July 2035, the most actively-traded Puerto Rico securities in the last three months and originally sold at 93 cents on the dollar, changed hands at an average price of 74.7

cents, little changed from Wednesday, data compiled by Bloomberg show. Trades of at least $1 million on taxable pension bonds maturing July 2038 show the bonds changed hands Thursday at an average price of 30.5 cents, up from 25 cents on Tuesday, Bloomberg data show.

"It's still new," said Gary Pollack, who manages $6 billion of municipal debt, including Puerto Rico bonds, as head of fixed-income trading at Deutsche Bank AG's Private Wealth Management unit in New York. "It's still in its infancy, so you can't get too excited about it as a bond investor. I would hold and wait for this thing to play out more."

Puerto Rico and federal officials are discussing the possible issuance of new bonds administered by the Treasury to help restructure the commonwealth's debt, with federal officials overseeing a portion of the island's tax collections that would be used to repay the securities, a person familiar with the discussions said Wednesday. Treasury officials said in a statement Wednesday that while its inaccurate to suggest the U.S. is in talks to undertake any of Puerto Rico's obligations, it continues to work with island officials to help the commonwealth return to a sustainable economic path.

The plan would face obstacles. It may require Congressional approval and Puerto Rico's legislature would need to sign off on allowing the federal government to monitor its revenue collections and direct them to investors. Governor Alejandro Garcia Padilla's administration faced a backlash from investors after he said in June that the island could no longer afford to repay all of its obligations and would seek to delay principal payments for a number of years. Puerto Rico has also failed to gain support in Congress for legislation to allow some of its agencies to reorganize under Chapter 9 bankruptcy.

Such a restructuring plan may be too late to help Puerto Rico pay investors in December and January. Officials have said the island may run out of cash in November. The Government Development Bank owes $354 million of principal and interest on Dec. 1, with $267 million of bonds maturing on that date guaranteed by the commonwealth. Another $357 million of general-obligation interest is due Jan. 1.

"It would probably take some kind of Congressional intervention in order to make this type of transaction take place," Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, said Thursday. "And Congress certainly doesn't have the bandwidth between now and the end of the calender year to really seriously dig into Puerto Rico."

Garcia Padilla met with Treasury officials in Washington on Wednesday to discuss the commonwealth's debt crisis, Jesus Manuel Ortiz, the governor's spokesman, told reporters Thursday in San Juan.

"The governor emphasized the need for the government of Puerto Rico to reach some kind of structured agreement to organize its debt," Ortiz said.

Moody's Investors Service wrote in a report Thursday that the deepening crisis might prompt U.S. intervention at some point, though lawmakers remain wary of providing any assistance that resembles a bailout.

Bloomberg News

Michelle Kaske

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Bloomberg Brief Weekly Video - 10/15/15

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

Watch the video.

Moody's: U.S. Initiatives Could Help Puerto Rico's Fiscal Recovery and Debt Restructuring.

New York, October 15, 2015 — While the United States (Aaa stable) is unlikely to provide a financial bail-out for Puerto Rico (Caa3 negative) as the territory tries to restructure some of its $73 billion in debt, media reports suggest the US Treasury Department is considering taking a more active role, Moody's Investors Service says, as the deteriorating fiscal situation leads to increasing pressure on Congress to take actions to stabilize the island's economy or finances.

"A combination of federal initiatives could encourage Puerto Rico's return to solvency and market access with little or no incremental cost to US taxpayers beyond current levels of support," Vice President — Senior Credit Officer Ted Hampton says in "Puerto Rico (Commonwealth of):Deepening Fiscal Crisis Might Prod US Intervention."

Current proposed legislation to amend the bankruptcy law would authorize Puerto Rico's public corporations to file for Chapter 9 bankruptcy protection if they can demonstrate insolvency. While corporations like the Puerto Rico Electric Power Authority (PREPA — Caa3 negative) and Puerto Rico Highways and Transportation Authority (PRHTA — Ca negative) would likely qualify under the legislation, almost 80% of Puerto Rico's debt probably would be ineligible for restructuring under Chapter 9, unless the legislation was to be broadened in scope.

Some in Congress have also suggested implementing a federal financial control board to put the commonwealth on a path to fiscal health. However, this is likely to meet heated opposition in Puerto Rico since the commonwealth has governed itself for many years. Congress instituted a control board for the District of Columbia (Aa1 stable) in 1995.

The treasury is reportedly considering a "superbond" proposal, where the US Treasury would hold certain pledged commonwealth revenues in trust for payment on debt service on newly issued securities.

Hampton says if a "superbond" came to fruition along with a financial control board, it could accelerate the restructuring negotiations.

Other measures to provide relief for Puerto Rico without burdening US taxpayers include loosening federal minimum wage requirements, or granting the commonwealth's employers a reprieve in future minimum wage increases. Congress could also exempt Puerto Rico from Jones Act shipping restrictions.

Moody's says the largest and most immediate impact would be stabilizing current federal healthcare funding on the island, which is scheduled to decline in coming years even as the share of citizens participating in Medicaid is higher in Puerto Rico (48%) than in any US state.

“However, any actions by the federal government will take time to implement,” notes Hampton, “given the current partisan gridlock in Congress and a lack of transparency on the commonwealth’s finances.”

Moody’s also notes that even as the commonwealth faces a liquidity crisis and potential new defaults, Congress is less likely to offer Puerto Rico assistance if it encumbers US taxpayers.

The report is available to Moody’s subscribers here.

Puerto Rico, Treasury in Talks to Restructure Island’s Debt.

Puerto Rico and U.S. officials are discussing the issuance of a “superbond” possibly administered by the U.S. Treasury Department that would help restructure the commonwealth’s $72 billion of debt, people familiar with the plan said.

Under the plan, the Treasury or a designated third party would administer an account holding at least some of the island’s tax collections. Funds in the account would be used to pay holders of the superbond, which would be issued to existing Puerto Rico bondholders in exchange for outstanding debt at a negotiated ratio.

Investors would receive less debt, likely taking an effective “haircut” on the value of their holdings, but would have higher expectations for getting repaid.

The proposal would mark an important change in Puerto Rico’s relationship with the U.S. government, which has resisted wading into the island’s debt morass. A superbond would need to clear high political hurdles in Washington and Puerto Rico to become a reality. Discussions with bondholders over the size of any haircut could present further challenges to reaching a deal.

Talks between Puerto Rico’s representatives and Treasury officials are preliminary, and any plan wouldn’t include financial aid or a U.S. guarantee of Puerto Rico debt, the people said. They said the proposed bond would be just one piece of a restructuring puzzle that the island’s government is trying to assemble, after admitting this year that it cannot pay its debt in full.

The plan has no immediate precedent but echoes in some respects the Brady bonds used in Latin American debt restructurings of the 1980s. One major difference: Those bonds, named for former Treasury Secretary Nicholas Brady, were backed by Treasury-issued zero-coupon bonds, which guaranteed repayment of the principal and part of the interest of the Latin debt.

The Obama administration “has said repeatedly that it has no plans to provide a bailout to Puerto Rico,” and the Treasury Department isn’t engaged in talks to “undertake any of Puerto Rico’s financial obligations,” a Treasury spokesman said Wednesday.

The Treasury and the commonwealth are debating how much of Puerto Rico’s taxes would be funneled to the account and who would collect the taxes, the people said. Puerto Rico’s leaders may not be willing to surrender control of tax revenue as required by the deal, the people said. Depending on how it is structured, it could also require congressional approval.

Puerto Rico hasn’t been able to sell bonds after years of issuing new debt to fund budget deficits. The commonwealth and its advisers have been working for months to develop a package of fiscal and financial overhauls.

A superbond could be appealing to creditors. Hedge funds that own billions of dollars of Puerto Rico debt have been pushing the idea of a superbond for months, hoping it would prevent a default and boost the value of their investments. Bondholders have been unwilling to swap the debt they hold for new bonds backed only by tax revenues under Puerto Rico's supervision because they fear the money could be diverted.

Puerto Rico is working with law firm Cleary Gottlieb Steen & Hamilton LLP, a specialist in government defaults, and Millstein & Co., a financial-advisory firm founded by the Treasury's former chief restructuring officer, Jim Millstein, who ran the successful turnaround of American International Group Inc.
Puerto Rico cannot restructure its bonds in bankruptcy court because it is a commonwealth, not a state. Democratic lawmakers have proposed bills making the island's municipal entities eligible for bankruptcy protection. Republicans in Congress have floated the idea of a federal control board and have said they want Puerto Rico to produce a more detailed plan to balance its budget before they support the legislation.

Concerns about a potential default intensified over the summer as it became clear Puerto Rico was using tax revenue earmarked for debt payments to plug budget gaps. The commonwealth disclosed in September that it expects a $205 million shortfall this year when large bond payments are due.

Government Development Bank of Puerto Rico bonds that mature in 2016 traded at 49 cents on the dollar this month compared with 77 cents on the dollar in June, according to data from Electronic Municipal Market Access.

Fears of a default are intensifying divisions between different types of bondholders who are splitting into various factions, each of which claims priority in the event of a restructuring.

"Our view has always been that there's a high probability of disorderly litigation here, and we see this looming now as imminent," said Ted Hampton, an analyst at Moody's Investors Service.

In September, a bondholder group represented by GLC Advisors & Co. with more than $5 billion in bonds of different stripes split into separate groups. Mutual funds managed by OppenheimerFunds Inc. and Franklin Advisers Inc. also own billions of dollars of Puerto Rico debt, while bond insurers Assured Guaranty Ltd., MBIA Inc. and Ambac Financial Group Inc. have guaranteed billions of dollars of bonds.

Puerto Rico is attempting to capitalize on the divisions by agreeing to negotiate only with bondholders who agree not to discuss terms with investors holding different types of bonds, a person involved in the talks said.

THE WALL STREET JOURNAL

By MATT WIRZ, NICK TIMIRAOS and AARON KURILOFF

Updated Oct. 14, 2015 8:47 p.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com, Nick Timiraos at nick.timiraos@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

[Most California Cities Back New Pension Strategy Despite Cost.]

SAN FRANCISCO — Most California cities support a new strategy by the nation's largest public pension fund to make its investment portfolio more conservative, even though the move could gradually increase how much employers pay into the fund.

Still, some cities expressed serious reservations about a California Public Employees' Retirement System plan to incrementally lower the $293 billion fund's assumed rate of investment returns following periods of strong performance.

The League of California Cities surveyed its members, which have been struggling to shoulder the burden of growing pension costs. The survey found that many cities prefer a more gradual increase in costs, as opposed to spikes following market downturns, said Bruce Channing, Laguna Hills city manager.

"As employers, more predictability and less spiking of rates from one year to the next is preferable," said Channing, who is also chair of the league's city managers pension reform task force.

Next week, the Calpers board will consider a new policy to gradually reduce the assumed return rate from 7.5 percent to 6.5 percent over a few decades. The average return rate across 126 funds tracked by the National Association of State Retirement Administrators was 7.68 percent as of May.

Calpers intends to reduce portfolio volatility as California's baby boomers retire and payouts exceed active workers' contributions. The idea is similar to that of an individual nearing retirement adopting a more conservative investment strategy.

But a lower, albeit less volatile, rate of return will necessitate higher contributions from local governments and public workers.

The league said 77 percent of those surveyed supported Calpers' strategy to reduce portfolio risk, even though the move would over time raise pension contributions more than currently planned. Ten percent of respondents opposed the strategy, and the rest were unsure, the survey of 115 cities found.

Opponents of higher contributions included Alameda, a city of nearly 76,000 near San Francisco. Its pension costs for safety workers like police and fire consume 48 cents of every dollar paid in salary and are expected to grow to 65 cents in five years.

"It's devastating on our bottom line," said Alameda Interim City Manager Liz Warmerdam. "We have very little input. Whatever they want to do, local governments have to sit here and deal with it. It's extremely frustrating."

Massive pension costs contributed to a handful of recent municipal bankruptcies across the country, including in the California cities of Vallejo, Stockton and San Bernardino.

Stockton and Vallejho have emerged from bankruptcy. Vallejo City Manager Daniel Keen said he supports actions to ensure Calpers' ability to pay benefits, but added it may require sacrifices.

"While this plan does cause us more pain on the part of our budget, it is pain we were anticipating," said Keen. "It is going to require adjustments in our budget and might result in cuts to some services."

"It's undeniable that we have to deal with the fact that there are significantly fewer active employees paying in," said Leyne Milstein, Sacramento's finance director. "We need to make sure this system is sustainable."

But like many cities across the state, Sacramento's budget is not keeping pace with rising pension costs. Next year, the city's expenses are expected to exceed revenues by $8.8 million, of which $5.8 million is pension growth, Milstein said. In five years, Sacramento expects to pay close to $80 million in pension costs from its general fund, up from $60 million today.

"This will be extremely painful on local government budgets, but it's the honest approach to address the large unfunded liabilities," said Senator John Moorlach (R-Costa Mesa), a pension reform supporter. "Unfortunately, it's the taxpayers who are on the hook as pension debt eats up public funds meant for police and fire protection, as well as other services."

By REUTERS

OCT. 16, 2015, 3:42 P.M. E.D.T.

(Reporting by Robin Respaut and Rory Carroll; Editing by David Gregorio)

S&P: California's $961 Million GO Bonds Assigned 'AA-' Rating.

SAN FRANCISCO (Standard & Poor's) Oct. 6, 2015–Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating, and stable outlook, to California's estimated $961 million of general obligation (GO) bonds, consisting of $855 million in tax-exempt various purpose GO refunding bonds and $106 million in taxable variable purpose GO bonds.

At the same time, Standard & Poor's affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's $75.6 billion of GO bonds outstanding as of Sept. 1, 2015.

Finally, we affirmed the long-term component of the 'AAA/A-1+' and 'AAA/A-2' ratings on some of the state's GO variable-rate demand bonds. The long-term component of the ratings is based jointly (assuming low correlation) on that of the obligor, California, and the various letter of credit (LOC) providers. The short-term component of the ratings is based solely on the ratings on the LOC providers.

"The GO rating is also based on our view of the state's diverse economy, which is currently expanding faster than the nation's; demonstrated commitment in five consecutive budgets to aligning recurring revenues and expenses while paying down budgetary debts; good budgetary reserves; strong enough overall liquidity that the state's typical intra-year general fund cash deficits can be financed entirely from internal sources; and declining, but still moderately high debt ratios," said Standard & Poor's credit analyst Gabriel Petek.

"Somewhat offsetting these strengths, in our view, are the state's persistently high cost of housing relative to other states that contributes to a relatively weaker business climate in California, volatile revenue base, large retirement benefit liabilities, limited prefunding of retiree health care benefits to date, and large backlog of deferred maintenance and infrastructure needs across the state," added Mr. Petek.

Under current conditions, the state's fiscal structure generates modest operating surpluses that translate to larger projected budget reserves, according to the state department of finance's forecast, than the state has had in recent memory. Passage of Proposition 2 in 2014 helped institutionalize a more disciplined approach by requiring annual deposits to the reserve fund. In addition, the measure captures capital gains-related revenue spikes, thereby discouraging the state from building instances of extraordinary revenue growth into its budget base. The state has also restored considerable fiscal flexibility by retiring much of its budgetary debt.

S&P: Nevada's $344 Million GO Bonds Assigned 'AA' Ratings.

SAN FRANCISCO (Standard & Poor’s) Oct. 6, 2015–Standard & Poor’s Ratings Services assigned its ‘AA’ long-term rating and stable outlook to Nevada’s planned approximately $334 million issue of general obligation (GO) debt. We simultaneously affirmed our ‘AA’ rating on Nevada’s GO debt outstanding and our ‘AA-‘ long-term rating and underlying rating (SPUR) on the state’s appropriation-backed certificates of participation. The outlook on all ratings is stable.

“The state has taken steps to bring its fiscal structure into alignment,” said Standard & Poor’s credit analyst Gabriel Petek. “This, along with Nevada’ s demonstrated commitment to adhere to its policy of achieving an ending balance equal to at least 5% of appropriations (even if it potentially fell short in fiscal 2015) helps underpin the state’ s strong credit quality, in our view,” added Mr. Petek. “Also adding to credit stability, in our view, is the state’s recent record of good liquidity and a mechanism to prefund a significant portion of its annual debt service. In our view, these characteristics reduce the risk that an unanticipated revenue shortfall could result in strain on the state’ s ability from a cash flow perspective, to fund its debt service.”

The current bond offering consists of:

- $256.3 million of GO (limited-tax) capital improvement and refunding bonds, series 2015D;
- $20.94 million of GO (limited-tax) natural resources and refunding bonds, series 2015E;
- $47.1 million of GO (limited-tax) bonds (issued for Nevada Municipal Bond Bank Project Nos. 87, 88, and 89) series 2015F; and
- $10.1 million of GO (limited-tax) open space, parks, natural resources, and refunding bonds, series 2015G.

The ‘AA’ rating reflects our view of the state’s:

- Demonstrated willingness to address budget gaps with both cuts to spending and increased revenue measures when necessary;
- Consistently good financial liquidity on both an intra- and inter-year basis;
- Good constitutional protections, which require balanced budgets and give tax preference to debt service;
- Commitment to and track record of maintaining positive ending balances;
- Nascent signs of employment diversification; and
- Low total debt relative to the state’s economy and a low debt burden as a portion of the state’s budget.

Partly offsetting the above strengths, in our view, are the state’s:

- Depleted rainy day reserve fund, which it used during fiscal 2015 to

address a biennium operating deficit that had emerged;
- Still slow economic growth despite population growth rates above the national average; and
- Still relatively narrow economy that relies on sectors sensitive to changes in discretionary consumer spending (tourism and gaming) and those with volatile performance (construction and real estate) — although we see evidence that this has begun to change.

S&P's Public Finance Podcast: (California's Redevelopment Sector and Bank Loan Market Trends).

In this week's Extra Credit, Associate Director Sarah Sullivant discusses what's driving California's redevelopment sector and Senior Director Lisa Schroeer reviews the trends shaping the bank loan market.

Listen to the Podcast.

New Jersey Uses Eminent Domain Against One of Its Own Beach Towns.

A week after calling this well-heeled beach town "selfish" for refusing to give up land needed for the state's dune project, Gov. Christie on Thursday moved to give Margate no choice.

The state said it had filed an eminent domain action against the City of Margate to gain access to city-owned beachfront easements needed for the project. The city's opposition has caused the Army Corps of Engineers to abort plans for dunes for Ventnor, Margate, and Longport.

Prior to the filing, the state had offered Margate $29,000 for nine beachfront easements, based on an appraisal, the city said. When that was rejected, the Christie administration took the action in Superior Court, saying it was seeking 87 municipally owned lots. Margate officials could not explain what 87 referred to. "I am aware of nine," said Richard Deaney, city business administrator.

Margate voters have twice passed questions in referendums opposing dunes and authorizing their government to wage a legal battle against the state.

The state had been threatening to file eminent domain against Margate since January, when a federal judge in Camden told the state that eminent domain would be the proper, and perhaps only, way to get control of the easements. The state had attempted to take the land through an administrative order, which prompted Margate to file a lawsuit in U.S. District Court.

Thursday night, the city issued a response saying it was "prepared to defend in any court at any time the legal rights of the people of Margate to provide the best, safe and most effective storm protection."

"The people of Margate know and love their community . . . and appreciate the need for the best protection against the storms," the statement said. The city contends that its bulkhead system is sufficient and that dunes "eventually wash out to sea."

"Margate's opposition to the dunes is not based on a vain desire to preserve oceanfront views," the statement said.

Deaney said the city had requested to negotiate the terms of the shore protection project in response to the $29,000 offer, but that the state had filed for eminent domain as soon as a 14-day time required by law following an offer had passed.

“We sent them a letter saying we’d like to negotiate with them,” Deaney said. “They ignored it.”

Deaney said the city was not against shore protection but wanted a chance to discuss changes in the technicalities of how that is done. Residents argue that dunes will be a costly, unsightly, and ineffective way of protecting the town. Most of the flooding issues from past storms have been from the back bay.

The Army Corps of Engineers had to put aside its Absecon Island protection project last winter after Margate fought the state to essentially a stalemate in federal court. Longport voluntarily gave the state access to its easements following Hurricane Sandy, after opposing the dunes for years. Ventnor has long cooperated with the state and federal agencies, and has had dunes on most of its oceanfront for years.

The release, issued directly from the governor’s office, tallies the amount of property at 87 lots owned by Margate, saying action “builds upon the ongoing work the Christie administration has been undertaking to secure easements necessary to construct these vital coastal protection projects.” The filing covers easements “over all city-owned properties east of the Margate bulkhead, south of Ventnor and north of Longport.”

Of 4,279 beachfront easements statewide, 366 are outstanding, owned by 239 property owners. Environmental Protection Commissioner Bob Martin said in the release that the state was “very disappointed” that Margate forced the state to go to court to protect its citizens and promised to “continue to be very aggressive in using eminent domain as a tool to obtain the easements.”

Also holding out in Margate are 10 private owners with beachfront easements. Those properties are being appraised, the state said.

Margate has been represented by former U.S. Rep. Robert E. Andrews of the Dilworth Paxson law firm. The state had been reluctant to take the case to state court, where eminent domain fights can drag on. The state will argue that the project is necessary “to protect lives, homes, businesses, and infrastructure.”

“We’ve never been happy with the design and proposal for shore protection,” Deaney said of the city. “We’re willing to negotiate the concept of shore protection. We have a lot of ideas as to how that can be accomplished. We don’t believe in their single arbitrary project.”

He called the $29,000 offered for access to the easements “low” but said price was not the issue.

The state declined to comment beyond the news release. The release noted that property owners in other municipalities voluntarily provided easements to allow the Army Corps to erect dunes. It said Longport and Margate both suffered “significant overwash” of its beaches and “damage to its bulkhead” during Sandy, “which required Federal Emergency Management Agency funds for the cleanup.”

The state’s release also notes a New Jersey Supreme Court ruling in July 2013 in which the Borough of Harvey Cedars acquired an easement through eminent domain, but the parties could not agree on fair compensation. The court reversed a jury ruling valuing the easement at $375,000, saying homeowners “were not entitled to a windfall” for a project they also benefit from. The couple subsequently settled for $1 as compensation.

In addition to the Absecon Island project, beach and dune construction projects are stalled in Monmouth County and in northern Ocean County, where residents are also fighting the state’s efforts to use their properties to construct dunes.

BY TRIBUNE NEWS SERVICE | OCTOBER 9, 2015

By Amy S. Rosenberg

O'Hare Bonds Avoid Chicago Stain in City's Biggest Offering Ever.

Even as Chicago confronts a fiscal crisis, investors are looking beyond its turbulent finances with anticipation toward the city’s biggest bond deal ever.

Chicago sold about $2 billion of securities for O’Hare International Airport, backed by revenue from the nation’s busiest airport and sheltered from the mounting pension obligations squeezing the third-most populous U.S. city. Fund managers at Wells Fargo Asset Management and Conning say any yield premium resulting from the city’s tainted reputation is likely a buying opportunity given the airport’s rising traffic and hub status.

“Just looking at the nuts and bolts of the deal, it’s been pretty impressive what’s going on there,” said Paul Mansour, head of municipal research at Hartford, Connecticut-based Conning, which holds O’Hare debt among its $11 billion of tax-exempt securities and is reviewing the deal. “There will be a certain amount of firms, individuals who say no Chicago under any circumstance. That will add some value for those that look through to the underlying credit.”

Chicago has the worst-credit rating of all major U.S. cities except Detroit, and had to pay yields approaching 8 percent for a taxable offering in July. Wednesday’s issue is raising $1.6 billion to refinance higher-cost bonds and about $330 million to cover costs of projects such as terminal improvements.

A portion of federally tax-exempt securities due in January 2046 were sold with a yield of 3.9 percent, according to preliminary data compiled by Bloomberg. That’s about 0.7 percentage point more than 30-year benchmark municipal bonds.

During the city’s last bond sale for O’Hare in November 2013, 20-year securities were issued for yields as high as 5.53 percent, about 1.7 percentage point more than benchmark debt, according to data compiled by Bloomberg. That premium has since narrowed by almost a third, trading for an average yield of 4.1 percent on Sept. 11.

The offering follows sales from the city and related agencies such as the Chicago Park District that have had to pay up to borrow. The O’Hare bonds are rated as much as two levels higher than the city’s general-obligation debt. The sale comes as U.S. airport bonds are outperforming the broader $3.7 trillion tax-exempt market for a fifth consecutive year amid an improving economy and falling energy costs.

Mayor Rahm Emanuel is working to ease Chicago's fiscal challenges and convince the city council to pass the biggest property tax increase ever to help cover retirement costs. O'Hare is sheltered from the fallout of the city's $20 billion pension hole because the Federal Aviation Administration limits the use of airport revenue to facility purposes. That prevents the city from taking excess O'Hare monies to fix its finances, Standard & Poor's said in a Sept. 30 report.

Historical Premium

Even so, issuers associated with distressed situations typically have to pay up, and that's what Merritt Research Services expects.

"It's just a historical premium that they'll have to pay because of their association with Chicago," said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services, which analyzes municipal finance. "It may end up for a yield investor more attractive than an average airport."

That wasn't the case with Michigan's Wayne County Airport Authority, which runs the airport serving once-bankrupt Detroit. The authority wasn't penalized when it sold about $522 million last month despite the county's fiscal distress. Wayne is in a consent agreement with the state because of its ongoing budget deficit.

Airliner Hub

S&P raised its outlook on O'Hare general revenue bonds last month by one level to A, five steps above junk and two levels higher than its rating on the city's GO debt. The credit rater cited the airport's high traffic. Fitch Ratings assigned an A- ranking to the debt, four steps above junk, and notes the airport general revenue bonds are secured by a first lien on airport net revenues.

O'Hare is a hub for American Airlines Group Inc. and United Continental Holdings Inc., the largest carriers. The airport is the biggest worldwide when measured by operations, according to bond documents. In 2014, O'Hare had the busiest airport measured by flight operations, according to FAA data.

Municipal airport bonds have climbed 2.2 percent this year, compared to a 1.8 percent gain in the broader market, according to Bank of America Merrill Lynch data. Crude-oil prices have tumbled 8.6 percent in 2015, and sliding fuel costs have benefited municipal airports in particular, Janney Fixed Income Strategy said in an Oct. 5 report.

Chicago is expecting more than $150 million in present-value savings from the refinancing with interest rates near generational lows, said Molly Poppe, a city spokeswoman.

O'Hare's capital projects have shown progress and been within budget, according to bond documents. Three of four runways and one runway extension for the O'Hare modernization project are complete as of this month. Airfield improvements funded by the 2015 bonds include installation of runway status lights, maintenance of terminals, and fixes to roadways.

"Airport debt has had a strong bid from investors looking for income, and that should certainly benefit the pricing on this Chicago transaction," said Gabe Diederich, a Menomonee Falls, Wisconsin-based money manager at Wells Fargo Asset Management, which holds some O'Hare's bonds among its $39 billion of munis, and is considering buying the deal. "The essential nature of the airport and the size of it are going to overwhelm any bias against the city of Chicago."

Bloomberg News

by Elizabeth Campbell

October 6, 2015

Puerto Rico Claw Back Wouldn't Pay Debt Costs, Barclays Says.

Puerto Rico wouldn’t be able to repay the $5.5 billion of principal and interest due on its general-obligation bonds in the next five years even if the commonwealth diverted sales-tax revenue pledged to cover payments elsewhere, according to Barclays Plc.

The general obligations due through fiscal 2020 surpasses the $4.2 billion of revenue, including sales-tax receipts, that commonwealth officials calculate Puerto Rico will have to pay down central government and some agency debt during that period, Mikhail Foux, a municipal-debt strategist at Barclays in New York wrote in a report Wednesday. The island’s sales-tax collections repay bonds, known as Cofina because of their Spanish acronym, that are backed by that revenue stream.

“Even if Cofina’s cash flow stream is invaded, there would still not be enough value to fully cover principal and interest for GOs and commonwealth guaranteed debt in fiscal year 2016 through fiscal year 2020,” Foux wrote in the report. “This suggests that some type of haircut would be needed,” over those five years, he wrote.

Puerto Rico officials haven’t said that they plan to redirect, or “claw back,” sales-tax collections to pay down general-obligation debt before Cofina bonds. The island’s constitution states that general-obligations must be repaid before other expenses. The commonwealth on Sept. 25 said it would take into account the constitutional priority given to general-obligation bonds as it seeks to restructure $73 billion of debt.

Prices on some Cofina debt would fall if the government uses the sales-tax receipts to repay general obligations first, Foux said. Subordinate Cofinas, which are repaid after senior-lien sales-tax bonds, would drop in value, he said.

“If Cofina is pierced, subs would be severely affected, allowing for more downside even at current depressed levels,” Foux wrote.

Subordinate Cofinas maturing August 2039 traded Wednesday at an average price of 44.5 cents on the dollar, to yield of 12.9 percent, data compiled by Bloomberg show.

Puerto Rico had $13 billion of general obligation debt and $15 billion of sales-tax bonds, as of March 31.
Commonwealth general obligations sold in March 2014 and maturing July 2035 traded Wednesday at an average price of 75.3 cents on the dollar for a yield of 11.1 percent, according to data compiled by Bloomberg.

Bloomberg

by Michelle Kaske

October 7, 2015 — 2:35 PM PDT Updated on October 8, 2015 — 6:20 AM PDT

Scandals Leave Port Authority Bondholders Undaunted Before Sale.

To Wall Street, the scandals engulfing the Port Authority of New York & New Jersey are nothing but noise.

As the agency sold $2 billion of bonds Thursday, its biggest offering since 2012, investors weren't focused on the federal and state investigations that spurred the resignation of United Continental Holdings Inc.'s chief executive officer and tarnished Governor Chris Christie's presidential bid. Instead, they looked at a near monopoly on getting into New York that brings in more than $12 million a day.

The upheaval at the agency may even have a financial upside: It's searching for a CEO to replace the two top officials who were hired by political appointment and faces pressure to improve its management of the region's bridges, tunnels and airports.

"They certainly have a lot of work to do," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $6 billion. "But the hope is that this additional scrutiny will make the organization more transparent and better able to provide for its core mission."

The Port Authority's bonds have the fourth-highest rating from Moody's Investors Service, Standard & Poor's and Fitch Ratings with a stable outlook, indicating no changes are imminent. The agency's 10-year tax-exempt bonds were sold at yields of 2.33 percent, or 0.25 percentage point more than top-rated munis, according to data compiled by Bloomberg.

The Port Authority receives revenue from almost everyone who comes to the biggest U.S. city, as well as from cargo ships. It runs a commuter train, bridges and tunnels connecting New York and New Jersey, the world's busiest bus depot in Manhattan, marine terminals, and the region's three major airports — John F. Kennedy International, LaGuardia, and Newark Liberty International. It also owns the World Trade Center site.

Major Projects

Even with a constant stream of revenue, the Port Authority is facing financial challenges in the coming decades. In addition to its usual upkeep, the agency is moving to replace its bus terminal, which may cost $10 billion, as well as a bottleneck-prone rail tunnel under the Hudson River. Christie and New York Governor Andrew Cuomo want the federal government to pay half of the $20 billion cost of the tunnel.

The agency's current operating results have been on the upswing. Operating revenue rose 8 percent to $2.3 billion during the first six months of the year, according to Moody's, as New York's strong economy fueled an increase in plane travel. At the same time, its operating expenses climbed by 1.3 percent to $1.4 billion.

The agency's finances stand in contrast to the agency's battered political reputation. In May, former Deputy Executive Director Bill Baroni and former Christie aide Bridget Kelly were indicted for snarling traffic leading onto the George Washington Bridge in 2013 to punish a New Jersey mayor who didn't back Christie's re-election. David Wildstein, a former Christie ally at the agency, pleaded guilty to participating in the scheme. Baroni and Kelly are fighting the charges.

Widening Investigation

Last month, United CEO Jeff Smisek stepped down amid an investigation into whether the airline ran a money-losing flight from Newark, New Jersey, to South Carolina, where former authority Chairman David Samson had a vacation home, in an effort to secure funding for projects. Prosecutors haven't alleged wrongdoing.

The Securities and Exchange Commission, which polices fraud in the municipal-bond market, is also investigating the agency's disclosures to investors.

The Port Authority's finances show that the management turmoil hasn't hurt its operations, said Dan Solender, head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey. In an Oct. 6 report, S&P said the agency has kept expenses below its target during the first eight months of the year while revenue exceeded forecasts.

"We really care about the finances and how much leverage they're taking on, how they're controlling expenses and things like that," said Solender, who owns some agency bonds. "For us, those are the bigger issues than the political headlines."

Bloomberg

by Romy Varghese

October 7, 2015 — 9:01 PM PDT Updated on October 8, 2015 — 11:17 AM PDT

Muni Funds Draw $714 Million, Largest Inflow Since January.

Investors added the most money to municipal-bond mutual funds since January in the past week as state and local government bond yields fell to the lowest level in five months.

Individuals poured $714 million into muni funds in the week through Wednesday, Lipper US Fund Flows data show, marking the second inflow in three weeks. Those funds investing in the longest-dated debt fared the best, capturing $685 million of the cash, as the Federal Reserve continued its almost decade-long policy of keeping borrowing costs close to zero.

Benchmark 10-year munis yield 2.09 percent, close to the lowest level since April, data compiled by Bloomberg show. That's pushed the return on state and local debt to 1.9 percent this year, better than the 1.6 percent gain for Treasuries and 0.1 percent for investment-grade corporate securities, Bank of America Merrill Lynch data show.

In the four weeks through Sept. 16, the day before the Federal Open Market Committee released its policy statement leaving its benchmark rate unchanged, individuals withdrew $1.4 billion from muni mutual funds, Lipper data show.

Bloomberg

by Brian Chappatta

October 8, 2015 — 2:49 PM PDT Updated on October 9, 2015 — 6:39 AM PDT

Bloomberg Brief Weekly Video - 10/08/15

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

Watch the video.

October 8, 2015

Down Payment on Detroit: Charting the Next Steps in the Detroit Housing Recovery.

As Detroit continues a journey toward economic recovery, the housing market in many parts of the city remains a serious challenge. In particular, mortgage activity is stuck at historically low levels, even as jobs and investment continue to grow throughout the city and the region. What steps—policies, programs, and products—should we take to stabilize and improve the homebuying market while ensuring affordable options for homeowners and renters alike?

Continue reading.

Connecticut, America's Richest State, Has a Huge Pension Problem.

The state with the richest population may not have enough money in its own pockets.

Connecticut has roughly half of what it needs to pay future retirement benefits for its workers, meaning the home to scores of hedge funds and some of the country's wealthiest towns is wrestling with financial distress rivaling that of Kentucky or Illinois.

Some investors concerned about the size of Connecticut's pension hole are backing away from bonds issued by the Constitution State or demanding bigger rewards to hold them. Investors in some Connecticut state bonds now get a premium of about half a percentage point above benchmark bonds from other states, up from 0.28 percentage point a year ago, according to Thomson Reuters Municipal Market Data. Only four other U.S. states are now priced as riskier bets.

Still, some in the state say Connecticut's affluence is making it difficult to overcome complacency about fiscal problems. Yields on the state's debt would be even higher and budget problems would be worse if not for a deep pool of wealthy in-state investors willing to gobble up Connecticut's tax-deductible debt, according to analysts.

"There's almost limitless money to buy Connecticut bonds," said Matt Fabian of research firm Municipal Market Analytics. Investors "are getting less of a risk premium than I think you deserve because of the high demand created by the wealth of the taxpayers in the state," added Paul Mansour, head of municipal research at Hartford, Conn.-based Conning.

Connecticut's surprising pension predicament shows how even the wealthiest parts of the U.S. are struggling to keep pace with ballooning retirement obligations that now amount to $1 trillion nationally.

Connecticut’s unfunded pension liabilities more than doubled over the past decade to $26 billion as the state’s retirement system reeled from inadequate state contributions, a subpar investment record and longer lifespans for its retirees.

The state, boosted by wealth concentrated in towns such as Greenwich and New Canaan, has a per capita income of $64,864, the highest in the U.S., according to a Fitch Ratings analysis of Bureau of Economic Analysis data. But the state still finished the fiscal year ended June 30 in the red as tax revenues fell below expectations, and has projected annual deficits of $650 million or more after its current two-year budget cycle ends, according to a report by the state’s Office of Fiscal Analysis.

The state’s pension problems represent “a ticking time bomb,” said State Sen. L. Scott Frantz, a Republican whose district includes the wealthiest section of the state. He is worried residents will leave and Connecticut will “end up as another Detroit,” a city that filed for bankruptcy protection in 2013, absent more dramatic changes.

Some Connecticut officials and union leaders said they are unfazed by the pension problems and pledge to reverse the deficit in the coming decades. Their strategy hinges partly on predictions the various state retirement systems will be able to earn 8% or more annually, a goal that is more optimistic than most public pensions across the U.S. The average target for all state plans is 7.68%, according to the National Association of State Retirement Administrators.

“The truth of the matter is that the state of Connecticut can afford to make up the difference over time,” said Dan Livingston, a Hartford-based labor attorney who has negotiated on behalf of the state’s public workers for decades.

Connecticut’s pension gap developed as a result of decisions made over decades to scrimp on payments when the economy sputtered and to cut taxes, according to state leaders and public-finance experts. And there is a quirk: Connecticut officials contributed almost no money to the state’s various public pensions from the late 1930s until the early 1980s, meaning little had been saved up because the state had chosen not to prefund the retirement system for future payouts.

The smaller base of assets hurt Connecticut during the 1990s when a run up in the stock market pushed most pensions around the U.S. to fully funded status—meaning they had more assets than liabilities, according to Gregory Mennis, director of Pew Charitable Trusts’ public-sector retirement-systems project. Connecticut’s ratio of assets to liabilities, meanwhile, was just 72% in 2001, according to Pew, which tracks pension-fund finances.

Furthermore, according to the Center for Retirement Research at Boston College, Connecticut’s annual investing returns have trailed the national average by a full percentage point since 2000, because of a heavy allocation to stocks that inflicted deep losses first during the dot-com bust and then the 2008 financial crisis. Connecticut pensions eventually shifted some bets to nontraditional investments, like hedge funds, but those produced lower returns as the equity markets rallied in recent years.

Connecticut only has 51.9% of the assets it needs to pay future obligations to workers, lower than all states except for Illinois and Kentucky, according to the National Association of State Retirement Administrators.

Connecticut has scaled back pension benefits in recent years, reducing cost-of-living adjustments for retirees and pledging to make the appropriate annual payments to fully fund the system by 2032.

State officials have raised taxes twice since 2011 as a way of covering some liabilities, reduced its workforce by more than 3% and held back on deeper spending on education and local aid.

Connecticut now allocates 10% of its budget to paying down unfunded pension obligations, up from about 7% four years ago, according to Connecticut Office of Policy and Management Secretary Ben Barnes, who oversees the budget.

“We have plenty of resources to address whatever shortfalls, or whatever fiscal crisis might develop in the short run,” Mr. Barnes said.

But there are signs that the pressure on Connecticut could intensify absent deeper changes. Standard & Poor’s Ratings Services lowered the outlook on Connecticut’s bonds in March to negative from stable, meaning they could be downgraded from their current double-A rating. Moody’s Investors Service already has placed Connecticut among the lowest-rated states. And Fitch Ratings, although it removed Connecticut’s negative outlook in July, warned the state has a “narrow margin of flexibility.”

States rarely default and generally carry higher ratings as a result. Moody’s, which changed the way it calculates pension costs two years ago, has been more aggressive at downgrading states and cities with sizable unfunded obligations, while S&P and Fitch have generally taken a more optimistic view.

Fredrena deGraffenreaidt, a 61-year-old state retiree from East Hartford, is worried about whether future benefit cuts would force her to sell her house and move to a cheaper state, she said.

“Everyone sees us as this very wealthy state and yet our pension isn’t 100% funded,” Ms. deGraffenreaidt said. “How is that possible?”

THE WALL STREET JOURNAL

By AARON KURILOFF and TIMOTHY W. MARTIN

Updated Oct. 5, 2015 12:36 p.m. ET

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com and Timothy W. Martin at timothy.martin@wsj.com

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Puerto Rico Electric Utility Wins Extension From Bondholders.

Puerto Rico’s main electric provider won a two-week extension from bondholders to negotiate how to restructure $8.3 billion of debt.

Investors holding about 35 percent of the utility’s debt and its fuel lenders agreed to delay until Oct. 15 the expiration date on an agreement that was set to end Thursday, Lisa Donahue, the power provider’s chief restructuring officer, said in a statement. The contract, called a forbearance agreement, keeps discussions out of court. The parties first signed the accord in August 2014. It is the ninth extension.

Puerto Rico Electric Power Authority, known as Prepa, and the bondholder group on Sept. 1 reached a tentative agreement that would require investors to take losses of about 15 percent in a debt exchange. Bond insurers Assured Guarantee Ltd., Syncora Guarantee Inc. and MBIA Inc. have balked at the plan and declined to continue the forbearance.

“We continue to work with the monolines in an effort to reach a consensual agreement on terms that would be beneficial to all parties involved,” Donahue said.

Below Proposal

A Prepa restructuring would be the largest-ever in the $3.6 trillion municipal-bond market. Puerto Rico and its agencies, including Prepa, owe about $73 billion after years of borrowing to delay debt payments and fill budget deficits. The utility restructuring is the first step toward Puerto Rico’s goal to lower its debt burden.

Prepa bonds maturing July 2040 traded Friday at an average of 59.2 cents on the dollar, according to data compiled by Bloomberg. That’s higher than an average 53.5 cents on Aug. 28, the last time the bonds traded before the Sept. 1 agreement. But that’s still lower than the 85 cents that bondholders would receive in a proposed debt exchange.

The bonds yielded 9.59 percent.

Bloomberg News

by Michelle Kaske

October 1, 2015 — 3:46 PM PDT Updated on October 2, 2015 — 9:32 AM PDT

Bloomberg Brief Weekly Video - 10/01/15

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

Watch the video.

October 1, 2015

Puerto Rico Debt Crisis Eludes U.S. Fix, Top Republicans Say.

Top Senate Republicans showed no intention of acting soon to rescue Puerto Rico from its escalating financial crisis, saying there’s no easy way for the federal government to steady the Caribbean island pushed to the brink by $73 billion of debt.

Republicans who lead both chambers of Congress have signaled little urgency in aiding Puerto Rico, and the White House has made it clear it won’t bail out the commonwealth. The reticence was on display Tuesday at a Senate Finance Committee hearing, the first in Congress since Governor Alejandro Garcia Padilla said the island can’t afford to repay what it’s borrowed.

While Puerto Rico officials are pushing for more funding for some federal programs, Senator Orrin Hatch of Utah, the chairman of the finance committee, expressed skepticism that additional money would be sufficient. He noted that it’s received billions in additional federal funds since 2009.

“Even with those boosts in federal funding and the related increases in commonwealth spending, all we see is added commonwealth debt,” he said at a hearing in Washington Tuesday.

Providing more money for health-care programs, for example, “would necessarily mean reduced funding for other priorities, increased taxes, or even more federal debt,” he said. “That is the unpleasant budget arithmetic that we face. There are no easy answers.”

The commonwealth of 3.5 million people is teetering because of years of borrowing to cover budget shortfalls as the economy stumbled and residents left for the U.S. mainland. Garcia Padilla is seeking to postpone or reduce the government’s debt bills, moving the island toward what would be the biggest restructuring ever in the $3.6 trillion municipal-bond market.

Senator Charles Grassley, the Iowa Republican who chairs the judiciary committee, during the hearing stopped short of endorsing legislation Puerto Rico is seeking that would allow its publicly owned corporations, such as the power company, to file for bankruptcy, as U.S. cities can.

Instead, he recommended exempting Puerto Rico from the minimum wage and shipping laws that drive up the cost of goods. He also suggested setting up a federal board to oversee its finances, though he said any Congressional steps would depend on whether Puerto Rico moved to eliminate deficits at the root of the crisis.

“Congressional help without meaningful reform by the Puerto Rican government won’t work,” Grassley said at the hearing.

The commonwealth is rapidly draining its cash. Unless it can raise money in the capital markets, it could run out of money by the end of the year, just before a large payment is due on its general-obligation bonds, Government Development Bank President Melba Acosta said.

She told the senators that “federal action is essential,” including giving it the same access to the Medicaid and Medicare health-care programs that states have and extending municipal bankruptcy access to the island.

“Puerto Rico has passed the tipping point and faces an immediate liquidity crisis,” she said. That’s “threatening the ability of the government to continue to provide essential services to its residents and to pay its debts when due.”

In addition to approximately $73 billion of public debt, Acosta said Puerto Rico has a $45 billion shortfall in its workers’ retirement system that’s threatening to put more strain on the budget.

Bankruptcy Bill

Puerto Rico, which has already defaulted on some bonds, wants Congress to approve the legislation giving some entities access to Chapter 9 bankruptcy protection. That could avoid a protracted legal fight by allowing the government to restructure some debt in court, rather than through individual negotiations. That bill has yet to advance for lack of Republican support.

With bonds sold through more than a dozen agencies, Puerto Rico has yet to say which securities could be affected and by how much, which has left investors speculating about the scale of losses they may be asked to take. The administration plans to ask investors to exchange their bonds for new debt with lower interest rates or longer maturities. Such a plan may come in the next few weeks.

Going Alone

During the hearing, Puerto Rico's representative in Congress, Pedro Pierluisi, said lawmakers should end the disparate treatment that applies to the island with respect to federal programs.

"Any notion that the territory alone got itself into this situation and the territory alone must extricate itself from this situation is totally false," he said. "The truth is that the federal government bears tremendous responsibility for the crisis in Puerto Rico, and so Congress and the president must be part of any solution."

Bloomberg News

by Kasia Klimasinska

September 29, 2015 — 7:13 AM PDT Updated on September 29, 2015 — 11:39 AM PDT

Stalemate Over Tax Increases Pushes Pennsylvania Yields Higher.

As Congress races to avert a government shutdown, what may be a more prolonged political fight over the budget is dragging on in the state capital 120 miles (193 kilometers) to the north.

In Harrisburg, Pennsylvania, the state government is almost three months into the fiscal year without an agreement on what it can spend because of a divide between the Republican-led legislature and Governor Tom Wolf, a Democrat. At least two school districts say they may soon have to close. Some debt has been downgraded. And investors have pushed yields on the Keystone State's bonds close to recent highs over top-rated securities, a measure of the perceived risk.

Pennsylvania is the only state aside from Illinois that's still locked in a stalemate over the budget, a standoff reminiscent of those that once played out in statehouses around the nation after the recession. While public finances have recovered along with the economy, Pennsylvania lawmakers are contending with a $53 billion pension-fund shortfall that's threatening to hit the state with rising bills, as well as pressure to steer more money into schools.

As a result, investors are demanding yields on 10-year Pennsylvania bonds of 2.71 percent, 0.56 percentage point more than AAA municipal securities, according to data compiled by Bloomberg. That's just shy of the 0.61 percentage point reached in June, which was the highest since the data began in 2013. Only Illinois and New Jersey, which have even larger pension shortfalls, pay more, according to data on 20 states.

"Pennsylvania is not in as bad a situation as New Jersey or Illinois," said Scott McGough, director of fixed income for Glenmede Trust Co. in Philadelphia, who is reducing his holdings of Pennsylvania debt. "But clearly, the trend is poor at this point."

The legislature took a step to temporarily ease the crunch last week, when it passed a budget to provide about four months of funding to schools and other agencies. Wolf, who took office in January, rejected it on Tuesday, saying he wants a comprehensive spending plan.

"The citizens of Pennsylvania want more than half measures, and they deserve better than the status quo," Wolf said in his veto message to the legislature. The temporary budget locks in human services cuts and is "an avoidance maneuver that fails to adequately fund education."

Pension Politics

Since March, Wolf and Republicans have been at loggerheads over how to shore up the retirement system, which has less than two-thirds of the assets needed to cover the benefits promised to about 700,000 employees. Wolf vetoed a Republican bill that would have put new workers into defined-contribution plans similar to 401(k)s. He wants to sell $3 billion of debt to inject cash into the retirement system to make up for years of shortchanging it.

Republicans have also balked at his proposal to implement a new tax on natural-gas drillers and raise levies on income and retail sales to fund schools.

The effects are starting to be felt beyond the capital. This month, Moody’s Investors Service lowered the credit ratings of schools that sell bonds through a program that diverts state aid to investors if the districts default. The credit rater said the lack of a budget has cast uncertainty over the funding, heightening the risks to bondholders. Standard & Poor’s has put the districts’ ratings on watch, a first step toward a downgrade.

School Closings

School districts in Carbondale, in the northern part of the state, and to the west in Erie, have warned that they may temporarily close without funds if the budget impasse continues. By October, 41 school districts may see “significant cash-flow difficulties,” according to a senate Republican committee memo. Another 120 would be added to the list by December.

By next month, school districts would be running without more than $3 billion in state aid that was anticipated for the year, according to the Pennsylvania Association of School Business Officials. Administrators have been tapping reserves and lines of credit to compensate, the Harrisburg-based group said.

Schools have borrowed at least $347 million so far and may run up an additional $122 million of debt in October to keep classrooms open, State Auditor General Eugene DePasquale said Tuesday.

Some are pushing down the pain to charter schools. About 24 school districts have eliminated or reduced payments to charter schools, said Tim Eller, executive director of the Keystone Alliance for Public Charter Schools.

Pennsylvania is graded two steps below the state average, in part because of the deficit in its retirement system. S&P and Fitch Ratings cut the state last year to AA-, the fourth-highest level. Moody’s grades Pennsylvania Aa3, the same rank.

Glenmede’s McGough said investors may continue to demand higher yield premiums if the Pennsylvania’s leaders don’t repair the government’s finances.

“You have to address the budget as is, given the revenue coming in, and really right-size your budget,” he said.

Bloomberg News

by Romy Varghese

September 28, 2015 — 9:01 PM PDT Updated on September 29, 2015 — 9:25 AM PDT

Ohio Firefighter and Police Pension Fund to Put Spending Records Online.

The Ohio Police and Fire Pension Fund volunteered to put its spending records online as part of a partnership with State Treasurer Josh Mandel's online checkbook program.

The announcement comes exactly a week after Mandel criticized the Ohio Public Employees Retirement System for not joining his initiative, which can be accessed at OhioCheckbook.com.

Mandel accused OPERS of trying to hide information from the public, which OPERS officials quickly denied.

"The executive director of OPERS feels that taxpayers do not have a right to see this information and she's just flat out wrong," Mandel said today during a press call. "It's dumfounding that they still refuse to volunteer to put their finances online."

OPERS officials have continued to say they support transparency, as evidenced by "extensive financial information" provided on their own website.

"It's disappointing to be continually mischaracterized by the treasurer of state," said Julie Graham-Price, a media representative from OPERS. "We intend to evaluate the online checkbook initiative; unfortunately, it's not on the treasurer's timeline."

OPERS and Mandel have a history of disagreement. The two sides have clashed over who should control where the multibillion-dollar pension fund's resources should be invested among other disagreements over reforms.

The police and fire fund is the first pension fund in the United States, according to Mandel, to volunteer to put their financial information online.

"We see no reason why our members as taxpayers should not be able to see what vendors we use, what services we use, what consultants we use, how much we're paying for our paperclips and pencils, things like that," said John Gallagher, executive director of the fund. Gallagher added that confidential information would not be put on the website.

The pension fund joins more than 100 state and local government entities that have volunteered to put their spending habits online.

"Obviously we're a huge fan of the local government stuff … but it really is important for the pension funds to step it up," said Greg Lawson of the Buckeye Institute, a Columbus-based free market think tank. "It's just a great example of good government."

Mandel's initiative helped the state jump from No. 46 to No. 1 on a U.S. Public Interest Research Group list of transparent states providing online access to government spending.

BY TRIBUNE NEWS SERVICE | OCTOBER 2, 2015

By Dina Berliner

[S&P's Public Finance Podcast (Garden City Schools, Michigan, And The Town Of Lawrence, Wisconsin)]

In this week's Extra Credit, ratings analysts Anna Uboytseva and Michael Furla discuss what spurred our rating actions on Garden City Schools, Michigan, and the Town of Lawrence, Wisconsin.

Listen to the Podcast.

Oct. 2, 2015

Munis Cheapest in 5 Weeks to Treasuries as Payrolls Fall Short.

Prices in the $3.6 trillion municipal-bond market are the cheapest in five weeks relative to Treasuries after U.S. payrolls rose less than projected in September, spurring a rally in federal government debt on signs the global slowdown is affecting the world's largest economy.

Benchmark 10-year munis yield 2.09 percent, compared with 1.92 percent on similar-maturity Treasuries, data compiled by Bloomberg show. The ratio is a measure of relative value between the asset classes. It reached 109 percent Friday, the highest since August, signaling that tax-free bonds are cheap relative to their federal counterparts.

Ten-year Treasury yields plunged 0.11 percentage point after a Labor Department report showed the U.S. added 142,000 jobs, lower than the median forecast of 201,000 from a Bloomberg survey of 96 economists. Weakening foreign markets, a stronger dollar and lower oil prices raise the risk that employers will hold off on adding workers.

Munis rallied to a smaller degree. As prices rose, the yields on both 10-year and 30-year AAA bonds fell 0.02 percentage point to the lowest since April, data compiled by Bloomberg show.
The 10-year muni-Treasury ratio was as low as 94 percent in July. Over the past decade, the figure has averaged 97 percent.

Bloomberg News

by Brian Chappatta

October 2, 2015 — 6:49 AM PDT

Port Authority Leads Rise in Muni Sales; Redemptions Decline.

Municipal bond sales in the U.S. are set to increase in the next month by the most since March, while the amount of redemptions and maturing debt falls.

States and localities plan to issue $15.3 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $12.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Port Authority of New York and New Jersey plans to sell $2 billion of bonds to refund older securities, Chicago O'Hare International Airport has scheduled $2 billion of mostly refunding debt, Texas Water Development Board will offer $862 million and California will bring $446 million to market.

Municipalities have announced $8.3 billion of redemptions and an additional $8.4 billion of debt matures in the next 30 days, compared with the $25.1 billion total that was scheduled a week ago.

Issuers from New York have the most debt coming due with $2.03 billion, followed by California at $1.16 billion and New Jersey with $602 million. New York City Transitional Finance Authority has the biggest amount of securities maturing, with $916 million.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors added $628 million to mutual funds that target municipal securities in the week ended Sept. 23, compared with a reduction of $589 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $243 million last week, boosting the value of the ETFs 1.4 percent to $17.6 billion.

State and local debt maturing in 10 years now yields 103.873 percent of Treasuries, compared with 103.631 percent in the previous session and the 200-day moving average of 102.526 percent, Bloomberg data show.

Bonds of Tennessee and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Tennessee's securities narrowed 16 basis points to 2.00 percent while Michigan's declined 9 basis points to 2.30 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 72 to 10.69 percent and Illinois's rose 22 basis points to 3.92 percent.

Bloomberg News

by Kenneth Kohn and Luis Daniel Palacios

October 5, 2015 — 4:36 AM PDT Updated on October 5, 2015 — 8:21 AM PDT

How to Pay for Local California Infrastructure Projects? New Website Offers an Answer.

Downtowns are back in demand. After decades of urban sprawl—and the long commutes, high infrastructure and housing costs, and loss of open spaces that accompany it—Californians are ready for something different. It's fair to say that there is a growing consensus among the state's civic leaders that vibrant, walkable communities will be a vital part of sustaining the economy and improving our quality of life.

The question is, how to pay for it?

While market demand for walkable urban places is climbing rapidly—prompting new interest in infill development—this demand has not been supported by reinvestment in the critical infrastructure that denser neighborhoods demand. Nor have communities had access to all the planning and financing tools they need to move ahead quickly with infill projects.

Until now, that is. With the governor's signature last week on a package of legislation that will expand local governments' infrastructure financing powers, civic leaders now have at their fingertips everything they need to begin making investments in projects from transit stations and housing to next-generation water facilities.

On the financing side, the new Enhanced Infrastructure Financing Districts may offer the most exciting possibilities. The California Economic Summit has been working over the last year to strengthen these powers, highlighting how they work and identifying the types of projects that could benefit from them. Mark Pisano, co-lead of the Summit Infrastructure Action Team and professor of the practice of public administration at the USC Sol Price School of Public Policy, recently said the new authority had the "potential to be one of [California's] most significant innovations in public finance over the last decade."

Now, it is time to spread the word—and show every community in California how they could benefit from this new authority. That's why Crowdbrite, a longtime partner of the Summit with a strong track record of expanding civic engagement around public projects, has created a new interactive website for these enhanced districts: www.eifdistricts.com.

Designed for city leaders and residents alike, the site provides details on the new statute, summarizing what types of projects communities can finance with these new authorities and providing short videos with frequently asked questions about the new powers. (No, they're not quite the same as redevelopment).

The site's Infill Score tool also offers a survey that allows users to assess their own community's infrastructure needs, to consider what types of projects could earn community support, and to think about how they might be able to deploy these new financing tools to revitalize their neighborhoods and support infill development. This infill-readiness assessment, which calculates a score based upon a community's record of using 30 unique strategies for incentivizing infill development, builds on the work of the U.S. Environmental Protection Agency and was developed in partnership with the Local Government Commission and a group of city managers and national advisers.

While several major California cities are making plans to use their new EIFD authority (including Los Angeles, Sacramento, and San Jose), Crowdbrite's new online tool is already beginning to increase awareness of its potential for infill development. Since the website was launched ten days ago, 11 California cities have already completed the survey. Internationally, nearly 1,500 cities have signed up, with 50 cities taking action on this first step to community revitalization.

Now, it's your turn.

Take a moment to calculate your city's Infill Score to gauge your community's readiness for new infill development—and then use the online tool to establish priority projects and identify how to leverage public investment your community's infrastructure projects require.

After that, it may be time to reach out to your city's leaders—and to start reinvesting in your community and building a brighter future.

SEPTEMBER 30, 2015 BY DARIN DINSMORE

Darin Dinsmore is the CEO of Crowdbrite. An urban planner and landscape architect with over 15 years experience in community-based planning and design, Dinsmore is also a member of the

Summit Infrastructure Action Team.

[CUSIP Request Volume Shows Fourth Consecutive Monthly Decline Among Corporate and Municipal Bond Issuers.]

"Everyone in the financial markets – including issuers of new debt – is focused on the prospect of the Fed raising rates in September; we're seeing that reflected in the CUSIP data," said Richard Peterson, Senior Director of Global Markets Intelligence, S&P Capital IQ. "The combination of increased market volatility and uncertainty around interest rates has created a perfect storm for a slowdown in new issuance. The question now is: how long will it last?"

Read the Press Release.

September 15, 2015

[Chicago Okays $2.7 Billion in Bond Sales Amid Credit Rating Warnings.]

CHICAGO — Chicago is poised to issue more than $2.7 billion of debt amid warnings that its core credit ratings could be downgraded depending on the outcome of the city's fiscal 2016 budget.

Both Standard & Poor's and Fitch Ratings said this week they could downgrade Chicago's BBB-plus general obligation ratings if the city does not adequately address escalating pension payments.

"If the final budget that is adopted by the end of the calendar year fails to cover the larger pension payments with an identifiable and reliable revenue source, it would likely strain the rating, potentially resulting in the rating being lowered by multiple notches," S&P said in a report.

Fitch Ratings said Chicago risks a downgrade if it fails to put pension payments on a solid funding path or raids budget reserves. Moody's Investors Service, which dropped Chicago's rating to junk in May, withheld comment until a final budget is enacted.

Mayor Rahm Emanuel proposed a budget on Tuesday that includes the biggest-ever city property tax hike to cover increased contributions to public safety worker pensions.

To make the $543 million tax hike, phased in through 2018, palatable to city aldermen, Emanuel is seeking an expanded tax exemption in the Illinois Legislature to shield homes valued at $250,000 or less from the increase. His budget also counts on enactment of a bill that spreads out the city's police and fire pension payments.

Additionally, Chicago is betting the Illinois Supreme Court will uphold the constitutionality of a state law aimed at shoring up the sagging finances of its municipal and laborers' retirement systems, partly through benefit cuts.

S&P said that given these "uncertainties," it expects city officials to consider contingency plans for addressing a $20 billion unfunded pension liability.

At a press conference on Thursday, Emanuel said the city is "on strong ground" with its legislative efforts.

Earlier, the city council gave final approval to the sale of up to $500 million of general obligation bonds in a deal that will push out payments on $225 million of outstanding debt and refund the rest for possible savings.

Aldermen also approved up to $2 billion of new and refunding O'Hare Airport revenue bonds and up to $225 million of sewer bonds, including $125 million to end interest-rate swap agreements. The airport and sewer bonds are expected to price in October, with the GO bonds selling in the coming months, a city spokeswoman said.

By REUTERS

SEPT. 24, 2015, 3:33 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by David Gregorio)

Chicago Faces Tax Increase, Rise in Fees.

CHICAGO — Mayor Rahm Emanuel is proposing a historic property tax increase, while expanding fees on trash collection and taxi rides under a plan to confront a growing fiscal crisis in the nation's third largest city.

The proposal comes months into the second term of Mr. Emanuel, a former congressman and chief of staff to President Barack Obama, as he runs out of options to address ballooning pension costs that are coming due.

During his first term, the mayor focused on trying to gain concessions from city workers and retirees, but was stymied by the courts and organized labor.

Mr. Emanuel's plan would raise an additional $544 million from property taxes alone phased in over four years under what is being described as the largest tax rise in city history. He also proposes raising additional revenue by taxing e-cigarettes, expanding fees on garbage pickup, and adding fees on taxi and ride-sharing services.

"As we continue to grow our economy, create jobs and attract families and business to Chicago, our fiscal challenges are blocking our path," Mr. Emanuel said in a statement.

Details of the proposal were released by the Emanuel administration Monday ahead of his budget address to the city council on Tuesday.

Parts of the plan leaked in recent weeks have faced pushback from some aldermen and public rebuke at hearings. Many have voiced concerns about the cost to working families.

"We must ask the very wealthy and big corporations to pay their fair share in taxes so we can finally fix our structural deficit and get on track to fiscal sanity," said Alderman Leslie Hairston, who is among the council members pushing for tax rebates for working families and changes in how commercial buildings are taxed.

The Emanuel administration said it would seek changes in state law to protect those who own homes valued at $250,000 or less from the brunt of the tax increase.

The proposal comes as Mr. Emanuel looks to keep Chicago from becoming an increasing outlier among U.S. cities. The Midwest hub faces many of the challenges that other aging cities are experiencing, from population declines to crumbling infrastructure.

But sharply rising municipal pension costs and mounting state fiscal problems have helped set Chicago apart. Moody's Investors Service dropped the city's credit rating to junk earlier this year.

Mr. Emanuel's proposal includes cost savings from eliminating vacant positions to redesigning how streets are swept, but largely relies on new revenue to confront its fiscal problems.

The property-tax boost would go to pay for a $550 million increase in pension costs for police officers and firefighters required by the state to ensure their retirement systems remain solvent. The Emanuel administration is lobbying the state to allow the hike to be phased in over time, matching the property-tax-increase schedule.

Administration officials said the mayor has few options.

During his first term, Mr. Emanuel had focused on reaching agreements with city workers to lower pension expenses by reducing cost of living increases and requiring current employee to increase their contributions. But a court ruling in July derailed such efforts, saying the city couldn't change already promised retirement benefits.

Monday's proposal is separate from the Chicago school district's budget, which isn't funded through the school year and is counting on help from the state.

THE WALL STREET JOURNAL

By MARK PETERS

Updated Sept. 21, 2015 8:07 p.m. ET

Write to Mark Peters at mark.peters@wsj.com

[Puerto Rico Sends Reassurance as Debt Talks Poised to Begin.]

Puerto Rico's pledge to take the constitutional priority of its general-obligation bonds in consideration is seen as a message that the commonwealth is willing to work with investors as debt restructuring talks begin.

"It's an important step for them just to reinforce that there are rules and that they know that there are rules and that they're going to be trying to work around them with bondholders," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "Maybe that works, maybe it doesn't."

Administration officials tasked with reducing the island's debt load or suspending debt-service payments met Thursday with Governor Alejandro Garcia Padilla and lawmakers to develop guidelines for a potential voluntary exchange of existing debt for new bonds with possible security improvements, according to a document released late Thursday. Those principles include seeking to take into account the priorities of the debt that creditors hold.

Puerto Rico has $13 billion of general-obligation debt outstanding, which the island's constitution stipulates must be repaid first. Other securities are backed by specific revenues and lack that protection. Acknowledging that it would seek to respect the constitutional priority of its general obligations may help Puerto Rico in the future when it looks to borrow through the capital markets, said Fabian.

Puerto Rico's government and its advisers said on Sept. 9 that a proposal to pare the commonwealth's debt would be released in a few weeks. The government plans to start meeting with investors by mid-October to begin negotiations.

Puerto Rico has already initiated talks with advisers to bondholders of Government Development Bank debt, seeking to potentially exchange those obligations for new securities. About $336 million of GDB debt matures Dec. 1.

Here's a list of the island's biggest bond issuers, how much long-term debt they have, and when major monthly payments are due, according to data compiled by Bloomberg.

General-obligations: $13 billion. The debt backed by the commonwealth's full faith and credit. The island's constitution says general obligations must be repaid before other expenses. Puerto Rico owes $357 million of interest in January and an additional $805 million of principal and interest is due July 1.

Puerto Rico Sales Tax Financing Corp.: $15.2 billion. The bonds, known by the Spanish acronym Cofinas, are repaid from dedicated sales-tax revenue. A $6.2 billion portion of the debt, called senior-lien, is repaid first. The remaining $9 billion, called subordinate-lien, get second dibs. After paying $12.5 million of principal and interest in August, $1.2 million of interest is due in November, February and again in May.

Puerto Rico Electric Power Authority: $8.3 billion. Prepa, as it's called, is the island's main supplier of electricity and repays the debt from what it charges customers. The utility owes $196 million of interest in January and $420 million of principal and interest July 1.

Puerto Rico Government Development Bank: $5.1 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. The GDB is seeking to restructure its obligations through a debt exchange. The bank owes $354 million in December and $422 million in May.

Puerto Rico Highways & Transportation Authority: $4.7 billion. The highway agency repays its debt with gas-tax revenue. It owes $106 million of interest in January and $220.7 million of principal and interest in July.

Puerto Rico Public Buildings Authority: $4.1 billion. The PBA bonds are repaid with lease revenue from public agencies and departments of the commonwealth. The agency owes $102.4 million of interest in January and $207.6 million of principal and interest in July.

Puerto Rico Aqueduct & Sewer Authority: $4 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. The water agency owes $86.5 million of interest in January and $135.1 million of principal and interest in July.

Puerto Rico Pension-Obligation Bonds: $2.9 billion. The taxable debt was sold to bolster the island's main pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The next maturity is July 2023 and the system pays $13.9 million of interest every month in this budget year.

Puerto Rico Infrastructure Financing Authority: $1.9 billion. Called Prifa, the agency has sold the island's rum-tax bonds. These are securities repaid from federal excise taxes on rum made in Puerto Rico. Prifa owes $37.2 million of interest in January and $77.8 million of principal and interest in July.

Puerto Rico Public Finance Corp.: $1.09 billion. The PFC bonds are repaid with money appropriated by the legislature. The agency defaulted on its Aug. 3 and Sept. 1 debt-service payments because the legislature failed to allocate the funds. It owes interest every month, the largest being a $24 million payment in February.

Bloomberg News

by Michelle Kaske

September 25, 2015 — 12:59 PM PDT

Bloomberg Brief Weekly Video - 09/24/15

Taylor Riggs, an editor at Bloomberg Brief, talks with reporter Kate Smith about this week's municipal market news.

Watch the video.

September 24, 2015

Puerto Rico's Bonds Overshadow Pension Fund Poised to Go Broke.

Puerto Rico's $72 billion debt burden overshadows another financial threat to the Caribbean island: a government workers pension fund that's set to go broke in five years.

As Governor Alejandro Garcia Padilla prepares to push for bondholders to renegotiate debts he says the commonwealth can't afford, he's also contending with an estimated $30 billion shortfall in the Employees Retirement System. The pension, which covers 119,975 employees, as of June 2014 had just 0.7 percent of the assets needed to pay all the benefits that had been promised, a level unheard of among U.S. states.

If not fixed, the depleted fund could jeopardize a fiscal recovery by foisting soaring bills onto the cash-strapped government even if investors agree to reduce the island's debt. The system is poised to run out of money by 2020, which would leave the government on the hook for more than $2 billion in benefit payments the next year alone, according to Moody's Investor's Service. That's equal to about one-fourth of this year's general-fund revenue.

"As Puerto Rico shoulders that burden of paying for pension benefits outright, that's obviously going to cripple their budget," said Ted Hampton, a Moody's analyst in New York.

Crisis Builds

The debt crisis gripping the island, with a population of 3.5 million, is the outcome of years of borrowing to pay bills while the economy stumbled and residents left for the U.S. mainland. In

August, Puerto Rico defaulted on some bonds for the first time, and Garcia Padilla has said that reducing its debt is crucial to the island's economic recovery.

His administration and outside advisers on Sept. 9 released a plan to repair the island's finances, which included closing schools and reducing benefits to the poor. It also envisions making increased pension payments that have been delayed because the government hasn't had the money.

"We believe this plan addresses the system's needs and assures pensioners and participants that their benefits will be paid," Pedro Ortiz Cortes, administrator for the retirement system, said in an e-mail Thursday.

Workers' Doubts

Puerto Rico's failure so far to address its long-building pension shortfall has fostered anxiety among workers, who are concerned that their benefits will be reduced amid competing demands from creditors. "A reduction in benefits would be horrible," said Eduard Rodriguez Santiago, a 38-year old firefighter. "Things are getting more expensive."

Garcia Padilla, in a speech after the release of the fiscal plan, said that workers have already sacrificed enough. In 2013, the government raised the retirement age, increased employee contributions and reduced or eliminated retiree bonuses.

"Solving the pension problem is almost tougher than debt because people will take to the streets if you start seeing pension checks quit going out," said Tom Schuette, co-head of credit research at Solana Beach, California-based Gurtin Fixed Income Management LLC, which manages $9.6 billion of municipal securities. "It's almost much easier to anger investors on the mainland as opposed to residents who can vote you out of office."

Current and prior administrations have implemented changes to improve the pension system, including by closing it to new employees and offering them annuities instead. To give it cash to invest, it sold $2.9 billion of bonds in 2008, just before the credit crisis caused stock prices to plunge. The system is now obligated to repay the securities, which have tumbled in value amid doubts about its ability to do so.

As Puerto Rico has cut the number of workers on its payrolls, there are fewer paying into the retirement system. The island had 116,000 central-government employees in May 2015, down 27 percent from seven years earlier, according to the report by the government and its advisers.

While new employees haven't been eligible for traditional fixed-benefit pensions since 2000, the step didn't stop Puerto Rico's growing liabilities. The new employees, called System 2000 participants, will receive an annuity instead. Their contributions are being used by the pension system to meet its obligations.

New Liabilities

"They're using these payments to shore up their existing defined-benefit plan," said Hampton, the Moody's analyst. "Their defined-contribution plan isn't really taking hold. It's just creating new liabilities for the central government."

Puerto Rico is facing more immediate concerns because it may be short of cash as soon as November. That may leave it forced to choose between paying workers and retirees or bondholders, with $357 million of interest on its general obligations due Jan. 1.

"If the government has to decide between making a big general-obligation payment in January or making sure they have enough for payroll or for pensioners in December, I think they're going to go with the pensioners or payroll," Sergio Marxuach, public-policy director at the Center for a New Economy, a research group in San Juan. "You're not going to send government workers home without money during Christmastime."

Bloomberg News

by Michelle Kaske

September 24, 2015 — 9:01 PM PDT Updated on September 25, 2015 — 5:33 AM PDT

Puerto Rico Agency Reaches Tentative Pact With Fuel Lenders.

Puerto Rico's main power utility reached a tentative agreement with lenders on fuel purchases that would reduce interest rates on $700 million of debt that has already matured and extend repayment for at least six years.

The Puerto Rico Electric Power Authority and lenders including a unit of Bank of Nova Scotia and Solus Alternative Asset Management agreed to convert the debt, which matured in 2014, into six-year term loans with a 5.75 percent interest rate or exchange all or part of the principal due under existing credit agreements for new bonds. The securitized debt would include a 15 percent principal reduction and a five-year moratorium on payments.

The principal reduction is equal to the amount accepted by holders of about 35 percent of its $8.3 billion in bonds earlier this month. The utility, known as Prepa, is still in talks with tax-exempt bond insurers in what would be the largest-ever restructuring in the $3.6 trillion municipal-bond market.

The utility restructuring is the first step toward Puerto Rico's goal to lower its debt burden.

"The terms for those lenders are very attractive in this agreement, but the total amount is small and Prepa needs access to fresh fuel financing," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

The tentative pact comes a year after the fuel lenders entered a forbearance agreement, where they pledged to not file suit against Prepa while the debt talks were ongoing. That accord was set to expire Sept. 25.

Bond Insurers

"The best path forward for Prepa, as well as the creditors, involves sharing the burden among all stakeholders. We continue to negotiate with our monoline bond insurers in an effort to reach agreement that will allow Prepa to continue to implement its transformation," said Lisa Donahue, Prepa's chief restructuring officer, said in a statement Tuesday.

Prepa owed Scotiabank de Puerto Rico about $550 million as of August 2014, according to the forbearance agreement. The utility owed another $146 million to Citigroup Inc. as of that period. Solus bought that loan from Citigroup earlier this year. The agreement would lower interest rates to 5.75 percent from 7.25 percent, according to Prepa's statement.

"We are pleased that the syndicate of fuel-line lenders and Prepa have reached a mutually beneficial agreement in principle to support Prepa's ongoing operational transformation," Marcelo Gomez-Wiuckstern, a spokesman for Scotiabank, said in an e-mail.

Solus declined to comment through Julia Kosygina, a representative at Abernathy MacGregor Group Inc.
Bond insurers including Assured Guarantee Ltd. and Syncora Guarantee Inc. declined to extend their forbearance contract beyond Sept. 18. MBIA Inc. dropped out of the forbearance earlier this month. An accord with bondholders will expire Oct. 1 unless the parties extend it.

Bloomberg News

by Michelle Kaske

September 22, 2015 — 1:27 PM PDT Updated on September 22, 2015 — 2:43 PM PDT

BlackRock Sees Higher Puerto Rico Gap Than Morgan Stanley.

Puerto Rico's five-year budget deficit leans closer to the commonwealth's $14 billion forecast rather than a Morgan Stanley estimate that cuts that figure by more than half, according to BlackRock Inc.'s Peter Hayes.

Commonwealth officials and their advisers, called the Working Group, unveiled on Sept. 9 a five-year fiscal and economic growth plan that projects the island's budget will be short $14 billion because of increasing health-care expenses and retirement costs. The report's base-case scenario estimates the island's gross national product will decline by one percent and may increase by as much as 2 percent in a high-growth scenario, according to the plan.

One Morgan Stanley scenario takes a different view. Puerto Rico has overestimated its funding gap, according to a presentation distributed Sept. 11 by Ryan Brady, an analyst on Morgan Stanley's municipal-debt trading desk in New York. The bank estimates a $5.57 billion deficit through fiscal 2020, according to the report. Yet that forecast may be too low, Hayes said Tuesday on Bloomberg Television.

"We're on the higher side," said Hayes, who helps oversee $116 billion as head of municipal debt, including Puerto Rico securities, at New York-based BlackRock. "We think some of the economic assumptions are well founded," Hayes said about the Working Group's estimates.

How to best gauge Puerto Rico's estimates are even in dispute within Morgan Stanley. Research analysts led by Michael Zezas, who work separately from the trading desk, put out a note the day before Brady's presentation stating that "we could not patch together a budget baseline with a strong enough degree of confidence."

Puerto Rico and its agencies owe $72 billion. Officials plan to offer investors a debt-restructuring proposal in the next few weeks after saying the commonwealth will only have $5 billion in the next five years to repay $18 billion of principal and interest coming due. Governor Alejandro Garcia Padilla in June said Puerto Rico and its localities were unable to repay all of its obligations on time and in full.

The Working Group's five-year plan follows a report compiled by former International Monetary

Fund economists led by Anne Krueger and commissioned by Puerto Rico. The Krueger report calculates a five-year deficit of $9.6 billion.

"When you look at the economy of Puerto Rico, there's a lot of reforms that need to take place," Hayes said. "And if they don't, it's likely that deficit is going to be higher rather than smaller."

Bloomberg News

by Michelle Kaske

September 22, 2015 — 11:48 AM PDT Updated on September 22, 2015 — 12:32 PM PDT

Goldman Sachs to Extend Maturity Date of Headquarter Bonds.

Goldman Sachs Group Inc. is extending the life of some debt that financed its downtown Manhattan headquarters.

The New York Liberty Development Corp. plans to issue $22 million of tax-free debt on behalf of a Goldman Sachs subsidiary that funded construction of the firm's 1.9 million-square-foot building at 200 West Street. The 20-year bonds will be tacked onto its outstanding $1.24 billion of securities due in 2035 that were sold 10 years ago. Proceeds will pay off owners of obligations that mature Oct. 1, according to offering documents.

The New York agency, which was created to spur development after the terrorist attacks on Sept. 11, 2001, is an example of conduit agencies across the U.S. that give companies access to the tax-exempt securities market to reduce interest costs. Goldman Sachs initially borrowed about $1.3 billion in 2005 through the Liberty Bond program, which was projected to save it at least $100 million over the life of the debt.

Trade Center

"This is a relatively small chunk of the deal that's coming due and to try to re-market that separately can be difficult," Jonathan Beyer, senior legal counsel at Empire State Development, said at a Sept. 1 meeting. The Liberty Development Corporation is a subsidiary of the firm. "The idea is to extend the maturity and consolidate it in a larger package for sale."

Others who have tapped the public corporation for financing include developer Larry Silverstein, who sold $1.6 billion of tax-exempt bonds last year to finance the construction of 3 World Trade Center, and Bank of America Corp., which borrowed for its tower across from Bryant Park in midtown Manhattan.

The new bonds for Goldman Sachs are considered a second tranche of the 2005 borrowing and will carry the same 5.25 percent interest rate as the 2035 debt. The securities could still be priced at a lower yield. Municipal debt due in two decades yield 0.6 percentage point less than 10 years ago, Bond Buyer data show.

While a security reopening is common in the U.S. Treasury market, it's rare in the $3.6 trillion municipal market. In such a transaction, a borrower sells an extra portion of previously issued debt with the same maturity and interest rate, even though it comes to market later at a different price.

The bonds have the same ratings as Goldman Sachs, which guarantees the debt service payments of its subsidiary. Moody's Investors Service has the debt at A3, four steps above speculative grade and equivalent to the A- rank from Standard and Poor's.

Tiffany Galvin, a spokeswoman in New York for Goldman Sachs, declined to comment on the deal beyond the offering statement.

Bloomberg News

by Brian Chappatta

September 22, 2015 — 9:07 AM PDT Updated on September 22, 2015 — 1:38 PM PDT

[Bloomberg Video: What's Behind the Municipal Bond Mess?]

BlackRock Municipal Bond Head Peter Hayes discusses municipal bonds and Puerto Rico's debt. Bloomberg's Kate Smith also reports on "Bloomberg Markets."

[Watch the video.]

September 22, 2015

[Chicago Faces Record Tax Hike as Pensions Compound Deficit.]

Chicagoans are bracing for the biggest property tax increase in the city's history as Mayor Rahm Emanuel contends with a budget shortfall and soaring retirement bills that have sent its credit rating tumbling.

Emanuel, a Democrat, on Tuesday proposed raising property taxes by $588 million over the next four years. That would inject cash into the city as it faces a $426 million deficit and a pension-plan debt that's grown to $20 billion, more than $7,000 for each resident.

The tax increase would mark one of the biggest steps yet by Emanuel to shore up the finances of the third-largest U.S. city, which is under pressure from Wall Street as investors demand higher yields to buy its securities. Moody's Investors Service, Standard & Poor's and Fitch Ratings have all downgraded Chicago this year, giving it the lowest rating of any big U.S. city except for once-bankrupt Detroit.

"Our greatest financial challenge today is the exploding cost of unpaid pensions," Emanuel said during his budget speech, which ended with a standing ovation from the packed city council chamber. "It's a dark cloud that hangs over the rest of our city's finances."

"The bill is due today," Emanuel said. Without the new revenue, the city would need to lay off 2,500 police officers, close 48 fire stations and cut 2,000 firefighting jobs to cover pensions costs, he said.

Welcomed Move

The prospect of higher taxes has been welcomed by investors. Federally tax-exempt Chicago bonds maturing in 2035 traded Tuesday for an average of 94.6 cents on the dollar, up from 88.7 cents on Aug. 27. That lowered the yield to 5.5 percent, about 2.5 percentage points more than top-rated debt, according to data compiled by Bloomberg.

“This is not kicking the can down the road,” said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which holds Chicago debt among its $11 billion of municipal securities. “We’re actually going to do something here that is going to sting. We’re moving from gamesmanship to action steps.”

The financial squeeze on Chicago emerged after officials shortchanged the pension funds by more than $7 billion over the past decade, freeing up cash for other uses. That’s caused the projected retirement bill to swell to about $1 billion next year, more than doubling since 2014, as it makes up for years of failing to set aside enough to cover pension checks for police officers, firefighters and other city employees.

The move to raise taxes, which needs the approval of the city council, is a shift for Emanuel, who won re-election in April after touting his record of not lifting property, gas or sales taxes. In May, Moody’s cut Chicago’s bonds to junk, saddling the city with higher interest bills as it refinanced debt.

“I think that public service requires people to display courage and to take tough votes,” Alderman Edward Burke, chairman of the finance committee told reporters after Emanuel’s address. “This is going to be a tough vote.”

The property tax hike, which will be used for pensions, will start with a $318 million increase in 2015 followed by an additional $109 million in 2016, $53 million in 2017 and $63 million in 2018. A $45 million special real-estate levy that state lawmakers approved in 2003 would also be enacted to ease overcrowding at schools.

“It’s a good faith example of what Chicago needs to kind of right their ship and improve their finances,” said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. “It’s not going to solve all the problems of the world, but they’re taking the right steps and that’s important.”

Chicago’s next annual pension payment will jump 10 percent $976 million, according to an annual financial analysis released July 31. That’s on top of the $549 million it still owes to police and firefighter retirement funds for this year. While state lawmakers approved lowering this year’s payment to $328 million, Republican Governor Bruce Rauner has yet to sign it.

The city is also fighting a court challenge to its effort to cut some employee benefits and require them to pay more into the retirement system. A state judge in July ruled that the steps are illegal, siding with the workers.

Business Opposition

The tax-increase plan has already drawn some opposition from businesses. The burden may fall largely on commercial property owners, said Ron Tabaczynski, director of government affairs for the Building Owners and Managers Association of Chicago. Emanuel wants to exempt owners of homes valued at $250,000 or less from the hike.

“Businesses start rapidly approaching that tipping point where it’s just not worth doing business here,” Tabaczynski said.

The fiscal pain is being shared in other ways. Residents who don't already pay for garbage pick-up will have to pay $9.50 a month for refuse collection, generating about $62.7 million, according to Emanuel's proposal. He's also pitching higher fees on taxis and ride-hailing services like Uber Technolgies Inc. to produce about $48.6 million.

This tax increase is welcome step toward dealing with Chicago's financial strains, said Dan Heckman, senior fixed-income strategist in Kansas City, Missouri, at U.S. Bank Wealth Management, which oversees about $127 billion of bonds.

"Doing nothing is not going to solve it, and doing only a little will only prolong this," said Heckman, whose firm doesn't hold Chicago debt. "That's a concern on a lot of investors' minds."

Bloomberg News

by Elizabeth Campbell

September 21, 2015 — 3:46 PM PDT Updated on September 22, 2015 — 10:36 AM PDT

PortMiami Hoping to Continue P3 Success.

A new public private partnership ("P3″ or "PPP") is coming to PortMiami. Royal Caribbean Cruises, LTD ("RCCL") seeks to design, build, finance, operate, and maintain a new cruise terminal in the northeast section of the Port. RCCL's plans have been preliminarily memorialized in a non-binding Memorandum of Understanding that was approved at this Wednesday's Miami-Dade County Commission meeting. Subsequent Commission approvals will be needed for the binding deal documents and agreements.

Typical of a P3, RCCL will do more than simply enter into a ground lease for space in a terminal. It will share the risk of designing, constructing, operating, and most importantly to the Port, financing the terminal. The maintenance responsibilities will be split between maintenance of the leasehold improvements by RCCL and maintenance of the common areas outside the leased premises by the County, satisfying the remaining "M" element in the DBFOM (design, build, finance, operate, maintain) acronym that is used to characterize a P3.

The P3 with RCCL comes after the successful completion of the Port Tunnel P3 that has garnered a visit and praise from President Obama who extolled it as an example of the kind of P3 that should be used around the country to modernize aging transportation infrastructure. The $1 billion P3 was built because it was expected to divert vehicles from and reduce congestion in Downtown Miami and reduce travel time to and from the Port. In less than a year, the Port Tunnel met and even exceeded many expectations.

The Port Tunnel P3 was structured as an availability payment-based concession agreement. With this financing structure, the private-sector partner constructs, operates, and maintains the facility with its own funds, and the public agency (in the case of the Port Tunnel, Florida Department of Transportation) makes payments to its partner based on the project's availability for use by the public. The public agency bears risks pertaining to the demand for the facility because the amount it pays to the private sector party does not change even if the project is not used to the extent anticipated, though the availability fee may be offset with user fees received from public use of the project or facility. The risk for the private party includes the fact that this fee structure relies on the public budget, which may be subject to budgetary conditions and constraints and political pressure.

There are also risks pertaining to delays, repairs, and increased costs that could lead to the private-sector partner missing key deadlines or taking the project out of service, which would lead to penalties for unavailability.

PortMiami is likely to also have new commercial development on its southwest corner given the interest that has been expressed by several groups, including one whose request for waiver of a competitive process was rejected. As Miami-Dade County continues to make strides in financing projects and providing solutions to infrastructure problems with P3s, it can look to the success at the Port as assurance that P3s can do well in Miami-Dade County.

posted on: Monday, September 21, 2015

The National Law Review

S&P's Public Finance Podcast: (The Rating Action On New Mexico State University).

In this week's Extra Credit segment, Director Bianca Gaytan-Burrell discusses what prompted our recent rating action on New Mexico State University.

Listen to the podcast.

Sep. 25, 2015

Rhode Island Averts Pension Disaster Without Raising Taxes.

Chicago is facing its biggest tax increase in memory, to raise money for pension payments. Illinois is stymied by a $110 billion pension shortfall. In New Jersey, public workers are in court over a failed pension deal. From Pennsylvania to California, pensions costs are crowding out aid for public education.

But even as pensions keep squeezing budgets and setting off court battles around the country, Rhode Island, America's smallest state, appears to have found its way out of the quagmire. Its governor, Gina M. Raimondo, has finished a four-year pension overhaul without raising taxes or issuing risky pension-obligation bonds. Union leaders who fought her at first ultimately negotiated the terms, deciding that a court fight over her plan might do more harm than good.

"Raimondo had the highest hill to climb," said Daniel DiSalvo, a senior fellow at the Manhattan Institute who has been comparing different states' efforts to rein in pension costs. Her initiative was among the most ambitious, he said, and she started "from what was, in many respects, the weakest institutional position."

Her experience, Mr. DiSalvo and others say, could be a case study for other states and municipalities struggling with pensions and other long-term obligations that cost much more than expected. And the timing could hardly be more critical, given predictions that the fiscal health of state and local governments is likely to remain under stress for years as the population ages.

“We may be entering a new fiscal ice age,” a long period when demographic forces will make financing cities and states even harder than it is now, Mr. DiSalvo said.

That is not to say everyone is happy with the result. To the contrary, bitterness remains in Rhode Island, where public retirees’ annual increases have been suspended, and public workers have had to trade in part of their defined-benefit pension plan for a 401(k)-style benefit, where they must bear investment risk.

“No other entity would get away with what the State of Rhode Island is doing to their retirees,” said Louise Bright, a retired state financial manager, who had wanted a trial to resolve key legal issues. “A contract is a contract, even when that contract involves senior citizens.”

Ms. Raimondo, who started her battle as state treasurer, faced obstacles not unlike those confronting Mayor Rahm Emanuel of Chicago: entrenched political machinery, powerful unions, a decades-old practice of promising rich pensions without setting aside enough money to pay them, truculent taxpayers, record numbers of retirees and an all-enveloping fog of discredited numbers. Both are Democrats in blue states. Both had to deal with “mature” pension systems that were paying out more in benefits than they were receiving in contributions, a situation that can quickly become unmanageable.

But Ms. Raimondo was able to revamp her state’s pension system, keeping some of the traditional structure while lowering the cost, and surviving lawsuits by workers and retirees who called her moves unconstitutional.

Mr. Emanuel’s attempts to rein in pension costs, in contrast, have been thrown out by a judge, leading to his appeal this week for a big tax increase.

“Our greatest financial challenge today is the exploding cost of our unpaid pensions,” he told the Chicago City Council on Tuesday. “It is a big dark cloud that hangs over the rest of our city’s finances.” Without raising taxes, he warned, Chicago will have to finance its pension promises by laying off thousands of police officers and firefighters, ending rat-control programs and letting street repairs lapse, among other cost-cutting measures.

“Our city would become unlivable,” he said.

That is the bullet Ms. Raimondo has dodged. A former venture capitalist and Rhodes Scholar with an economics degree from Harvard, she could see early on that her state’s cheery pension disclosures were papering over a crisis.

Ms. Raimondo was also willing to rest her case for a pension makeover on a contrarian interpretation of the law and hold firm when the unions sued.

“We thought we had a good case,” she said, “but most important, I knew I couldn’t be afraid of a potential lawsuit.”

Ms. Raimondo also had a quirk of the law on her side. In most states, lawmakers or the courts have taken steps to make public pension systems creatures of contract law, as opposed to mere creatures of statute. This may sound obscure, but the difference is critical. Statutes are relatively easy to change — lawmakers just amend the law. But states that want to tear up pension contracts face an uphill fight, because of a clause in the United States Constitution that bars them from enacting any law that retroactively impairs contract rights.

The clause dates to post-Revolutionary America, when the framers wanted to stop the states from giving themselves debt relief. Since then, similar clauses have been added to state constitutions as well. And over the last century, many states have extended the contract clause to cover their pension systems.

But in Rhode Island, Ms. Raimondo said, lawmakers never got around to making the state pension system contractual. "In every state it's different, but in Rhode Island, the whole pension system is set out in statute."

Unions disputed that, but Ms. Raimondo forged ahead based on her conviction. That gave her a big tactical advantage: All she had to do was persuade the state legislature to amend the pension law, something it had already done many times.

Compare that with Mr. Emanuel's predicament.

Unlike Rhode Island, Illinois did make public pensions contractual. Its constitution bars cities like Chicago from imposing pension cuts on their workers.

So while Ms. Raimondo was able to move toward her statutory goal in Rhode Island, Mr. Emanuel has been left haggling with 33 unions in Chicago, trying to find common ground for a makeover that would shrink pensions but fund them properly.

Eventually, he did get buy-in from all but three unions and from state lawmakers in Springfield. The city even programmed pension changes into its computers. But then the deal fell apart, when a small number of holdouts won an injunction. Chicago was ordered to wait for the State Supreme Court to decide the constitutionality of a separate pension overhaul by the state. The court found it unconstitutional and not long after that, a Cook County judge said the ruling was binding on Chicago, too.

And that is why Mr. Emanuel is calling for a big tax increase.

For Ms. Raimondo, persuading the state legislature to do radical pension surgery was a matter of explaining the depths of the problems. She began a series of town hall meetings, where she said that the state had promised its workers far more than it could deliver. The mismatch was so big that if the pension system collapsed, it could take the state down with it, she warned.

And then, in the middle of her road show, the small city of Central Falls went bankrupt. It had never joined the state pension system, preferring to run its own plan, and now its pension fund for police officers and firefighters had run completely out of money. The pensions of retirees, some elderly and infirm, were cut sharply.

"You'd see them interviewed on the nightly news," Ms. Raimondo recalled. "These were guys who did everything right. They followed all the rules, and then their city went bankrupt and their pensions were cut in half."

That was a persuasive moment for lawmakers. In November 2011, Gov. Lincoln Chafee called the legislature into special session. Amendments to the pension law passed overwhelmingly, allowing cuts to be made.

Unions and retiree groups sued, and the judge hearing the dispute, Sarah Taft-Carter, said early on that unlike Ms. Raimondo, she saw an "implicit contract" protecting public pensions in Rhode Island. But that was not the end of it. Contract jurisprudence still gives a state some wiggle room to unilaterally impair contracts, under narrow circumstances and with close judicial supervision.

Judge Taft-Carter ordered the state and the unions to try to resolve their disputes in mediation, warning that if they failed, there would be a jury trial.

Confidential talks began, but in the meantime, the state was permitted to carry out the changes.

A settlement finally emerged this year, which, among other things, gave one-time payments to current retirees, to soften the blow of losing their cost-of-living adjustments. Judge Taft-Carter held a “fairness hearing,” giving those affected a chance to sound off. Many expressed anger. But one union leader, Robert Walsh of the National Education Association of Rhode Island, said that after much soul-searching he had decided to support the settlement as the best deal for his 7,500 members.

A settlement, he said, “can be fair and heartbreaking at the same time.”

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

SEPT. 25, 2015

U.S. Municipal Debt Sales to Hit $6.9 Billion Next Week.

Next week’s sale of $6.9 billion of bonds and notes in the U.S. municipal market will feature hefty debt offerings from two states, according to Thomson Reuters estimates on Friday.

Washington state tops the week’s calendar at $944 million.

This includes $497.8 million of general obligation bonds it is offering via competitive bid in part on Wednesday and through Bank of America Merrill Lynch in part on Monday. Those bonds carry serial maturities from 2016 through 2040, according to the preliminary official statement.

The state will also competitively sell nearly $192 million of motor fuel tax GO bonds due from 2016 through 2040, $60.7 million of taxable GO bonds maturing from 2016 through 2021, and $193.7 million of GO refunding bonds maturing from 2016 through 2024.

The bonds are rated AA-plus by Standard & Poor’s and Fitch Ratings, and Aa1 by Moody’s Investors Service.

Connecticut will sell $840 million of new and refunding special tax obligation bonds for transportation infrastructure through lead underwriter RBC Capital Markets. The deal is structured with $700 million of new bonds with serial maturities from 2016 through 2035 and $140 million of refunding bonds maturing from 2018 through 2027, according to the preliminary official statement.

Moody’s rated the bonds Aa3, and Fitch rated them AA.

Meanwhile, flows into U.S. municipal bond funds turned positive in the latest week after four straight weeks of outflows, according to Lipper.

Net inflows totaled $231 million in the week ended on Sept. 23, the most since the week ended on April 29.

REUTERS

Sep 25, 2015

(Reporting by Karen Pierog; Editing by Lisa Von Ahn)

[Senate Finance Panel Hearing Set On Puerto Rico's Fiscal Health.]

WASHINGTON – The Senate Finance Committee will hold a hearing on Sept. 29 to discuss the “dire financial situation” in Puerto Rico, committee chair Sen. Orrin Hatch, R-Utah, said Tuesday.

The situation “facing Puerto Rico’s economy and its citizens underscores the alarming consequences of crippling debt,” Hatch said. “With outstanding debt greater than its economic output, the territory faces default unless a responsible long-term fiscal path forward is found.”

The committee has not announced witnesses for the hearing, but Resident Commissioner Pedro Pierluisi, D-PR announced that he has been invited to testify. Gov. Alejandro Garcia Padilla, a Democrat, has also been invited to testify, according to Pierluisi, who said he expects the governor to send a representative.

Hatch said members of the Finance Committee will “have the opportunity to explore how the territory manages its finances and government-backed borrowing entities as well as the interplay between federal entitlement and tax programs and Puerto Rico.”

In addition to chairing the Finance Committee, Hatch also sits on the Senate Judiciary Committee, where a bill to extend Chapter 9 bankruptcy protection to Puerto Rico authorities and municipalities has not moved since it was introduced July 15.That bill was introduced by Sens. Richard Blumenthal, D-Conn., and Chuck Schumer, D-N.Y.

A companion bill introduced in February by Pierluisi, has similarly remained stagnant in the House Judiciary Committee.

Sen. Chuck Grassley, R-Iowa, and Rep. Bob Goodlatte, R-Va., who chair the two committees, have said they do not intend to advance the bills unless other avenues are considered.

While the Obama administration and others, are pushing for Congress to extend bankruptcy protections to the territory, groups such as 60 Plus Association, a seniors’ advocacy organization, want to see the creation of a federal financial control board.

Puerto Rico continues to struggle with $71 billion in public debt. Gov. Alejandro Garcia Padilla has repeatedly said the debt is not payable without restructuring. Officials on the island recently made numerous suggestions for remedying the situation in the form of an economic growth plan a government working group released Sept. 9. The plan incorporates stimulus measures, spending cuts, fiscal reforms and the creation of a local financial control board.

THE BOND BUYER

BY JACK CASEY

SEP 22, 2015 6:06pm ET

Puerto Rico Utility Fails to Extend Contract With Insurers.

Puerto Rico's main electricity provider failed to extend a contract with its bond insurers that has given the power company time to negotiate a way to restructure its $8.3 billion of debt.

The Electric Power Authority's failure to extend the forbearance agreement with the insurers marks a setback for the utility, which earlier this month struck a tentative deal with some of its bondholders to reduce its debt load. Insurers that guarantee $2.5 billion of the utility's debt balked at extending the talks. The forbearance keeps negotiations outside of court.

The bond insurers "are trying to apply more pressure on Prepa," Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, said in a telephone interview Saturday. "Now they have the ability to exercise remedies. They could look now to forming a bondholder committee to try and impose a receiver and raise rates."

Bondholders agreed to extend the forbearance contract to Oct. 1, while fuel-line lenders pushed the expiration deadline to Sept. 25. The agreement was set to expire late Friday night. The power provider will continue negotiations with its bond insurers even without a forbearance agreement, Lisa Donahue, Prepa's chief restructuring officer, said in a statement Saturday.

Making Progress

"We are making progress and will continue working towards a consensual resolution that benefits Prepa and all of its stakeholders," Donahue said in the statement.

A Prepa restructuring would be the largest ever in the $3.5 trillion municipal-bond market, surpassing Detroit's record bankruptcy in July 2013. Puerto Rico and its agencies owe $72 billion. Commonwealth officials plan to offer investors a debt-restructuring proposal in the next few weeks that's separate from Prepa's negotiations and would reduce the government's obligations and delay payments to bondholders.
The utility, bondholders, banks and insurers have repeatedly extended the forbearance agreement, which was first signed in August 2014.

Assured Guaranty Ltd. and Syncora Guarantee Inc. declined to extend that accord beyond Friday. MBIA Inc. dropped out of the forbearance earlier this month. National Public Finance Guarantee Corp., an MBIA unit that insures Prepa debt, filed a petition Thursday to the island's energy commission, asking it to temporarily add at least 4.2 cents per kilowatt hour to the agency's base electricity rate so Prepa can repay its bonds, according to a copy of the request provided by the commission.

Exercise Authority

"While National is continuing its discussions with Prepa in good faith to accomplish a consensual restructuring of Prepa, National has petitioned the Puerto Rico Energy Commission to exercise its statutory authority to impose a modest and temporary rate increase and to impose deadlines for the completion of Prepa's rate case," Greg Diamond, a spokesman for MBIA, said in a statement.

The expiration with the insurers may imperil the tentative agreement that Prepa and some of its bondholders reached on Sept. 1 that would require investors to take losses of about 15 percent in a debt exchange.
Ashweeta Durani, a spokeswoman for Assured, and Michael Corbally, a spokesman at Syncora

Guarantee Inc., didn't immediately respond to e-mails. Dan Zacchei, a representative in New York at Sloane & Co. for the forbearing bondholders, declined to comment.

Bloomberg News

by Michelle Kaske

September 19, 2015 — 9:19 AM PDT Updated on September 19, 2015 — 10:48 AM PDT

Orrick Advises on First of a Kind Statewide Telecommunications Network in Kentucky.

Orrick, Herrington & Sutcliffe LLP represented KentuckyWired Operations Company, LLC, indirectly owned by Macquarie Infrastructure Developments, LLC, First Solutions LLC and Ledcor US Ventures Inc., as bond counsel in the US$300 million financing of a high-speed, open access, middle-mile fiber optic network with excess capacity with the Commonwealth of Kentucky. The project, which is expected to be completed in 2018, will add over 3,200 miles of fiber optic cable statewide.

Kentucky currently ranks 46th in the U.S. in terms of broadband availability, and approximately 23% of the state's population (mostly located in rural areas) has no broadband access at all. The statewide fiber optic network will make high-speed internet accessible throughout Kentucky's 120 counties by 2018, including 1,098 government and public facilities such as academic institutions, public libraries and governmental agencies, with the excess capacity to be made available through wholesale access to local Internet service providers who can extend fiber to homes and businesses. The project is a first of its kind in the U.S. in that it involves an underground fiber optic cable for part of the system, and was financed using a unique tax exempt structure that was designed by Orrick's Tax Group. In particular, the structure eased regulatory hurdles which enabled a statewide project to be completed in a short time frame.

"We are thrilled to handle such a unique and groundbreaking transaction," said Dan Mathews, partner and co-Head of Orrick's Energy & Infrastructure Group, who led the infrastructure team. "This project is expected to significantly improve Kentucky's education, health access and economy through increased connectivity to high speed internet, and we hope it will set precedent for improvement of telecommunications networks in additional states."

"This deal was successful due to the cross-practice support of our Tax, Energy & Infrastructure and Public Finance Groups," said Chas Cardall, partner and Chair of Orrick's Tax Group and a member of the Public Finance group, who led the tax aspects of the transaction. "We were able to leverage the expertise of our lawyers in each of these areas to create a unique tax exempt structure, which was a key aspect of the transaction."

In addition to Dan and Chas, the team was comprised of Ken Schuhmacher, Susan Long, Benjamin Bass and Walter Alarkon of the Energy & Infrastructure Group, Sarah Rackoff, Marc Bauer and Jennifer Grew of the Public Finance Group and Greg Riddle, Wolfram Pohl, George Wolf and Ashley Rodriguez of the Tax Group.

About Orrick

Orrick is a leading global law firm focused on counseling companies in the Energy & Infrastructure, Finance and Tech sectors. The firm's client work is divided equally between transactional advice and litigation. Law360 recognizes Orrick among the “Global 20” law firms and named the firm a “Technology Practice Group of the Year” in 2014. The firm’s platform includes offices across the US and in the UK, France, Switzerland, Germany, Italy, Belgium, Russia, China and Japan. The firm also has an affiliated office in Abidjan, Cote d’Ivoire. Financial Times consistently recognizes Orrick among the 10 most innovative North American firms, and BTI Consulting recently named Orrick to its Client Service All Star List.

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09-16-2015

Republican Governors Use Pensions to Oppose Iran Deal.

After Congress’s deadline to block President Barack Obama’s nuclear deal with Iran expired Thursday, Republicans are taking the fight to the states by vowing to preserve local sanctions.

Thirty states and the District of Columbia restrict investments by pensions and public entities in companies doing business in the country, according to the group United Against Nuclear Iran. Fifteen Republican U.S. governors, including four presidential candidates, last week sent a letter to Obama saying they would fight to keep their constraints if the administration lifts its nuclear-related sanctions.

A new nonprofit, Defund Iran, is also seeking state constitutional amendments next year that would mandate divestment. Florida alone has withdrawn more than $1.1 billion since 2007 from companies involved with Iran including Royal Dutch Shell Plc, Cnooc Ltd., and Daelim Industrial Co., according to Chief Financial Officer Jeff Atwater.

Republicans say Obama’s agreement won’t prevent nuclear proliferation, and will unleash Iran’s economy and its ability to support terrorism. Focusing on states gives the party another angle of attack.

“It enables them to take a stand against President Obama and, in the bargain, take a stand for the rights of the states,” said Jack Pitney, a political science professor at Claremont McKenna College near Los Angeles.

The lifting of federal sanctions would allow a few U.S. aerospace companies to seek business in Iran, such as Boeing Co. and General Electric Co., according to a report from Bloomberg Intelligence. Overseas firms including Shell and BP Plc also could seek business there, it said. States shouldn’t help, said Sarah Steelman, chairwoman of Defund Iran and a former Republican candidate for U.S. Senate in Missouri.

The governors, including presidential aspirants Bobby Jindal of Louisiana, New Jersey’s Chris Christie, John Kasich of Ohio and Wisconsin’s Scott Walker, point to a provision in the deal that says the federal government will “actively encourage” state and local officials to “take into account” U.S. policy lifting some sanctions.

“We intend to ensure that the various state-level sanctions that are now in effect remain in effect,” the governors said in their Sept. 8 letter.

BY TRIBUNE NEWS SERVICE | SEPTEMBER 18, 2015

By Mark Niquette

With assistance from Darrell Preston in Dallas.

Illinois Forces Towns to Either Eat Higher Costs or Avoid Market.

Illinois's budget stalemate is leading investors to demand higher yields to lend to its towns and villages, causing bond sales to tumble while borrowers outside the state rush to capture the lowest interest rates in a generation.

The drop in issuance this year stands in contrast to the rest of the $3.6 trillion U.S. municipal market, where bond offerings are on pace to reach the highest level since at least 2002, according to data compiled by Bloomberg. Illinois is one of only five states where they've fallen: issuers have sold $8.4 billion of debt through Sept. 11, down from $9.9 billion a year earlier. It's the biggest decline nationwide.

When municipalities do borrow, investors are requiring higher yields because of the association with the state, said Tim McGregor, head of municipals at Northern Trust Corp. in Chicago.

Illinois, with the lowest credit rating of any state, has been without a budget since the year began on July 1 because of a political standoff. That's forcing Illinois to leave some bills unpaid and casting doubt over how it will close a $6.2 billion shortfall.

"You're definitely getting a little extra yield as an investor, even in credits that may not have a direct link to the state," said McGregor, who oversees $27 billion of state and local government securities.

The financial pressure on the local governments has been underscored by Chicago, whose credit rating was cut to junk by Moody's Investors Service in May because of the soaring bills the city faces from its underfunded employee pension funds. It isn't alone: Half of the state's local retirement systems have less than 60 percent of the assets needed to cover all the benefits due as workers retire, according to a commission created by the legislature.

Bond buyers will have their choice of two large deals from the state this week. The Metropolitan Pier and Exposition Authority, which runs Chicago's convention center, is selling $223 million of bonds Wednesday.

OSF Healthcare System, a hospital operator, plans to offer $368 million of tax-free debt through the Illinois Finance Authority on Thursday.

McGregor said Illinois hospitals are being penalized for the state's crisis.

"Health-care bonds in Illinois are probably trading 25 to 50 basis points cheaper, just because of the situation in Illinois, than they would be otherwise," said McGregor.

There's no sign of a resolution to the budget impasse, which has lasted longer than any in the state's history, according to the Civic Federation, a Chicago-based research group. Republican Governor Bruce Rauner and the Democrat-led legislature can't agree on how to fix a deficit left after temporary tax increases expired.

Illinois's bills are piling up without a budget, with the unpaid tab set to reach $8.5 billion by the end of the year from $5.5 billion in August, state comptroller Leslie Geissler Munger said last week. The state is paying about 90 percent of what it owes even during the standoff, she said.

The budget delay has already dealt a blow to the Metropolitan Pier and Exposition Authority, which was unable to make a deposit into its debt-payment fund in July because lawmakers hadn't appropriated the money.

While lawmakers approved the funds last month, the lapse caused Standard & Poor's to lower the authority's rating seven steps from AAA to BBB+, three ranks above junk.

OSF, which operates 10 Illinois hospitals, hasn't felt a direct impact yet, said Dan Baker, its executive director of Treasury services. Proceeds from its sale will be used in part to finance construction and renovation at medical centers in Bloomington, Peoria and Rockford, offering documents show.

"Most of the investors we talk to understand the situation," said Baker. "There's been a little delay in payment at times, though it's not too far behind right now — although it may be without the budget being approved."

Catherine Kelly, a spokeswoman for Rauner, declined to comment on the increasing borrowing costs for Illinois agencies and municipalities. She said on Sept. 2 that the state was "being cautious about bond sales" and plans to issue some debt this year, though it hasn't announced any details. Illinois 10-year general obligations yield 1.94 percentage points more than benchmark munis, near the most since late 2013, Bloomberg data show.

Investors penalized local borrowers even before the new fiscal year began as Illinois lawmakers dueled over the budget deficit. A school district in Rockford, 88 miles (142 kilometers) west of Chicago, issued $40 million of debt in February, with 20-year bonds priced to yield 4.17 percent, Bloomberg data show. That compared with a 3.21 percent rate on an index of similarly rated AA bonds.

Lake County, which borders Chicago's home county to the north, sold $90 million of top-rated general obligations in June. The portion due in about 30 years priced to yield 4.05 percent, compared with 3.43 percent for an index of top-rated municipals.

"Some of their headlines have caused Illinois spreads outside of the state and Chicago to widen out, and there are a lot of very strong municipalities within the state of Illinois," said Rick Taormina, head of municipal strategies at J.P. Morgan Asset Management, which oversees $56 billion in state and local debt.

"We're looking to take advantage of that widening if it occurs."

Bloomberg News

by Brian Chappatta

September 14, 2015 — 9:01 PM PDT Updated on September 15, 2015 — 5:55 AM PDT

[Chicago's Met Pier Pays the Price of Illinois Fiscal Stalemate.]

Chicago’s Metropolitan Pier and Exposition Authority, which runs the nation’s largest convention center, is discovering the price of Illinois’s political paralysis.

The authority sold about $220 million of federally tax-exempt securities Wednesday for yields of as much as 6 percent, according to preliminary data compiled by Bloomberg. Thirty-year bonds are being offered at 4.87 percent, about 1.6 percentage points more than top-rated securities.

It’s the agency’s first offering since skipping a July payment into its debt-service fund because lawmakers and Governor Bruce Rauner didn’t appropriate the money amid a deadlock over the budget. As a result, Standard & Poor’s slashed the authority’s rating by seven steps from AAA to BBB+, three grades above junk.

The lapse highlighted the risk to investors from bonds with debt bills that depend upon the approval of lawmakers. While Rauner signed a bill last month to free up tax money for Met Pier, the agency’s bonds haven’t rebounded from the rout that followed the missed deposit.

“The downgrade, which resulted from the budget impasse, hurt them in terms of interest costs,” said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. “Investors realize probably it’s a lot better than a BBB credit, but because of what’s happened and because of the appropriation nature, it’s a BBB and not much you can do.”

Met Pier is among borrowers most affected by the impasse between the Republican governor and the Democrat-led legislature that’s left Illinois without a budget for more than two months. The failure had led investors to push the difference between Illinois bond yields and top-rated debt near a record high.

Met Pier bonds maturing in 2050, its most actively exchanged securities, traded for an average of 100 cents on the dollar Wednesday, down from $1.02 on Aug. 4, the day before the rating cut. That’s pushed the yield up about half a percentage point to 5 percent.

The securities offering is the authority’s first since 2012, according to data compiled by Bloomberg, and illustrated how it’s being penalized by investors. In 2012, its 30-year bonds were sold for yields as low as of 4.15 percent, about a percentage point more than top-rated debt at the time. That gap swelled to 1.6 percentage point Wednesday.

The proceeds will help pay for the construction of a 40-story hotel and refinance debt, bond documents show. The securities included zero-coupon bonds, which were offered at a top yield of 6 percent for those maturing in 2052.

“This transaction will lock up the financing” for the authority’s projects, said Richard Oldshue, Met Pier’s chief financial officer. He declined to comment on what kind of reception he’s expecting for the deal.

Fitch Ratings gave the bonds a BBB+ rating, three steps above junk, with a negative outlook. The company said Met Pier’s ability to make “full and timely” debt service depends on the Illinois General Assembly to appropriate the revenue, which ties the authority’s credit to Illinois, the worst-rated state in the nation.

Met Pier never missed any interest or principal payments to investors and the agency now has the authority to tap tax money to cover its debts. The bonds are backed by authority taxes and state sales taxes. The authority taxes, which includes levies on hotels, reached $140.2 million in 2015, up 42 percent from 2010, bond documents show.

“This is still a solid credit backed by the economic activity in the city of Chicago in terms of sales taxes and hotel taxes — and all our indications are that business is booming in Chicago,” said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which oversees $11 billion in state and local-government securities, including those sold by Met Pier. “It creates a buying opportunity for people willing to take the longer view.”

Bloomberg News

by Elizabeth Campbell

September 16, 2015 — 12:00 AM PDT Updated on September 16, 2015 — 1:55 PM PDT

[Pennsylvania Bond Penalty Grows as State Budget Impasse Deepens.]

Pennsylvania is facing rising penalties from investors as Democratic Governor Tom Wolf plans to veto a temporary budget being advanced by Republican legislators, promising to prolong a political impasse that’s left the state without a spending plan for more than two months.

The state’s 10-year bonds yield about 2.87 percent, about 0.59 percentage point more than benchmark municipal debt, according to data compiled by Bloomberg. That’s approaching the 0.61 percentage point reached in July, which was the highest since the data begin in 2013.

“Each week and each month where they don’t have a budget, that concern will increase,” said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. “They’re playing a game of chicken.”

Pennsylvania has been operating without a spending plan for the year that began in July because the Republican-led legislature and first-term governor have remained at loggerheads over proposed tax increases and overhauls to the public employee pension system.

The uncertainty led Moody’s Investors Service last week to downgrade schools that issue debt through a state program that diverts aid to investors when needed.

The Pennsylvania Senate on Thursday is set to vote on a short-term budget that would provide state and federal funds to alleviate pressures on school districts and social service agencies.

Wolf told reporters Wednesday that he would veto the temporary spending plan because he wants them to consider his proposals for the full budget and concessions on the retirement system. He said the failure to compromise and balance the budget could imperil Pennsylvania’s credit rating.

“We’re going to continue to have the credit downgrades we’ve had because we’re not doing anything else differently than we’ve done,” Wolf said. “It’s status quo.”

The state’s $53 billion unfunded pension liability has weighed on its bonds. The Keystone State is paying more to borrow than any other state except Illinois and New Jersey, according to data on 20 major states compiled by Bloomberg.

Standard & Poor's and Fitch Ratings cut Pennsylvania's rating last year to AA-, the fourth-highest level, citing the pension burden. Moody's grades Pennsylvania Aa3, also the fourth-highest rank.

Bloomberg News

by Romy Varghese

September 17, 2015 — 9:59 AM PDT

Bloomberg Brief Weekly Video - 09/17/15

Taylor Riggs, an editor at Bloomberg Brief, talks with reporter Kate Smith about this week's municipal market news.

Watch the video.

September 17, 2015

Puerto Rico Electric at Odds With Insurers on Debt Agreement.

The debt-restructuring agreement Puerto Rico's main electric utility unveiled with great fanfare at the start of the month is turning out to be far from a done deal.

The Puerto Rico Electric Power Authority, known as Prepa, still needs to come to terms with about two-thirds of creditors, including bond-insurance companies, or the agreement falls apart. An accord that keeps the negotiations out of court expires late Friday. All forbearing creditors except insurer MBIA Inc. are part of that contract, called a forbearance agreement.

"They still have to do quite a bit of work," said Mikhail Foux, a municipal-debt strategist at Barclays Plc in New York. "They have only about a third of the people on board. We're talking about monolines and bond funds that effectively bought at par."

The utility reached a tentative agreement on Sept. 1 with bondholders including OppenheimerFunds Inc., Franklin Advisers Inc., BlueMountain Capital Management and Goldman Sachs Group Inc. Investors agreed to take losses of about 15 percent under a debt exchange. Prepa, which has about $8.3 billion in debt, has been negotiating with creditors for over a year after saying it needed to reduce its obligations.

Some bondholders bought Prepa securities for as low as 33 cents on the dollar, giving them room to accept less than par. Bond insurers would have to make investors whole on any deferred payments or potential haircuts, making them less inclined to accept concessions, Foux said.

Forbearance Agreement

A Prepa restructuring would be the biggest ever in the $3.6 trillion municipal-bond market, surpassing Detroit's record bankruptcy filing in July 2013. The utility, which relies mainly on oil to produce electricity, is the largest U.S. public power provider, with 1.47 million customers and $4.68 billion in electric revenue in 2013, according to the American Public Power Association.

The utility has asked creditors to extend the forbearance agreement by two weeks, according to two people with direct knowledge who asked for anonymity because the talks are private. It first signed the pact in August 2014 with bondholders, banks and insurers after the agency used its capital budget to pay for fuel. Its been extended seven times.

Bond insurers Assured Guaranty and MBIA last week offered a proposal that doesn't include exchanging insured Prepa debt at a discount, according to a person with direct knowledge of the proposal. That would fit into the tentative plan with forbearing bondholders, the person said, without elaborating. Prepa has yet to respond to the proposal, the person said.

Greg Diamond, a spokesman for MBIA, Ashweeta Durani, a spokeswoman for Assured, and Michael Corbally a spokesman at Syncora Guarantee Inc. declined to comment.

Jose Echevarria, a spokesman in San Juan for Prepa, and Jenni Main, chief financial officer at Millstein & Co., an adviser on the utility's restructuring, declined to comment.

Governor Alejandro Garcia Padilla visited Washington this week as the island seeks to reduce its $72 billion debt load and delay payments to bondholders. A commonwealth agency, the Public Finance Corp., defaulted in August and September on debt payments, the first for a Puerto Rico entity. The administration plans to give commonwealth investors a debt-restructuring offer in a few weeks, after saying the government has only an estimated $5 billion to repay $18 billion of principal and interest coming due in the next five years.

After meeting with Garcia Padilla Thursday, U.S. Treasury Secretary Jacob J. Lew reiterated his support for legislation in Congress that would allow some Puerto Rico public corporations to file for bankruptcy.

"Given the commonwealth's projection that it will exhaust its liquidity later this year, Congress must act now to provide Puerto Rico with access to a restructuring regime," Lew said in a statement Thursday.

"Without federal legislation, a resolution across Puerto Rico's financial liabilities would likely be difficult, protracted, and costly."

Prepa bond prices show the difficulty the utility faces in reaching an agreement with creditors, Foux said.
Bonds maturing July 2040 traded Thursday at an average 60.1 cents on the dollar, according to data compiled by Bloomberg. That's higher than an average 53.5 cents on Aug. 28, the last time the bonds traded before the Sept. 1 agreement. But that's still lower than the 85 cents that bondholders would receive in a proposed debt exchange.

Legacy Debt

"One of the reasons they're trading substantially lower is that there's still quite a bit of an execution risk," Foux said.

Puerto Rico may ask holders of its general-obligation bonds and sales-tax debt, called Cofina, to take losses, and Prepa could again look to its investors if the proposed debt-exchange fails to improve the utility's finances, Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, wrote in a Sept. 14 report. That plan would swap existing bonds for new securitized debt repaid with a utility-customer surcharge.

"There is reasonably a risk that the commonwealth and/or Prepa would entertain a similar path should Prepa's restructuring fail to be enough to achieve fiscal solvency," Fabian said.

Investors who haven't participated in the forbearance, such as individual bondholders and some municipal-bond funds, would also need to exchange their securities for new bonds, leaving no more than $700 million of legacy debt remaining, according to the agreement.

MBIA's National Public Finance Guarantee Corp. insures about $1.4 billion of Prepa debt, while Assured Guaranty backs $904 million, according forbearance documents. Syncora Guarantee Inc. insures $197 million.

Those firms must also take into consideration their exposure across all Puerto Rico securities. Assured guarantees $6.2 billion of Puerto Rico debt through 2047, as of June 30. National insures $4.5 billion through 2046, as of June 30.

"If monolines agree to some haircuts here, what would that mean for them with the rest of the bond stack?" Foux said.

Puerto Rico securities have lost 7.2 percent this year through Sept. 17, according to S&P Dow Jones Indices. The broader muni market has gained 0.9 percent.

Bloomberg News

by Michelle Kaske

September 17, 2015 — 3:47 PM PDT Updated on September 18, 2015 — 8:13 AM PDT

Fitch: Bill Could Challenge Some CA Public Power Utilities.

Fitch Ratings-New York-15 September 2015: California's public power utilities could face additional financial pressure over the medium to long term following the state legislature's passage of SB 350, Fitch Ratings says. The Clean Energy and Pollution Reduction Act of 2015 includes a number of provisions that are expected to increase direct costs for public power utilities. The bill's more notable provisions include an increase of the state's renewable portfolio standard (RPS) to 50% by 2030 and additional efficiency and conservation programs. Utilities have already begun to transition their power supplies toward lower emission resources due to other state regulations, including a RPS of 33% by 2020.

Fitch expects compliance with the more stringent environmental regulation will require the state's public power utilities to transition an even greater portion of their power supply to less flexible and potentially more costly renewable energy. Rate flexibility and the ability to preserve financial metrics in the face of these regulatory changes will be fundamental to maintaining long-term credit quality.

The higher RPS requirement will be phased in over a 10-year period, with utilities mandated to reach interim targets of 40% by 2024, 45% by 2027 and 50% by the end of 2030. This significant increase in renewable energy will push public power utilities to identify and acquire resources that are generally more expensive and less flexible than thermal resources. Positively, the bill allows for the indefinite banking of certain resources beginning in 2021, which will allow those utilities that exceed their annual target to roll over credits toward future compliance years.

SB 350 is expected to be signed into law as the bill conforms in large part to the governor's previously stated objectives of raising the RPS to 50% and reducing greenhouse gas emissions to 40% below 1990 levels by 2030.

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Detroit Schools Paying Penalty in Bond Market Post Bankruptcy.

Detroit's schools are paying a hefty penalty for persistent financial woes as the district taps the tax-exempt debt market in the wake of the city's record bankruptcy.

The $121 million in notes maturing in August being sold through the Michigan Finance Authority were priced to yield 5.75 percent, according to preliminary data compiled by Bloomberg. That's about 5.5 percentage points more than one-year benchmark municipal bonds.

"The market pricing is just reflective of many buyers' uncertainty regarding the legal standing of this type of security package for a name that has suffered so much fundamentally in recent decades," said Gabe Diederich, a Menomonee Falls, Wisconsin-based money manager at Wells Capital, which manages about $39 billion of municipals, including some Michigan school holdings.

The proceeds of the deal will refinance debt to help cover the district's budget deficit, according to bond documents. The district, which has been run by a state-appointed manager since 2009, is in Wayne County, which entered into a consent pact with the state last month to try to mend its own spiraling finances.

Michelle Zdrodowski, a spokeswoman for the schools, said in an e-mail that the district was not going to make any comment during the pricing period.

Detroit Public Schools' financial problems mirror a shrinking population, a trend that has contributed to slumping enrollment. The "severe declines" in the number of students enrolled at Detroit schools has limited state aid available for debt payments, according to Standard & Poor's, which rates the notes SP-3, its lowest short-term grade. The schools saw average annual enrollment declines of more than 12 percent from 2007 to 2012, according to S&P.

In May, the Michigan Finance Authority sold $82.8 million of notes maturing in June 2016 at a yield of 4.75 percent.

The district is behind on its pension payments by about $92 million, bond documents show. The state's office of retirement systems can ask the Michigan treasurer to intercept state aid to the schools to get the funds. While the director of the pension system has said that he doesn't plan to do that as long as the district sticks to its plan to make payments in October, the pension costs remain a drag on school finances.

The state is working to ease the district's fiscal woes. In April, Gov. Rick Snyder proposed a restructuring of the school system into two parts. One district would be charged with paying off the $483 million of operating debt using an existing property tax, and the other would be tasked with educating students and collecting state aid funds, according to bond documents. Legislation on the plan is expected to be introduced in the coming months, according to bond documents dated Sept. 4.

"Ultimately there just doesn't appear to be a near-term catalyst for boosting enrollment and changing the trajectory of the trends of Detroit public schools itself," said Diederich, who passed on the note sale Thursday.

Bloomberg News

By Elizabeth Campbell

September 11, 2015

Pennsylvania GO and Appropriation Ratings are Unchanged for Now Despite Absence of an Enacted Budget.

NEW YORK (Standard & Poor's) Sept. 9, 2015–Standard & Poor's Ratings Services today said its ratings, including its 'AA-' general obligation (GO) rating, on the State of Pennsylvania are unchanged despite the lack of an enacted budget for fiscal 2016. As we noted in our report in "Late State Budgets: Summer Cliffhangers No One Wants To See," published on June 4, 2015, on RatingsDirect, most state governments exhibit a strong commitment to debt repayment and have demonstrated willingness to honor their obligations even in the absence of a budget, in our view. This commitment could take different shapes or modalities, but whether it is a continuing resolution, a standing appropriation or some other method, the intended outcome is the same: to ensure full and timely payment of debt service.

Two months into fiscal 2016, Pennsylvania's lawmakers have yet to agree on a budget. Negotiations have continued as lawmakers try to reach an agreement on pension reform and education funding, without which budget passage is unlikely. From a credit standpoint, Pennsylvania's constitution provides that if sufficient funds are not appropriated for timely payment of all commonwealth general obligation (GO) bond debt service, the treasurer shall set apart from the first revenues thereafter a sum sufficient to pay principal and interest on the debt. As such, GO debt has a priority lien on state revenues and is paid even in the absence of a budget. Pennsylvania, which is no stranger to late budgets, typically schedules its non-GO debt to mature in December and June, with a few exceptions, which the state has currently addressed.

These include debt issued by the Pennsylvania Economic Development Financing Authority (PEDFA), lease revenue bonds, and certificates of participation (COPs). On Sept. 1, the state paid its debt service on PEDFA's series 2012 bonds for the Forum Place. The state made lease payments prior to the end of the previous fiscal year that were sufficient to cover debt service on Sept. 1, 2015.

Philadelphia Regional Port Authority's lease revenue debt (series 2008), also due Sept. 1, was paid with proceeds from a loan to the Pennsylvania Department of Transportation from the state's Motor License Fund. Payments for debt service on COPs issued by the Department of Human Services (DHS) come due on Oct. 1 and are included in payments made to DHS to keep the facilities operating in order to ensure the health, safety, and welfare of its citizens. The state has also indicated that the payments for the Pittsburgh and Allegheny County Sports and Exhibition Authority, series 2010 lease revenue bonds will be made from the commonwealth's Gaming Economic Development Tourism Fund and are not subject to appropriation.

In the absence of a budget, there are no state aid payments that flow to Pennsylvania's school districts (see "Pennsylvania School District Ratings Based On State Aid Intercept Program Put On Watch Negative on Budget Delay," published Sept. 4, 2015).We believe that the lack of funding for school districts could translate into increased pressure on lawmakers and provide an incentive for them to reach budget consensus over the next couple of months. We will continue to monitor the state's ongoing budget deliberations to determine what impact, if any, the protracted budget negotiations have on Pennsylvania's credit quality.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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Georgia's New P3 Law Expands Opportunities for Investors, Developers.

The new Partnership for Public Facilities and Infrastructure Act allows state and local agencies to expand their pursuit of public-private partnerships beyond the highway and water reservoir P3s already being conducted in Georgia. The law authorizes agencies to pursue P3s to build and maintain public buildings and for other types of transportation and water-related projects. This breakthrough will increase state and local agencies' ability to undertake projects they might otherwise lack the financing or construction expertise to pursue.

To help state and local officials and developers understand and use the law to procure such projects, NCPPP and the American Council of Engineering Companies of Georgia will co-host a one-day event, The Future of P3s in Georgia, on Sept. 24 in Atlanta. During the event, experts will discuss how P3s are conducted, what types can be pursued under the new law and how successful projects in Georgia and other states have been carried out.

To set the stage for this meeting, P3 Digest asked several experts who will speak at the conference to describe the new law and the ways it will influence how agencies and private developers negotiate P3s in Georgia.

The new law, signed May 5 by Gov. Nathan Deal, allows "qualifying projects," to be pursued as P3s, a term that is defined broadly as those that meet a public purpose or need, explained Brad Nowak, a partner at Morris, Manning & Martin, LLP. Previously, only transportation projects — chiefly highways — and university campus housing could be built through such partnerships. The new law expands the types of P3s that can be negotiated to include various types of public buildings, many different transportation, water, wastewater and stormwater projects, and solid waste facilities, he added.

Georgia already has some experience in public building P3s. Corvias Campus Living negotiated a partnership with the University System of Georgia in 2014 to build, manage and maintain student housing at multiple locations. "The partnership is reportedly the first time that a state system has privatized student housing across a portfolio of campuses," Nowak noted.

However, the new law will greatly streamline the negotiating process for conducting such projects and other types of P3 projects, noted Michael Sullivan, president and CEO of ACEC Georgia. Before the new law took effect, Georgia did not permit state or local agencies to negotiate non-highway P3s directly with private firms. The University of Georgia System project required involving a private real estate foundation in the project to generate financing and a separate county development authority to provide bond financing. "It's a very convoluted process. The new law provides a clear, transparent process for agencies in Georgia to use P3s for almost any kind of public infrastructure," said Sullivan.

The law establishes a statutory framework for P3s and a committee that will craft optional procurement guidelines for localities. This adds transparency and consistency to the procurement process, commented Robert Fortson, a partner at McGuireWoods LLP, which worked hard to win passage of the legislation. "The lack of these support mechanisms created barriers to entry for both public and private sector participants," he said.

The 10-member Partnership for Public Facilities and Infrastructure Act Guidelines Committee will prepare model guidelines local governments can use to receive and consider unsolicited project proposals, although these governments can choose to develop their own. However, locally developed guidelines must cover certain details, such as time frames for receiving and processing the proposals, how proposal financial review and analysis will be conducted, and procedures for reviewing and considering competing proposals, Nowak explained. The model guidelines committee recently was appointed and expects to issue the guidelines by July 1, 2016, he added.

The new opportunity to develop many types of infrastructure P3s makes this an excellent time for state and local agencies to learn more about this procurement option, these experts say.

Discussing these types of projects with officials who already have conducted them in Georgia is a good way to get up to speed, Nowak advised.

Valuable lessons also could be learned through a study of the types of partnerships that have been conducted in Virginia, Florida and Texas, all of which have P3 laws similar to Georgia's.

"The success of Virginia's P3 law offers a great model for the types of projects that are possible — everything from wastewater treatment facilities to aquatic centers to parking decks. The model guidelines committee should also serve as a great resource to educate local cities, counties and school districts about best practices in P3 procurement," said Fortson.

"Many outside consultants, such as engineers, attorneys and other advisors who often represent the public sector on P3 projects can also help explain the ins and outs of the new law, its application to developing projects and ways to properly procure, structure and document them," said Nowak.

Sullivan believes that the insights that will be shared about the new law and successful case studies discussed during the event will help attendees quickly get up to speed on P3s.

“I am very excited about this year’s P3 Summit and hope that many state and local government officials — as well as private firms — will attend and find out how to use Georgia’s new P3 law as another tool in the toolbox for providing all kinds of public infrastructure in a new way,” he said.

The Future of P3s in Georgia will be held at the Georgia International Convention Center, adjacent to Hartsfield-Jackson Atlanta International Airport. For more details, including registration information, visit the event website.

NCPPP

By Editor September 10, 2015

Puerto Rico Bond Plan Said to Outline Debt Service Affordability.

A long-awaited plan that addresses Puerto Rico’s $72 billion debt load will include projections of how much debt-service the island can pay over the next five years, according to a person with direct knowledge of the proposal.

Governor Alejandro Garcia Padilla is set to receive from his top officials and outside restructuring advisers on Tuesday what is being called by his administration as an economic recovery and debt-adjustment plan, or the Working Group plan. The governor plans to release the proposal publicly on Wednesday, Victor Suarez, his chief of staff, said in a statement.

That report will include annual revenue and expenditure projections for the next five years after taking into account proposed spending reductions and measures to boost revenue collection rates, according to the person, who asked for anonymity because the discussions are private.

Those calculations won’t include annual principal and interest costs, so the gap between estimated revenue and anticipated spending, what the report will call a “primary surplus,” will indicate how much Puerto Rico can afford to pay for debt service every year, the person said. The person declined to say what the primary surplus would be.

“This is really just the beginning of a new stage, but this stage still could last years,” said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. “You have different sets of buyers, all with different expectations for their recovery and all with different willingness to negotiate on price.”

Barbara Morgan, who represents the Government Development Bank at SKDKnickerbocker in New York, said Monday that the bank didn’t have a comment at this time. Betsy Nazario, a spokeswoman in San Juan for the GDB, and Jesus Manuel Ortiz, a spokesman in San Juan for the governor, didn’t immediately respond to e-mails.

In a statement e-mailed to reporters Tuesday, Suarez said Garcia Padilla will be presented with the plan during the afternoon and has instructed his advisers to make it public Wednesday.

“This plan is an indispensable element to put Puerto Rico on track toward economic growth, to face fiscal challenges and bring back social well being for Puerto Ricans,” he said.

The commonwealth and its agencies pay about $4 billion each year in debt service, not including principal and interest costs for the Electric Power Authority and the Aqueduct and Sewer Authority, the person said. A Puerto Rico agency, the Public Finance Corp., missed a Sept. 1 interest payment, according to a filing with the Municipal Securities Rulemaking Board. It's the second skipped payment for the agency after failing to pay $58 million of principal and interest Aug. 3 because lawmakers didn't allocate the funds in a budget crunch.

Garcia Padilla in June directed his administration to evaluate the island's obligations and said the commonwealth was unable to repay all of its debt on time and in full and would seek to delay debt payments "for a number of years."

The Working Group plan follows a Sept. 1 tentative agreement the Electric Power Authority reached with some of its bondholders that would offer investors 85 percent of the value of the bonds they hold through a debt exchange.

Puerto Rico bonds rallied last week following the tentative agreement struck with holders of about 35 percent of the electric debt. General obligations with an 8 percent coupon and maturing July 2035 traded Friday at an average price of 76 cents on the dollar, up from a record-low 66.6 cents on June 30, according to data compiled by Bloomberg. It was the highest since June 26, the last trading day before Garcia Padilla said the commonwealth's debt was unpayable and directed officials to work on a plan to ease debt payments.

Commonwealth securities gained 3.95 percent last week, the biggest advance for the period since October 2008, according to S&P Dow Jones Indices. Puerto Rico debt has still dropped in value this year, losing 7.2 percent through Sept. 4 compared with a one percent gain for the broader municipal-bond market.

A Puerto Rico restructuring would be the largest in the $3.6 trillion municipal-bond market, surpassing Detroit's record bankruptcy filing in July 2013 that involved about $8 billion of bonded debt. Along with $72 billion of debt, Puerto Rico's largest pension fund has only 0.7 percent of assets to cover $30.2 billion of projected costs, according to financial documents. It's the worst-funded among U.S. state retirement plans and stands to deplete its assets by 2020, according to Moody's Investors Service.

Bloomberg News

by Michelle Kaske

September 7, 2015 — 9:00 PM PDT Updated on September 8, 2015 — 7:21 AM PDT

Muni Sales Poised to Rise as Redemptions Slow; Fund Flows Drop.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $10.2 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $8.8 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

North Texas Tollway Authority plans to sell $750 million of bonds, Illinois Finance Authority has scheduled $468 million, Austin, Texas, will offer $293 million and Lee Memorial Health System, Florida will bring $277 million to market.

Municipalities have announced $11.1 billion of redemptions and an additional $12.9 billion of debt matures in the next 30 days, compared with the $25.8 billion total that was scheduled a week ago.

Issuers from Florida have the most debt coming due with $1.79 billion, followed by California at $1.17 billion and New York with $1.16 billion. Washington, D.C. has the biggest amount of securities maturing, with $413 million.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $715 million from mutual funds that target municipal securities in the week ended August 26, compared with an increase of $50 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $100.3 million last week, reducing the value of the ETFs by 0.58 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 105.209 percent of Treasuries, compared with 104.213 percent in the previous session and the 200-day moving average of 101.835 percent, Bloomberg data show.

Bonds of Tennessee and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Tennessee's securities narrowed 15 basis points to 2.15 percent while Michigan's declined 6 basis points to 2.46 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 110 to 11 percent and Illinois's rose 40 basis points to 4.20 percent.

Bloomberg News

by Kenneth Kohn

September 8, 2015 — 4:32 AM PDT

Puerto Rico Investors May Shun Debt-Exchange Offer, Moody's Says.

Puerto Rico Governor Alejandro Garcia Padilla wants bondholders to accept less than they're owed to help the island dig out from its fiscal crisis. Few may be willing to go along, according to Moody's Investors Service.

The governor's advisers said in a report released Wednesday that the commonwealth should ask investors to voluntarily exchange their bonds for new securities, which would allow it to cut debt payments. Such a restructuring plan will be released in a few weeks, said Jim Millstein, chief executive officer of Millstein & Co., which is advising the government.

"It is unlikely that holders of the many Puerto Rico bonds will agree to forgo or defer substantial sums of promised principal and interest," Moody's analyst Ted Hampton said in a statement after the report's release. "There is a high probability of protracted litigation, particularly on the part of investors holding general obligation or other securities with strong legal protections."

The expected bondholder response shows the difficulty Puerto Rico faces as it embarks on a restructuring unprecedented in the $3.6 trillion municipal market. Puerto Rico general-obligation bonds are protected by the commonwealth constitution and others are backed by dedicated revenues, which may lead some investors to challenge the island in court.

The commonwealth has already clashed with bondholders over the issue. When Garcia Padilla signed a law that would've helped its public corporations reorganize, the mutual-fund companies OppenheimerFunds Inc. and Franklin Resources Inc. persuaded a federal judge in San Juan to throw out the act.

Detroit's $18 billion bankruptcy illustrates the difficulty of getting investors to part with their bonds. Seeking to cut its interest bills, the city offered to buy back $5.2 billion of water and sewer debt, with most investors receiving more than 100 cents on the dollar. Only 28 percent of the securities were ultimately sold back.

Puerto Rico says it has $13 billion less than it needs to cover debt payments over the next five years, even after taking into account proposed spending cuts and measures to raise revenue. That estimate excludes the electric and water utilities.

Island officials haven't indicated what terms may be offered to owners of its various classes of debt. Moody's, which projects that some investors may recoup as little as 35 cents on the dollar, said signs of steeper losses would lead to further rating cuts.

Bloomberg News

by Michelle Kaske and Brian Chappatta

September 9, 2015 — 11:33 AM PDT

Puerto Rico Seen Trying to Avert Defaults One Bond at a Time.

Puerto Rico may have to begin taking revenue that repays highway debt to help the struggling commonwealth pay for its general-obligation bonds as soon as this budget year, according to Height Securities.

The Caribbean island, which says it's short $13 billion needed for bond payments in the next five years, must pay investors $1.1 billion this year on general-obligation debt guaranteed by its constitution. That pledge has been increasingly called into question. Standard & Poor's dropped Puerto Rico's rating to CC, the third-worst grade, saying in a report late Thursday that all of its tax-backed debt is highly vulnerable to default.

Facing potential cash shortfalls as soon as November, Puerto Rico may use petroleum and gasoline taxes that fund its highway-agency's debt, raising the risk of a default on the securities, Daniel Hanson, an analyst at Height, a Washington-based broker dealer, said Thursday on a conference call with clients.

"It seems reasonable to expect that considerable amounts of cash are about to be clawed back from corporations to help cover general-obligation debt service," Hanson said.

Governor Alejandro Garcia Padilla on Wednesday released a report showing that Puerto Rico has only $5 billion available to cover $18 billion of principal and interest payments in the next five years. The government also projected that it may run out of cash by the end of 2015 and will have a $500 million shortfall when the fiscal year ends in June, right before an $805 million payment to general obligation bondholders is due July 1.

Puerto Rico said in a May 7 quarterly report that it could resort to emergency measures to cover its debt bills, including taking "taxes or other revenues previously assigned by law to certain public corporations to secure their indebtedness." Its Public Finance Corp. defaulted on debt-service payments in August and September after lawmakers failed to allocated funds.

Puerto Rico's highway bonds carry higher yields than other commonwealth securities, reflecting the risk. Debt maturing in 2028 last traded for an average of 13 cents on the dollar on Aug. 28 to yield 42 percent. That's almost four times the yield on Puerto Rico's most frequently traded general obligations.

Taxes on gasoline and petroleum products that Puerto Rico allocates to its highways agency for debt service are considered "available commonwealth resources," according to bond documents. The island's constitution requires that the government use such revenue to pay general obligations if needed. The island has about $4.7 billion of highway bonds outstanding, according to the May 7 report.

Puerto Rico has about $541 million of mostly petroleum and gas taxes dedicated to highway bonds that it could use in the fiscal year ending June 30, Hanson said. Another $290 million from a petroleum-tax increase implemented last year and not currently pegged to specific debt is also available.

"In accordance with the constitution of Puerto Rico, the proceeds of such taxes and license fees are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the commonwealth," according to bond documents.

Tolls and other fees from the authority aren't subject to a so-called clawback. Documents from Puerto Rico's most recent highway bond sale in 2010 highlighted that it never had to use appropriated money to pay general obligations.

Investors who bought debt knowing they have priority over other bondholders will probably assert their rights in court, Moody's Investors Service said Thursday in a report. The credit rater maintained its projected recovery rate of 65 percent to 80 percent for general obligations. Highway securities may recoup just 35 percent to 65 percent.

To ease the budget shortfall, the administration may consolidate 135 schools, reduce public-worker overtime, cut government subsidies and end corporate-tax loopholes, according to the report Wednesday. Puerto Rico lawmakers may also want to use the $680 million of annual sales-tax revenue that goes straight to repaying other bonds, called Cofina by their Spanish acronym, Hanson said.

"That may make Cofina much more at risk than people think," Hanson said.

Puerto Rico's $15 billion of Cofina bonds have stronger protections than the highway debt. The first $680 million of sales-tax collections are sent to a trustee to pay bondholders, with the rest put into the general fund, Hanson said. Puerto Rico law protects the portion that's sent to the trustee from being used by the government, according to bond documents.

General obligation investors are likely to challenge that law in court by claiming that their payments have priority under the constitution, Howard Sitzer, senior municipal analyst at CreditSights Inc., said in a conference call with clients on Thursday.

“We think that the legal opinions behind the sales-tax financing corporation debt are subject to dispute and likely to be the subject of litigation going forward,” Sitzer said. General obligations “are to be paid by the first revenues received by the government, which implies that any tax revenues would be available.”

Bloomberg News

by Michelle Kaske and Brian Chappatta

September 10, 2015 — 11:45 AM PDT Updated on September 10, 2015 — 2:58 PM PDT

Puerto Rico Fails Without Washington Help, Morgan Stanley Says.

Puerto Rico’s attempt at a sovereign-like debt restructuring without complete lawmaking authority is likely to fall short in the absence of intervention by U.S. political leaders, according to Morgan Stanley.
“We doubt Puerto Rico’s ability to execute this style of restructuring without U.S. Congressional action, keeping us from adopting a clearly bullish position,” Michael Zezas, chief municipal strategist at Morgan Stanley in New York, wrote in a report dated Sept. 10.

Puerto Rico’s fiscal crisis should spur Congress to help the island negotiate with its creditors, either by implementing a fiscal control board at the federal level or allowing some public corporations to file for Chapter 9 bankruptcy projection, Morgan Stanley said. Unlike cities and municipalities of U.S. states, the island’s localities cannot access Chapter 9.

Governor Alejandro Garcia Padilla’s administration on Wednesday unveiled a proposal that estimates Puerto Rico will have only $5 billion of available funds to repay $18 billion of debt-service costs over the next five years. The commonwealth may seek to defer principal payments for several years on some of its $72 billion debt burden.

It’s unclear whether general-obligation bondholders will be offered smaller losses than owners of Puerto Rico’s sales-tax supported debt under a restructuring, Morgan Stanley said. The island’s constitution stipulates that general-obligations must be paid before other expenses. The revenue bonds, known as Cofina, are repaid from dedicated sales-tax revenue.

If general-obligation bonds are treated senior in repayment, then bondholders would receive a internal rate of return of 8 percent on debt that carries an 8 percent coupon and 6.6 percent on debt with a 5 percent coupon, Zezas wrote. The recovery rates will be lower if sales-tax bonds get first payment, he said.

General obligations with an 8 percent coupon and maturing July 2035 traded Friday at 73.1 cents on the dollar, down from an average 75.5 cents on Sept. 8, the day before the plan was released, according to data compiled by Bloomberg. The yield was 11.5 percent.

"There's a good argument to be made that general obligations appear fairly valued, particularly considering that the lower end of expected internal rate of returns would rise with greater austerity," Zezas wrote. "Yet, these reports imply that Puerto Rico can execute an effective sovereign-style restructuring in a timely manner, something we dispute."

Bloomberg News

Michelle Kaske

September 11, 2015 — 10:56 AM PDT

Bloomberg Brief Weekly Video - 09/10/15

Taylor Riggs, an editor at Bloomberg Brief, talks with Joe Mysak about this week's municipal market news.

Watch the video.

September 10, 2015

Puerto Rico Plan Calls for Spending Cuts, Tax Overhaul.

Puerto Rico's proposed restructuring plan brings the U.S. commonwealth one step closer to a long-awaited showdown with the investors who are being asked to take losses on the island's $72 billion in debt.

The five-year plan released Wednesday is light on specifics, analysts said, but investors agree it clearly could affect the island's general obligation bonds, which are protected by its constitution, as well as its sales tax-backed debt.

Several investors and analysts said the proposal didn't provide enough detail about how much debt the island wants to cut, what form such cuts may take or which bonds might be affected. Some said it relies too much on future actions by lawmakers in Washington and San Juan and successful negotiations with bondholders and other stakeholders.

"I don't see anything to work with at this point," said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt debt, including some from Puerto Rico. "Now they have to speak up and say what it is they really want."

The plan doesn't include specific estimates of losses on Puerto Rican debt, though prices for some bonds fell after its release. Some general obligation bonds maturing in 2035 traded Wednesday at around 74 cents on the dollar, down from about 76 cents Tuesday.

The product of a working group appointed by Gov. Alejandro Garcia Padilla, who in June called the island's debts unpayable, the plan says that even if all proposed structural changes are adopted by policy makers, the commonwealth will still fall billions short of securing the amount it needs to pay bondholders in the next five years.

Those proposals seek to reduce a $28 billion financing gap over the next five years by adjusting taxes, reducing government spending, revamping welfare and the minimum wage, consolidating public schools, and creating a control board to ensure such changes are implemented.

“The key finding of this plan is that even if we implemented all the measures contained in it, they wouldn’t be enough to achieve the necessary balance,” the governor said in a televised address Wednesday. “The massive public debt of Puerto Rico is an impediment to growth. It is time for the creditors to come to the table and share the burden of the sacrifices.”

The plan has been awaited by investors, who are bracing for losses amid falling bond prices and a growing fiscal crisis, and who have wanted to see new structural changes before lending Puerto Rico any more money. The commonwealth has often borrowed to fund deficits during a decade of economic stagnation and population declines, and officials say it is rapidly running out of cash for operations. A government agency defaulted on a $58 million payment last month.

That makes the island the latest trouble spot in the market for U.S. municipal debt, which has been rocked in recent years by large bankruptcies in Detroit and Jefferson County, Alabama. Puerto Rico bonds are widely held by individuals and mutual funds around the U.S. because of their tax advantages.

Ted Hampton, vice president at Moody’s Investors Service, said the recommended changes will pose political challenges and likely prompt contentious negotiations with bondholders, with a high probability of “protracted litigation, particularly on the part of investors holding general obligation or other securities with strong legal protections.”

Officials say investors have begun organizing themselves into groups based on the type of bonds they own, and the government will begin talks with each group over the next several weeks.

The plan comes after one agreement was struck with commonwealth bondholders. The Puerto Rico Electric Power Authority, known as Prepa, last week reached an accord with its bondholders that would give them 85% of the face value of their junk-rated bonds in exchange for new securities designed to get investment-grade ratings. Prepa, which owes about $9 billion, is still negotiating with other creditors.

The plan also seeks help from the U.S. government, asking Congress to allow some Puerto Rico government entities to access bankruptcy protections. The commonwealth is currently barred from granting its agencies access to that legal process and officials say the lack of a framework is a significant obstacle to the restructuring effort.

The federal government should also reconsider the island’s relatively high minimum wage for young workers or exempting the island from the Jones Act shipping law—a move that could help reduce the cost of transporting goods, a summary of the plan said. Federal help is also needed to stave off a growing health-care crisis, by equalizing the funds Puerto Rico receives relative to U.S. states, it said.

Joseph Rosenblum, director of municipal credit research at AllianceBernstein, said the report includes serious measures to adjust the island’s budget and policy but lacks important details for investors, such as the engines of economic growth, the powers of the control board, or how the island will treat its constitutionally protected general obligation bonds versus its sales-tax debt.

“I am not sure that this report has moved the process along to any great extent, which may only come when they sit down with bondholders,” he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

Updated Sept. 9, 2015 4:07 p.m. ET

—Leslie Josephs contributed to this article.

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com

Puerto Rico's Recovery Plan Faces Much Doubt, Many Obstacles.

NEW YORK/SAN JUAN — Puerto Rico's new plan to haul itself out of a huge financial hole is long on ifs and buts and short on confident predictions.

Faced with the prospect that its cash will run out within months, the Caribbean island is proposing numerous measures that require support from its divided legislature, action from a U.S. Congress that may not be supportive, and the willingness of a wide range of bondholders to take losses.

It calls for spending cuts that would hit the U.S. territory's population and a restructuring of its debt that would hurt mom-and-pop investors, as well as U.S. funds. There would also be extensions of excise taxes.

The proposals are all an attempt to close a projected $28 billion funding gap between 2016-2020 as it struggles with a $72 billion debt burden.

Some experts on municipal restructurings said the proposals from a working group established by the Puerto Rican government should force creditors to deal with a clearly worsening situation.

"I sincerely hope that the bondholders will see this report for what it is – a wake up call to come to the table," said Steven Rhodes, who handled the Detroit bankruptcy when he was a judge, and has been hired to advise Puerto Rico. "I don't see a way in which bondholders could be made whole."

But coming only 14 months before Puerto Rico Governor Alejandro Garcia Padilla is up for re-election, and given there is a skeptical Republican-controlled U.S. Congress, the plan is likely to encounter major political obstacles.

"Anything that is perceived by the populace as something that's taking away rights is going to be difficult to implement on a pre-election cycle," said Jose Perez-Riera, former secretary of economic development and commerce under former governor Luis Fortuno, and now an advisor at a private economic development group in Puerto Rico.

Devised by Puerto Rico officials and advisors, the plan was based on an influential report, released in June, penned by former International Monetary Fund economists who proposed sweeping cuts and reforms in an attempt to reinvigorate growth.

Showing some signs of the challenges to get to even this point, Garcia Padilla said the plan was appropriately light in two areas: new taxes on the population and demands for sacrifices from workers.

Garcia Padilla presented the plan as the "beginning of a negotiation" with creditors that would result in a “major humanitarian crisis” if a deal wasn’t reached.

“It’s not going to be easy,” said Andrew Wolfe, one of the former IMF economists who wrote the earlier report. “There are so many moving parts here – you are requesting actions from the Federal Government and the creditors.”

FACING A HAIRCUT

Puerto Rico is likely to face an uphill battle with investors as it tries to cut debt, particularly general obligation bonds. They are seen as sacrosanct in the municipal bond market and viewed as having the best protection in a restructuring.

“The debt restructuring is going to be the most difficult, I think, just because you’re asking bondholders to accept less than they thought they were going to get,” said Peter Hayes, head of asset manager BlackRock’s Municipal Bonds Group, which owns various non-government Puerto Rico bonds.

Bondholders are facing a significant haircut on their debt – the working group who devised the plan said only around $5 billion is available to pay principal and interest on the $18 billion of debt coming due in the coming five years. If the government gets its way, the difference is most likely to come from a loss of both interest payments and delayed payments of principal.

That could lead to protracted litigation if some bondholder factions choose to fight.

“In litigation or a negotiation, there will be requests to do more, to cough up more money and yet I do think it’s a fair statement to say that a very high debt burden absolutely has a negative impact on the economy and if you sit back and just continue with austerity it gets worse,” said John Miller, co-head of fixed income for Nuveen Asset Management, which holds $300 million in par value of Puerto Rico bonds which are either insured or non-governmental obligations.

Unlike U.S. municipalities, Puerto Rico cannot seek federal bankruptcy protection under Chapter 9. That makes a restructuring much more complicated than faced the city of Detroit, for example, when it filed for bankruptcy in 2013. Puerto Rico has argued that it needs access to Chapter 9 but bills seeking to allow it have stalled in Congress.

“Chapter 9 provides a focus, a mechanism, an urgency, and a supervision that’s lacking without it,” said Rhodes.

PROTESTS PLANNED

One alternative is a financial control board, proposed in Wednesday’s plan. That board would be selected by the Governor from among nominees chosen by interested parties, the working group said.

However, U.S. lawmakers may come up with an alternative plan for a board. “That may be a contentious issue,” said Wolfe.

Miller said getting all the reforms passed would be a “long shot” with the U.S. presidential election and the Puerto Rico election both coming up in 2016.

One measure proposes bringing in an Economic Activity Tax Credit, designed as a replacement for tax preferences for manufacturers from the U.S. mainland, which were phased out by 2006. Those had helped the island become a manufacturing hub, particularly for pharmaceutical companies.

“It’s not necessarily sustainable,” said Wolfe of the proposal for the new tax credit. “Maybe this government on a chance enacts it but a future one could take it away and then you’re back to where you are.”

Opposition to the plan by labor unions could be a hurdle. The plan calls for a two percent annual attrition rate for public employees, reductions in vacation and sick leave, and potential cuts to teacher pensions. Proposed reductions in the budgets for schools and the island’s university may also trigger action by teachers, professors and students.

Already, at least one labor group is planning protests. The Coordinadora Sindical, a collective of labor unions in Puerto Rico, announced on its Facebook page it will hold protests on Friday in San Juan, the island’s capital, “in order to stop the so-called fiscal adjustment plan.”

“I’m sure unions will oppose this very actively,” said Francisco Cimadevilla, a San Juan consultant and head of communications firm Forculus.

The island’s university may also see student protests.

“I’m already hearing talk about (protests), and I think most likely there will be, once the public gets the information and can digest it,” said Mario Maura Perez, a finance professor at the university’s Rio Piedras campus.

By REUTERS

SEPT. 10, 2015, 12:12 A.M. E.D.T.

(Reporting by Megan Davies and Jessica DiNapoli in New York and Nick Brown in San Juan; Editing by Martin Howell)

Texas Law on P3 Selection Process Takes Effect.

A Texas law establishing a center to help government agencies select projects to be developed through public-private partnerships took effect Sept. 1.

HB 2475, signed into law by Gov. Greg Abbott on June 19, established the Center for Alternative Finance and Procurement within the Texas Facilities Commission, which will consult with government agencies regarding best practices for procuring and financing qualifying projects. The center also will assist agencies “in the receipt of proposals, negotiation of interim and comprehensive agreements and management of qualifying projects.”

The law could spur municipalities and public agencies with tight budgets to look to the private sector for financing and management services and state and local governments could use it to help address infrastructure needs, such as vital water projects, noted law firm Vinson & Elkins LLP in a blog post.

“With Texas’ demand for water on the rise, coupled with projected population and economic growth, the bill is an important step toward meeting emerging challenges to the state’s water security,” the law firm wrote.

The center will be required to arrange for an architect, professional engineer or registered municipal advisor to advise agencies about a P3's costs and benefits. For construction or renovation projects with an estimated cost of less than $5 million, these advisory services can be provided by qualified agency employees. More costly projects must be evaluated by an independent expert.

The law also allows the agency procuring the project to charge a "reasonable" fee to cover the costs of the center's project review and consultation services.

HB 2475 places a notable exception on the types of P3s that developers can pursue by eliminating an agency's option to consider unsolicited proposals, Christopher Lloyd of McGuireWoods Consulting LLC pointed out during a session at NCPPP's 2015 P3 Connect conference.

The new law adds to the level of P3 oversight some agencies already exert. Both the state's facilities commission and its department of transportation have adopted guidelines on project application requirements, review criteria and evaluation processes. El Paso, San Antonio, Dallas and Houston have established similar guidance,

These requirements, while adding steps to those that agencies already follow to pursue P3s, also signal the state's willingness to a growing variety of such projects, Vinson & Elkins argues.

"By enacting House bill 2475, the Texas Legislature sent a strong signal that it is open to private involvement in infrastructure financing and delivery across a wide range of sectors," the firm wrote.

NCPPP

By Editor September 3, 2015

Kentucky City Claiming Bankruptcy May Not Be Broke, Moody's Says.

Hillview, Kentucky, the first city to file for bankruptcy since Detroit, may struggle to prove it's insolvent and in need of court protection, Moody's Investors Service said.

Because of an $11.4 million legal judgment to a local company, Hillview filed for protection Aug. 20. The locality of about 8,000 people has about $13.8 million in debt, compared with revenue of $2.5 million in the 2014 fiscal year. Though the burden seems insurmountable, Hillview under Kentucky law can issue bonds to cover losses in legal judgments and pay off the resolution over the course of a decade, Moody's analyst Nathan Phelps said Monday in a report.

The local company, Truck America Training LLC, has indicated it may fight the city's bankruptcy by asking the judge overseeing the case for permission to interview city officials under oath and for access to internal city financial documents. Should Truck America or another creditor convince U.S. Bankruptcy Judge Alan Stout in Louisville that the city isn't eligible to remain under court protection, the case would be dismissed and the company free to try to collect the judgment.

Hillview's plight parallels that of Mammoth Lakes, California, a ski resort community of 8,200 near Yosemite National Park that filed for bankruptcy in 2012 because of a $43 million development lawsuit, Moody's said. The locality exited Chapter 9 after about four months because it reached a settlement with the land-acquisition company.

Tax Increase

Hillview, which hasn't defaulted on its general-obligation bonds, also has room to increase taxes on wages, business profits and property, Moody's said. Kentucky courts have said municipalities can raise levies above the maximum rate to repay debt backed by their full faith and credit, according to Moody's.

After filing a Chapter 9 petition, a municipality automatically gains temporary protection from creditors. Unlike in corporate bankruptcies filed under Chapter 11, the city or county can't proceed with its restructuring case until it convinces a judge it's eligible to remain under court protection, in part by showing it isn't paying debts as they come due.

In Aug. 28 court filings, the city claimed it was eligible because it lost the court case to Truck America. The case, which is related to a land sale, led to a judgment for the company of $11.4 million plus annual interest of 12 percent.

The city claimed it tried unsuccessfully to negotiate with creditors before filing for bankruptcy.

The case is In re City of Hillview, Kentucky, 15-32679, U.S. Bankruptcy Court, Western District of Kentucky (Louisville).

Bloomberg News

by Steven Church and Brian Chappatta

August 31, 2015 — 7:45 AM PDT Updated on August 31, 2015 — 9:12 AM PDT

Emanuel Said to Plan Property-Tax Boost for Chicago Pensions.

Chicago Mayor Rahm Emanuel is preparing to press for a property-tax increase of about $500 million to shore up police and firefighter pensions that threaten the city's solvency, the Chicago Tribune reported.

The proposal will be part of Emanuel's Sept. 22 spending plan for the budget year beginning Jan. 1, the newspaper reported. The increase, expected for months, would be the centerpiece of a budget that is $426 million out of balance.

When asked how difficult it will be to raise real-estate levies, Emanuel expressed confidence on Thursday that such an increase specifically to fund public-safety workers' pensions would pass the city council.
"We're going to do it in a fair and progressive way," Emanuel told reporters. "If you're asking me, do I believe we'll get it done, the short answer is yes because I actually believe aldermen are up to the task of charting a new course for Chicago's future."

Chicago needs to pay down a $20 billion debt to its retirement funds that's left it with a lower credit rating than any big U.S. city except Detroit, which went through a record bankruptcy.

"It serves as a clear demonstration of Chicago's willingness to make the difficult but necessary decisions," Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, said in an e-mail. The company manages about $30 billion in municipal bonds, including some Chicago debt.

Reckoning Day

The city faces a reckoning after years of failing to save enough to pay the benefits it promised employees. Over the past decade, Chicago has put $7.3 billion less into the pension funds than actuaries recommended. Its next annual pension payment is projected to jump 10 percent, to $976 million.

Chicago's effort to reduce its liabilities hit an obstacle in July, when a judge ruled the benefits cuts it sought were illegal. The city will appeal to the Illinois Supreme Court, which in May threw out a pension overhaul adopted by the state, saying workers' pensions are protected.

The challenges and subsequent credit downgrades have spurred a drop in the price of Chicago bonds. A portion of $44.9 million of federally tax-exempt securities maturing in 2033 traded Thursday at an average of 91.8 cents on the dollar. That's down from $1.01 when it was first offered in 2014. The yield averaged 6 percent Thursday, 3.2 percentage points more than benchmark debt.

Bloomberg News

by Tim Jones and Elizabeth Campbell

September 3, 2015 — 7:03 AM PDT Updated on September 3, 2015 — 1:45 PM PDT

Puerto Rico Balloon Payments Seen as Risk for Some Bond Insurers.

For bond insurers, Puerto Rico's balloon payments on debt that puts off interest bills for decades is a billion-dollar asterisk.

With Governor Alejandro Garcia Padilla set to receive a plan as soon as next week to restructure $72 billion of debt, the commonwealth's capital appreciation bonds, which were first sold for pennies on the dollar because they don't pay interest until maturity, threaten to saddle Ambac Financial Group Inc. and MBIA Inc. with swelling liabilities.

The companies typically use the price at which the bonds were issued when disclosing the potential payouts they face. Once interest is included, Ambac says its Puerto Rico exposure jumps to much as $10.5 billion from $2.4 billion. For MBIA's National Public Finance Guarantee Corp., it more than doubles to about $10.5 billion.

"The difference between principal at issuance and the amount due at maturity is enormous" on capital-appreciation bonds, said Tamara Lowin, director of research at Rye Brook, New York-based Belle Haven Investments, which oversees $3 billion in munis. "Ignoring the accreted value is irresponsible."

Bond insurers, which agree to make interest and principal payments if an issuer defaults, are among those with the most at stake as Puerto Rico is pushed to the financial brink. Years of borrowing caught up to the island as the economy languished and residents moved out. The territory defaulted last month for the first time, when it made just a fraction of a payment due on uninsured securities sold by one of its agencies, and Garcia Padilla's advisers are scheduled to present a debt-adjustment plan on Sept. 8.

Shares of Ambac, MBIA and rival Assured Guaranty Ltd., which tumbled as the commonwealth veered toward default, rose this week after Puerto Rico's electric company struck an agreement that left investors facing smaller losses than some analysts had predicted. Puerto Rico's bonds also climbed amid speculation that the government will be able to reach other such deals.

Island officials have yet to say how much of their debt they'll seek to cut, or which securities may be affected. Some investors have snapped up insured Puerto Rico securities, confident that insurers have enough to cover any defaults.

Assured, which insures $9.1 billion of commonwealth debt as measured by principal and interest, has $12.6 billion in claims-paying resources, according to company filings. Ambac has $8.8 billion to meet obligations and National has $4.9 billion, company disclosures show.

National and Ambac say they're confident in their ability to weather a Puerto Rico restructuring, and the biggest balloon payments faced by the commonwealth won't come due for decades. Assured says its $72 million exposure to capital-appreciation bonds is minimal.

MBIA is rated AA-, the fourth-highest grade, from Standard & Poor's, which ranks Assured AA, one step higher. Ambac isn't rated by S&P.

Those rankings are based on their ability to pay debt service on the island securities they insure for the next four years, said David Veno, an analyst at S&P in New York. The largest portions of Puerto Rico's capital appreciation bonds, or CABs, don't factor into that calculation because they don't mature in that time.

Ambac guarantees at least $7.3 billion of Puerto Rico's payments on CABs, most of which are backed by sales taxes and aren't due until 2047. National has more than $4 billion.

MBIA began including the full debt-service total along with the par amount in its last two quarterly reports, which reflect its exposure to CABs. Adam Bergonzi, National's chief risk officer, said the bonds, known by the Spanish acronym Cofina, are backed by a top claim on sales taxes that are sufficient to cover the debt payments.

"We are comfortable with our Cofina exposure," he said in a statement. Though CAB payments may seem large, "collection levels exceed amounts necessary to service all senior debt in future years."

Ambac discloses its exposure to Puerto Rico interest payments on its web site, though its most recent quarterly filing includes only a tally based on the amount of bonds outstanding.

"You need some sort of consistent basis to disclose your par exposure in your portfolio, and that's a metric over time that investors have found valuable in assessing the guarantors and their risk," David Trick, chief financial officer of Ambac, said in an interview. "It's hard to make everything perfectly apples-to-apples without making disclosures extremely complex and potentially confusing."

CABs have drawn scrutiny in states including California, Michigan and Texas because of the financial squeeze the securities put on local governments when they come due. All three have banned or limited the ability of officials to sell them.

Texas's bill, which took effect Sept. 1 and restricts CAB maturities to 20 years, is a credit positive for the state's school districts because they will have more stable debt burdens, Moody's Investors Service said Thursday in a report.

In 2007, Puerto Rico issued Cofina bonds backed by Ambac due in August 2054 that netted the commonwealth $701 million up front, data compiled by Bloomberg show. As the debt matures, investors are supposed to receive about 10 times that amount.

The securities have traded at about 6.8 cents on the dollar over the past month, compared with 9.2 cents when they were issued. Usually zero-coupon bonds increase in price as they get closer to maturity.

"The biggest risk for National and Ambac is Cofina," said Bill Bonawitz, director of municipal research in Philadelphia at PNC Capital Advisors. Because of the CABs, "they would ultimately owe enormous numbers."

Bloomberg News

by Brian Chappatta

September 3, 2015 — 9:01 PM PDT Updated on September 4, 2015 — 6:02 AM PDT

Puerto Rico's Power Authority Reaches Deal With Bondholders.

Puerto Rico's power authority said Wednesday that it agreed on a debt restructuring plan with a group of bondholders, in what officials painted as an important step in the island commonwealth's efforts to improve its finances.

The deal, after months of talks between the Puerto Rico Electric Power Authority and a group of mutual-fund companies and hedge funds, could pave the way for similar agreements between investors and the island's struggling public agencies, analysts said.

The Government Development Bank, the island government's fiscal agent, is already laying the groundwork for negotiations with investors who own some of its bonds. Some Puerto Rico bonds rallied as much as 23% on news of the power utility's deal, though they continued to trade at a deep discount to par value.

The bondholders who reached the agreement with the power authority, such as Franklin Resources Inc., OppenheimerFunds and hedge funds including BlueMountain Capital Management LLC and Marathon Asset Management, are slated to receive 85% of the face value of their bonds in exchange for new securities that will be designed to carry investment-grade ratings. Bonds from the authority, which has about $9 billion in debt, are currently rated junk.

The agreement "sends a positive message to the market that there is a way to get a consensual deal that is equitable for both parties," said Lisa Donahue, chief restructuring officer for the authority. The power utility released a term sheet outlining the framework of the plan, though the parties still have to prepare a more formal agreement.

Puerto Rico has been struggling with a sluggish economy and high unemployment for years. The situation prompted Gov. Alejandro García Padilla in June to call the island's $72 billion in debt unpayable, and he has directed a group of government officials to produce a broader fiscal adjustment plan for the island. Its financial troubles are the latest to hit the usually quiet market for municipal bonds, which has been rattled in recent years by large bankruptcies in Detroit and Jefferson County, Ala.

The deal gives the power authority "a fresh start and financial flexibility, with bondholders providing meaningful sacrifices to make that happen," Stephen Spencer of Houlihan Lokey, the bondholders' financial adviser, said in a statement. He said the bondholders will work "to finalize these steps and complete the transaction as quickly as possible."

The restructuring agreement is still contingent on several factors, including obtaining legislative authority for certain aspects of the agreement, underscoring the complexity of the challenges Puerto Rico faces in reducing its debt. Bond insurance companies, including Assured Guaranty Ltd. and MBIA Inc., and other lenders haven't agreed to the restructuring deal, though the power authority said in a statement that it will continue to negotiate with those parties.

"We have a strong track record of protecting our economic interest related to credits in financial distress and are continuing to negotiate in good faith," said Robert Tucker, head of investor relations and communications at Assured, in a statement.

Most of the power authority's creditors also agreed to extend a so-called forbearance agreement until Sept. 18, in which they agree not to exercise certain remedies. MBIA unit National Public Finance Guarantee Corp., however, didn't extend the agreement. A spokesman for National declined to comment on why the insurer didn't extend, or whether any action would be taken.

"There's a lot of detail still to be worked out," said Rick Donner, senior credit officer at Moody's Investors Service. Still, the fact the forbearance agreement was extended suggests "the negotiations have reached a critical stage," he said.

Bonds from the power authority rallied after the deal, reflecting the mood among some investors that the bondholder losses were less severe than expected. On Wednesday, a 2026 bond from the utility traded at 67.25 cents on the dollar, up from 54.57 cents on Monday, a 23% gain, according the Electronic Municipal Market Access website.

Not all investors were buying.

"I still have a lot of questions, and I'm not willing to jump into purchasing anything yet," said Howard Cure, director of municipal research at Evercore Wealth Management, which oversees $6 billion and doesn't own any bonds from the power authority.

According to the restructuring plan, bondholders will have the option to receive two types of securities in exchange for their existing bonds, with one carrying interest rates as high as 4.75% and the other as high as 5.5%. The first set of bonds will pay interest for the first five years, but the group of higher-rate bonds will defer interest payments during that time. The bonds will be scheduled to mature in 2043, according to the term sheet.

All investors who own uninsured bonds from the power authority will have the opportunity to participate in the exchange. The bondholder group that led the talks also agreed to discuss providing financing so the authority could offer cash to other investors who don't want the new bonds. An offering price hasn't yet been worked out.

The agreement is forecast to reduce the authority's debt principal by about $670 million and save more than $700 million in principal and interest payments over the next five years.

THE WALL STREET JOURNAL

By MIKE CHERNEY

Updated Sept. 2, 2015 5:35 p.m. ET

Write to Mike Cherney at mike.cherney@wsj.com

Chicago and Mayor Emanuel Face a $20 Billion Reckoning.

Chicago Mayor Rahm Emanuel sat on a stage at a community college gymnasium for nearly two hours as residents stepped up to the microphone to plead for more money for buses, schools and programs for the mentally ill.
The mayor jotted notes as the crowd erupted into angry chants and jeers. Then he explained there was little extra cash to be had. “We have a budget deficit and then pension payments,” Emanuel, a Democrat, said at the end of the meeting Monday at Malcolm X College. “We have changes we’re going to have to make.”

Chicago is facing a $426 million budget shortfall next year and needs to pay down a $20 billion debt to its workers’ retirement funds that’s left it with a lower credit rating than any big U.S. city except Detroit.

After its bond prices tumbled this year when investors demanded higher premiums to lend to the third-largest city, Emanuel is under growing pressure to stanch the fiscal bleeding by raising taxes, cutting spending and putting more into a pension system the city has shortchanged for years. He’s set to release a spending plan on Sept. 22.

“Chicago is really at a crucial point here,” said Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, which manages about $30 billion in municipal bonds, including some Chicago debt. “It’s going to be within Chicago’s control to demonstrate to the market that they have the willingness to make the difficult but necessary fiscal decisions.”

While Chicago’s economy recovers, the population grows and its tax revenue rebounds from the toll of the recession, the city is facing a fiscal reckoning from years of failing to save enough to pay the benefits it promised employees. Over the past decade, Chicago has put $7.3 billion less into the pension funds than actuaries recommended, which is pushing up its bills. The city’s next annual pension payment is projected to jump to $976 million, an increase of 10 percent.

The mounting debt led Moody’s Investors Service to lower its rating on Chicago’s $8.1 billion of general obligations by two steps to Ba1 in May. Standard & Poor’s and Fitch Ratings followed by downgrading the city to BBB+, three levels above speculative grade.

The downgrades have caused the price of Chicago bonds to tumble. A portion of $58.5 million of taxable securities maturing in 2033 traded Tuesday at an average of 88.6 cents on the dollar, down from 99.7 cents on April 30.

That pushed the yield to 6.3 percent, 3.6 percentage points more than benchmark debt. That gap is up from 2.5 percentage points at the end of April.

When Chicago sold bonds in July, investors demanded yields of 5.67 percent on 20-year federally tax-exempt securities, about 2.5 percentage points more than benchmark municipal debt.

“Their big issue continues to be their long-term liability in the form of pension obligations,” said Peter Hayes, the head of municipal bonds for New York-based BlackRock Inc., which oversees $116 billion of the securities. He said the firm isn’t adding to its Chicago holdings. “How they build some of the elements of that into the budget is going to be very, very critical. If they truly address this liability from the revenue standpoint and that becomes credible, the bonds would have the ability at improve."

Chicago's effort to reduce its pension liabilities hit an obstacle in July, when a judge ruled the benefits cuts it sought to implement were illegal. The city will appeal the decision to the Illinois Supreme Court, which in May threw out a pension overhaul adopted by the state, saying workers' pensions are protected.

On top of next year's deficit, the city still hasn't come up with the $549 million it needs to put into its police and firefighter funds this year. While Illinois's Democrat-led legislature passed a plan to lower that payment to $328 million, Republican Governor Bruce Rauner has yet to sign it.

Emanuel, who took office in 2011, hasn't raised property, gas or sales taxes. During his reelection campaign this year, he said an increase to real-estate taxes, which generated $824 million last year, would be a last resort.

As the mayor entered the town hall meeting Monday, he was met with the chant "Rahm don't care" by those angered at neighborhood school closings. Over almost two hours, he listened as residents suggested boosting taxes on liquor, regulating ride-hailing companies such as Uber Technologies Inc., taxing trades at Chicago's options and commodities exchanges, and suing banks to recoup fees the city had to pay to back out of derivative trades after its credit rating was cut.

Wilhemenia Taylor, 58, who owns a home in the city, said she's concerned about what the budget will bring.
"I'm worried about cuts to the public school system, and higher taxes," Taylor, a teacher's assistant, said in an interview while sitting on red bleachers. "And the neighborhoods are going down."

Despite the difficulty, it's important for Chicago to demonstrate to investors and credit-rating companies that it's taking strides to meet long-term obligations that have been neglected for years, said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services, which analyzes municipal finance.

"They've got to come up with a plan to show some willingness to pay," Ciccarone said. "We need to show the city's ability to tap that economic base that it has."

Bloomberg

Elizabeth Campbell

September 1, 2015 — 9:00 PM PDT Updated on September 2, 2015 — 8:25 AM PDT

Vanguard, Once Thwarted, Launches a Muni-Bond Rival to BlackRock's iShares.

The Vanguard Group Inc. was playing catch up when it was getting ready to launch its first municipal bond index fund in 2010.

Its competitors had already successfully brought similar products to the market, including State Street Global Advisors and BlackRock's iShares. Those issuers, who at the time had substantially larger ETF businesses than Vanguard, offered a suite of muni-bond products with more than $2 billion in assets apiece.

But Vanguard was forced to call off its launch. The December 2010 prediction by the analyst Meredith Whitney on "60 Minutes" — that bonds issued by U.S. cities and states would see billions in defaults — worsened the mood of investors shell-shocked by the financial crisis. A fund launch then could have been catastrophic, according to Christopher W. Alwine, the head of Vanguard's municipal bond group.

"People thought munis were the next shoe to drop," Mr. Alwine said. "There were heavy outflows in the muni market at the time. It wouldn't get any interest or it'd get redemptions, and it would make it difficult to produce tight 'tracking' in the product," capable of successfully matching the returns of its benchmark.

Five years later, Vanguard, now the top mutual fund company and No. 2 ETF shop behind iShares, is hoping that this time is different.

The Vanguard Tax-Exempt Bond Index Fund (VTEBX), launched Monday, is the mutual fund industry's first passive municipal bond fund, according to Nadine Youssef, a spokeswoman for fund researcher Morningstar Inc. But its ETF counterpart, which Vanguard now runs under the ticker VTEB, will be going head to head with deeply entrenched competitors.

The top product, managed by BlackRock Inc., is a colossus: The iShares National AMT-Free Muni Bond ETF (MUB) manages more than $5.2 billion.

The Vanguard product is the cheapest fund of its kind, with annual expenses of 0.12% for both the ETF and the lowest-cost mutual-fund share class.

Mr. Alwine said that expense ratio will allow the funds to top the performance of its competitors, including the comparable iShares product. A BlackRock spokeswoman declined to comment.

They're launching the fund into a much healthier market, analysts said, with many cities and states displaying stronger financial conditions and refinancing their debts at lower rates in the past several years. But it's also potentially an environment of rising interest rates, which to some degree will erode the value of bonds.

The S&P National AMT-Free Municipal Bond Index, tracked by the Vanguard and iShares products, focuses on investment-grade bonds exempt from U.S. federal taxes and excludes the troubled U.S. territory Puerto Rico, which has been purchased by a number of municipal bond mutual funds. The index has averaged a 2.4% return over each of the last three years, or 3.7% each of the last five.

Over five years, 45% of active fund managers have topped the return of that index, according to Todd Rosenbluth, director of ETF and mutual fund research at S&P Capital IQ.

Like many bond index funds, this product looks to match the returns of its index not through buying every underlying bond but by "sampling," using the assets they have to buy a representative group that matches the characteristics of the bonds in the index.

"While investors should expect that this product should be performing closely in line with the S&P index and should perform close from an ETF perspective to MUB, which tracks the same index, there will be some slight deviation in performance and how well it tracks the benchmark," particularly before the fund reaches a critical mass of assets, Mr. Rosenbluth said.

"Especially in a world of soon-to-be-rising interest rates, that should make it harder for bond funds to perform as well as they have historically," he added. "By shaving off the expense ratio, that increases the likelihood of stronger performance."

Investment News

By Trevor Hunnicutt

Aug 27, 2015 @ 12:52 pm

Investors Brace for Puerto Rico's Debt-Restructuring Plan.

Investors will be watching Puerto Rico this weekend for details of a restructuring plan for its $72 billion debt load, as government officials face a Sunday deadline to deliver a draft of the plan to the governor.

The deadline kicks off what could be a busy week for the struggling island commonwealth, which defaulted on bonds from one of its public agencies earlier this month. Under previous agreements, the Puerto Rico Electric Power Authority, bondholders and other creditors are facing a Tuesday cutoff to shake hands on a restructuring program for the electric utility.

It isn't clear whether the government will release a draft version of its broader restructuring plan on Sunday, and analysts caution that any draft will likely be subject to heavy revisions. Daniel Hanson, an analyst at Height Securities, estimated in a recent research note that it could be up to two weeks before the full plan is officially released.

Earlier this week, Puerto Rican newspapers reported on some details of the proposed plan. The reports implied that Puerto Rico is "still intending to deeply haircut bondholders of many (or most) Puerto Rican bonds," meaning investors could face significant losses, Mr. Hanson wrote in his note.

"People are now looking for this report to give more color," said Bill Black, who helps oversee the $7.2 billion Invesco High Yield Municipal Fund.

Some Puerto Rico bonds have risen in price in recent days, reflecting optimism that investors will soon get a better idea of how the restructuring plan might look. A big chunk of Puerto Rico general-obligation bonds traded at 72.75 cents on Friday, up from 70.5 cents a week earlier, according to the Electronic Municipal Market Access website.

Puerto Rico, whose bonds are widely held by U.S. mutual funds, has been struggling with a lackluster economy and high unemployment for years. In June, Gov. Alejandro Garcia Padilla called the island's debts unpayable and directed a so-called working group of government officials to develop a draft restructuring plan and present it to him by Sunday.

The deadline comes after Puerto Rico this week further delayed a $750 million bond sale for its water and sewer authority. The sale has been scheduled for the past two weeks, but underwriters haven't been able to attract enough orders from investors to sell all the bonds, according to people with knowledge of the deal.

Officials have said they don't anticipate water and sewer bonds taking a hit as part of the restructuring plan, assuming the authority can sell bonds and its financial projections are met. Some investors, however, say the island commonwealth has been sending mixed messages. For example, Puerto Rico recently asked the U.S. Supreme Court to review a decision voiding a law allowing certain government agencies, including the water and sewer authority, to restructure their debts.

“You have one hand out telling people you can’t pay your bills, and you have another hand out hoping to collect money, saying you can pay your bills,” said Hugh McGuirk, head of municipal bonds at T. Rowe Price, which oversees about $22 billion in municipal debt. “The market is asking, which is it?”

The sewer authority planned to use the bulk of the proceeds for improvements to the water and sewer system. But it also planned to use the cash to pay off a $90 million credit line from Banco Popular de Puerto Rico, which comes due on Monday. The authority pledged the “bulk of its cash reserves” as collateral for the loan, according to Fitch Ratings, which gave the planned sewer bonds a junk rating.

THE BOND BUYER

By MIKE CHERNEY

Aug. 28, 2015 5:40 p.m. ET

Christie’s Recovery Elusive as Bond Market Penalizes New Jersey.

As New Jersey prepared for its biggest bond sale in more than two years, Governor Chris Christie’s office said a break in rating cuts for the Garden State showed that its finances are on the mend. Bond prices suggest otherwise.

The extra yield investors demand to buy New Jersey bonds instead of top-rated debt is holding close to the highest since at least January 2013. When New Jersey began marketing the $2.2 billion of securities last week, 20-year bonds were offered for a yield of 5.07 percent, more than 2 percentage points above the benchmark, according to three people familiar with the sale who requested anonymity because pricing wasn’t final.

“The state is going to continue to have issues,” said Scott McGough, who helps manage about $3 billion of municipal debt as director of fixed income for Glenmede Trust Co. in Philadelphia and isn’t buying New Jersey bonds. He said officials aren’t “making the adjustments you would want them to do.”

New Jersey has a lower rating than any state except Illinois after nine downgrades since Christie took office in January 2010 and vowed to repair a government battered by the recession and squeezed by swelling shortfalls in its pension funds. That deficit, now $83 billion, has continued to grow despite a cut to benefits, as the slow recovery left Christie without money needed to make up for years of shortchanging the retirement system.

Ratings Respite

While New Jersey’s bond yields have climbed relative to other securities, they’re still less than they were in 2013 as municipal borrowing costs hover at a five-decade low.

New Jersey Assistant Treasurer Steven Petrecca said yield penalties have risen because of heightened investor scrutiny brought on by the fiscal struggles of Puerto Rico and Chicago.

“The bottom line here is that we believe that our bonds will be received because we always pay our debt,” he said.

The state won a respite from the cuts to its rating ahead of the sale Tuesday by its Economic Development Authority, which is raising money to refinance debt and fund school construction. It’s New Jersey’s biggest securities offering since January 2013, Petrecca said.

Fitch Ratings on Aug. 18 changed the outlook on New Jersey to stable from negative, signaling that the state won’t be downgraded again soon. The New York-based company said conservative revenue forecasts reduce the risk of another late-year budget deficit like those that have “plagued the state in recent years.”

‘Continued Progress’

Christie, who is campaigning for the Republican presidential nomination as a politician who cleaned up a fiscal mess he inherited, seized on the assessment.

The report from Fitch recognizes Christie’s “continued progress in responsibly managing the state’s finances by cutting discretionary spending, increasing reserves, and conservatively forecasting revenue,” his office said in a statement.

The administration also drew on a less sanguine assessment from Moody’s Investors Service, which said New Jersey’s rating could be reduced again if the pension strains worsen, to make the case for further benefit cuts. “The problem is the unwillingness of Democrats in the legislature to come to the table and fix a broken system,” his office said.

Assemblyman Gary Schaer, a Democrat who chairs the house’s budget committee, said Christie has continued to shortchange the retirement system and failed to put needed money into schools and infrastructure.

Festering Wounds

“All of these problems remain and they are, at best, festering wounds with little or no triage going on,” Schaer said. “There’s no long-term plan to confront any of the fiscal issues facing the state.”

The pension-system deficit may widen because Christie’s administration is contributing $1.3 billion to it this year, less than half the $3.1 billion set by a 2011 law he signed that sought to make up for years of underfunding. He used the money to cover the government’s bills when tax collections fell short of forecasts.

Fitch and Standard & Poor’s grade New Jersey debt A, the sixth-highest level, while Moody’s places it in the same rank at A2.

“There’s been no success really in terms of dealing with the liability side of the equation,” said Paul Brennan, a money manager in Chicago at Nuveen Asset Management, which oversees about $100 billion of munis. “We’re now at the point where it’s becoming critical.”

Market’s View

His view is reflected in the bond market. Ten-year New Jersey debt yields 3.2 percent, or 0.96 percentage point more than benchmark tax-exempt munis. That’s close to the record high touched in July, according to data compiled by Bloomberg. The data begin in January 2013.

Investors have also demanded a higher premium to buy bonds sold by the economic development authority, which are rated one step below the state's general obligations. Securities due December 2016 traded Monday for a yield of 1.5 percent, about 1.16 percentage points over benchmark munis. That's higher than the average of 1.1 percentage point since March.

Bloomberg

Romy Varghese and Terrence Dopp

August 23, 2015

[California Rainy Day Fund Yields Results in Bond-Market Recovery.]

California is once again the Golden State in the eyes of municipal-debt investors.

Bonds of the state, which was so strapped after the recession that it took to issuing IOUs and drew comparisons to Greece, are the best performers in the $3.6 trillion tax-exempt market this year after the obligations of Michigan. Investors are even willing to accept yields lower than benchmark indexes on the state's short-maturity debt, data compiled by Bloomberg show.

California plans to take advantage of the renewed faith in its finances by selling $1.9 billion in general obligations this week in the first offering of the securities since Standard & Poor's raised the state's credit rating to its highest level in 14 years. California's economy is expanding faster than the nation's, in part because of the technology-industry boom.

"The state of California has done a very nice job as far as improving its fiscal situation," said Greg Kaplan, director of fixed income in San Francisco at City National Bank's Rochdale unit, which manages $4.4 billion in munis. "Five years ago, people didn't want that paper. That fear is gone."

In July, S&P lifted the state's rating to AA-, its fourth-highest level, and pointed to passage of a budget that directed money to a rainy-day fund approved by voters in November. The fund, which requires the state to save a portion of capital-gains taxes, helps cushion the state when receipts fall, the company said.

Credit Environment

"It was important to see them enact a budget that represented an extension of their recent approach to their fiscal policy, which has been to emphasize structural alignment between the ongoing revenues and recurring expenditures," Gabriel Petek, a San Francisco-based S&P analyst, said Monday.

Investors have also liked how California under Governor Jerry Brown has notched budget surpluses after more than $100 billion of cumulative deficits from 2000 through 2010.

"Governor Brown has put the fiscal house in order," said Ben Woo, senior municipal analyst at Columbia Threadneedle Investments, which manages about $30 billion in local debt. "Compared to the chaotic political environment we're seeing in New Jersey and Illinois, California is a much better credit environment than some other states."

Penalty Declines

Investors are demanding about 0.18 percentage point over top-rated debt to own 10-year California securities, close to the 0.17 percentage point low since 2013, according to data compiled by Bloomberg. That's down from a peak of about 1.7 percentage points in 2009, when the state resorted to IOUs to pay bills.

That's also better than the 0.52 percentage point for debt issued by Pennsylvania, which has the same investment-grade ratings from S&P and Moody's Investors Service.

If mutual-fund flows remain consistent, it's a "pretty easy case to make" that California spreads can go to 0.1 percentage point this year, Kaplan said.

That level was seen in 2006 and 2007, before deficits for the nation's most indebted state soared amid the recession and sparked comparisons to Greece, which recently received its third bailout since 2010 from European authorities to repay creditors.

Capital Projects

California is selling bonds mostly to refinance debt and to fund capital projects such as roads and public buildings.

"We have to take advantage of our recent credit upgrades, and I encourage individual and institutional investors to get behind California and help us make this sale a success," State Treasurer John Chiang said in a statement.

On Tuesday, when individual investors had a chance to order the securities, 10-year bonds were being marketed at a yield of 2.38 percent, according to a person familiar with the sale who requested anonymity because pricing wasn't final. That compares with 2.21 percent for top-rated munis. Final prices will be set Wednesday.

The size of the deal might "take some digestion" and may prevent the state from testing new lows for yields, said Woo, the analyst at Columbia Threadneedle.

Adrian Van Poppel, who helps run a California fund for Wells Capital Management in San Francisco, said he would want risk premiums above those seen on existing bonds before buying.

"It'll just come down to pricing for us," he said. "You're not getting much" in extra yield for debt maturing under five years.

Investors are demanding 0.57 percent to own California two-year bonds, less than the 0.6 percent for benchmark munis, according to data compiled by Bloomberg.

"We'll definitely be following it," Van Poppel said. "They've been moving in the right direction."

Bloomberg

Romy Varghese

August 24, 2015

New Jersey Penalized in Biggest Muni Bond Sale Since 2013.

The New Jersey Economic Development Authority sold $2.2 billion of bonds at yields that were more than 2 percentage points higher than benchmark tax-exempt securities in the state's biggest debt sale since 2013.

The bond offering shows the penalty New Jersey is paying to borrow as it faces financial pressure from an $83 billion deficit in its employee-retirement system, which state leaders have shortchanged for years. The escalating bills to the pension funds have left New Jersey with the second-lowest credit rating among states after Illinois.

"Unless the state can show that it can make long-standing strides in its pension and health-care obligations, the state should be prepared to be penalized when it brings new issues to market," said Neil Klein, senior managing director in New York at Carret Asset Management, which oversees $750 million of municipal debt. Carret didn't buy any of the bonds.

Yields ranged from 3.24 percent for a bond maturing in 2019 to 5.1 percent for a 2040 security, according to data compiled by Bloomberg. Bank of America Merrill Lynch was the lead underwriter of the sale.

The 10-year securities were priced at 4.37 percent, compared with 2.21 percent yield on comparable top-rated debt. The $401.9 million in taxable bonds carried yields from 3.38 percent for 2017 securities to 4.45 percent for five-year bonds, the data show.

School Bonds

New Jersey ended up paying more in 10 years than A rated Guam, which sold comparable maturity debt Tuesday at a yield of 3.14 percent. Cobb County, Georgia's top-rated taxable bonds, also priced Tuesday, yielded 3.25 percent in 10 years.

Proceeds for the New Jersey issue will fund school construction costs, refinance debt and terminate derivative contracts. The bonds are rated A3 by Moody's Investors Service, the company's seventh-highest investment grade.

The deal accomplished the state's goals, and its true interest cost is 4.58 percent, said Christopher Santarelli, a spokesman for the Treasury Department.

"The offering saw widespread market acceptance with $450 million retail orders from mom and pops to some of the largest institutional municipal investors in the country," Santarelli said by e-mail.

Bloomberg

Romy Varghese

August 25, 2015

Puerto Rico Optimistic About Bond Sale as Buyer Doubts Increase.

Puerto Rico isn't giving up hope just yet that it can sell $750 million in water bonds while moving toward a debt-restructuring plan that may leave some investors with significant losses.

After initially announcing a sale date last week for the island's Aqueduct & Sewer Authority issue, the sale was pushed back to a day-to-day status as investors demanded higher yields and more protection against the risk of the bonds being caught up in a reorganization proposal that may be released as soon as next week. The offering has remained in limbo since.

"We are not expecting to price this week since some investor's requested, and we have agreed, to wait until after Sept. 1," Alberto Lazaro, the water utility's executive director, said in an e-mail Thursday. "There is not a set date, but rather we will evaluate and determine the appropriate timing, but are expecting it would be in early September."

The water authority, know as Prasa, anticipates that investors should be able to make more informed decisions after Puerto Rico officials deliver the debt-restructuring proposal and the island's electric utility also unveils a turnaround plan on Sept. 1, Lazaro said.

Investors aren't convinced. While Puerto Rico officials tried Monday to assure would-be buyers that the water utility doesn't need to restructure its debt, the commonwealth last week petitioned the U.S. Supreme Court to reinstate a law that would allow some public corporations, including Prasa, to negotiate with bondholders to reduce what they owe.

"I'd be shocked if they get the deal done," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of municipal securities, including Puerto Rico debt. "Unless there's some big change between now and then, they're still looking at empty pockets for their debt."

Prasa had already increased the preliminary yield to 10 percent last week from an earlier offer of 9.5 percent, according to two people familiar with the sale who requested anonymity because pricing wasn't final. That's more than three times the 3.16 percent yield on benchmark 30-year municipal bonds, according to data compiled by Bloomberg.

Sale proceeds would help repay a $90 million bank loan with Banco Popular that expires Aug. 31. Prasa is negotiating with the bank and other financial institutions, Lazaro said.

"They've exhausted the traditional municipal buyer and now they've lost the bulk of the hedge fund industry," Dalton said.

Bloomberg

Michelle Kaske

August 26, 2015

A Decade Later, New Orleans Mends Finances and Neighborhoods.

When Matt Wisdom tried to round up investors for his three-D modeling company after Hurricane Katrina hit, people scoffed.

"They treated us like we were part of the developing world," said Wisdom, 43, chief executive officer of TurboSquid, which was founded before the storm. "The response we often got was, 'We'll invest in New Orleans, but we'll treat it like it is Estonia."'

Today venture-capital funds with more than $1 billion are lining up to provide money for entrepreneurs, and philanthropies, including the John D. and Catherine T. MacArthur Foundation, are providing grants for city projects.

"It's a sea change," Wisdom said. "We've become trendy."

New Orleans has rebounded from the costliest natural disaster in U.S. history, as tourists and tax collections near pre-storm levels and property values rise to new peaks. Beyond the determination of residents to return, recovery has been driven by billions of dollars in federal investment, including an improved levy system, state aid for local governments, loans to help businesses rebuild and bond ratings that top those before the storm.

"The city was literally under water for three weeks, so there were a lot of doubts," said Adrienne Slack, vice president in the New Orleans branch of the Federal Reserve Bank of Atlanta. "Now there is a focus on how the city can better position itself for the future."

Rising Graduation Rates

The school system is being rebuilt with funds that include $1.8 billion from the Federal Emergency Management Agency. Graduation rates have risen to 73 percent in 2013-2014 from 54 percent in 2003-2004, and the percentage of students who are proficient on all state tests for all grades increased to 62 percent from 35 percent.

The city has repaired infrastructure, even though fixing all the streets will cost an estimated $9 billion. The Superdome — which sheltered thousands during the storm — has been renovated and now carries the Mercedes-Benz name. A new veterans' hospital is scheduled to open in December 2016, and the new $1.1 billion University Medical Center New Orleans was designed with its emergency department and other mission-critical elements 21 feet above base flood elevation.

"Our vision is to make New Orleans a premier national and international health-care destination," said Michael Hecht, president of Greater New Orleans Inc., which promotes economic development. Part of that plan is a 1,500-acre district focused on biosciences research and medical care that will create an estimated 34,000 jobs.

"If adversity is the mother of invention, then Katrina was the biggest mother of all," Hecht said. President Barack Obama is visiting the city today, to celebrate its progress but also note its continuing economic inequality, according to the White House.

80 Percent Submerged

The Category 5 storm hit Louisiana and Mississippi on Aug. 29, 2005, with maximum winds of 125 miles an hour, according to the National Hurricane Center. Water surged as much as 28 feet above normal tide levels and destroyed levies designed to protect the city, which lies mostly below sea level. Floods covered 80 percent of New Orleans, and hundreds of thousands of the city's 455,000 residents eventually fled; by 2006 only 211,000 remained.

The day after the storm, Standard & Poor's warned it was reviewing ratings for the city and other local and state governments, which had about $8 billion of debt outstanding. Similar announcements followed from Fitch Ratings and Moody's Investors Service.

Rating analysts had no way to predict when or how quickly the people and the tax bases would return, said Steve Murray, senior director with Fitch.

"This had never happened before to an American city," Murray said. "It was so unprecedented to have such a dislocation of the population."

State Treasurer John Neely Kennedy pushed the state to approve about $200 million in borrowing for local governments to cover service on outstanding debt until their tax revenues recovered, along with additional matching funds. The money was instrumental in helping many avoid default, he said.

Opportunity Bonds

The state also approved most of the $7.8 billion of so-called Gulf Opportunity Zone bonds, passed by Congress, to help rebuild low-income housing and facilities for businesses. Billions more flowed in through grants from FEMA, the Department of Housing and Urban Development, and government and private insurance.

New Orleans has worked its way back up to investment grade after Moody's and S&P cut its credit ratings to junk; the main drivers have been reduced deficits and higher tax revenue. In March, S&P raised its rating to A- from BBB+ when Katrina struck. Moody's rating now is A3, compared with Baa1 when the storm hit; it said in an Aug. 24 report that the city is financially and structurally better prepared for storms than before 2005.

The New Orleans Aviation Board sold $565 million in debt earlier this year primarily to fund construction of a new terminal at Louis Armstrong New Orleans International Airport. It will generate an estimated 21 percent increase in spending and support about 11,000 new jobs in the metro area, according to an economic-impact report released last year.

Challenges remain, including some that pre-date Katrina. The recovery has been uneven, with neighborhoods including the flood-ravaged Ninth Ward not coming back as quickly as others. Poverty and joblessness persist, especially among the black population. And crime continues to be a problem, although it is lower than it was in the 1990s.

Business Startups

Even so, business startups in metro New Orleans have outpaced those for the U.S. in the years since Katrina. The three-year-average was 471 per 100,000 adult population as of 2012, compared with 288 nationwide, according to a report by The Data Center, which compiles statistics about greater New Orleans and southeast Louisiana.

Three years after the storm, Patrick Comer relocated to the city from Los Angeles at the request of his wife, a New Orleans native.

"We made the decision to move there so we could contribute," said Comer, 41, who started an online survey and data company in 2010. Lucid Corp. now employs more than 80 people and plans to open a London office this fall.

By 2014, the most recent year for which data are available, the population had rebounded to 384,000, and the value of real estate had risen 56 percent compared with 2005. Retail sales totaled a record $6.5 billion, and 9.5 million visitors came to the city, the second highest since a record 10.1 million in 2004.

New Orleans received a MacArthur grant to reduce incarceration rates in its jails that could provide as much as $2 million for implementation. It also is among the first municipalities to participate in "What Works Cities Initiative," a program to help enhance the use of data to improve residents' lives from Bloomberg Philanthropies, established by Michael Bloomberg, majority shareholder in Bloomberg News parent Bloomberg LP.

"I thought it would take 20 years to get back to where we were," said TurboSquid's Wisdom, who helps entrepreneurs raise capital as a board member of the New Orleans Startup Fund. “Instead we’ve moved ahead.”

Bloomberg

Darrell Preston

August 26, 2015

Illinois Budget Standoff Grinds On as State Finds a Way to Cope.

Republican Governor Bruce Rauner and Democratic House Speaker Michael Madigan, two of the most powerful politicians in Illinois, have been trying to outlast one another in a dispute that for two months has left the nation’s lowest-rated state without a budget.

Illinois muddles through. Government employees get paid, thanks to court orders. Children go to school, thanks to Rauner’s signing an education-funding bill. The state fair went on last week as scheduled and the governor signed a bill Aug. 14 designating pumpkin as the official pie.

The veneer of normalcy belies what Madigan terms an “epic struggle” with the venture capitalist-turned-politician. At stake are further credit downgrades for Illinois, and increased stress for Chicago and its schools, which are seeking relief from the state — relief delayed by the impasse.

“We’re all a bunch of idiots,” said Representative Jack Franks, a Democrat from the northern Illinois town of Woodstock.

“Just because Bruce Rauner says ‘Republicans need to do this,’ and Speaker Madigan says ‘Democrats need to do that,’ doesn’t mean we have to listen to them,” Franks said.

Yet Republicans line up behind Rauner, who insists on labor, tax and regulatory changes, and Democrats follow Madigan, who says the budget must be passed and revenue raised. There is no hint of a break in the impasse. Bondholders get paid, although many state vendors are getting stiffed to the tune of at least $3.5 billion.

Rauner, a first-time officeholder, is also Illinois’s first Republican governor in a dozen years.

Campaigning on a pledge to shake up the government, a $62 billion enterprise, he has repeatedly challenged Democrats who hold veto-proof legislative majorities.

“I was elected by millions of people; he’s been elected by 17,000 people,” Rauner told a crowd at the Illinois State Fair last week, referring to Madigan. “Why is he there blocking what we need to do to reform and improve our great state?”

Rauner’s confrontational strategy isn’t meant to solve the budget standoff, said Doug Whitley, the former president of the Illinois Chamber of Commerce.

“The real story is how much of this whole exercise is posturing for the 2016 election,” he said. “This thing could drag out until after next year’s March primary.”

In the tumultuous Midwest, Republican governors like Wisconsin’s Scott Walker, Michigan’s Rick Snyder and former Indiana Governor Mitch Daniels have prevailed in battles with organized labor, the Democrats' traditional support group. Rauner, who cites those governors as role models, wants to do the same in reliably blue Illinois.

David Yepsen, director of the Paul Simon Public Policy Institute at Southern Illinois University, said Rauner has misunderstood why he won election.

"He didn't get elected to gut the labor movement," Yepsen said. "He got elected because people were angry with Pat Quinn," the previous Democratic governor.

Two Gallants

Madigan's obduracy hasn't made him a hero with the electorate, either, Yepsen said.
"Nobody has the high ground with voters, and the people of Illinois say a plague on all their houses," he said.

When legislative and executive branches go to war over budgets, there are usually immediate consequences. Minnesota's government shut down in 2011, closing parks and rest stops in the summertime and engendering widespread outrage. It was over in three weeks.

Illinois is living with it. Rauner signed an education aid bill in June, enabling schools to open this month. State employees won court judgments to assure that they get paid. Another court mandated Medicaid payments, and lawmakers cleared the way for more than $5 billion in federal payments to state programs.

"This is a caricature of Illinois and all of its mismanagement," said James Nowlan, a former Republican legislator who has written about politics and policy in the state. "Nobody's looking beyond the next month, the next year, or the next 10 or 15 years."

At some point the consequences will demand attention, said Richard Ciccarone, president and chief executive officer of Merritt Research Services, which analyzes municipal finance. Illinois is spending without regard for a projected $6.2 billion deficit in the current year.

"As we get closer to the calendar year — maybe October — there will be struggles to pay higher education and hospitals and other institutions," Ciccarone said. "Things could really start to back up then."

Illinois could also be harmed by budget stress in Chicago and Chicago Public Schools, each of which has asked the state for relief from solvency-threatening pension obligations.

Whitley said local governments' pain and protests might end the stalemate.

"Right now we're spending about $4 billion or $5 billion more than we have," Franks said. "How long does this go? Forever."

Bloomberg

Tim Jones

August 27, 2015

[Moody's: New Orleans' Credit Profile has Improved Post-Katrina, but Fiscal Pressures Remain.]

New York, August 24, 2015 — In the decade since Hurricane Katrina, New Orleans (A3 stable) has improved its fiscal management, rebuilt and bolstered its infrastructure and benefitted from the revitalization of its communities and the tourism industry. At the same time, the city’s rising fixed costs, reliance on the volatile oil and gas sector, and vulnerability to flooding remain credit challenges, says Moody’s Investors Service.

Compared to before the hurricane, New Orleans has improved its fiscal position by focusing on growing revenues, controlling expenses, and building reserves. Better sales tax collections and growth in property taxes have boosted the city’s budget in both 2014 and 2015. New Orleans will also receive $36 million from its settlement with British Petroleum following the Deepwater Horizon oil spill.

The city also received a significant amount of federal aid after the hurricane which, combined with local and state funding, was used to strengthen levees, build new infrastructure and increase the city’s emergency preparedness, according to Moody’s new report “Ten Years After Katrina, New Orleans Better Prepared for Future Storms.”

“The recovery of the local economy is a key stabilizing factor that has driven the city’s recent positive momentum, by bringing people back, rebuilding communities and revitalizing the tourism industry, which is a key source of revenue for the city,” says Andy Hobbs, a Moody’s Assistant Vice President and Analyst.

The city’s taxable property value has grown consistently since the hurricane, the number of conventions and trade shows hosted by the city has increased since the convention center reopened, and new developments such as the recent announcement that Viking Cruises will start operating out of the Port of New Orleans in 2017 are all factors that buoy the city’s credit position.

However, offsetting these positive factors are the city’s rising fixed costs for debt service, pension contributions and retiree healthcare payments, which have increased to $198 million in 2014, from $129 million in 2009.

“The city’s fixed costs exceeds 30% of its operating revenues,” says Hobbs. At the same time, “the city’s contribution to its pension plans fell short by $17.7 million in fiscal year 2014, and annual pension requirements are expected to increase going forward”.

In addition, New Orleans’ dependence on the volatile oil and gas sector, declining employment in the public sector and below-average population growth leave the city trailing other metro areas in the US South in terms of key economic indicators. The city’s population remains roughly 18% below pre-hurricane levels.

New Orleans also has weak liquidity because it used reserves to fill budget gaps during the recession.

Overall, though, the State of Louisiana and the education and transportation sectors have emerged stronger post-Katrina. The state received a significant amount of money in the form of federal aid and insurance proceeds, which provided the liquidity for a post-storm rebuilding boom and helped the state mitigate the effects of the national recession.

The city’s ports emerged relatively unscathed from the hurricane, but nevertheless received federal and state financial support to make up for the decline in cargo and cruise activity following the hurricane. The airport also received aid that has allowed it to expand capacity and attract more flights to more destinations.

And while total university enrollment is still down 15% from pre-Katrina levels, emergency funds helped New Orleans' universities emerge stronger by allowing them to invest in capital facilities.

Moody's subscribers can access this report here.

Puerto Rico Turmoil Sinks Sewer Bond.

Up against a deadline to reveal its plan to restructure its staggering debt, Puerto Rico has decided not to move ahead with a controversial proposal to borrow an additional $750 million to pay for improvements to its water and sewer authority.

It attributed the decision, made late Monday, to the turmoil in the global markets. But the government also appears to have decided it could not borrow the money — by issuing bonds — at an affordable interest rate.

Just a few days earlier, Puerto Rico petitioned the United States Supreme Court asking for the right to restructure its debt — which has reached $72 billion — under its own quasi-bankruptcy law. Puerto Rico, a United States commonwealth, enacted the law last year because it has no access to the federal bankruptcy courts. But the law was later found unconstitutional and was voided by the courts.

Investors who at one time might have been potential buyers of the water and sewer bonds seemed taken aback by the island's move, on the one hand, to sell new bonds (and incur new debt) while also telling the Supreme Court that it had to restructure its old debt.

"You could take it on face value and say, 'Either they're lying to investors about the bonds being payable, or lying to the Supreme Court about the bonds being unpayable,' " said Matt Fabian, a partner at Municipal Market Analytics, a financial research firm. "I see it as a blunder, ultimately, and not anything more heinous, but it really undermines their ability to negotiate."

Taken together, the steps demonstrate some of the confusion within the government as it faces a Sept. 1 deadline to outline its restructuring plan. A working group, appointed by the governor, has been trying to put a proposal together for several months. But in a signal of political conflicts to come, the island's main opposition party has dropped out of the group.

"It's not like we wait till Sept. 1 and then we've got a road map to fixing everything," said Kent Collier, chief of Reorg Research, a firm that monitors Puerto Rican affairs for clients that include hedge funds.

About two months after the restructuring plan is issued, he said, the government is supposed to seek the authorizing legislation, setting off an unpredictable political process.

Eventually, Puerto Rican officials have expressed hopes of resolving their problems through a global debt-for-debt swap, in which the holders of the island's bonds would turn those in and receive new bonds that would be worth less but be far more likely to be paid off. But the details are sketchy and many other things must happen first.

“Their economy does need to grow, and I don’t disagree that their debt is too high to do all the things they need to do to make their economy grow and provide for the health and welfare of their citizens,” said Gerry Durr, senior municipal credit analyst at Wilmington Trust. “But you know, I think the only way this thing really gets solved is if there’s a strong, independent control board, and I don’t think Congress has the appetite to impose one.”

Until recently, senior Puerto Rican officials had sought to reassure investors that its water and sewer authority, known as Prasa, was a credible borrower.

Puerto Rico announced Prasa’s plans to issue the $750 million of bonds just days after another branch of the government had defaulted on a different group of bonds, but the president of the Government Development Bank, Melba Acosta Febo, said that was not relevant.

It “reflects the individual financial circumstances of the various debt issuers across the commonwealth,” she said.

The bonds that defaulted were issued by the Public Finance Corporation, a small, single-purpose entity that has no power to levy taxes. Its bond-marketing materials warn that investors will have little or no recourse in the event of a default.

Prasa, by contrast, provides essential services and can increase rates, within reason, because it is a monopoly. Prasa’s bondholders have a first claim on that revenue if cash gets tight, and they can bring in a receiver to enforce collections.

In addition, the new Prasa bonds were expected to include such investor-friendly terms as a make-whole agreement, which would discourage Puerto Rico from refinancing them at lower interest rates in the future, if Puerto Rico’s fortunes changed for the better.

“They were within striking distance of settling this deal,” said Stephen Snowder, an associate editor at Reorg Research.

But the deal started to come unglued on Friday, after Puerto Rico filed its petition to the Supreme Court. It sought a review of the legality of its so-called Recovery Act, which tried to create a bankruptcylike restructuring framework for public corporations on the island. Among other things, the petition said that it needed to have a legal framework in case Prasa’s debts have to be restructured.

“That’s not the phrase you want in the middle of a bond deal,” said Mr. Fabian.

On Monday, Prasa filed a statement from Victor Suárez Meléndez, the governor’s chief of staff. “We currently do not contemplate Prasa necessitating a restructuring of its debt,” he said.

But Mr. Suarez also tried to explain why Puerto Rico needed a safe place to restructure: “If any Puerto Rico utility ever needs to restructure its debts, it should be done in a way that is fair not only to their creditors but also to the people such utilities serve.”

The next thing Mr. Snowder knew, he said, the deal was off. He said a colleague called Prasa’s executive president, Alberto Lázaro, Monday evening to find out what was going on.

“Victor Suarez was making nice statements, and then a couple of hours later, we had Lázaro telling us that the deal was delayed, postponed or canceled,” said Mr. Snowder. “No one has explained it to me.”

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

AUG. 25, 2015

Detroit’s Paying a Penalty on First Bond Sale Since Bankruptcy.

Detroit is paying a high price in its return to the $3.6 trillion municipal-bond market for the first time since emerging from a record bankruptcy.

The $245 million of bonds, to be sold Wednesday through the Michigan Finance Authority, have the top claim on city income taxes to ensure investors are repaid. Even so, 14-year debt is being offered at an initial yield of 4.75 percent, according to three people familiar with the sale who requested anonymity because it isn’t final. That’s 2.1 percentage points more than top-rated securities.

“It’s still Detroit,” said Dennis Derby, a portfolio manager in Menomonee Falls, Wisconsin, for Wells Capital Management, which holds the city’s water bonds among its $39 billion of munis. “There’s still concerns of whether or not they can have positive momentum.”

Detroit filed for bankruptcy protection two years ago to escape from debts it couldn’t afford after the population tumbled, tax collections slid and the automobile-industry’s decline left the economy reeling.

That allowed the city to cut $7 billion from its obligations by the time it emerged from bankruptcy in December, an effort to steady the government’s finances and hasten its revival.

Investor Losses

The plan left some general-obligation bondholders recovering as little as 41 percent of what they were owed, according to Moody’s Investors Service. Those losses called into question the long-held assumption that cities would do everything possible to repay securities backed by their full faith and credit.

To persuade investors to lend to the city again, Michigan Governor Rick Snyder signed legislation giving bondholders first claim to the income taxes that will repay the debt sold this week. That led Standard & Poor’s to award the deal an A rating, five steps above junk and nine levels higher than its grade on Detroit’s general obligations.

John Naglick, Detroit’s deputy chief financial officer, marketed the securities during a presentation in New York and in phone calls with investors. He declined to comment on the expected yields ahead of the sale.

“We feel that investors really took the time to understand the security provisions that came with this bond,” said Naglick. “People looked even beyond the bond at the recovery of the city of Detroit.”

Detroit Rebound

Detroit’s leaders have been seeking to revive the city, whose population of about 680,000 as of July 2014 was less than half the peak after the Second World War. There are signs of progress: employment has risen 3 percent over the last four years and income-tax revenue grew 18 percent from 2010 to 2015, according to Moody's.

The proceeds from this week's sale will repay a loan from Barclays Plc that helped Detroit emerge from bankruptcy, Naglick said. They will also finance city projects, including upgrades for the fire department's fleet.

The city's income-tax collections are strong enough to cover the bonds, S&P said in a statement last month.
While Moody's wasn't hired to rate the deal, it said it may have assigned the securities an investment-grade rank even though the city is five levels below that threshold.

Skeptical Investors

The deal isn't the first for Detroit since it filed for bankruptcy. Michigan's finance agency sold $185 million of bonds in June 2014 for Detroit's lighting authority. With investor protections similar to those being offering this week, the 30-year securities sold for a yield of 4.6 percent, in line with an index of revenue bonds with the lowest investment grades, according to data compiled by Bloomberg.

The bankruptcy may deter some would-be buyers, said Dan Solender, who helps manage $17 billion as head of munis at Lord Abbett & Co. in Jersey City, New Jersey. The firm owns some of Detroit's water and sewer debt.

"The history there is pretty weak considering how they dealt with bondholders with their bankruptcy," Solender said. "They'll have market access. It's just at a cost."

Bloomberg

Elizabeth Campbell

August 17, 2015 — 9:01 PM PDT

Puerto Rico Bond Offer Postponed, Seen Luring High-Yield Funds.

NEW YORK Aug 18 (Reuters) – Puerto Rico postponed until later this week its first bond sale in public markets since it defaulted, investors said on Tuesday, an offering that according to Fitch ratings agency may attract high-yield municipal funds.

According to data company IPREO, the $750 million deal for the Puerto Rico Aqueduct and Sewer Authority (PRASA) was slated to price on Tuesday.

One investor in contact with underwriters, who declined to be named, said they had been told the issue was postponed to Thursday.

"From everything I know now, I don't think (buying the issue) is a good idea," that investor said, adding they were concerned about the risk of default.

Lyle Fitterer, head of tax-exempt fixed income at Wells Capital Management, also said that it was his understanding that the release would happen Thursday.

It is meant "just to give investors more time to do their work," said Fitterer, who said he learned of the postponement from one of the underwriters.

PRASA and Bank of America Merrill Lynch, the lead underwriter for the deal, did not respond to requests for comment on the date of the pricing.

Bloomberg earlier reported the issue's delay.

High-yield closed-end funds may participate in this week's PRASA bond sale because of the authority's stable prices compared to other debt issuers from the island, Fitch Ratings said on Tuesday.

A return of municipal closed-end fund managers to Puerto Rico would be a source of liquidity for the U.S. commonwealth, according to Fitch.

The PRASA bond sale follows a failure by Puerto Rico to make a full payment due on bonds sold by its Public Finance Corp. The partial payment was considered a default by its creditors and ratings agencies, the first by the U.S. territory.

Fitch Ratings on Monday rated Puerto Rico's planned bond sale 'CC', meaning that default of some kind appears probable, and that there are very high levels of credit risk.

S&P, which lowered its rating on PRASA to CCC- in July, said on Tuesday that "events could unfold within the next three months that could expose PRASA to greater restructuring efforts."

Puerto Rico was scheduled on Monday to conclude its presentations to investors on the bond sale. The island had been conducting presentations since late last week.

By Jessica DiNapoli

(Additional reporting by Megan Davies; Editing by Paul Simao and Alan Crosby)

Detroit's $245 mln Bonds Priced in First Post-Bankruptcy Issue.

Aug 19 Detroit's post-bankruptcy debut in the U.S. municipal bond market on Wednesday resulted in hefty yields for $245 million of bonds.

Tax-exempt bonds totaling $134.7 million were priced at par with a top yield of 4.50 percent in 2029. Nearly $110.3 million of taxable bonds maturing in 2022 were priced at par with a 4.60 percent coupon.

Reuters

(Reporting By Karen Pierog Editing by W Simon)

California GO Refunding And New Issue Bonds Assigned 'AA-' Rating.

SAN FRANCISCO (Standard & Poor's) Aug. 18, 2015–Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating, and stable outlook, to California's estimated $1.9 billion of general obligation (GO) bonds, consisting of $550 million in tax-exempt various purpose GO bonds and $1.35 billion in GO refunding bonds.

At the same time, Standard & Poor's affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's $76 billion of GO bonds outstanding, as of July 1, 2015. The outlook on all ratings is stable.

Finally, we affirmed the long-term component of the 'AAA/A-1+' and 'AAA/A-2' ratings on some of the state's GO variable-rate demand bonds. The long-term component of the ratings is based jointly (assuming low correlation) on that of the obligor, California, and the various letter of credit (LOC) providers. The short-term component of the ratings is based solely on the ratings on the LOC providers.

"California's finances have been brought into structural alignment," said Standard & Poor's credit analyst Gabriel Petek. "Under current conditions, the state's fiscal structure generates modest operating surpluses that translate to larger projected budget reserves, according to the state Department of Finance's forecast, than the state has had in recent memory. Still, the state's tendency for revenue volatility coupled with the lack of an automatic process for midyear corrective budget actions — other than the governor declaring a fiscal emergency — constrain our rating on the state," added Mr. Petek.

Aided by temporary tax increases and a six-year bull market for equities, California is enjoying an extended period of strong revenue trends. The Department of Finance recently reported that tax collections for fiscal 2015 topped its updated May forecast by 0.6% on a cash basis. Revenue collections look even stronger when compared with the assumptions included in the original fiscal 2015 budget. On that basis, the state controller reports that tax receipts for the year came in $6.8 billion (6.4%) higher than projected at the time of budget enactment. In our view, the state's stronger credit quality primarily reflects its much improved fiscal position, which lawmakers have engineered with the help of the multi-year revenue rebound.

Muni Sales Set to Fall as Redemptions Decline; Puerto Rico Sells.

Municipal bond sales in the U.S. are set to decrease in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $8.7 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Puerto Rico Aqueduct and Sewer Authority plans to sell $750 million of bonds, New York State Convention Center Development Corp. has scheduled $640 million, Portland, Oregon, Sewer System will offer $404 million and Illinois Finance Authority will bring $400 million to market.

Municipalities have announced $10.1 billion of redemptions and an additional $17.9 billion of debt matures in the next 30 days, compared with the $29.5 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $6.12 billion, followed by California at $1.77 billion and New Jersey with $929 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

ETF Flows

Investors removed $106 million from mutual funds that target municipal securities in the week ended Aug. 5, compared with a reduction of $91 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $10.2 million last week, reducing the value of the ETFs by 0.06 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 103.273 percent of Treasuries, compared with 103.156 percent in the previous session and the 200-day moving average of 101.301 percent, Bloomberg data show.

Bonds of Michigan and California had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 5 basis points to 2.48 percent while California's declined 1 basis points to 2.48 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 137 to 11.14 percent and Illinois's rose 36 basis points to 4.16 percent.

Bloomberg

Kenneth Kohn

August 17, 2015

Puerto Rico Seen Paying Triple Benchmark Yields in Return to Market.

Puerto Rico's water utility may have to pay yields three times higher than top-rated municipal borrowers as it sells $750 million of bonds, the first securities offering from the commonwealth since it defaulted this month.

The island's Aqueduct and Sewer Authority, called Prasa, is offering 30-year bonds for a preliminary yield of 9.5 percent, according to four people familiar with the sale who asked for anonymity because the deal isn't final. That compares with yields of 3.1 percent for benchmark securities. The bonds would carry an 8 percent coupon.

The sale comes amid an escalating fiscal crisis for Puerto Rico's government, which is seeking to restructure its $72 billion of debt and made only part of an interest and principal payment due by one of its agencies on Aug. 3. Prasa bonds maturing in 2042 traded Monday for an average of 69 cents on the dollar for a yield of 8.1 percent.

"They have to come with a pretty deep discount just to be in line with how bonds are trading in the secondary," said Daniel Solender, who helps manage $17 billion, including Puerto Rico debt, as head of munis at Lord Abbett & Co. in Jersey City, New Jersey.

The Prasa sale is a test of Puerto Rico's ability to access the capital markets and is the first sale of long-term debt from the island since it issued $3.5 billion of general-obligation bonds in March 2014.

Attracting Buyers

To attract buyers to that sale, which was the largest junk-rated offering ever in the municipal market, the commonwealth issued the securities, which had an 8 percent coupon, for 7 percent less than face value. Hedge funds bought the bulk of the bonds.

Kristen Kaus, a spokeswoman at Bank of America Merrill Lynch, the lead underwriter on the sale, didn't immediately respond to phone and e-mail messages seeking comment on the pricing.

Puerto Rico securities have been trading at distressed levels for two years on concern that the island of 3.5 million wouldn't repay its obligations on time and in full. Officials aim to craft a plan by the end of the month for restructuring the government's debts.

Prasa's bonds may be sheltered from that proposal. Government Development Bank President Melba Acosta, the island's top debt official, said the bank doesn't foresee the water agency reorganizing its obligations.

Bonds' Backing

Prasa, which had almost $5 billion of bonds and notes as of May 31, plans to raise rates by as much as 4.5 percent annually beginning in fiscal 2018. The utility provides water to 97 percent of the island's population and wastewater service to more than half. The bonds are repaid with fees on water use.

There should be enough buyers for the sale, even though Puerto Rico is seeking to lower its combined debt load, said David Tawil, co-founder of hedge fund Maglan Capital LP.

"There should be adequate appetite for the deal in order to get it completed," said Tawil, who manages $80 million in New York. "The entity by all accounts is solvent and is self sufficient, vis a vis cash flow.

With a very robust coupon that you frankly cannot find out of any similar type of issuer, all that together gets you to a conclusion that this is a good investment."

Bloomberg

Michelle Kaske

August 17, 2015

Illinois Budget Logjam Spurs Downgrades While Lawmakers Debate Pie.

Illinois Governor Bruce Rauner agreed last week with lawmakers to designate pumpkin the official state pie. Reaching consensus on a budget is proving to be more difficult, and that's starting to ripple into the bond market.

The Chicago school district's credit rating was cut to junk on Aug. 14 as it waits on state help to close its deficit. Public university bonds may be downgraded, and securities sold by Chicago's convention center slid after lawmakers failed to approve a deposit needed for debt bills. Even Rauner said he wouldn't be surprised if there's another cut to Illinois's bond grade, which is already lower than any other state.

“As long as the budget impasse continues, the likelihood of a further downgrade does exist,” said Peter Hayes, who oversees $116 billion, including some Illinois holdings, as head of municipal securities at New York-based BlackRock Inc. The company isn’t buying state bonds amid the impasse.

Illinois has gone 49 days without a spending plan since the fiscal year started July 1 and there’s no end in sight. Rauner, the state’s first Republican governor in 12 years, and the Democrat-led legislature can’t agree on how to fix a $6.2 billion deficit that was left after temporary tax increases expired.

Rauner is calling for limits on the power of unions, changes to business regulations and spending cuts before agreeing to new taxes. Democrats want steeper levies on the highest earners, among other revenue-raising measures.

Unprecedented Standoff

Illinois has had other budgetary jams, such as standoffs in the 1990s between the legislature and Republican Governor Jim Edgar, though none has lasted as long, according to the Civic Federation, a Chicago-based research group.

“There is no recent precedent in Illinois history for operating over two months into the fiscal year without a budget,” Laurence Msall, president of the federation. “In addition to being highly unusual, this extended impasse is also fiscally reckless and expensive.”

Investors have long penalized the state with higher borrowing costs. Yields on 10-year Illinois obligations reached 4.2 percent Tuesday, the highest among the 20 states tracked by Bloomberg. That’s almost 2 percentage points more than top rated debt, near the record high reached in October 2013.

And even without a budget, the state hasn’t been forced into a partial government shutdown. Illinois is paying its employees because of court orders, and money has been set aside for schools. The General Assembly may approve a bill this week, which Rauner said he’ll sign, that releases $5 billion of federal funds for social services.

Credit Ripples

The effects are beginning to be felt beyond the capital. In Chicago, school officials are waiting for the legislature’s help with pension costs that are fueling its own budget shortfall. Because of that gap, Standard & Poor’s on Aug. 14 lowered the district to BB, two steps below investment grade. That followed similar cuts since May by Fitch Ratings and Moody’s.

Investors who bought bonds sold by the Metropolitan Pier and Exposition Authority, which runs the largest convention center in the nation, have also taken a hit. When the budget’s delay prevented tax money from being transfered into its debt-service fund, S&P this month reduced its rating by seven notches. That caused its bonds maturing in 2050 to fall to an average of 100 cents on the dollar Monday from $1.05 on July 30. That pushed the yield up by more than a percentage point to 5.2 percent.

University Outlook

S&P reduced its outlook to negative from stable on some University of Illinois revenue bonds on Aug. 10, citing the lack of a budget and potential for funding cuts.

Illinois politicians are showing little haste in resolving the standoff. This week, Rauner was among those hobnobbing with voters at the state fair in Springfield, the capital, where politicians flock each year to glad-hand supporters, munch corn dogs and take in the agricultural bounty. House Speaker Michael Madigan is scheduled to be there for Democrat Day on Thursday.

"The longer it takes them to put together a final budget agreement, the greater the cost," said Ralph Martire, executive director of the Center for Tax and Budget Accountability, a Chicago-based research group. "The more they'll have to raise in taxes, and the more they'll have to cut in spending."

Bloomberg

Elizabeth Campbell

August 18, 2015

Detroit Disciplined in Return to Bond Market After Bankruptcy.

Detroit found that investors haven't forgotten the largest municipal bankruptcy in U.S. history.

The city sold $245 million of bonds Wednesday, its first offering since emerging from court protection last year. Tax-exempt securities due in 2029, which have the longest maturity, were priced to yield 4.5 percent, according to preliminary data compiled by Bloomberg. That's almost 2 percentage points more than top-rated debt, even though the bonds have a secured claim on the city's income-tax collections.

"They are still, yes, paying the price," said Michael Johnson, managing partner at Gurtin Fixed Income Management, which oversees $9.5 billion of munis in Solana Beach, California, which doesn't own the city's debt and didn't buy on Wednesday. "The forces that have hampered Detroit up until now are still in place."

After decades of population loss, shrinking tax revenue and an economy reeling from the fading automobile industry, Detroit filed for Chapter 9 protection from creditors two years ago. The move allowed the city to lower its obligations by $7 billion by the time it exited bankruptcy in December, though it still has a lower credit rating than any other big U.S. city.

To persuade investors to lend to the city again, Governor Rick Snyder signed legislation in April giving bondholders first claim to the income taxes that will repay the new debt, which was sold through the Michigan Finance Authority. That assurance prompted Standard & Poor's to rate the bonds A, five steps above junk and nine levels higher than its grade on Detroit's general obligations.

Fresh Scrutiny

Detroit's bankruptcy increased scrutiny of legal safeguards on municipal bonds, especially those sold by financially distressed local governments. When Detroit adjusted its debts, some general-obligation bondholders recovered just 41 percent of what they were owed, according to Moody's Investors Service.

S&P still considers Detroit speculative grade and gives the city a B rating, five levels below investment grade, citing its "very weak" economy, management structure and budgetary flexibility.

The city's income tax collections are strong enough to pay for the bonds. The money that will be deposited in a fund earmarked for debt payments will be about 6.5 times what's needed, S&P said last month.

Detroit initially offered 14-year tax-exempt debt for a yield of 4.63 percent, according to three people familiar with the sale who requested anonymity as the pricing wasn't final. Demand allowed underwriters to cut the final yield.

Paying Premium

The federally-taxable portion maturing in 2022 yielded 4.6 percent, according to data compiled by Bloomberg. That's more than twice 10-year U.S. Treasuries.

"Even though I think they are paying a premium, people are comfortable with the analysis and what the city is offering in terms of the security, the pledge, and where they think the city is going financially," said Joseph Rosenblum, director of municipal credit research in New York at AllianceBernstein Holding, which manages $32 billion of municipal bonds. His firm put in an offer for some of the new securities.

The proceeds from the sale will repay a loan from Barclays Plc that helped Detroit emerge from bankruptcy. The funds will also finance city projects, including upgrades for the fire department's fleet.

Bloomberg

Elizabeth Campbell

August 19, 2015

BlackRock Says Puerto Rico Possibly Attractive After Plan.

Puerto Rico bonds may become attractive after the junk-rated commonwealth releases a debt-restructuring plan, according to BlackRock Inc.'s head of municipal debt.

Puerto Rico officials are working on a proposal that would reduce its $72 billion debt load or allow the island to temporarily suspend debt-service payments. Governor Alejandro Garcia Padilla expects to receive that plan at the end of the month. Such changes to the debt may push prices on Puerto Rico bonds even lower, creating a potential buying opportunity, Peter Hayes, head of municipal debt at the world's biggest money manager, said in an interview Thursday on Bloomberg Television.

"We do see another leg down," Hayes, who helps oversee $116 billion of munis. "And at that point in time we do think it becomes interesting because it's a governmental entity. They have to continue to provide services."

Garcia Padilla in June said the commonwealth was unable to repay all of its obligations on time and in full. The Public Finance Corp. Aug. 3 failed to make a full $58 million debt-service payment to investors, the first default for a Puerto Rico entity.

Prasa Sale

The Puerto Rico Aqueduct & Sewer Authority, known as Prasa, was tentatively scheduled sell to

$750 million in revenue bonds Thursday. The offering would be the first sale of long-term debt from the island since it issued $3.5 billion of general-obligation bonds in March 2014.

Kristen Kaus, a New York-based spokeswoman for Bank of America Merrill Lynch, the lead underwriter of the sale, and Norma Munoz, a spokeswoman for Prasa in San Juan, didn’t immediately respond to e-mails Thursday on whether the bonds would be priced.

The water utility was offering 30-year bonds on Tuesday for a preliminary yield of 9.5 percent, according to four people familiar with the sale who asked for anonymity because the deal isn’t final. That’s about triple the yield for benchmark securities.

Puerto Rico securities have lost 11.2 percent this year through Aug. 19, the biggest decline for the period since at least 2007, according to S&P Dow Jones Indices.

Bloomberg

Michelle Kaske

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[Kentucky Town Is First to File for Bankruptcy After Detroit.]

Hillview, Kentucky, population 8,000, found a way to put itself on the map.

The town 13 miles south of Louisville on Thursday became the first city to file for bankruptcy since Detroit did two years ago. It joins an elite, if infamous, club: Only 54 cities, towns and counties have sought court protection from their creditors since 1980, said James Spiotto, managing director at Chapman Strategic Advisors, which advises on financial restructuring. Among them were San Bernardino, California, and Jefferson County, Alabama.

Hillview, which faced legal damages it couldn’t afford, is only the third Chapter 9 filing this year, following an Oklahoma hospital and a special district in California.

As the economy has improved, tax revenues have followed, easing the strain on local governments. Others may have seen Detroit, which emerged from a record-setting municipal bankruptcy in December, as a cautionary tale.

“People saw Detroit — the pain, suffering, uncertainty, expense — and nobody seemed to be getting what they wanted,” Spiotto, a Chicago-based lawyer, said. “It helped motivate governments and creditors to find other solutions.”

Despite a spate of bankruptcies following the recession that ended six years ago, cities and counties rarely turn to federal court to escape from their debts. Even so, in an Aug. 5 report, Moody’s Investors Service said it’s not as taboo as it once was for governments reeling from chronic financial stress.

Contract Dispute

Hillview’s Chapter 9 filing is the outcome of a contract dispute with a local company, Truck America Training, over a land sale. In February, Standard & Poor’s lowered its rating to junk after the city unsuccessfully appealed a court ruling ordering it to pay $11.4 million in damages to the company.

The city last sold bonds in 2010, when it issued $1.4 million of general-obligation debt, according to data compiled by Bloomberg. A $210,000 portion of the securities maturing in 2017 last traded for 90 cents on the dollar on June 24, down from 99.7 cents when they were first offered.

Hillview estimated its liabilities as high as $100 million and assets as high as $10 million, according to the filing in U.S. Bankruptcy Court in Louisville. Truck America is the city's largest unsecured creditor.
City attorney Tammy Baker called the filing a "very difficult decision" for the city council. The mounting interest from the court judgment is more than $3,700 a day, she said.

"The city really ended up with no choice," Baker said in an interview. "With the interest accruing at that rate, it's just really going to be impossible for the city to pay that judgment."

Bloomberg

Elizabeth Campbell

August 20, 2015

Puerto Rico Finds Waning Demand for Water Bonds Amid Debt Talks.

Puerto Rico is running into resistance as the commonwealth tries to sell $750 million in bonds while crafting a debt-restructuring plan that would likely leave some investors with deep losses.

After aiming to price the Puerto Rico Aqueduct & Sewer Authority issue as early as Tuesday, the bond sale is now listed as day-to-day. That's even after adding bondholder protections and raising the preliminary yield levels to more than three times the level of benchmark securities.

"It's a pretty difficult thing to try to raise money when out of the other side of your mouth you're talking default and trying to pass laws that allow you to default," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of municipal securities, including Puerto Rico debt. He doesn't plan to buy any of the water bonds.

Puerto Rico raised the ire of investors by defaulting Aug. 3 on a $58 million agency bond payment, saying the legislature hadn't appropriated the funds and cash was being conserved to provide basic services.

Governor Alejandro Garcia Padilla in June said the island was unable to repay all of its $72 billion debt burden and directed officials to craft a debt-restructuring plan by the end of August that may suspend payments.

Price Talks

"We did not price yesterday in order to provide investors with the time they need to adequately review and analyze the materials so they can make the most informed decision about their potential investment," Barbara Morgan, who represents the Government Development Bank at SKDKnickerbocker in New York, said in an e-mail.

The bank works on the island's debt sales. Morgan declined to say when Prasa may sell the bonds.

Underwriters were talking Thursday about preliminary yields of 10 percent on the 30-year securities, up from 9.5 percent earlier in the week, according to two people familiar with the sale who requested anonymity because pricing wasn't final.

Kristen Kaus, a New York-based spokeswoman for Bank of America Merrill Lynch, the lead underwriter of the sale, declined to comment on when the bonds would be priced. Norma Munoz, a San Juan-based spokeswoman for the water agency, known by the Spanish acronym Prasa, didn't respond to e-mails.

Acceleration Fee

The utility also made adjustments to the deal that gives investors an acceleration fee in the event of a default and mandates that Prasa raise water rates by as much as 25 percent, if needed, to repay the bonds, according to sale documents.

Prasa needs the proceeds of the bond sale to help repay a $90 million bank loan with Banco Popular that expires Aug. 31. Other monies will finance infrastructure upgrades to help the utility meet clean-water requirements under a settlement agreement with the U.S. Environmental Protection Agency, according to bond documents.

Hedge funds are expected to purchase the bulk of the Prasa bonds, as they did when Puerto Rico sold $3.5 billion of general-obligation debt in March 2014. Buyers of distressed securities have been investing in commonwealth debt for about two years as traditional municipal-bond investors have reduced or eliminated their exposure.

Puerto Rico and its agencies are reeling from years of borrowing to pay bills. The island's economy has shrunk every year but one since 2006 and is projected to contract 1.2 percent this fiscal year.

Restructuring Plan

The utility provides water to 97 percent of the island's population and wastewater service to more than half. As residents continue to leave for the U.S. mainland, that has cut into demand for its services. Average monthly customer consumption decreased by about 6 percent in the year that ended in June.

Prasa's bonds may not undergo a debt restructuring. Government Development Bank President Melba Acosta, the island's top debt official, said the bank doesn't foresee the water agency reorganizing its obligations if the debt sale is completed.

Credit-rating companies aren't so sure. Standard & Poor's, which rates the utility CCC-, its third-lowest junk grade, may downgrade the agency because "events could unfold within the next three months that could expose Prasa to greater restructuring efforts," S&P analyst Theodore Chapman wrote in a report Tuesday.

Relative Value

The preliminary 10 percent yield compares with 3.1 percent on benchmark 30-year municipal debt, according to data compiled by Bloomberg. With a proposed 8 percent coupon, that's equal to a price of about 83 cents on the dollar, the two people said.

That's more expensive than existing Puerto Rico bonds. General obligation debt sold in March 2014 with an 8 percent coupon and maturing July 2035 traded Friday at an average price of 70.5 cents, for an average yield of 11.9 percent, data compiled by Bloomberg show. Prasa bonds with a 5.25 percent coupon and maturing July 2042 traded Friday at an average price of 63 cents, for a yield of about 8.9 percent.

Adding to the investor reluctance to buy the bonds is concern that this is another example of a commonwealth entity borrowing money to paper-over shortfalls rather than investing in infrastructure to improve long-term finances.

“You still have the same broken-down infrastructure and collections are terrible,” Belle Haven’s Dalton said.

Bloomberg

Michelle Kaske

August 20, 2015

[Detroit Sells First Municipal Bonds Since Emerging From Bankruptcy.]

Detroit returned to the municipal-bond market for the first time since the city emerged from bankruptcy, selling $245 million of bonds Wednesday to investors demanding a premium for the securities despite extra protections for bondholders.

The tax-exempt bonds, maturing in 2029, sold through the Michigan Finance Authority, yielded 4.5%, more than a percentage point higher than other single-A rated debt, according to Thomson Reuters Municipal Market Data. The bonds’ safeguards include a first claim on city income taxes, earning an investment-grade rating from Standard & Poor’s Ratings Services, despite the city’s credit rating, which is in junk territory.

The yield premium highlights the challenges Detroit faces with borrowing in the wake of a bankruptcy that left some investors concerned about the financial health of U.S. municipalities and questioning the safety of bonds backed by their full faith and credit.

“The positive is they do have market access; the negative is that they’re paying for it,” said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt bonds. “There’s demand for yield, and a decent enough portion of the market is willing to focus on the yield and structure of this deal, as opposed to the history.”

The sale included about $135 million of tax-exempt bonds maturing between 2020 and 2029, with yields between 3.4% and 4.5%, and $110 million in taxable debt maturing between 2018 and 2022, yielding 4.6%, according to MMD. The money from the bonds will pay for city services and projects and repay underwriter Barclays PLC for lending which helped Detroit out of bankruptcy.

The income tax provides more than enough money to cover the debt payments, despite the city’s still-weak economy and limited budgetary flexibility, S&P said in a July report. The need for investor protections and premiums shows the city’s access to borrowing remains weaker than for most other issuers.

“We feel Detroit will continue to be challenged to deliver the services residents need and address the backlog of capital and other needs a large city has,” S&P said.

Even with the additional assurances, there is enough uncertainty surrounding Detroit’s recovery to unnerve investors, who remember losses on the city's debt, said Steven Shachat, who helps manage more than $1 billion of municipal bonds at Alpine Woods Capital Investors.

"When a municipality goes through bankruptcy, it's hard to jump right back in the pool," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

Aug. 19, 2015 2:24 p.m. ET

Write to Aaron Kuriloff at AARON.KURILOFF@wsj.com

Court's Free-Speech Expansion Has Far-Reaching Consequences.

WASHINGTON — It is not too early to identify the sleeper case of the last Supreme Court term. In an otherwise minor decision about a municipal sign ordinance, the court in June transformed the First Amendment.

Robert Post, the dean of Yale Law School and an authority on free speech, said the decision was so bold and so sweeping that the Supreme Court could not have thought through its consequences. The decision's logic, he said, endangered all sorts of laws, including ones that regulate misleading advertising and professional malpractice.

"Effectively," he said, "this would roll consumer protection back to the 19th century."

Floyd Abrams, the prominent constitutional lawyer, called the decision a blockbuster and welcomed its expansion of First Amendment rights. The ruling, he said, "provides significantly enhanced protection for free speech while requiring a second look at the constitutionality of aspects of federal and state securities laws, the federal Communications Act and many others."

Whether viewed with disbelief, alarm or triumph, there is little question that the decision, Reed v. Town of Gilbert, marks an important shift toward treating countless laws that regulate speech with exceptional skepticism.

Though just two months old, the decision has already required lower courts to strike down laws barring panhandling, automated phone calls and "ballot selfies."

The ordinance in the Reed case discriminated against signs announcing church services in favor of ones promoting political candidates. That distinction was so offensive and so silly that all nine justices agreed that it violated the First Amendment.

It would have been easy to strike down the ordinance under existing First Amendment principles. In a concurrence, Justice Elena Kagan said the ordinance failed even "the laugh test."

But Justice Clarence Thomas, writing for six justices, used the occasion to announce that lots of laws are now subject to the most searching form of First Amendment review, called strict scrutiny.

Strict scrutiny requires the government to prove that the challenged law is "narrowly tailored to serve compelling state interests." You can stare at those words as long as you like, but here is what you need to know: Strict scrutiny, like a Civil War stomach wound, is generally fatal.

“When a court applies strict scrutiny in determining whether a law is consistent with the First Amendment,” said Mr. Abrams, who has represented The New York Times, “only the rarest statute survives the examination.”

Laws based on the content of speech, the Supreme Court has long held, must face such scrutiny.

The key move in Justice Thomas’s opinion was the vast expansion of what counts as content-based. The court used to say laws were content-based if they were adopted to suppress speech with which the government disagreed.

Justice Thomas took a different approach. Any law that singles out a topic for regulation, he said, discriminates based on content and is therefore presumptively unconstitutional.

Securities regulation is a topic. Drug labeling is a topic. Consumer protection is a topic.

A recent case illustrates the distinction between the old understanding of content neutrality and the new one.

Last year, the federal appeals court in Chicago upheld an ordinance barring panhandling in parts of Springfield, Ill. The ordinance was not content-based, Judge Frank H. Easterbrook wrote, because it was not concerned with the ideas panhandling conveys. “Springfield,” Judge Easterbrook wrote, “has not meddled with the marketplace of ideas.”

This month, after the Reed decision, the appeals court reversed course and struck down the ordinance.

“The majority opinion in Reed effectively abolishes any distinction between content regulation and subject-matter regulation,” Judge Easterbrook wrote. “Any law distinguishing one kind of speech from another by reference to its meaning now requires a compelling justification.”

That same week, the federal appeals court in Richmond, Va., agreed that Reed had revised the meaning of content neutrality. “Reed has made clear,” the court said, that “the government’s justification or purpose in enacting the law is irrelevant” if it singles out topics for regulation. The court struck down a South Carolina law that barred robocalls on political and commercial topics but not on others.

Last week, a federal judge in New Hampshire relied on Reed to strike down a law that made it illegal to take a picture of a completed election ballot and show it to others, including on social media. The law was meant to combat vote buying and coercion, which were common before the adoption of the secret ballot.

“As in Reed,” Judge Paul Barbadoro wrote, “the law under review is content-based on its face because it restricts speech on the basis of its subject matter.”

In a concurrence in the Reed decision, Justice Stephen G. Breyer suggested that many other laws could be at risk under the majority’s reasoning, including ones concerning exceptions to the confidentiality of medical forms, disclosures on tax returns and signs at petting zoos.

Professor Post said the majority opinion, read literally, would so destabilize First Amendment law that courts might have to start looking for alternative approaches. Perhaps courts will rethink what counts as speech, he said, or perhaps they will water down the potency of strict scrutiny.

“One or the other will have to give,” he said, “or else the scope of Reed’s application would have to be limited."

In her concurrence, Justice Kagan scratched her head about how a little dispute about church signs could have gotten so big. "I see no reason," she wrote, "why such an easy case calls for us to cast a constitutional pall on reasonable regulations quite unlike the law before us."

THE NEW YORK TIMES

By ADAM LIPTAK

AUG. 17, 2015

Muni Sales Set to Fall as Redemptions Decline; Puerto Rico Sells.

Municipal bond sales in the U.S. are set to decrease in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $8.7 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

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Bloomberg

Kenneth Kohn

August 17, 2015 — 4:28 AM PDT

[Puerto Rico Agency Sets $750 Million Bond Sale After Default.]

Puerto Rico's main water utility plans to sell $750 million of revenue bonds, the first debt offering from the financially struggling Caribbean island since it defaulted on securities sold by one of its agencies last week.

The deal may price as soon as next week. It will follow the Public Finance Corp.'s failure to make a full bond payment on Aug. 3 and come just weeks before the commonwealth is set to propose a plan for restructuring its $72 billion of debt. Melba Acosta, the island's top debt chief, doesn't foresee the water agency reorganizing its obligations in such a move.

The utility's sale will test Puerto Rico's ability to access the capital markets. Governor Alejandro Garcia Padilla in June said the U.S. territory can't afford to repay what it owes as the population falls and the economy struggles to grow. Its bond prices have dropped amid speculation about the scale of the losses facing investors.

"This is going to be a bumpy ride for the commonwealth," said Joseph Rosenblum, director of municipal credit in New York at AllianceBernstein Holding, which manages $32 billion of municipal bonds, including Puerto Rico securities. He said investors need to consider "what's the spillover to the value of my bonds?"

AllianceBernstein will determine whether to buy once it sees the prices that are offered, Rosenblum said.

Lower Yields

The Aqueduct and Sewer Authority, called Prasa, will use the proceeds to finance capital improvements to help the water utility comply with environmental regulations. Its debt is repaid with money from customers' bills.

The yields on Prasa bonds are some of the lowest among the commonwealth's different agencies, reflecting their relative safety amid the island's escalating crisis. Bonds maturing July 2042 traded Tuesday at an average 68 cents on the dollar to yield 8.2 percent, less than Puerto Rico's general obligations, data compiled by Bloomberg show.

The securities have risks and will be initially sold in denominations of $100,000, according to the bond documents. Prasa has been rationing water since May in parts of the island because of a drought, which increases expenses and lowers demand, according to the documents.

Puerto Rico public corporations could also win the power to file for bankruptcy, the bond documents warn. Island officials have been lobbying Congress to allow some agencies to do so.

Default Risk

"If the authority is unable to charge and collect rates that are sufficient to provide for debt service on its bonds and other indebtedness and meet its operating expenses, the authority may be unable to meet its debt and other obligations as they become due," according to bond documents.

Puerto Rico and its agencies are reeling from years of borrowing to pay bills. Officials plan to present a debt-restructuring proposal by Sept. 1. If Prasa is able to sell the bonds, it won't need to restructure its debt, Melba Acosta, president of the Government Development Bank and one of the officials crafting the island's debt proposal, said Tuesday in a statement.

Prasa, which had almost $5 billion of bonds and notes, as of May 31, plans to raise rates by as much as 4.5 percent annually beginning in fiscal 2018.

The utility provides water to 97 percent of the island's population and wastewater service to more than half. As residents continue to leave for the U.S. mainland, that has cut into demand for its services.

Average monthly customer consumption decreased by about 6 percent in the year that ended in June.

Pitching Deal

Efrain Acosta, the utility's finance director, will begin meeting with investors this week to discuss the offering, he said in a telephone interview from San Juan.

Some agency bonds have more than three times the revenue needed to cover debt-service and reserves sufficient for a year's worth of principal payments, he said.

It's hard to estimate at what coupon and yield the bonds would find enough buyers after the default and with the prospect of some entities gaining access to Chapter 9, said Daniel Solender, who helps manage $17 billion, including Puerto Rico debt, as head of munis at Lord Abbett & Co. in Jersey City, New Jersey.

Whether the firm will participate in the sale depends on the pricing and structure of the deal, Solender said.

"It's going to have to be an attractive price given the default," Solender said. "It's probably the credit that could get the lowest yield right now, but it's still a test to see what the yield would be and if there are enough buyers."

Legal Jurisdiction

To sell $3.5 billion of general obligations in March 2014, the debt was priced with an 8 percent coupon at a yield of 8.73 percent, or 93 cents on the dollar.

The Prasa bonds also allow for any legal dispute to occur in a New York state or federal court, rather than in San Juan, according to bond documents. That's a feature that hedge funds demanded in order to buy the general obligations sold last year.

Bank of America Corp. is the lead underwriter on a the deal, with a syndicate that includes

JPMorgan Chase & Co., Popular Securities and Santander Securities.

Puerto Rico securities, including Prasa bonds, have been trading at distressed levels for two years on concern the island wouldn't repay its debts on time and in full.

Prasa last sold bonds in 2012, Efrain Acosta said. The utility has been working on this borrowing for a year, he said.

"After a tough year for Prasa and Puerto Rico, we finally got the bond document out," he said. "We have to close this chapter soon."

Bloomberg

Michelle Kaske

August 11, 2015 — 6:00 AM PDT Updated on August 11, 2015 — 1:11 PM PDT

California's New Law Creates Hybrid P3 Model to Build Civic Center.

Legislation Gov. Jerry Brown signed Aug. 11 allows Long Beach, Calif., to combine elements of several types of public-private partnership agreements into a hybrid model to expedite the construction of the city's new civic center. The project's new buildings will include a seismically safe city hall, headquarters for the Port of Long Beach and the main city library. A park will be redesigned as well. Transit-oriented mixed-use developments, high-rise condominiums and retail shops also will be built on the almost 16-acre site, the city announced in a press release.

The law places sections of state and case law that apply to lease-leaseback public-private partnerships and design-bid-finance-operate-maintain (DBFOM) P3s into one section of state law that applies specifically to the civic center project. The law reduces the risk of the procurement method being legally challenged because, to date, it has been used only to develop infrastructure projects, not city hall buildings, according to the city.

The law also authorizes the private partner to lease or own all or part of the project for up to 50 years. Under existing law, private leasing or ownership of such projects expires after 35 years, the legislative counsel's digest of the law says.

The civic center project will create 3,700 jobs construction-related jobs; it also will bring the Port of Long Beach's headquarters back to the city's downtown and re-establish its waterfront presence after a year-long, temporary relocation a few miles outside the city, said Lori Ann Guzman, president of the Long Beach Board of Harbor Commissioners.

"Long Beach residents are closer to seeing significant revitalization and modernization in downtown" as a result of the new law, said Sen. Ricardo Lara, the bill's primary sponsor. "The civic center is at the core of Long Beach and the expansion project will benefit residents for years to come."

This project has been in the planning stages for some time. Two teams of developers presented proposed plans for the civic center to the city in October. In January, the Long Beach City Council selected a DBFOM team, led by Plenary Group, to negotiate the real estate andP3 terms of the civic center project.

The civic center is not Long Beach’s first P3. The city used this procurement method to build its award-winning courthouse, which opened in 2013.

NCPPP

By Editor August 13, 2015

Detroit’s Home County Avoids Bankruptcy With State Agreement.

Wayne County will operate under state oversight and enter into a consent agreement with Michigan, allowing the home county of Detroit to bolster its finances and avoid bankruptcy.

The Wayne County Commission voted 14 to 1 Thursday to approve a consent agreement with the state, Joseph Slezak, a county spokesman said in an e-mail. The pact stops short of Chapter 9 and will allow County Executive Warren Evans to impose pay and benefit cuts. The arrangement, negotiated between Evans and the Michigan treasurer’s office, was delivered to the commissioners for consideration on Tuesday.

The move seeks to improve the county’s cash position, end its $52 million annual deficit and lower pension liabilities for its retirement system that is less than 50 percent funded. Wayne isn’t alone. Three other Michigan municipalities and two school districts are under consent agreements.

Evans has 30 days to continue negotiations with unions before he can demand employment terms. After that, he has the power to enact wage or benefit reductions on the county’s nine unions, which have expired contracts.

“This is a very sad day for Wayne County,” said Gary Woronchak, chairman of the commission.

Under the pact, Wayne officials can’t issue debt or sell county assets valued at more than $50,000 without Treasurer Nick Khouri’s approval.

Jail Bonds

Moody’s Investors Service said in July that the county’s move to seek state help and spending cuts are “credit positive.” Moody’s rates Wayne Ba3, three steps below investment grade, and has noted that a consent agreement would empower local officials. The county has $654 million of long-term general-obligation debt outstanding.

A portion of $143 million outstanding of 10 percent jail bonds traded Thursday at an average of 84.8 cents on the dollar to yield 11.9 percent. That’s down from an average of 96.4 cents on June 17, the day Evans asked the state for a financial emergency declaration. The federally taxable bonds that mature in December 2040 back an unfinished jail that costs the county $14 million a year in debt service.

Bloomberg

by Elizabeth Campbell

August 13, 2015 — 8:20 AM PDT Updated on August 13, 2015 — 9:47 AM PDT

Puerto Rico Staring at $400 Million Short-Term Funding Squeeze.

Puerto Rico is approaching an inflection point that may prove to be more challenging than the commonwealth's decision this month to skip a bond payment for the first time.

After borrowing internally, omitting debt-service payments and slowing tax rebates, the island is at risk of running out of cash to fund day-to-day operations. Puerto Rico must raise $400 million through a bank loan or a sale of short-term securities by November, Victor Suarez, Governor Alejandro Garcia Padilla's chief of staff, said Aug. 10 in San Juan.

Garcia Padilla's administration had already alienated creditors before defaulting on $58 million of bonds Aug. 3 by saying they need to restructure a $72 billion debt burden that it can no longer sustain. Puerto Rico appears to be betting that investors will provide access to capital markets again once the commonwealth unveils a debt-restructuring proposal Sept. 1.

"They're going to have some severe liquidity issues," said David Hitchcock, a Standard & Poor's analyst in New York. "Without cash-flow financing, they're going to have a very difficult time trying to just pay for ongoing operations as well as their upcoming debt payments in the next six months."

It's not clear how much operating cash Puerto Rico has on hand. The island's Government Development Bank, which lends to the commonwealth and its localities, stopped providing monthly updates as of May, when it had $778 million of net liquidity. That was down from $2 billion in October.

Anticipation Notes

Like most U.S. states, Puerto Rico tends to sell tax-and-revenue anticipation notes in the first half of a fiscal year to help finance operating needs before revenue collections pick up.

When the GDB sold short-term debt in October, the last such borrowing for the island, it paid a yield of 7.75 percent for notes that matured in eight months. The discount rate on benchmark six-month U.S. Treasury bills was around 0.05 percent at the time.

Yields on an index of one-year Puerto Rico debt were 39 percent Thursday, more than three times the average of 9.9 percent over the past two years, according to data compiled by Bloomberg. Benchmark one-year municipal debt yields about 0.27 percent.

Mounting Payments

"Whatever little good faith we had has been completely wiped out by this missed payment" by the Public Finance Corp., said Sergio Marxuach, public-policy director at the Center for a New Economy, a research group in San Juan. "And after November, things become a little more unclear."

Puerto Rico and its agencies face $1.4 billion of principal and interest payments in December and January, including $357 million for general-obligation debt, according to data compiled by Bloomberg.

Borrowing another $400 million may not be enough, Hitchcock said. In fiscal 2015, which ended June 30, the island sold $1.2 billion of short-term debt and still ended the year with a projected budget gap of as much as $740 million.

“Ability to access the market can be important for liquidity purposes,” Hitchcock said. “And we feel right now they have very limited market access, if any.”

Water Bonds

Puerto Rico may test market access as soon as Tuesday. The island’s Aqueduct and Sewer Authority, known by the Spanish acronym Prasa, wants to sell $750 million of bonds to fund capital improvements. While the bonds have a dedicated revenue source in the form of user fees, the agency still anticipates selling the debt at an average interest rate of at least 10 percent. Prasa bonds maturing July 2042 traded Thursday at an average yield of 8.3 percent, or 67.6 cents on the dollar, according to data compiled by Bloomberg.

“It would be amazing if they can get the deal done,” said Matt Dalton, chief executive office of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of munis, including Puerto Rico. “I’m just not sure who they’re going to sell it to.”

Moody’s assigned a Caa3 rating to the proposed sale Friday, saying exposure to the government’s financial, economic and political risks indicates a heightened loss potential.

Even though Puerto Rico isn’t setting aside cash every month to make the general-obligation debt payment, officials anticipate the island will have the cash flow to pay the January debt bill, Chief of Staff Suarez told reporters in San Juan on Aug. 10.

Selling $400 million of additional tax-and-revenue anticipation notes to outside investors would help finance day-to-day government operations beyond November, Suarez said.

Without additional borrowing, the administration would need to consider unpaid furloughs, additional payment suspensions to suppliers or extending IOUs, Marxuach said. That would force residents and businesses to spend less and banks might actually start reducing the amount of credit they extend to companies with contracting work through the government, he said.

“Obviously that’s going to have a negative ripple effect on the economy,” Marxuach said. “All that matters in the market is the perception, and the perception is Puerto Rico defaulted.”

Bloomberg

by Michelle Kaske

August 13, 2015 — 9:00 PM PDT Updated on August 14, 2015 — 11:42 AM PDT

Municipal Sales Set to Rise, Redemptions Fall; Kansas Sells $1B.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $10.1 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $8.6 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Kansas State Development Finance Authority plans to sell $1.01 billion of bonds, New York State

Convention Center Development Corp. has scheduled $640 million, Charlotte, North Carolina Water and Sewer System will offer $463 million and District of Columbia Hospital will bring $382 million to market.

Municipalities have announced $11.4 billion of redemptions and an additional $18.1 billion of debt matures in the next 30 days, compared with the $31.2 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $7.81 billion, followed by California at $2.07 billion and New Jersey with $910 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $88 million from mutual funds that target municipal securities in the week ended July 29, compared with an increase of $250 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Yield Ratios

Exchange-traded funds that buy municipal debt increased by $72.4 million last week, boosting the value of the ETFs 0.42 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 106.083 percent of Treasuries, compared with 103.105 percent in the previous session and the 200-day moving average of 101.035 percent, Bloomberg data show.

Bonds of Michigan and Tennessee had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 3 basis points to 2.55 percent while Tennessee's declined 2 basis points to 2.33 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 129 to 11.05 percent and Illinois's rose 31 basis points to 4.15 percent.

Bloomberg

Kenneth Kohn

August 10, 2015 — 4:49 AM PDT

Chicago to Argue for Pension Reforms Before State High Court in November.

CHICAGO — Lawyers for the city of Chicago will appear before the Illinois Supreme Court in November to argue that a law aimed at shoring up two of the city's financially shaky public pensions is constitutional, according to a Thursday court order.

A Cook County judge had ruled against the law in late July, saying it violates pension protections in the Illinois constitution. The ruling was a setback for Mayor Rahm Emanuel, who has repeatedly said he will not raise taxes without pension reforms.

The Illinois Supreme Court set a calendar for lawyers' written briefs and oral arguments on Thursday.

Cook County Circuit Court Judge Rita Novak rejected Chicago’s arguments that the 2014 law results in a net benefit because it will save the municipal and laborers’ retirement systems from insolvency and that the law was backed by a majority of affected labor unions.

Novak also took issue with the city’s contention that it was not legally on the hook to pay pensions.

The law requires Chicago and affected workers to make bigger contributions to the pensions and replaces an automatic 3 percent annual cost-of-living increase for retirees with one tied to inflation. Those increases are also skipped in some years.

Pension payments are devouring bigger chunks of budgets for Illinois and Chicago and both face crippling spending cuts or big tax increases if those payments are not reduced. Illinois has the worst-funded pension system among U.S. states and a $105 billion unfunded pension liability, while Chicago’s unfunded liability for its four systems is $20 billion.

Arlene Bohner, a Fitch analyst, said in July that a ruling by the state supreme court tossing out the law “could very well lead to a downgrade.”

Representatives for the nation’s third-largest city and for the union representing city workers were not immediately available for comment.

By REUTERS
AUG. 13, 2015, 4:40 P.M. E.D.T.

(Reporting by Mary Wisniewski; Editing by Lisa Lambert)

Palace Intrigue: Stadium Fights Explode in Milwaukee and L.A.

Back during the previous Gilded Age, even Mark Twain surrendered. “It is a time when one is filled with vague longings,” he wrote. “When one dreams of flight to peaceful islands in the remote solitudes of the sea, or folds his hands and says, ‘What is the use of struggling, and toiling and worrying anymore? Let us give it all up.’” Were the old gentleman alive today, and if he could see American cities once again falling all over themselves to romance the various plutocrats who own the nation’s sports teams, he might abandon the dream of escaping to those peaceful islands and try to find a way to shoot himself to the moon.

I truly thought we were beyond all of this, but that may be simply because I live in Massachusetts, where, at one time or another, public pressure has saved Fenway Park, and has forced the owner of the New England Patriots to build his own stadium with (mostly) his own money, and, most recently, has caused the city of Boston to rise up and tell the United States Olympic Committee and a host of influential local yahoos to pound sand. I don’t mean to sound haughty, but why in the hell are so many of our fellow citizens such suckers?

Right at the moment, a few familiar scams are being run out in public. Remarkably, the St. Louis Rams are in the middle of several of them, which is odd because the Rams haven’t been central to much of anything since they bolted from Los Angeles. (Along with the Raiders’ departure, this left L.A. without a professional football team and, not coincidentally, left the NFL with a handy cudgel to use every time a city balked at the kind of blackmail that gets stadiums built.) Last week, the Rams got a nice little ruling from a local judge that invalidated a city law requiring a referendum before any public money could be used to build a stadium. This was a big step toward constructing a proposed $1 billion complex, the cost of which would include about $400 million in public money. St. Louis is being knuckled by an owner named Stan Kroenke, who is worth about $6 billion and keeps threatening to move his team to Los Angeles, which also is romancing the Raiders and Chargers.

There are serious proposals to build not one but two stadiums in and around Los Angeles, the metropolitan area of which extends to somewhere east of Mongolia. In Inglewood, Kroenke has proposed to build a stadium with a see-through roof. Meanwhile, down in Carson, there's been a roiling brawl over a proposed $1.7 billion stadium; in June, a City Council meeting nearly devolved into a fistfight. Both the Raiders and Chargers have been flirting with the Carson proposal, but they are being very coy about it. At another City Council meeting, scheduled to update residents on the progress of the onrushing fiscal calamity, neither team bothered to send a representative. The activity has been so frenzied that even John Oliver on HBO noticed and pronounced himself appalled. "Most new stadiums nowadays," Oliver marveled, "look like they were designed by a coked-up Willy Wonka." Welcome to America, big guy.

But nowhere has the scam worked so brilliantly as it has in Milwaukee, where once I watched the Warriors of Al McGuire — and the Bucks of Larry Costello — play basketball in the Milwaukee Arena, which looked like the world's largest rolltop desk. Both Marquette and the Bucks moved to the Bradley Center — now the BMO Harris Bradley Center — in 1988. It was built in the vain hope of attracting an NHL team. It was financed by the family of Harry Lynde Bradley, who got rich as the cofounder of the Allen-Bradley Company. That wealth also finances a variety of conservative causes and politicians. Which brings us all the way around to a new arena proposal and the guy pushing it the hardest, who also happens to be running for president of the United States.

In April 2014, former U.S. senator Herb Kohl sold the Bucks for $550 million to a pair of hedge-funders named Wesley Edens and Marc Lasry. This was considered at the time to be a wild overpayment for one of the NBA's fiscal basket cases. The new owners promised to keep the team in Milwaukee and "work toward" the construction of a new downtown arena to replace the Bradley Center, which, after all, was 26 years old at the time and, therefore, by the calculations of the people who want to build new arenas with somebody else's money, might as well be Angkor Wat. Luckily, just at their moment of direst need, along came a savior with ambitions named Scott Walker.

Having largely succeeded in rolling back more than a century of progressive government in a state where progressive government was long an institution, and having been elected three times in five years, Walker was gearing up for his presidential run. He proposed to use $250 million of public money to build the Bucks a new arena so the team would not leave town. Walker's political opponents hastened to note this was the exact amount he proposed to cut from the University of Wisconsin system. But the real action came from his erstwhile allies. Conservative legislators went straight up the wall, inveighing against what was obviously a whopping gob of corporate welfare. (They also weren't thrilled at handing over $250 million to Edens and Lasry, who previously had contributed a lot of money to Democratic campaigns.) For his part, Walker defended the decision and uncorked almost every discredited argument for publicly funded stadiums that anyone has ever made.

He argued that only $80 million would come from the state and that local and county government would cover the rest, as though people lived and paid their taxes in some place called the state, and not in towns or counties. This is the pea-under-the-shells technique. He claimed the state would lose $419 million over the next 20 years if the Bucks left town. Included in these calculations was his estimate of how much revenue would be drained if the Bucks players were no longer paying taxes in Wisconsin, which implies that the players themselves employ accountants who are stupid, drunk, or dead. He then told ABC News that these deals have been good for local economies all over the country. It was about here when actual economists began to throw themselves out of windows.

Walker, who is running for president almost wholly on his conservative bona fides, found himself crossways with the Cato Institute.

That this is as noisy a fight as it has become is a promising sign. So, for that matter, is the fact that the Carson City Council nearly came to blows over a stadium proposal. It means the old sales pitches for this snake oil don't work as well as they used to. Pure civic jingoism doesn't have that old magic anymore. Citizens generally have gotten wise to the fiscal palaver and fast-talking from the people who want to get into their pockets. They aren't as easily conned by politicians, and they aren't as easily flattered by local Babbitts, and they aren't as easily bamboozled by any unholy combination of the two. Unfortunately, there is still blackmail, and the jury is still out on whether that tactic still works.

It certainly seems to be working in Wisconsin, where Walker is trying to get the ransom money transferred as best he can. It remains to be seen whether it will work on behalf of the St. Louis Rams, or the San Diego Chargers, or the Oakland Raiders, a team that has spent almost its entire history playing Oakland and Los Angeles off each other. The problem the NFL had was not that the Raiders were gaming the system but that the Raiders were gaming the system without permission. They were the functional equivalent of the people who go into casinos and count cards. You can see how it's supposed to work by watching how Kroenke plays off St. Louis and Los Angeles, and how the Chargers and Raiders play off two proposed stadiums against the cities where they presently play.

In this new Gilded Age, nothing should surprise us anymore. In Wisconsin, where Walker is moving heaven and earth to get a couple of Democratic sugar daddies a new playpen, his campaign named one Michael Grebe to be its chairman. Grebe's day job is as chairman and CEO of the Bradley Foundation, founded with the same money that once built the Bradley Center, which is obsolete because other money says so. Mark Twain was right. Those peaceful islands look very good right now.

GRANTLAND.COM

by CHARLES P. PIERCE

AUGUST 10, 2015

Municipal Sales Set to Rise, Redemptions Fall; Kansas Sells $1B.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls.

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Bloomberg

Kenneth Kohn

August 10, 2015 — 4:49 AM PDT

San Francisco Seeks Rent Break Through Bonds.

With tech workers flooding San Francisco, one-bedroom apartment rents have climbed to $3,500 a month, more than in any other U.S. city. Residents are being priced out. Evictions routinely spark political rallies.

Mayor Ed Lee, under pressure to deal with the soaring cost of living as he runs for re-election, is backing a partial fix: a $310 million debt sale to build affordable housing that will go before voters in November.

It’s the largest housing bond in the city’s history.

San Francisco’s push bucks the national decline in the sale of municipal debt for housing, which was slashed in half to $10.7 billion in 2014 from $20.8 billion a decade earlier. It may revive interest in the bonds as mayors from New York to Seattle seek to add homes for lower-income residents as real-estate prices climb.

“You’re seeing cities looking at a variety of ways to try to accommodate poor people,” said Howard Cure, director of municipal credit research in New York for Evercore Wealth Management LLC, which manages $6 billion. “It’s a big issue in certain areas where places have gentrified or the rental market is such that it’s becoming more unaffordable for working-class people.”

In California, cities and counties need to sell housing debt directly after Gov. Jerry Brown dismantled their redevelopment agencies. Those bonds were repaid with taxes from new projects.

Below AAA

That shift may benefit San Francisco, whose fast-growing economy has left investors willing to accept yields on some securities that are lower than top-rated municipals.

When San Francisco sold $67 million of general obligations on June 23, 10-year securities were priced to yield 2.34 percent. That was less than the 2.37 percent rate on benchmark municipal debt with the same maturity, according to data compiled by Bloomberg. The 20-year bonds yielded 3.62 percent, about half a percentage point more than top-rated debt.

“It’s viewed as a very safe credit to the point where you’re not going to get much yield above the AAA scale,” Cure said. “It’s a high-tax state so there’s a lot of demand for the bonds to begin with, and the city is doing pretty well.”

If approved by two-third of voters, the bonds would be used to advance Lee’s effort to build and renovate 30,000 homes over the next five years. The proceeds would fund the construction of rental units and create a program to help residents, including teachers, buy their first homes.

‘Housing crisis’

A boom among tech startups seeking to become the next Uber Technologies Inc., Facebook Inc. or Spotify Ltd. has drawn thousands of well-paid workers to California’s fourth-largest city, reducing the unemployment rate to 3.5 percent. The influx is fueling higher rents and sparking protests over evictions and affluent condominium developments in working-class neighborhoods.

The median asking price for a San Francisco one-bedroom apartment is $3,500, $400 more than in New York, the second most-expensive city, according to a report this month by Zumper, an online listing service. In June, the median price of a home was $1.14 million.

“San Francisco’s housing crisis demands aggressive action,” Lee, who’s seeking re-election in November, said in a statement. “Housing that is affordable to low- and middle- income families promotes diversity and equity.”

A separate measure on the November ballot would develop affordable housing from little used city properties.

Swaying voters

The bond issue, approved for the ballot by the county Board of Supervisors in July, won’t increase property taxes. San Francisco voters rejected a $250 million affordable-housing plan in 2002 — and another $200 million bond two years later — that included property-tax increases.

If voters approve the latest proposal, the city plans to sell the first of the debt in 2016, said Nadia Sesay, San Francisco’s public-finance director. Revenues from property taxes will be used to repay the 20-year debt, which may include some taxable bonds depending on use, she said.

“The bond will trade great,” said Craig Brothers, a Los Angeles-based money manager at Bel Air Investment Advisors, which oversees $3 billion. “It will trade like any other San Francisco general-obligation bond.”

By: Bloomberg News August 10, 2015 1:25 pm

Kansas Tops U.S. Municipal Bond Calendar with $1 Bln Pension Deal.

Kansas will offer $1 billion of taxable pension bonds in the U.S. municipal market next week in a move that could make investors skittish given a recent default on some bonds in Puerto Rico and credit ratings downgrades in Chicago.

Debt service on the bonds is subject to annual appropriation, meaning that Kansas’ legislature must decide each year whether to allot money to make the payments.

Just this week, there was a default on Puerto Rico appropriation-backed bonds, while credit ratings on more than $3 billion of Chicago convention center bonds were severely downgraded because an impasse over Illinois’ fiscal 2016 budget blocked a monthly transfer of tax revenue to the bond trustee.

Alan Schankel, a managing director at Janney Capital Markets, said the combination of pension and appropriation bonds will come at a higher cost to Kansas.

“I think anybody has to take a look at appropriation debt and require a little more yield,” he said.

Meanwhile, the Government Finance Officers Association in January advised states and local governments not to issue pension bonds because they carry “considerable risk.”

The practice, which relies on the assumption that invested proceeds will result in higher returns than the interest cost on the bonds, came under heightened scrutiny particularly in the wake of Detroit’s $1.4 billion issuance that was tied in part to soured interest-rate swaps that helped drive the city to file the biggest-ever municipal bankruptcy in 2013.

Kansas’ deal is the largest on next week’s nearly $5.8 billion calendar of competitive and negotiated municipal bond and note sales.

The state’s fixed-rate bonds will be issued through its development finance authority and will be structured with serial maturities from 2017 through 2030 and term bonds due in 2037 and 2045, according to the preliminary official statement.

A state law limits the bond interest rate to 5 percent. Pricing is scheduled for Monday through senior underwriters Bank of America Merrill Lynch and Wells Fargo Securities.

The bonds are rated Aa3 by Moody’s Investors Service and AA-minus by Standard & Poor’s, which has a negative outlook on the rating due in part to the state’s pension payments falling short of actuarially required levels.

Kansas projects that the bond sale will improve the funded ratio for pensions to 73 percent in 2020 from 59 percent at the end of 2014.

REUTERS

Fri Aug 7, 2015

(Reporting by Karen Pierog in Chicago and Hilary Russ in New York; Editing by Paul Simao)

Insurance Stocks to Watch as Puerto Rico Defaults.

The Greek crisis is still fresh in our memories but there seems no end to bad news. Unable to repay its huge debt, Puerto Rico has defaulted. The island's Government Development Bank could pay back only $0.6 million of the $58 million due to its creditors of Public Finance Corporation. The amount was part of the interest on bonds.

Puerto Rico has a hefty debt balance of over $70 billion. Melba Acosta-Febo, President of the Government Development Bank, stated, "the partial payment was made from funds remaining from prior legislative appropriations in respect of the outstanding promissory notes securing the PFC bonds."

"First Time Defaulter"

While the default is the first time in Puerto Rico's history, it raises concerns about the economic future of the island as well as the liquidity of the commonwealth. The picture is of widespread gloom as Moody's sees this as among the first of bigger defaults on commonwealth debt and Standard & Poor's portends other defaults over the next few months and signs of dismal liquidity. Going by a Reuters report, Puerto Rico had halted monthly deposits to its general obligation redemption fund for a temporary period.

The $58 million in bonds were issued by a subsidiary of the Government Development Bank to procure funds for school construction and the creation of landfills among others. While the government bank financed those projects initially, it prudently shifted the liabilities from its own balance sheet by refinancing them through its subsidiary, the Public Finance Corporation. The bonds were already facing downgrades and moved to the junk territory in March by Moody's Investors Service and Standard & Poor's.

The Puerto Rico debt includes approximately $18.6 billion of general-obligation bonds and government-guaranteed debt, $15.2 billion of sales-tax-backed bonds and $24.1 billion of bonds issued by government agencies, like the Puerto Rico Electric Power Authority.

Puerto Rico has been stressed by government debt crisis for several years. The island owed many debt payments on Aug 1, of which it could pay only the interest portion of $58 million.

Way Out for Puerto Rico

The Puerto Rico debt crisis is worse than Detroit's $20-billion crisis (Detroit filed for bankruptcy two years back) but much lesser than the $350-billion crisis of Greece. However, Puerto Rico cannot file for bankruptcy as the island is not covered under the U.S. Bankruptcy Code. Moreover, it is unlikely that any institution will come for rescue as we saw in the case of the Greek distress where International Monetary Fund came to rescue.

Nonetheless, Puerto Rico intends to restructure its debt with policymakers so that they can work a way out with creditors and investors. Puerto Rico even fears a government shut down if further funds are not raised.

To add to its woes, the residents of Puerto Rico are moving out as high unemployment and economic instability are forcing them to look for survival outside the island. This, in turn, will hit Puerto Rico even harder as it lower the tax base of the island — the major source of revenue for any economy.

According to Morningstar Inc., about half of the U.S. municipal-bond mutual funds have coverage in Puerto Rico. So the island's default could cause serious damage to the concerned investors, who have already incurred heavy losses after the commonwealth's credit ratings were downgraded to junk and bond prices collapsed.

Sensing tough times, Monarch Alternative Capital LP, which had invested in commonwealth's general-obligation bonds, got rid of some. However, the latest crisis will surely act as a dampener to the fortunes New York-based MBIA Inc. and Bermuda based Assured Guaranty Ltd. (AGO – Analyst Report) that are exposed to Puerto Rico

MBIA Inc. has almost twice the exposure of Assured to Puerto Rico's stressed power authority called Prepa. While the crisis could eat away the statutory capital of MBIA's National Public Finance Guarantee Corp., about 40% of Assured's funds will be washed out as together they insure about 20% of the islands through municipal debt as per media reports.

While MBIA Inc. lost 2% in yesterday's trading, another bond insurer Ambac Financial Group, Inc.'s shares dropped 3.4%.

by Zacks Equity Research

Published on August 04, 2015

S&P: Chicago Budget Forecast Remains Grey - City Faces Continued Budget Gaps, Stressed Bottom Lines.

CHICAGO (Standard & Poor's) Aug. 6, 2015–Chicago's budgetary challenges for fiscal years 2016 to 2018 were highlighted in the release of its annual financial forecast — specifically the hurdles it faces in balancing its budget, even before approaching the issues of its rising debt burden and pension contributions.

We expect that during the next five months, as the mayor progresses with his proposed budget and then what is ultimately adopted by the city council, the city will demonstrate how serious it is about implementing both immediate and far-reaching plans to address the structural cracks in its budget. Given the uncertainty regarding the reform of its police, fire, municipal and laborers plans, we expect city management to consider contingency plans for addressing its pension liabilities, regardless of the outcome for all four of its plans.

In the base case scenario, the city's operating budget gap for 2016 is $232.6 million; add in its increased pension contributions and debt, and the number rises to $426 million. The corporate fund is not the only fund that contributes to the pensions; the enterprise funds and library fund also pay a share. The forecast factors in an incremental $328 million increase in police and fire pensions, based on the assumption that the city will gain state approval of a phased-in approach to the pension payments rather than the $550 million increase it currently faces, and that the Supreme Court will uphold the city's reformed municipal and laborers pension plans. In our view, it would be more conservative to assume the $550 million payment. Additionally, the forecast assumes that the city will pay $100 million more in debt service due to the phase out of its "scoop and toss" practice, in which the city made debt payments from refunding bond proceeds rather than from current revenues.

The forecast presents two scenarios in addition to the base case: positive and negative. Even in the positive outlook, with revenues more strongly recovering from the recession than in the base- case scenario, there is still an operating budget gap of $83.0 million in 2017, and it rises to $132.4 million in 2018. In the negative outlook, which assumes stagnant revenues and more accelerated operating expenditure growth, the city faces operating gaps of $577 million in 2017 and $801 million in 2018. The forecast approaches and discusses debt and pension contributions separately and those numbers are not included in the aforementioned figures.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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[Atlantic City Cut Three Steps by S&P, Citing Lack of Debt Plan.]

Atlantic City had its debt rating cut deeper into junk by Standard & Poor's, which said the New Jersey gaming hub has no "clear plan" to address its fiscal woes.

The municipality, which has been run by an emergency manager since January, was reduced three steps to B, the fifth level into junk, and may be lowered further, the ratings company said Monday.

Since Emergency Manager Kevin Lavin released a report in March citing the potential for deferred debt payments and job cuts, there has been no "additional clarity" on how the city can address its $101 million budget deficit and eroding tax base, Timothy Little, an S&P analyst, wrote in a release.

"The lack of clear and implementable reforms to restore fiscal solvency without payment deferrals or debt restructuring remains uncertain as the city continues to operate in a difficult fiscal environment," he said in the statement.

Bankruptcy protection may be a "potential course of action" if as yet unimplemented solutions are unsuccessful, Little said.

Atlantic City's finances haven't changed since May, when it sold securities with an S&P ranking of A-, the fourth-lowest investment grade, Michael Stinson, the city's revenue and finance director, said Monday. The bonds were issued through a New Jersey program that diverts state aid to debt payments, which lessens the risk to bondholders.

"For a downgrade at this point, it just doesn't make sense," he said.

Atlantic City "continues to make progress" in addressing its budget shortfall and longer-term structural deficit, Lavin, the emergency manager, said in an e-mailed statement.

Governor Chris Christie had appointed Lavin to come up with a plan to revive the finances of the city, where four of 12 casinos closed last year. The governor's move led Moody's Investors Service and S&P to downgrade Atlantic City because of the risk that a turnaround plan could foist losses on bondholders. Moody's ranks the city Caa1 with a negative outlook.

Bills that the state legislature passed in June, including a measure that would create payments in lieu of taxes from the the city's casinos, are part of the financial plan, Stinson said. The legislation still has to be signed by Christie.

Kevin Roberts and Brian Murray, spokesmen for Christie, didn't immediately return a call and e-mail requesting comment.

Tax-free general obligations due in December 2027 traded Monday with an average yield of 7.26 percent, or about 4.7 percentage points over benchmark munis, data compiled by Bloomberg show.

Bloomberg

by Romy Varghese

August 3, 2015 — 1:17 PM PDT

Puerto Rico Debt Crisis: A Bond Guide as Potential Defaults Loom.

Puerto Rico's fiscal crisis reached a turning point this week when one of its agencies, the Public Finance Corp., defaulted on a bond payment for the first time.

Standard & Poor's said the decision could imperil the government's ability to borrow money as it risks running out of cash within the next few months. The rating company said more defaults may follow.

Like other municipal borrowers, the island has many types of bonds, sold by different agencies and backed by different funds and legal safeguards.

Here's a list of the commonwealth's biggest bond issuers, how much long-term debt they have, and when major monthly payments are due, according to data compiled by Bloomberg. Puerto Rico's bond payments total about $209 million from September through November before swelling to a combined $1.4 billion in December and January, the data show.

General-obligations: $13 billion. They're backed by the commonwealth's full faith and credit. The island's constitution says general obligations must be repaid before other expenses. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Sales Tax Financing Corp.: $15.2 billion. These bonds, called Cofinas, are repaid from dedicated sales-tax revenue. A $6.2 billion portion of the debt, called senior-lien, is repaid first. The remaining $9 billion, called subordinate-lien, get second dibs. Maturity and interest payments are due in August, with the bulk of other interest paid in February.

Puerto Rico Electric Power Authority: $8.3 billion. Prepa, as it's called, is the island's main supplier of electricity and repays the debt from what it charges customers. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Government Development Bank: $5.1 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. The agency covered debt bills due this month. Its next bond payment is in December.

Puerto Rico Highways & Transportation Authority: $4.7 billion. The highway agency repays its debt with gas-tax revenue. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Public Buildings Authority: $4.1 billion. The PBA bonds are repaid with lease revenue from public agencies, departments and instrumentalities of the commonwealth. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Aqueduct & Sewer Authority: $4 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Pension-Obligation Bonds: $2.9 billion. The taxable debt was sold to bolster the island's main pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The next maturity is July 2023.

Puerto Rico Infrastructure Financing Authority: $1.9 billion. Called Prifa, the agency has sold the island's rum-tax bonds. These are securities repaid from federal excise taxes on rum made in Puerto Rico. Most of Prifa's bonds mature every July, with additional interest payments in January.

Puerto Rico Public Finance Corp.: $1.09 billion. The PFC bonds are repaid with money appropriated from the legislature. The agency defaulted on its Aug. 1 debt-service payment because the legislature failed to do so. Maturity and interest payments are due in August, with the bulk of other interest paid in February.

Bloomberg

by Michelle Kaske

August 4, 2015

Muni Funds Lose Most Cash in Five Weeks Amid Puerto Rico Default.

Individuals pulled $308 million from muni funds in the week through Wednesday, Lipper US Fund Flows data show. That's the largest withdrawal since the period through July 1, during which Puerto Rico Governor Alejandro Garcia Padilla said the U.S. commonwealth can't afford to pay its debts.

High-yield muni funds, which are the most likely to hold Puerto Rico securities, saw about $58 million of outflows, the most in four weeks. Investors yanked $208 million from funds holding long-term obligations. Despite the withdrawal, muni prices were little changed this week, according to Bloomberg benchmark indexes.

Puerto Rico said Aug. 3 that it paid just $628,000 of the $58 million due on securities sold by its Public Finance Corp. The struggling commonwealth is seeking to restructure its $72 billion of debt, which is widely held because the interest is exempt from federal, state and local income taxes nationwide.

Bloomberg

Brian Chappatta

August 6, 2015 — 2:49 PM PDT

Moody's Comments on PREPA's Restructuring Proposal.

New York, August 06, 2015 — Moody's Investors Service has reviewed the new restructuring proposal filed by the Puerto Rico Electric Power Authority (PREPA; Caa3 negative), which states that non-forbearing bondholders would recover 65%-70% of the original legal promise in cash, depending on maturity, and which makes default a virtual certainty. The EMMA filing also includes alternative plans filed by PREPA, a bondholder group, and a bond insurers' group.

Although bondholder recoveries are volatile and hard to predict, recovery expectations play a large role in Moody's PREPA ratings, and the proposal's overall recovery rates are in line with Moody's expectations at PREPA's current Caa3 rating, which incorporate a recovery range of 65%-80%. Moody's outlines the proposal for the different bondholders in the new report, "Moody's Comments on PREPA's Restructuring Proposal."

In contrast to non-forbearing bondholders, forbearing bondholders would receive an exchange offer, nominally at par. However, these bondholders could still incur substantial losses because the original promise to pay cash would be replaced with a new security that defers interest and principal and would be subject to the risk that it will not be paid.

PREPA's forbearing bondholders, which comprise both insured and uninsured bondholders, hold just over 66% of the authority's $8.1 billion bonds; the uninsured non-forbearing bondholders hold the remainder.

"For the forbearing bondholders, our analysis suggests a mid-range recovery rate of 67%, based on a discount rate of 7.5%" says Rick Donner, a Moody's Vice President — Senior Credit Officer. "But regardless of the discount rate, we doubt the recovery rate for the forbearing bondholders would be any worse than the 65%-70% cash offer being presented to the non-forbearing bondholders."

Under PREPA's plan, the insured legacy bonds would be excluded from any transactions and would remain unchanged. However, the bond insurers could still incur economic losses, as they are being asked to provide a new wrap for up to $1.3 billion with zero compensation, even as they continue to carry the risk associated with the current insurance.

Finally, all of the publicly disclosed proposals, including PREPA's, call for deferring debt service for at least five years, to fund capital expenditures.

If a restructuring agreement can be reached, a default in the form of a distressed exchange sometime in the next few months is the most likely outcome. The broad consistency of the proposals and counter-proposals indicates ongoing progress, but substantive creditor issues could very well preclude a deal. And even if PREPA can reach an agreement with its creditors, the execution risk will be substantial, particularly in light of the island's weak economic conditions.

The report is available to subscribers here.

Puerto Rico Defaults on Most of $58 Million Debt Payment.

Puerto Rico missed most of a $58 million bond payment Monday, marking the first default by the U.S. commonwealth and escalating its attempt to restructure about $72 billion in debt.

The payment to bondholders is the first skipped since Gov. Alejandro García Padilla in June said the island's debts were unsustainable and urged negotiations with creditors, which range from individuals to hedge funds.

Analysts said the missed payment isn't likely to provoke an acute marketwide reaction from investors, many of which have been inching away for the commonwealth for years amid dire economic news.

But the episode is the latest confirmation that Puerto Rico doesn't have the money to meet all of its coming obligations, said Emily Raimes, vice president at Moody's Investors Service.

"This is a first in what we believe will be broad defaults on commonwealth debt," she said.

The Government Development Bank for Puerto Rico said the island's legislature didn't set aside money for the appropriation bonds, a decision that reflects "serious concerns about the Commonwealth's liquidity" and its need to balance paying bondholders with maintaining essential services, according to a news release from the bank. The bank did pay about $628,000 remaining from prior funds.

The nonpayment is another setback for investors in debt from Puerto Rico, which is struggling with a decade of economic stagnation and high unemployment, underscoring the commonwealth's effort to prioritize payments as it attempts to preserve its cash and avoid a government shutdown.

About half of municipal-bond mutual funds in the U.S. have exposure to Puerto Rico, according to research firm Morningstar Inc.

Those investors have already suffered losses as the commonwealth's credit ratings fell to junk in recent years and bond prices plummeted.

Some Puerto Rico bonds sold in 2014 traded Monday at about 69.25 cents on the dollar, down from about 73 cents in mid-July, according to Thomson Reuters Municipal Market Data.

The corporation's missed payment suggests how Puerto Rico may treat different forms of debt going forward, said John Miller, co-head of fixed income at Nuveen Asset Management LLC in Chicago, which manages about $100 billion in tax-exempt bonds. Investors in the appropriation bonds have little recourse because the bonds are backed only by the legislature's willingness to find the money for them. Other bonds have greater legal protections.

"It is somewhat meaningful that this is their first monetary default," Mr. Miller said. "However, if people have been paying attention to the plans, this was anticipated, and it doesn't really change the orchestrated direction that the government's taking."

That direction has even some former boosters backing away. Monarch Alternative Capital LP, which at one point had about 5% of its now $5 billion under management invested in the commonwealth's general-obligation bonds, told investors late last week that it sold off part of the position in recent weeks.

"We believe that the probability of a default scenario has significantly increased and could risk extending the timeline for a resolution to the island's situation," co-founder Michael Weinstock and other firm executives wrote to investors in a letter reviewed by The Wall Street Journal.

In particular, he flagged the firm's discussions with the island's political leadership. "We ultimately came to the view that the sentiment of Puerto Rico's leadership had shifted and that they would be unwilling to implement the fiscal reform measures needed to regain the market's confidence and avoid a potential default," the letter said.

A group of Puerto Rico policy makers are working on a restructuring plan and scheduled to present their findings at the end of August. Creditors, including mutual funds, hedge funds and other distressed-debt investors, have been splitting into committees based on which bonds they own.

Puerto Rico has said its debt includes about $18.6 billion of general-obligation bonds and government-guaranteed debt, $15.2 billion of sales-tax-backed bonds and $24.1 billion of bonds issued by government agencies, like the Puerto Rico Electric Power Authority, which is already negotiating a restructuring with creditors. Many investors hold bonds across the different sectors, which could recover different amounts in a restructuring.

The restructuring process is uncertain in part because Puerto Rico is neither a U.S. state nor a sovereign nation.

All states are barred from filing for bankruptcy, but cities, such as Detroit, can seek protection under chapter 9 of the U.S. bankruptcy code. Puerto Rico is lobbying the U.S. Congress for a law allowing some of its entities to access chapter 9 protections. Until such a law passes, the island's leaders must negotiate with creditors without that process.

Matt Fabian, partner at research firm Municipal Market Analytics, Concord, Mass., said that while worries about Puerto Rico have had little impact on the broader market for municipal bonds, a missed payment could spur new selling in other commonwealth debt.

"The Puerto Rico market is huge and diverse," he said. "You have to presume there will be some knock-on selling."

THE WALL STREET JOURNAL

By AARON KURILOFF

Aug. 3, 2015 4:30 p.m. ET

—Rob Copeland contributed to this article.

Write to Aaron Kuriloff at AARON.KURILOFF@wsj.com

Seattle Transit Authority Plans Biggest-Ever Green Muni Bond.

This week, the Central Puget Sound Regional Transit Authority plans to sell about $923 million of green bonds, which help finance environmentally friendly projects. It would be the world's largest green-bond issue from a municipal entity, providing a boost to green-bond sales figures that have been tracking below expectations so far this year.

Green bonds have surged in popularity over the last few years, as companies, governments and development banks take advantage of investor demand for securities that are seen as aiding the environment. But this year's volume of green-bond sales has disappointed some advocates amid concerns about whether projects financed with green bonds are truly "green."

So far, roughly $19 billion of green bonds have been sold this year, according to a tally from the Climate Bonds Initiative, a nonprofit group based in London. The group, however, forecast $100 billion of new green bond sales this year, a figure that looks unlikely now. Last year, nearly $37 billion of bonds were sold, the most on record.

The Seattle agency, known as Sound Transit, plans to use proceeds from its sale to expand the region's light-rail system, as well as refinance existing debt used for previous projects. The agency expects to finalize pricing of the bonds on Tuesday.

Brian McCartan, chief financial officer for Sound Transit, said the agency is hoping to diversify its investor base with the new green bonds, as well as promote its sustainability program and deepen the green-bond market.

Unlike some other recent municipal issuers, the agency commissioned a study from research-an--analysis firm Sustainalytics to sign off on the environmental benefits of the agency's new bonds. Green-bond investors say these outside opinions are useful in determining whether a project is truly environmentally friendly.

In its review, Sustainalytics said Sound Transit "aims to support projects that will provide low-carbon public transit" in the region, reducing greenhouse-gas emissions, and found the green bonds "robust and credible." The opinion should "really give investors that additional vote of confidence that the moneys will be used for sustainable projects," Mr. McCartan said. The firm charged a "modest fee" for the review, he said.

The bonds will be repaid from sales-tax collections. They are expected to carry a triple-A rating from Standard & Poor's Ratings Services, the highest rating available, and a Aa2 rating, the third highest, from Moody's Investors Service. J.P. Morgan is leading the deal.

THE WALL STREET JOURNAL

By MIKE CHERNEY

Aug 3, 2015

[Border Jails Facing Bond Defaults as Immigration Boom Goes Bust.]

Jails built to profit from an illegal immigration boom are weighing down the finances of rural counties in the U.S. Sunbelt as border apprehensions slow and the federal government orders the release of more migrants.

In Texas, the heart of a jail-building boom over the past decade, nine of 21 counties that created agencies to issue about $1.3 billion in municipal bonds to build privately run correctional facilities largely for migrants have defaulted on their debt. A dozen other facilities from Florida to Louisiana to Arizona, many that housed immigrants, have also defaulted, according to figures from Municipal Market Analytics, a bond-research firm based in Concord, Massachusetts.

The slowdown in border detentions is putting a fiscal strain on counties that rushed to build jails in anticipation that a two-decade boom in immigrant inmates would continue. Municipalities that banked on those facilities for revenue and jobs are desperate to keep them afloat as a glut of beds goes empty and walls gather dust.

"My fear's always been that this would happen," said Joel Rodriguez Jr., judge of La Salle County, Texas, about 67 miles (107 kilometers) north of the U.S.-Mexico border, who is overseeing the fate of a distressed detention center. "When this facility was sold to the county, they sold it as a money-making facility that was going to be a great economic boon."

Almost Empty

Today the 566-bed facility, called the La Salle County Regional Detention Facility, sits almost empty behind thick coils of razor ribbon in tiny Encinal, whose 579 residents barely outnumber prison beds. Another border detention center was destroyed in a riot by prisoners after cost-cutting efforts led to deplorable conditions. Another, on the banks of the Rio Grande River, is slated to close next month after too few inmates walked through the doors to keep up with big debt payments.

"The number of people detained and incarcerated for immigration matters hasn't kept up with the pace of construction for these new beds," said Bob Libal, executive director of Grassroots Leadership, an advocacy organization based in Austin, Texas, that opposes private prisons.

The drop-off follows an almost two-decade boom that saw the number of immigrant detainees mushroom, partly as a result of more people crossing into the U.S. and partly due to a get-tough attitude toward illegal border crossers. County jails grew overcrowded.

Good Bet

"The populations were just hanging off the trees," recalled Michael Harling, executive vice president at Municipal Capital Markets Group Inc., a Dallas firm that co-managed many of the jail bond issuances in Texas.

Prison operators crisscrossed the South pitching rural towns on the purported economic salvation of detention facilities. Under the arrangement, local governments would typically receive daily fees from the federal government based on the number of beds or persons filling them, and private prison operators would get a portion, usually the lion's share.

For some of the nation's smallest and most impoverished communities, locking up immigrants seemed like a good bet. To finance their construction, counties issued debt through conduit borrowers, limiting the county’s liability, while allowing projects to be built quickly.

Lease-Purchase

Last year, Texas counties had $709 million in scheduled debt service for so-called lease-purchase obligations, most of which are for jail facilities, up from $273 million in 2000, according to figures from the Texas Bond Review Board.

The increased debt grew right before migration patterns and immigration policy began to shift. Last year, there were 487,000 apprehensions, about the same level as in 1973, compared with a peak of nearly 1.7 million in 2000, according to the U.S. Border Patrol. That’s partly because an improving Mexican economy and drug cartel violence kept fewer people from venturing north.

At the same time, the trend of locking up migrants has eased. More local officials are refusing to detain migrants at the behest of federal immigration officials and the Obama administration recently narrowed the categories of migrants that should be detained.

The number of immigration detainees last year was down 11 percent from 2012, when incarcerations were at an all-time high, according to figures from U.S. Immigration and Customs Enforcement. The average daily population in ICE detention was 31,164 in June, down 16 percent over the same time period a year earlier.

Fewer Detentions

Detentions may continue their downward march. Last month, a federal court rebuked the administration for its policy that jailed a wave of women and children fleeing violence in Central America.

“The system has been built up to be able to house criminal aliens,” said A. J. “Andy” Louderback, past president of the Sheriffs’ Association of Texas. “When all of a sudden at the stroke of a pen those folks are released to live, work and play in our communities, those beds are going to be vacant.”

The Encinal detention center was opened in 2004 after a county corporation issued almost $22 million in revenue bonds. At the time, local residents warned that revenue projections were too rosy.

Leaking Roof

Last winter, the facility’s private operator, Emerald Correctional Management LLC of Shreveport, Louisiana, suddenly pulled out all inmates, said Rodriguez, leaving the county with empty beds, a leaking roof and almost $20 million in debt.

Since then, the county has assumed responsibility for the facility and, in an effort to salvage the 100 jobs tied to the jail, is working with bondholders to get it back up and running.

Bonds issued for the jail that mature in March 2024 traded July 17 at 40 cents on the dollar, to yield about 25 percent, data compiled by Bloomberg show. The securities are down from 70 cents at the start of the year.
In 2006, the Willacy County Local Government Corp. issued its first bonds, totaling $61 million, to build a detention facility. The 3,000-bed facility that featured a collection of white Kevlar domes to house inmates became a source of grievances, from maggots in the food to allegations of sexual abuse.

In February, inmates rioted and destroyed the facility with metal pipes. All 2,800 prisoners were removed from the facility, federal officials canceled their contract and Standard & Poor's downgraded the debt to junk.

In Maverick County, where the county seat of Eagle Pass sits along the banks of the Rio Grande River, an immigrant detention facility built in 2007 using $43 million in revenue bonds is slated to close this month after failing to service its debt. Officials say they never got the promised prisoners and that the project now looks like a bad deal.

"The amount of the loan that was taken out on this facility was just ridiculously too high," said Maverick County Commissioner Jerry Morales. "It doesn't add up."

Bloomberg

by Lauren Etter

August 2, 2015 — 9:00 PM PDT

Puerto Rico Official Says Island Will Default on Agency Debt.

Puerto Rico said it won't make a bond payment due Saturday, putting the commonwealth on a path to default and promising to initiate a clash with creditors as it seeks to renegotiate its $72 billion of debt.

The government doesn't have the money for the $58 million of principal and interest due on Public Finance Corp. bonds, Victor Suarez, the chief of staff for Governor Alejandro Garcia Padilla said during a press conference Friday in San Juan.

"We cannot make the payment tomorrow because we do not have the funds available," Suarez told reporters. "This payment will be made as we address how to restructure the government's debt prospectively."

The default marks an escalation in the debt crisis that's been racking the island, where officials are pushing for what may be the biggest restructuring ever in the municipal market. Puerto Rico bond prices have slipped amid speculation that the island won't be able to repay what it owes as its economy stagnates and residents leave for the U.S. mainland.

"An event like this is significant enough that it could hurt prices for Puerto Rico bonds," said Richard Larkin, director of credit analysis at Herbert J Sims & Co. in Boca Raton, Florida. "I can't believe a default on debt with Puerto Rico's name will go unnoticed."

Island officials had said that Puerto Rico may skip the payment on the Finance Corp. bonds, which can be made as late as Monday because Aug. 1 is a Saturday. The Finance Corp., which has borrowed to help balance the government's budget, has about $1 billion of debt outstanding.

No Appropriation

The securities are paid for with money appropriated by the legislature, unlike general-obligation bonds that are protected by the commonwealth's constitution and have a claim on its tax money. That leaves bondholders with little recourse because the commonwealth hasn't guaranteed repayment and the legislature isn’t obligated to allocate the funds.

Faced with a budget shortfall, lawmakers didn’t provide the money when they passed the annual spending plan. Island officials said that Puerto Rico’s available cash was limited to funding essential services such as health and safety.

Puerto Rico Government Development Bank President Melba Acosta said in a statement Friday that a separate $169 million debt-service payment for the bank’s bonds will be made.

Shared Sacrifice

Garcia Padilla said in June that the commonwealth cannot pay all of its obligations, following years of borrowing to paper over budget shortfalls, and that bondholders need to share in the sacrifice to help steady the island’s finances. Officials plan to draft a debt-restructuring plan by Sept. 1.

The governor has drawn opposition from investors including OppenheimerFunds Inc., which said it will fight to ensure that the commonwealth repays its debt. A report by three former International Monetary Fund economists, which was commissioned by a group of hedge funds, said the island can balance the budget without a broad debt restructuring.

Puerto Rico’s economy has contracted every year but one since 2006 and is projected to decline by 1.2 percent this year. The island’s population shrunk 7 percent in the past decade. Another 245,000 residents are estimated to leave by 2025 as they seek employment on the U.S. mainland. Puerto Rico’s June jobless rate of 12.6 percent is more than double what it is in the U.S.

Essential Problem

“The essential problem in Puerto Rico is the economy and the outmigration of individuals,” said Phil Fischer, head of municipal research at Bank of America Corp. in New York. “And neither of those seems to be improving.”

While Garcia Padilla surprised investors by pushing for a restructuring, two months after he said it would be a mistake to default, the island’s worsening debt crisis hasn’t rippled through the municipal-bond market. Municipal bonds in July had their strongest return since January as investors recognized that Puerto Rico’s problems are unique.

The commonwealth’s securities have traded at distressed levels for two years. General obligations maturing July 2035 and originally sold in March 2014 at 93 cents on the dollar traded Friday at an average of 69.5 cents on the dollar, according to data compiled by Bloomberg. The average yield was 12.1 percent.

Puerto Rico debt has lost 10.8 percent this year through July 30, the worst for the period since at least 2007, S&P Dow Jones Indices show.

Bloomberg

by Michelle Kaske

July 31, 2015 — 4:46 PM PDT Updated on July 31, 2015 — 6:48 PM PDT

[Chicago Eyes Issuing Costly Capital Appreciation Bonds.]

The latest general obligation bond proposal from Chicago Mayor Rahm Emanuel could have the cash-strapped city selling up to $500 million of capital appreciation bonds (CABs), a form of debt that government finance experts say could be costly and risky.

CABs are municipal debt for which payments are deferred until the bonds' maturity while interest compounds. Emanuel's administration on Wednesday proposed a refunding of outstanding GO bonds that would give the city the flexibility to issue CABs or the more commonly used current interest bonds for which interest is paid on a periodic basis.

A spokeswoman for Chicago's finance department said the city has not sold CABs since 2009 and expects to issue current interest bonds for the refunding.

Still, the fact that CABs are listed as an option raised concerns as Chicago struggles with low credit ratings, growing budget deficits and already high borrowing costs.

Richard Ciccarone, president and CEO of Merritt Research Services, said Thursday the move would allow the city to "kick the can down the road" by deferring debt service payments for as long as 40 years.

Laurence Msall, president of the Chicago-based Civic Federation, a government finance watchdog group, called CABs "an extraordinarily expensive form of borrowing."

"Going into the market and asking creditors to wait 10, 20, 40 years before receiving any payment carries a very stiff premium," he said.

Emanuel in April announced a plan to clean up the city's debt practices, including converting variable-rate bonds to fixed-rate and eliminating related interest-rate swaps – a move the Civic Federation applauded, according to Msall.

That plan got fast-tracked after Moody's Investors Service downgraded Chicago to junk in May triggering $2.2 billion in accelerated debt and fee payments by the city.

A $1.08 billion GO bond sale earlier this month resulted in higher borrowing costs for Chicago than most issuers in the U.S. municipal bond market.

The city, the third largest in the United States by population, is struggling with a projected $430 million fiscal 2016 budget gap. The deficit is due in part to escalating pension payments that include a looming $550 million contribution increase to its public safety workers' retirement funds.

Msall said he hoped the city council and its new financial analysis office head will take a close look at the bond proposal.

CABs have proved controversial in the past. California in 2013 enacted a law limiting total debt service on the bonds to four times the principal and maturities to a maximum of 25 years. The law also requires CAB deals to allow early repayment of the debt when maturities are longer than 10 years.

The law was sparked in part by reports that a San Diego-area school district's $105 million of CABs would end up costing nearly $1 billion.

More recently, Puerto Rico's financially troubled public utility PREPA rejected an offer by bondholders to restructure some of its debt into CABs.

REUTERS

CHICAGO, JULY 30 | BY KAREN PIEROG

(Reporting by Karen Pierog; Editing by Cynthia Osterman)

[As Chicagoans Die, Police Pension Burden Hobbles City's Response.]()

An average of six Chicagoans have been shot each day this year, up from five in 2014. In its effort to respond to the carnage, the city is hamstrung by obligations to police, the very people it needs to protect the public.

With the second-largest number of sworn officers in the U.S., Chicago is struggling to pay an extra $550 million in pension obligations owed to public-safety workers. That leaves the city with little financial flexibility as homicides have risen more than 18 percent from last year and shootings 17 percent.

"They're fighting a war on two fronts," said Richard Ciccarone, president and chief executive officer of Merritt Research Services, which analyzes municipal finance.

Red ink is drowning Democratic Mayor Rahm Emanuel's budget. The city's projected 2016 deficit is up 45 percent, to $430 million. The additional pension payments are due next year, and the city has yet to identify money for them. Chicago's credit rating has been cut to junk because of $20 billion in unfunded retirement obligations.

New York's increase in homicides is a third of Chicago's — 5.5 percent through mid-July — yet Mayor Bill de Blasio has proposed adding 1,300 officers to the city's 34,500-member force, the nation's largest. Chicago has no such recourse.

Draining Resources

The Policemen's Annuity and Benefit Fund of Chicago is only 27 percent funded, and beneficiaries outnumber active officers 13,320 to 12,020, according to its 2014 annual report.

"In normal times, they'd be fighting the battle for public safety," said Ciccarone, who's based in Chicago. "But with the pensions, so much of their capital will be swept away for services already performed."

Chicago underfunded its four pensions by $7.3 billion from 2005 to 2014, according to bond documents. The retirement system was 36 percent funded as of December, compared with 61 percent in 2005.

The city suffered another setback Friday when a state court struck down a pension restructuring for municipal workers and laborers because it would force them to accept reduced benefits. The ruling could cost residents hundreds of millions more.

At the same time, legal settlement and judgment costs are soaring, from $82 million in 2011 to $199 million in 2013. About two-thirds is the result of police-related litigation.

Emanuel will submit his 2016 budget in mid-September, a month earlier than normal, to give the city council time to address the pension shortfall. Asked whether the mayor would push for more police officers, Adam Collins, a spokesman, said it “would be premature to discuss specifics.”

Illinois’s Democrat-led legislature passed a plan to lower Chicago’s extra payment next year to its police and fire retirement systems to $330 million from $550 million, but Republican Governor Bruce Rauner has yet to sign the measure.

The higher amount is roughly equal to the annual expense of keeping almost 4,000 cops on the street, the city said in a 2014 report.

Emanuel won re-election in April against Cook County Commissioner Jesus “Chuy” Garcia, who promised to hire 1,000 new officers. The mayor and Police Superintendent Garry McCarthy have resisted hiring in favor of paying current officers overtime. Those costs totaled about $100 million in each of the past three years.
This year’s increase in gun violence isn’t unique to Chicago. The number of homicides has jumped more than 30 percent midway through the year in Milwaukee, St. Louis and Houston.

Yet, Chicago’s slaughter has been incessant. During the Fourth of July weekend, 62 people were shot, nine fatally. One victim, 7-year-old Amari Brown, was killed by a bullet to his chest. Hundreds attended his funeral.

Chicago officials have been sensitive to the city’s image. Emanuel said he expressed his unhappiness to director Spike Lee about his upcoming movie “Chiraq,” which examines gun violence in the city.

“I was clear that I was not happy with the title,” Emanuel told the Chicago Tribune for an April story. Emanuel and McCarthy point out that the 2014 murder total of 407 was the lowest since the mid-1960s. They blame the proliferation of guns, citing the police recovery of 3,500 illegal firearms this year.

“As much as I am an advocate for better gun-control laws and getting these guns off the street, that’s not going to dramatically reduce the violence,” said Ira Acree, a West Side pastor and chairman of Leaders Network, a community development organization. “There must be more interest and focus on reviving the economic engine here.”

That revival depends, in part, on Chicago stabilizing its fiscal affairs. While officials reject comparisons to formerly bankrupt Detroit, Rauner is blunt.

“Chicago is in deep, deep yogurt,” he said in April.

Violence continues to weigh down city finances. A 13-month-old was killed earlier this month after a shooting suspect fleeing the police ran him down during a chase in a South Side neighborhood. Last week, his mother said she’s suing the city and police.

Bloomberg

by Tim Jones

July 28, 2015 — 2:00 AM PDT

Puerto Rico Fails to Sink Muni Market's Best Rally in Six Months.

It doesn't matter if Puerto Rico defaults, at least not to investors in the $3.6 trillion municipal market.
With the island just days away from potentially missing a Public Finance Corp. debt payment, state and local-government bonds are poised for the biggest monthly gain since January, Bank of America Merrill Lynch data show. The securities have returned 0.64 percent in July, outpacing the 0.45 percent increase for the broader U.S. fixed-income market.

Munis overcame a rocky start: After Puerto Rico Governor Alejandro Garcia Padilla said the island can't afford its $72 billion debt load, individuals yanked $1.2 billion from muni funds in the week ended July 1, Lipper US Fund Flows data show. The money began flowing back in as munis rallied, showing the lack of fallout from the commonwealth's long-brewing crisis.

"The municipal market is going to prove very resilient in the face of a default on the PFC bonds in Puerto Rico," said Tom McLoughlin, head of municipal fixed-income at UBS Wealth Management Americas, which oversees $1.1 trillion. Investors have "psychologically ring-fenced Puerto Rico because we've been talking about it for two years."

Solid Footing

For the muni market, the Federal Reserve and overseas turmoil were more powerful than Puerto Rico. State and local debt joined Treasuries in climbing this month on signs the U.S. central bank will raise interest rates gradually and as investors sought a haven from Greece's debt crisis and China's stock-market swings.

The monthly rally, munis' first since March, comes as states and cities gain from rising real-estate prices and a growing economy. State and local tax revenue rose 4.2 percent during the first quarter from the year earlier, according to Census Bureau figures. Only one borrower rated by Moody's Investors Service has defaulted since 2013.

"The overall municipal market is on solid footing," Peter Hayes, the head of municipal debt at New York-based BlackRock Inc., the world's biggest money manager, said in a blog post Thursday. "Creditworthiness is strong and attractive relative yields should continue to draw demand."

That's made Puerto Rico an outlier. After years of borrowing to pay bills as its population declined, officials by Sept. 1 may propose the biggest debt restructuring ever in the muni market. The Caribbean island may miss a bond payment for the first time on Aug. 1, when $58 million is due from the Public Finance agency.

Cutting Holdings

Investors had time to prepare. Puerto Rico was cut to junk in early 2014, and mutual funds have been paring their holdings of its bonds. Hedge funds now own more of the securities than mutual funds, according to estimates from Morningstar Inc. and Barclays Plc.

The shift has cushioned the impact as the island's crisis escalated over the past month.
"The potential for wider market disruption seems fairly muted," said BlackRock's Hayes.

Yields on top-rated 10-year munis were 2.28 percent on Thursday, down from 2.38 percent at the start of the month. Seizing on a slide in borrowing costs, states and cities issued $36 billion of debt in July, keeping sales on pace this year to be the most since at least 2003, according to data compiled by Bloomberg.

Weathering Distress

Both are signs that the market is able to weather pockets of distress such as Puerto Rico and Chicago, whose credit rating has tumbled as it contends with soaring bills for its pension funds.

“What the market is getting better at is differentiating those risks,” said Lyle Fitterer, who oversees $38 billion as head of tax-exempt fixed-income at Wells Capital Management in Menomonee Falls, Wisconsin.
By some measures, state and local debt is still cheap.

Ten-year munis yield about the same as similar-maturity Treasuries, compared with 96 percent since the start of 2014, Bloomberg data show. A higher ratio signals state and city debt — which is exempt from federal income taxes — offers greater relative value.

For the highest earners, the yield on AAA 30-year munis is equivalent to about 5.8 percent on a taxable security, Bloomberg data show. Similarly dated corporate debt yields 4.09 percent, while 30-year Treasury bonds yield about 2.94 percent, according to data from Moody’s Investors Service and Bloomberg.

“Muni bonds on a tax-adjusted basis are still by far the best value out there,” said Krishna Memani, chief investment officer at OppenheimerFunds Inc., which oversees $24 billion in state and local-government debt.

Bloomberg

by Brian Chappatta

July 30, 2015 — 9:01 PM PDT Updated on July 31, 2015 — 5:48 AM PDT

[Puerto Rico Veers Toward First Bond Default: Questions Answered.]

Puerto Rico Governor Alejandro Garcia Padilla wants to negotiate with investors to reduce $72 billion of debt he says the island can’t afford.

The U.S. commonwealth has paid bondholders what they’re owed since it was ceded to the U.S. following the Spanish-American War. That may soon change.

Puerto Rico’s Public Finance Corp., which has sold $1 billion of debt, is likely to miss a $58 million payment due on Aug. 1. The bonds are repaid with appropriations allocated by the legislature. Faced with a budget shortfall, lawmakers didn’t provide enough money to service the debt.

While the securities are a small share of the island’s debt costs, failing to pay would be a warning shot to investors that officials aren’t afraid to default.

Here are some of the questions you may have, starting right at the very beginning:

Q: What is a default?

A: Investopedia.com defines default as “the failure to promptly pay interest or principal when due.

Default occurs when a debtor is unable to meet the legal obligation of debt repayment." Moody's Investors Service says a missed payment is a default.

Q: What is the Public Finance Corp.?

A: It's a subsidiary of the Government Development Bank, which works on the island's debt sales. It was created in 1984 to sell bonds on behalf of the commonwealth and its agencies. Most of the proceeds it has raised were used to balance Puerto Rico's budget.

Q: Is a default definite?

A: While officials haven't said for certain whether they'll pay the interest and principal bill, it's likely they won't.

No money was transfered to the trustee in July to make the payment, and Victor Suarez, Garcia Padilla's chief of staff, said on July 27 that the island doesn't have the cash.

Investors appear to view a default as a near certain: PFC bonds maturing in 2031 traded on July 30 for 16 cents on the dollar.

Q: What happens if the PFC fails to pay?

A: Bondholders could sue, but they have few remedies. The legislature isn't legally required to allocate the money. The commonwealth hasn't guaranteed repayment and the PFC has no power over taxes to raise funds on its own. Nor are bondholders able to demand early repayment in the event of a default.

The PFC has until the end of business on Aug. 3 to make the payment because the first day of August is a Saturday.

Q: What does a default mean for holders of other Puerto Rico bonds?

Analysts and investors say it may cause Puerto Rico securities to lose value by casting doubt on the government's willingness to pay its other debts. An index of Puerto Rico securities slid this week to a six-year low.

Q: Why won't Puerto Rico just find the money, given that it's not expected to default on other debt payments due the same day?

A: Commonwealth officials say the island's available cash is limited. It's delayed tax refunds, suspended payments to some suppliers and borrowed from its insurance agencies to help preserve cash to continue making payroll and support essential government services.

The PFC bonds have the weakest legal protections, so the island will suffer fewer pitfalls from a default on those bonds.

Q: Which firms are set to receive interest payments on Aug. 1?

A: OppenheimerFunds Inc., Franklin Resources Inc. and Nuveen Asset Management are among those that held PFC bonds as of June 30.

Q: What is the federal government doing in response to Puerto Rico's debt crisis?

A: Treasury Secretary Jacob J. Lew said July 29 that there isn't any discussion of a federal bailout.

Lew, the White House and the Federal Reserve have urged Congress to work with commonwealth officials. Bills to allow some Puerto Rico agencies to file for Chapter 9 bankruptcy, introduced in both chambers, haven't advanced so far because of a lack of support from Republican leaders.

Q: Why can't Puerto Rico turn to U.S. bankruptcy court to lower its debts, as Detroit and other municipalities have?

A: Like U.S. states, Puerto Rico's central government isn't eligible for Chapter 9 bankruptcy protection, nor would it be under the legislation proposed in Congress. However, the bankruptcy code never gave Puerto Rico that option for its agencies or publicly run corporations, either.

Q: How much debt does Puerto Rico have?

A: Puerto Rico and its agencies owe a combined $72 billion. That includes $13 billion of general-obligation debt, which Puerto Rico's constitution says must be repaid before other expenses, and another $5.5 billion guaranteed by the commonwealth.

There is also $15 billion of debt payable from island sales taxes. Other agencies, such as the Puerto Rico Electric Power Authority, the government power company, have also sold bonds.

Q: Who holds Puerto Rico's debt?

A: Hedge funds hold almost $22 billion, while local investors on the island have about $20 billion. More than half of U.S. mutual funds that focus on municipal securities have exposure to Puerto Rico debt, for a combined $10 billion.

Q: Why can't Puerto Rico and its localities repay the entire $72 billion?

A: The commonwealth and its agencies have borrowed for years to paper over budget shortfalls, with the expectation that the economy would improve and the need to keep relying on debt would disappear. It didn't. Puerto Rico's economy has declined every year but one since 2006 and, with a population exodus for the U.S. mainland, there's fewer people around to pay taxes needed to finance the debt.

At the same time, health care and retirement expenses are projected to increase. Its employee-retirement system is also deeply underfunded.

Q: What is Puerto Rico doing now?

A: Island officials are working on a debt-restructuring plan, to be finished by Sept. 1, and a five-year fiscal plan to improve the economy and balance the budget. Officials have said it's premature to say by how much it will seek to reduce its debt and which securities could be affected.

Bloomberg

by Michelle Kaske

July 31, 2015 — 9:51 AM PDT

Puerto Rico Should Collect Unpaid Taxes, Hedge Fund-Backed Economists

Say.

Economists working for a group of hedge funds and other firms with major investments in Puerto Rican bonds said Sunday night that the government could solve its debt crisis largely by stepping up tax collections and obtaining additional financing over the next two years.

The message of sustainability is sharply at odds with the recent announcement by Puerto Rico's governor, Alejandro García Padilla, that the commonwealth's debt is "unpayable."

The face value of the territory's outstanding municipal bonds is about $72 billion. In addition, it has about $40 billion of unfunded pension obligations to public workers on the island, and other unpaid bills. The governor is seeking a moratorium on bond payments.

"There may be an issue of liquidity in the short term," in Puerto Rico, "but the debt itself, in global terms, is sustainable," said Claudio Loser, the chief executive of Centennial Group Latin America, which will officially release its report Monday morning. The consulting firm, based in Washington, was hired several months ago by the group of hedge funds and other investment firms to analyze Puerto Rico's economy and finances.

Mr. Loser said he believed that Puerto Rico would need short-term financing of about $2.5 billion to get through 2016 safely. That amount, he said, would be used to pay the commonwealth's current overdue bills to vendors, make scheduled payments on existing debt and finance a budget deficit projected to be less than $500 million.

The economists have decades of experience with the International Monetary Fund.

The governor based his analysis on a study by another group of sovereign-debt experts, known as the Krueger Report for its lead author Anne O. Krueger, also an economist with a background at the I.M.F.

As a result of that report, the governor has appointed a high-level task force to work out a five-year program of structural economic changes on the island. Senior economic figures in his administration have said the moratorium might last for five years, or even longer.

In a response to the report Sunday night, Víctor Suárez, chief of staff to Gov. García Padilla said, "The simple fact remains that extreme austerity placed on Puerto Ricans with less than a comprehensive effort from all stakeholders is not a viable solution for an economy already on its knees."

Mr. Loser said, "We feel that the moratorium is certainly costly and not a good idea." He called instead for an "orderly and consensual discussion" on ways to resolve the debt obligations.

While the I.M.F. is generally associated with bringing fiscal austerity measures to countries in financial trouble, Mr. Loser said his team was not calling for a lot more belt-tightening on the island.

In a briefing for journalists Sunday night, another economist, Jose Fajgenbaum, said that much of the belt-tightening necessary had already been done.

"The deficit has already been reduced," he said, adding that the governor's own analysis also showed that Puerto Rico might even achieve a budget surplus by 2017. The commonwealth has not had a structural budget surplus in more than a decade. Much of its existing debt was incurred by issuing bonds to pay previous debt and to plug budget holes.

The economists also said they were not suggesting that Puerto Rico ought to impose any more tax increases on residents who were already paying the taxes they owe. Mr. Loser said the commonwealth was managing to collect far less of the taxes due than the 50 states, and that it would not have to increase tax rates at all if it could capture what residents are now supposed to be paying.

The advisers also argued that Puerto Rico could improve its finances by allowing for-profit companies to operate its public works. The commonwealth had already contracted with a Mexican firm to operate its largest airport, and turned one of its highways into a toll road.

“If anybody would say that we are promoting fire sales, we are totally against that,” Mr. Loser said. “I want to make that clear.”

The analysts declined to provide details about whether they thought that all of Puerto Rico’s debt was sustainable, or whether the commonwealth ought to default on certain types of debt while continuing to pay other types. Puerto Rico has issued many different types of bonds, including general-obligation bonds and revenue bonds.

“What we have said is there is no need for a general restructuring of debt for the government,” said Mr. Loser. “We are not talking about specific issues.”

He said the complex details of Puerto Rico’s debt structure were outside the scope of the report.

The study was commissioned by a group of hedge funds and other investment firms known as the Ad Hoc Group, which includes Fir Tree Partners, Brigade Capital Management, Monarch Alternative Capital and Davidson Kempner.

The Ad Hoc Group owns about $5.2 billion of debt, mostly general-obligation bonds and other bonds that are guaranteed by the central government.

Hedge funds and other investment firms that own large amounts of Puerto Rico’s debt have been scrambling since the governor announced late last month that he would seek a “negotiated moratorium” on the commonwealth’s debts.

The announcement caught many of these so-called distressed investors by surprise. They had been buying up billions of dollars of the island’s bonds over the last two years at deep discounts, betting that fears about a Puerto Rico default or restructuring were overblown.

Some of them also offered earlier this year to loan Puerto Rico about $2 billion, to help get the commonwealth through another year of its perennial budget shortfalls. But the government declined those offers, saying the terms were too onerous.

The island’s financial problems deepened over the last year, particularly after the commonwealth’s credit ratings fell into junk territory. Many of the mutual funds that had previously held Puerto Rico’s bonds then sold them, and the distressed-debt investors acquired them at prices far below what the sellers initially paid.

They hoped for a profit but so far have suffered losses. Some of their holdings fell by nearly 17 percent in the two days after Mr. García Padilla first discussed a debt moratorium in an interview with The New York Times.

Privately, some hedge fund managers have expressed frustration that Mr. García Padilla’s administration and his army of legal and financial advisers have been able to convince many people that only drastic measures like a broad restructuring can save Puerto Rico.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH and MICHAEL CORKERY

JULY 26, 2015

Chicago Loses Bid to Keep Pension Reform Alive Pending Appeal.

CHICAGO — A judge on Wednesday denied Chicago's request to keep a pension reform law in effect while the city appeals a court ruling that voided the law on constitutional grounds.

Cook County Circuit Court Judge Rita Novak, who tossed out the law last Friday, rejected Chicago's motion to suspend her ruling until the Illinois Supreme Court ultimately decides the law's fate.

Novak's latest ruling means that unless the high court temporarily keeps the law in place, the city's municipal and laborers' retirement systems must refund higher contributions that the affected workers were required to make since the law took effect on Jan. 1. Retirees who received lower cost-of-living increases mandated by the law would also be owed money.

The law required Chicago and affected workers to increase their pension contributions and replaces an automatic 3 percent annual cost-of-living increase for retirees with one tied to inflation. Those increases are also skipped in some years.

The cash-strapped city is betting that the state supreme court will overturn Novak's ruling, which rejected Chicago's argument that the 2014 law results in a net benefit because it will save the retirement systems from insolvency.

The high court in May found public sector workers have iron-clad protection in the Illinois Constitution against pension benefit cuts. That decision came in litigation over a 2013 law that reduced benefits for workers in state retirement systems.

By REUTERS

JULY 29, 2015, 5:58 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Grant McCool)

Puerto Rico Nears Default as Debt Restructuring Beckons.

NEW YORK — Puerto Rico on Friday made a payment on debt owed by its Government Development Bank, but the U.S. territory may still be short of the funds needed to pay all of its imminent obligations.

"The GDB will make the $169 million payment for the debt service on its bonds today," GDB President Melba Acosta said in a statement released Friday. A payment on that debt was due to be made Saturday Aug. 1.

Puerto Rico, however, is expected to default on a $58 million payment on Public Finance Corporation

(PFC) bonds also due Saturday in what is seen as possibly just the first step in the largest U.S. municipal debt restructuring in history.

Whether Puerto Rico defaults may not be known until Monday. According to PFC documents, a payment falling on a weekend can be made on the next business day, which would be Monday, Aug. 3.

“What could surprise investors is when they actually hear the word ‘default,’ and that a default occurred,” said Lyle Fitterer, head of tax-exempt fixed income at Wells Capital Management, which holds mostly insured Puerto Rico debt.

“The immediate reaction might be a slight sell-off in the marketplace because I think people will start to anticipate, ‘OK, what’s the next series of debt they’re going to default on?'”

Puerto Rico Governor Alejandro Garcia Padilla shocked investors in June when he said the island’s debt, totaling $72 billion, was unpayable and required restructuring.

The possible default on debt due this weekend would mark the first missed debt payment. According to a 2014 bond offering statement, Puerto Rico has never defaulted on the payment of principal or interest of debt.

A non-payment by Puerto Rico would be the most notable since Detroit, which had about $8 billion of bonds, defaulted on $1.45 billion of insured pension bonds before it filed for bankruptcy in 2013.

Victor Suarez, Puerto Rico’s chief of staff, has said the island will do “everything that is possible” to ensure that the $169.6 million Government Development Bank (GDB) debt payment due Aug. 1 is paid.

The commonwealth is expected to send that payment to the trustee on Friday for payment on Monday, a source familiar with the situation said on Friday.

John Miller, co-head of fixed income for Nuveen Asset Management, had said it would be positive for the short term if Puerto Rico made the GDB payment. But he said if it failed to pay, it could be a negative sign for debt such as its general obligation debt.

Suarez said on Monday that the commonwealth did not have the current cash flow to pay the PFC bonds.

“I bought my (PFC) bonds with the anticipation of them defaulting,” said Ben Eiler, managing partner at First Southern Securities in Puerto Rico. “They’re going to restructure in some form or fashion, and I believe that restructure is going to be higher than that level.”

The likelihood of a restructuring is leading investors to wonder how Puerto Rico will prioritize debt payments versus citizens’ needs.

“We’re beginning to discern a … mindset on the island that the government is weighing the interest of investors against the economic interest of the island,” said Thomas McLoughlin, UBS chief investment officer wealth management research.

DEFAULT DEBATE

Suarez told reporters in San Juan on Wednesday that a missed payment would not constitute default. Bond documents state that Puerto Rico’s legislature is not legally bound to appropriate the funds for payment.

However, credit rating agency Standard & Poor’s said it would view non-payment of rated PFC bonds on their due date as a default. Moody’s said it would also consider it a default.

“It (would be) the first failure by the government to pay on a debt to public investors and indicates the weakness of the government’s ability and willingness to pay,” said Timothy Blake, managing director of Moody’s Public Finance Group.

A default could open the door to a fight with investors, although that may be an uphill battle.

“Our reading of the legal documents is that bondholders have very limited remedies,” said David Hitchcock, an analyst at S&P. “Puerto Rico could potentially just ignore the bondholders.”

Officials may give information after a scheduled meeting by a working group created by the governor which was ongoing.

“It’s going to be a long process, a very long, drawn-out process,” said Michael Comes, portfolio manager and vice president of research at Cumberland Advisors in Florida, which holds insured Puerto Rico debt. “It’s kind of like watching the Titanic sink.”

By REUTERS

JULY 31, 2015, 10:49 A.M. E.D.T.

(Additional reporting by Karen Pierog in Chicago and a contributor in San Juan; editing by Clive McKeef and Dan Grebler)

Nonpayment on Bonds Would Have Consequences for Puerto Rico.

Debt-ridden Puerto Rico faces its next big test in just a few days, when $58 million in bond payments come due — and already the government is mounting a defense against the possibility that it will not have the cash.

Government advisers on the island have been sending memos to the news media over the last several days suggesting that even if the government cannot make the payments, it will not technically be in default — something Puerto Rico is desperately trying to avoid. A default would have enormous legal and financial consequences, putting the United States commonwealth in the uncomfortable company of Greece.

The payments coming due are on so-called moral obligation bonds, which the government can issue without any legal requirement to repay.

Despite the advisories from Puerto Rican officials, however, independent financial experts said even a small nonpayment, whether it is technically a bond default or not, would have major reverberations. Failing to pay the moral obligation debt would taint the credibility of all other types of Puerto Rican debt, they said, which in turn would drive down the value of other bonds and raise the cost of whatever money the commonwealth might still be able to borrow at that point.

“This may be a little bit like ‘beauty is in the eye of the beholder,’ ” said James E. Spiotto, a specialist in Chapter 9 municipal bankruptcy law, who is not advising Puerto Rico or any of its creditors. He said Puerto Rico was correct in saying that it had no legal obligation to pay the bonds. But, he added: “From a bondholder’s perspective, there was a promise to pay, a moral obligation, and that promise was not lived up to.” Therefore, he said, the market would say that Puerto Rico was in default, even if bondholders could not do anything about it.

Moral obligation bonds were created in the 1960s by John N. Mitchell, who later became President Richard Nixon’s attorney general. Mr. Mitchell devised them at the behest of Nelson Rockefeller, who was then governor of New York.

It was the failure of a moral obligation bond in New York in 1975 that ushered in the financial crisis that engulfed the city that year.

Puerto Rico now seems to be veering down a similar path. The commonwealth is facing overall bond-related debts of $72 billion and an estimated $40 billion of unfunded retirement benefits that it owes its public workers. In June, Gov. Alejandro García Padilla began calling the debts “unpayable” and advocating a “negotiated moratorium” on payments.

Since then, a working group created by the governor has been recommending sweeping changes in Puerto Rico’s economy — such as an exemption from the federal minimum wage and lower welfare payments. An investor group issued a report this week that said that the commonwealth could climb out of its crisis by raising its tax collection rate — which it said was lower than the average of any of the 50 states — and obtaining bridge loans for the next two years.

So far, the United States government has declined to come to Puerto Rico’s rescue. Jacob J. Lew, the Treasury secretary, said in a letter on Tuesday to Senator Orrin G. Hatch, chairman of the Senate Finance Committee, that there should be no bailout of Puerto Rico but that its financial situation was “urgent” and Congress should consider some orderly process to restructure the island’s “unsustainable liabilities.” Under current laws, Puerto Rico has no access to federal bankruptcy courts.

Despite the governor’s pronouncement in June, Puerto Rico has continued making bond payments on time, and officials have even said the commonwealth might borrow another $500 million.

“They’re trying to pay their debts, but they don’t have enough cash flow,” Mr. Spiotto said. “It’s like musical chairs. Ultimately, the music is going to stop, and there’s going to be somebody who doesn’t have a chair.”

The official deadline for payment of the $58 million is Aug. 1, a Saturday. If the first nonpayment occurs on Monday, the first business day after the deadline, the losers will be the holders of bonds issued by Puerto Rico’s Public Finance Corporation.

The corporation, created in 1984 to help Puerto Rico finance various governmental activities, has a little more than $1 billion of bonds outstanding. It cannot raise taxes, and instead relies on the legislature to appropriate enough money every year to repay the debts as they come due.

But when the legislature completed the current fiscal year’s budget, no such appropriation was made. As a result, the corporation did not transfer the payment to the trustee who would, in turn, pay the bondholders.

Independent legal experts confirmed that moral obligation bondholders had no way of enforcing their claims. But they stopped short of saying that Puerto Rico would not be in default.

“It is extremely rare for a government to consider not paying” moral obligation bonds, said Timothy

Blake, a managing director at Moody's Investors Service. "Most governments would view that as very negative to their reputation in the capital markets."

Rhode Island considered not repaying a $75 million moral obligation bond in 2013, after the project being financed — a video game company led by Curt Schilling, the former Boston Red Sox pitcher — went bankrupt. After extensive debate, Rhode Island decided to keep paying the bondholders to protect its credit rating.

States that issue moral obligation bonds often do so because their constitutions strictly limit the issuance of general obligation bonds, which an entity is legally required to repay. Bondholders could, for example, seek a court-ordered tax increase if that was what it took to get their money.

Because the general obligation bond pledge is so powerful, states have also made it hard to issue too many of the bonds. In many states, they cannot be issued without approval by the voters.

That is why Mr. Mitchell came up with the moral obligation bond. At the time he was seeking to help Governor Rockefeller, who was trying to fight the loss of manufacturing jobs by mounting huge building projects and did not want to go through the unpredictable process of letting voters approve general obligation bonds.

Mr. Blake said lawmakers usually take their moral obligation bonds seriously and appropriate the money each year. But in rare cases where they do not, the bondholders have no way of forcing them.

"The losses can be very severe," he said. Moody's has assigned the bonds of Puerto Rico's Public Finance Corporation the rating of Ca, meaning not only that default is likely but also that any recovery will be small. It is Moody's second-lowest rating.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

JULY 29, 2015

How Hedge Funds Are Profiting from Puerto Rico's Pain.

Puerto Rico is in the throes of a fiscal crisis and Congress appears unwilling to help. House and Senate legislation that would extend Chapter 9 protection to municipalities in Puerto Rico is opposed by the Republican majority, even though it would not cost US taxpayers a penny.

Opposition to the legislation is based in part in a concern for bond investors. Congressman Trent Franks (R-AZ) told Bloomberg Politics that investors relied on the fact that infrastructure investments on the island were protected from the threat of bankruptcy, and that changing the bankruptcy rules in the middle game would be unfair.

However, the history of municipal bonds suggests otherwise. In the late 1920s and early 1930s, thousands of US municipalities defaulted on their bonds. The problem started in Florida, where local governments overbuilt infrastructure. With the onset of the Depression, municipal defaults spread to many other states, with especially high concentrations in North Carolina, New Jersey, Michigan, Ohio and Arkansas.

There was no municipal bankruptcy law at the time, giving rise to uncertainty over creditor rights and complex litigation. In 1934, Congress addressed the situation by adding Chapter 9 to the bankruptcy code, creating a mechanism for municipal debt adjustment. The new law passed by a wide 45-28 margin in the Senate and its enactment was applauded by municipal finance experts.

The idea that the lack a legal bankruptcy mechanism protects bond investors from default risk is clearly refuted by the Depression experience, as well as by the more recent default by Harrisburg, Pennsylvania — a state that explicitly forbid a Chapter 9 filing for the city. In fact, Puerto Rico bonds have been paying substantially higher coupons than US Treasuries for years – despite their favorable tax treatment – suggesting that investors were aware of and demanding compensation for default risk.

Further, the 1934 law changed the rules for municipal bondholders in the 48 states, yet it was welcomed by market participants and almost no one would advocate repealing it today. Although cities in Puerto Rico and other U.S. territories had outstanding bonds at the time, none appear to have been in default, perhaps explaining why the 1934 legislation was not extended to US possessions.

A better criticism of legislation extending Chapter 9 to Puerto Rico is that it is insufficient. If the bill were enacted, the commonwealth government would not be able to declare bankruptcy. Further, as noted bond commentator Kristi Culpepper explains, public corporation debt backed by service charges and other “special revenues” cannot be adjusted in a municipal bankruptcy process, leaving revenue bonds issued by some publicly owned corporations out of the process. But Chapter 9 could be applied to some classes of public corporation debt as well as the obligations of Puerto Rico’s 78 “municipios” (local governments). As I reported in The Bond Buyer earlier this year, a number of these municipios are flat broke and would thus be eligible for the Chapter 9 process.

While Culpepper and congressional Republicans are correct in arguing that Chapter 9 extension is an incomplete solution to Puerto Rico’s debt problem, it is far better than the prevailing alternative of no federal action whatsoever.

It thus appears that the only real reason for not extending Chapter 9 to Puerto Rico is investor protection – but just who are these investors? Much of the commonwealth’s debt has been snapped up by hedge funds at steep discounts. If the funds can compel Puerto Rico public sector entities to service their bonds on time and in full, they will make substantial profits. One out of every five dollars of this profit will go to hedge fund managers, who are taxed at lower capital gains rates. Securities regulations have helped hedge funds and other Wall Street institutions corner the market on Puerto Rico bonds by prohibiting trades of less than $100,000 for any newly issued securities. With this minimum in place, individual investors are effectively barred from buying commonwealth bonds.

Since the source of repayment for government bonds is often tax revenue, Wall Street interests are really trying to maximize their take from taxpayers – and not just taxpayers in Puerto Rico. A very large proportion of Puerto Rico government revenue comes from taxpayers in the fifty states.

Public sector entities in Puerto Rico receive over $7.2 billion in federal grants annually. This amount represents over 10% of the Commonwealth’s GNP and 22% of total government spending. I have uploaded a list of recipient entities and amounts for FY 2013 here.

Further, according to USASpending.gov, the US federal government spent a total of $21.3 billion in Puerto Rico in fiscal year 2014, while the IRS reports that commonwealth residents and corporations contributed just $3.6 billion in federal tax revenue during the same year. The difference between these two figures – net transfers from taxpayers in the fifty states – represents about a quarter of Puerto Rico's GNP.

Thus, Puerto Rico and its governments derive much of their revenue from US taxpayers. Although federal grants are always made for a specific purpose, government revenues and expenditures are fungible. Governments receiving federal support can shift their own-source revenue away from federally subsidized priorities and towards other purposes – such as enriching hedge fund managers.

By denying the Chapter 9 option to Puerto Rico municipalities and public corporations, congressional Republicans might well be doing a disservice to the middle class taxpayers they claim to represent.

By Marc Joffe, The Fiscal Times

July 28, 2015

[Investors See Golden Opportunity in Chicago's Budget Woes.]

Mayor Rahm Emanuel has warned Chicago homeowners that property tax bills could "explode" without budget relief from Springfield. The Chicago Public Schools are facing massive budget cuts that would force hundreds of layoffs. Residents across the city are paying higher fees for water, vehicle stickers, cable TV and more.

But there is one group that looks at Chicago's financial mess and sees a golden opportunity: the affluent individuals, investment funds and other global companies that buy the city's debt.

Some city bonds sold this month pay returns on par with what investors earn on lucrative but risky junk bonds sold by distressed oil and gas companies. Unlike corporate bonds, the city's debt is guaranteed by an unlimited flow of tax dollars from Chicago residents.

The forces making Chicago bonds a hot commodity are as old as the free market. As the risk grows that the city will default on its debt, investors demand higher returns. Some risk-averse buyers avoid Chicago debt altogether.

But to investors who can tolerate the risk of default – or think it is overstated – Chicago bonds can look tantalizingly lucrative.

Those investors are betting that Chicago residents will ultimately shoulder the cost of the city's massive borrowing, whether by enduring service cuts, by indebting future generations or by paying significantly higher property taxes.

The investment banking arm of the London-based bank Barclays declared in a research report last month that Chicago city bonds "present attractive strategic opportunities," reasoning that city officials could increase sales and property taxes.

"Even in the worst-case scenario, the median tax bill would have to increase only 15 percent (or $756) to address the pension issue fully next year," the report said.

Chicago debt is being marketed not only to investors in government bonds but also to some wealthy speculators who more typically gravitate to distressed companies. One analyst told the Tribune he is touting Chicago to his hedge fund clients as an investment less risky than troubled energy companies — and just as profitable.

These investors' gain is Chicagoans' loss. This month's two-part $1.1 billion bond deal will cost the city roughly $150 million more in interest in today's dollars than if the city still carried the A-level credit rating it had less than two years ago, the Tribune calculated.

Chicago Public Schools is likely to pay similar penalties if it follows through on plans to borrow up to $1.2 billion later this year. Some analysts have been touting CPS bonds as well, noting that while the schools' financial situation is more dire, the district's fate is largely dependent on the city that controls it.

Concord, Mass.-based Municipal Market Analytics accurately predicted in April that Chicago school bonds would drop to junk status but encouraged buyers to consider them anyway.

"The situation in the city will compromise the ability to keep quality schools, to keep the streets clean," said partner Matt Fabian. "But for investors who can stomach the ups and downs that are probably coming for Chicago, (the bonds) give an attractive amount of income."

The three major debt rating agencies have differing opinions on the city's future, with Moody's Investors Service giving the city a junk status rating and a 5 percent chance of defaulting on its loans within three years. Fitch Ratings and Standard & Poor's maintain a low investment-grade rating of BBB+.

All three agencies cite Chicago's estimated $20 billion in pension debt, the result of many years in which the city put off paying its full share of worker pensions. A Cook County circuit court judge on Friday struck down Emanuel's plan to scale back benefits for some city workers.

Chicago has more than $8 billion in outstanding long-term bonds, the result of years of ambitious borrowing that included loans to pay for questionable projects and short-lived expenditures.

The city technically lacks the ability to default on that debt. Illinois, like about half of states, does not allow cities or school districts to declare bankruptcy, and a bill to change that stalled in committee this year.

Still, Chicago's poor ratings put the city's debt off limits for some firms. Sarasota, Fla.-based Cumberland Advisors, for example, does not buy debt rated below A.

Some less conservative investors see potential for high returns, especially if they believe the risk of default is overstated.

"Most people think it's not a triple B credit but it's really in the single A category," said Jon Barasch, director of municipal evaluations at New York City-based Interactive Data, a firm that evaluates municipal bonds.

The process that sets interest rates is far from scientific. The bank underwriting the bond sale surveys investors to gauge how much interest they will demand, then works with city or school finance officials to determine what they are willing to pay in interest.

The people reaping the benefits of Chicago and CPS' high interest payments are mostly individual investors who buy bonds either directly or through funds that invest their money. Bond dealers also buy the debt and resell it to investors.

To help local governments raise money for long-term projects, the federal government doesn't collect taxes on most municipal bonds. As a result, the bonds appeal particularly to well-off individuals in higher tax brackets who accept low returns in exchange for a chance to preserve their wealth and reduce risk.

The $347 million in tax-exempt bonds Chicago sold July 16 offered investors yields of up to 5.69 percent — almost unheard of for tax-backed debt issued by a city.

Buyers of those bonds stand to earn at least 50 percent more than those who invested in Philadelphia bonds issued this month.

The other part of Chicago's deal — $743 million in taxable bonds priced July 15 — caused a stir beyond the typical market for government debt.

Because officials wanted to use borrowed money to cover short-lived expenditures and close budget gaps, Chicago had to give up the federal tax exemption and offer yields approaching 8 percent — rates more typical of the corporate sector — to compensate for what investors would lose to taxes.

That put Chicago in the same ballpark as for-profit companies — a group considered far more likely to default — and even then the city's debt stood out as lucrative. The rate of return on Chicago's taxable bonds is only slightly lower than the Barclays U.S. corporate high-yield bond index, a benchmark rate of return for companies rated junk status.

"You have a very attractive interest rate for the potential risk," said Triet Nguyen, a managing director at New York City-based NewOak, an independent research and advisory firm that focuses on corporate and municipal debt.

Nguyen said he recommended Chicago taxable bonds to his hedge funds clients. His reasoning: They could earn returns more typical of junk bonds issued by troubled oil and gas companies — at much lower risk.

"I would take the credit of the city of Chicago over any of the smaller energy companies any day," said Nguyen, who lives in suburban Lake Forest. "They can certainly go bankrupt at any time, and Chicago at this point doesn't even have that option."

The additional $150 million Chicago can expect to pay through 2042 on the bonds issued this month as a result of its deteriorating credit comes on top of a similar penalty on bonds issued in May. That $674 million tax-exempt deal will cost $70 million more — in today's dollars — over the life of the debt than if the city had maintained the A3 rating from Moody's Investors Service that it carried as recently as February 2014, according to the Tribune's calculations. The city's 2015 budget is $7.3 billion.

Emanuel, who already has increased a variety of city fees, said in a plan released in March while he was running for re-election that "property tax bills will explode next year" in the absence of comprehensive pension relief from the Illinois legislature.

As with other cities, Chicago's debt contracts pledge that officials will increase property taxes "without limitation" if the city can't find money elsewhere to make debt payments.

Wells Capital Management, an investment management firm under the umbrella of San Francisco-based Wells Fargo, has increased its investment in debt from the city and CPS over the past year.

"We believe the city has the ability to raise revenue and cut expenses," said Wells Capital portfolio manager Lyle Fitterer. “If you are a citizen within the city you don’t necessarily want to hear that.”

The Chicago Tribune

July 26, 2015

By Heather Gillers

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NYC’s Elite-School Debt Boom Swells as Brearley Seeks to Borrow.

The Brearley School is poised to join the borrowing boom among New York City’s elite prep schools. The all-girls academy, whose alumnae include Caroline Kennedy and actress Kyra Sedgwick, won approval Tuesday from a city agency to sell $50 million of tax-exempt bonds to help finance an expansion on Manhattan’s Upper East Side.

New York’s private schools are moving toward selling record amounts of debt this year as endowments swell and interest rates are at generational lows. They’re replacing decades-old buildings and dangling the latest amenities to draw the children of the wealthiest, mirroring what’s been happening on college campuses. Brearley’s tuition is $43,680 a year.

“Money is available,” said Richard Anderson, president of the New York Building Congress, a construction trade group that’s been tracking spending by schools. “If Columbia and NYU can raise money, then Collegiate and Packer and Brearley and all these other places can raise money, too.”

Bond sales by New York’s private and religious schools may exceed the almost $280 million issued in 2002, the highest on record, according to data compiled by Bloomberg.

Riverdale Country School, Saint Ann’s School and La Scuola d’Italia Guglielmo Marconi have received permission to borrow a total of almost $150 million through Build NYC Resource Corp., the economic-development unit that authorized Brearley’s sale. Ethical Culture Fieldston School and Packer Collegiate Institute have already sold a combined $71.4 million of debt this year.

Half-Century Low

The schools are seizing on municipal borrowing costs holding close to a five-decade low. When Fieldston sold $49.4 million bonds in April, it paid yields of 2.8 percent on 10-year tax-exempt debt, about 0.7 percent more than benchmark securities.

Brearley, founded in 1884, plans to spend $107.5 million to raze three tenements and replace them with an eight-to-10 story facility. The building will house its lower school, science and music departments, an auditorium and a gym, according to its application with the city. With 700 students from kindergarten through the 12th grade, Brearley says it’s outgrown its building on East 83rd Street, which was constructed in 1929 for 440.

“For the past 20 years, Brearley has been thoughtfully searching for the best way to add badlyneeded educational space to accommodate its student body," Rahul Tripathi, the school's chief financial officer, said in an e-mailed response to questions.

Schools Repay

The prep schools are responsible for repaying investors, who are willing to accept lower yields because the income isn't taxed. Build NYC receives fees for arranging the sales. It isn't on the hook if they default.

Like other New York private schools, Brearley has ties to Wall Street. Ellen Jewett, a former Goldman Sachs Group Inc. public finance banker, is president of the board. Other members include Samara Epstein Cohen, head of financial instruments at BlackRock Inc.

In addition to the bond money, Brearley plans to use $37.5 million from a capital campaign and $20 million from its $132.5 million endowment to fund construction, which is projected to start in Feb. 2017.

The school bought three tenements a block away on East End Avenue in May 2010 and will demolish them to make room for the new facility.

In April, Brearley reached a settlement with 15 rent-stabilized tenants who agreed to leave their apartments, said David Rozenholc, a lawyer who represented them. Rozenholc declined to provide the size of the settlement, citing a confidentiality agreement.

"It involved a very substantial amount of money that they were comfortable doing, but they were fair," Rozenholc said. "The tenants can go on with the rest of their lives and the Brearley School can build the Brearley School."

Bloomberg

by Martin Z Braun

July 20, 2015 — 9:01 PM PDT Updated on July 21, 2015 — 6:57 AM PDT

Puerto Rico Left Adrift by Washington as Bankruptcy Bills Stall.

As California risked being locked out of the credit markets during the recession, officials sought federal loan guarantees to avert deep spending cuts that threatened to cascade through the biggest U.S. state.
Washington turned them away.

Six years later, as a Puerto Rico agency veers toward a default as soon as Aug. 1, federal officials in the nation's capital have echoed a refrain heard during recent state and local fiscal crises: Fix the problem on your own.

President Barack Obama's administration and the Federal Reserve have said it's up to Congress to decide how to assist the island as it struggles with $72 billion of debt. Yet on Capitol Hill, Puerto Rico's push to allow some agencies to file for bankruptcy has stalled. Efforts to find a Republican to co-sponsor the legislation haven't borne fruit.

"Federal authorities seem to be taking the position that the only possible options are the extremes of a bailout or nothing at all," said Arturo Estrella, a former Federal Reserve Bank of New York economist.

Puerto Rico has been moving toward the largest restructuring ever in the $3.6 trillion municipal-bond market since last month, when Governor Alejandro Garcia Padilla said the commonwealth can't afford to pay its debts. The securities have tumbled amid speculation over how much investors stand to lose as his administration moves to draw up a restructuring proposal by Sept. 1.

Default Probability

The island may miss a $36.3 million principal payment on Public Finance Corp. bonds due on Aug. 1 because the legislature didn't allocate the money. Standard & Poor's called a default on the securities a "virtual certainty," while Moody's Investors Service said the probability of a Puerto Rico default is approaching 100 percent. The Puerto Rico Electric Power Authority, the island's main power provider, is also in talks with creditors over its $9 billion debt load.

Investors shouldn't expect any new help from Washington, said Daniel Solender, who oversees $17 billion as head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey.

"There's no real sign of any move towards helping them other than conversations," Solender said. "But that's not solving the problem."

Federal Help

Puerto Rico has more debt than any state but California and New York from years of borrowing as the economy struggled to grow and residents left for the U.S. mainland. Its bonds are widely held by American investors and mutual funds because they're exempt from income taxes and pay higher yields than other securities.

Federal intervention wouldn't be unprecedented. Washington helped to rescue New York in the 1970s, and it put a control board in charge of the District of Columbia's finances in the 1990s.

So far, the U.S. hasn't taken a central role. The Treasury Department has been holding discussions with Puerto Rico for more than two years, according to Melba Acosta, president of the Government Development Bank, which works on the island's debt sales. Treasury officials have pushed the commonwealth to come up with a long-term plan to steady its finances and back giving agencies the power to file for bankruptcy, just as U.S. cities and government-run corporations can.

Ignoring Pleas

Washington has rarely shown interest in rescuing local governments.

Officials declined to provide aid to Jefferson County, Alabama, as soaring debt bills pushed it toward bankruptcy after credit markets seized up. Cities including Philadelphia unsuccessfully sought a share of the bailout money for Wall Street banks, and a 2009 request by then California Treasurer Bill Lockyer for it to backstop short-term debt was rebuffed.

When Detroit's record bankruptcy threatened to slash workers' retirement checks, even then U.S. Senator Carl Levin, a Michigan Democrat, said the city shouldn't receive a bailout.

Estrella, the former New York Fed economist, said the steps Washington has taken so far have done little to help.

The advice "that the White House said the Treasury has shared with Puerto Rico officials over the last year or two has clearly been ineffectual," he said.

There's been no will to make helping Puerto Rico a priority in Congress, said Brandon Barford, a partner at Beacon Policy Advisors LLC. He said the Treasury can't provide a loan guarantee through the Federal Financing Bank without approval from Congress.

Feeling Abandoned

The Obama administration and key Democrats have supported extending Chapter 9 bankruptcy protection to Puerto Rico. The legislation has yet to advance, and Republicans including Representative Darrell Issa have questioned whether changing the law is fair to investors who thought their bonds were exempt from the risk of being adjusted in court.

Alberto Baco Bague, Puerto Rico's secretary of economic development, told Spain's El Mundo newspaper that Washington has shown little interest in helping.

"One never loses hope, but they've been very negative," he said in an interview published this week.

"As U.S. citizens, we feel very abandoned by Washington," he said. "At the highest levels, the United States has more interest in Greece and in Cuba. And neither of those are U.S. territories."

Bloomberg

by Michelle Kaske & Kasia Klimasinska

July 21, 2015 — 9:01 PM PDT Updated on July 22, 2015 — 7:51 AM PDT

Puerto Rico Default Recovery Rates as Low as 35%, Moody's Says.

Investors may receive as little as 35 cents on the dollar under a restructuring of Puerto Rico debt if the commonwealth defaults, Moody's Investors Service said.

Debt sold by the island's Government Development Bank, Highways and Transportation Authority, Infrastructure Finance Authority and Municipal Finance Authority is among the $26 billion with the lowest recovery rates, Moody's estimated Wednesday in a report. The debt is ranked Ca, the second-lowest rating from the New York-based company.

"We believe that the probability of default is approaching 100 percent, and that losses given default are substantial," Moody's analysts wrote. "Bondholder recoveries will be lowest on securities lacking explicit contractual or other legal protections."

Investors including BlackRock Inc. and Pacific Investment Management Co. have speculated about bondholder losses in Puerto Rico since Governor Alejandro Garcia Padilla last month called the island's $72 billion of debt unpayable. Moody's said the commonwealth could support 60 percent to 65 percent of its net tax-supported debt, assuming no economic rebound.

Holders of debt with stronger safeguards, like general obligations and bonds from the commonwealth's Electric Power Authority and Aqueduct and Sewer Authority would probably fare better than others, with recoveries of 65 percent to 80 percent, Moody's said.

The credit rater said its estimates are based on cuts in principal and interest payments of about 40 percent a year through 2023, as the government decides to reduce debt service payments to avoid budget shortfalls.
Bankruptcy alone wouldn't be enough to dig Puerto Rico out from under its debt burden, Moody's said.

If Puerto Rico agencies had access to Chapter 9, island officials have said it may apply only to certain public corporations, such as the power utility, water agency and highway authority. Those entities owe about $20 billion combined.

Bloomberg

by Brian Chappatta & Michelle Kaske

July 22, 2015 — 1:33 PM PDT

Chicago Worth the Risk to Pimco, Wells Capital as Deficit Swells.

As Chicago wrestles with rising pension costs, cash-strapped schools and a swelling budget deficit, investors from Pacific Investment Management Co. to Wells Capital Management say they aren't counting the Windy City out.

Wells Capital is increasing its exposure to the junk-rated metropolis, while Pimco said this week it sees long-term value in the city's debt. A longer-term perspective may come in handy, with a judge to rule Friday on the legality of an overhaul of two of four city employee-pension programs.

"Our big point is not that the city and its finances are necessarily on a very short-term upward trajectory, but that investors are being paid to be there," said Gabe Diederich, a Menomonee Falls, Wisconsin-based portfolio manager at Wells Capital, which manages about $39 billion of munis, including $529 million from Chicago. "The city has options longer-term to correct their finances."

The nation's third-most populous city had to pay yields approaching 8 percent as part of a $743 million taxable-bond offering last week, putting it in the league of junk issuers such as telephone company CenturyLink Inc. A $346 million tax-exempt portion of the sale yielded as much as 5.7 percent.

Pension Turmoil

Already the worst-rated major city except Detroit, Chicago risks being downgraded again if the pension changes are overturned. Yields on Chicago debt are close to the highs reached after Moody's Investors Service cut the city's credit rating to below investment grade in May.

"Despite the fact that we all know that they have their problems, and Chicago politics and Illinois politics are really, really difficult, it's hard to ignore that kind of embedded yields," said Jim Colby, chief municipal strategist at Van Eck Global, which bought some of Chicago's tax-exempt deal last week. "I know the risks."

Chicago and the state of Illinois are among localities that have shortchanged retirement funds for years. Pensions in the U.S. have $1.4 trillion less than needed to cover promised benefits nationally, according to Federal Reserve figures.

The pension system in Chicago is $20 billion short, and the state of Illinois's retirement fund has a $111 billion shortfall. Chicago's retirement system is only 36 percent funded as of December 2014, compared to 61 percent in 2005.

Union Lawsuits

A partial solution was found last year when state lawmakers approved a plan, touted by Mayor Rahm Emanuel's administration, that restructured the pensions of the laborers and municipal workers. That affects about 60,000 workers. The fix forces employees to pay more with lower benefits while also boosting the city's contribution. Some unions sued to block the law that went into effect Jan. 1.

Friday's ruling will decide whether that law is constitutional. The decision is expected to be appealed to the state Supreme Court, which in May unanimously ruled that Illinois couldn't cut retiree benefits. Four days later, Moody's cut Chicago's credit to Ba1, one step below investment grade, saying the decision increased the likelihood that the city's reform won't hold up.

"Seeing how the state supreme court ruled earlier in the spring, I don't expect the decision to go favorably for Chicago," said Joseph Gankiewicz, an analyst at Blackrock Inc. in Princeton, New Jersey, which oversees $116 billion in municipal debt and owns Chicago bonds. "Now with that said, it might give cover to some of the rating agencies to downgrade the city."

Chicago's Viewpoint

If the law is overturned, Chicago's pensions will be broke in about 10 years, the city's lawyers have argued.

"An adverse ruling from the circuit court and from the Illinois Supreme Court is just going to make it more difficult for the city of Chicago to extricate itself from its financial difficulties," said Sarah Wetmore, vice president of the Civic Federation, a watchdog group that has been tracking the city's finances since 1929.

The city said it could be downgraded again if the court finds the law unconstitutional, according to bond documents for last week's bond sale.

City officials, including Emanuel, have said the city's plan "fully complies" with the state constitution since it protects benefits and ensures that the funds will stay solvent.

Payment Jumps

Chicago's changes didn't affect the pensions of police officers and firefighters. The city's payment into their funds will jump by $550 million next year. While the Democrat-led legislature passed a plan to lower that bill, Republican Governor Bruce Rauner has yet to sign it.

Even with its retirement debt, Chicago has the capacity to raise revenue to meet those liabilities, said Matthew Sinni, New York-based vice president and municipal credit research analyst at Pimco, which manages about $40 billion of state and local debt.

"Despite its pension overhang, Chicago remains a dynamic city with sufficient revenue capacity to meet its steep fiscal challenges in the coming years," Sinni said in the blog post on July 20. Pimco declined to comment beyond the note.

Pressure from pensions is expected to ramp up next year as Chicago owes about $1.1 billion to its retirement funds in 2016 if current law stands. The city is projecting a budget shortfall of $430 million next year, up from $297 million this year, according to bond documents.

It's hard to believe that Chicago won't find a solution, whether it's cutting spending or raising taxes or fees to "rehabilitate their credit profile," said Van Eck's Colby, who has about $3 billion in tax-exempt assets across six exchange-traded funds, two of which are high-yield.

Bloomberg

by Elizabeth Campbell

July 22, 2015 — 9:00 PM PDT Updated on July 23, 2015 — 6:56 AM PDT

Puerto Rico Power Utility Says Debt Exchange Plan Unworkable.

The Puerto Rico Electric Power Authority said a bondholder proposal to restructure the utility's debt isn't achievable because it imposes disproportionate risks on ratepayers and other creditors.

A group representing owners of 40 percent of the securities unveiled a $8.1 billion debt exchange Thursday that would delay payments for several years and give the junk-rated agency $2.5 billion to upgrade power systems. The utility, known as Prepa, has been negotiating with creditors including mutual-fund provider OppenheimerFunds Inc. and hedge fund BlueMountain Capital Management LLC for almost a year on how to overhaul its finances.

The plan "does not provide a path for a successful restructuring," Yohari Molina, a spokeswoman for Prepa in San Juan, said in a statement. "It does not share the burden."

Under the plan, debt-service payments would be suspended on existing securities and interest payments reduced by selling new obligations that would be repaid from a surcharge on Prepa's customers. Delaying principal payments would free up about $2.5 billion through 2025 to upgrade plants and diversify fuel sources for commonwealth's main electricity provider. A June 1 proposal from Prepa included at least $2.3 billion to rehabilitate facilities on the island, where electricity costs are double those on the U.S. mainland.

LIPA Example

"It almost creates interest-free borrowing for the island's utility," Tom Wagner, co-founding partner of hedge fund Knighthead Capital Management, said Thursday during a Bloomberg television interview. Knighthead owns Prepa bonds.

New York's Long Island Power Authority used a similar financing, Wagner said. Bondholders plan to continue their "constructive" talks with Prepa on the plan, he said.

Assured Guaranty Ltd. also has concerns about the bondholder's latest plan, although borrowing off of a new fee would help improve the utility, Ashweeta Durani, a spokeswoman for the Bermuda-based bond insurer said in an e-mailed statement.

"While we do not support the recovery plan proposal released last evening by the ad hoc bondholder group, we believe that a properly structured securitization transaction could play an important role in Prepa's recovery plan," Durani said.

While such a financing could be the foundation of a long-term plan, "the proposal was developed without consultation with bond insurers and disproportionately impacts our interest," Kevin Brown, a spokesman at MBIA Inc.'s National Public Finance Guarantee Corp., based in Purchase, New York, said in an e-mail.

The two bond insurers guarantee about $2.4 billion of Prepa debt.

Default Speculation

Puerto Rico and its agencies amassed $72 billion of debt by borrowing to fill budget gaps as the island's economy has struggled to grow since 2006. Governor Alejandro Garcia Padilla last month said the commonwealth can't afford to pay its debts, igniting concern it will default. Officials are set to draw up a restructuring proposal by Sept. 1.

The utility in August 2014 signed a contract with investors, banks and bond insurers that keeps negotiations out of court, called a forbearance agreement. Prepa must craft a debt-restructuring plan by Sept. 1 or that accord will expire. The utility avoided defaulting on a July 1 bond payment with the help of a loan from bond insurers.

Forbearance Pact

OppenheimerFunds, the biggest holder of Puerto Rico debt among municipal mutual-fund providers, Franklin Templeton Investments, Angelo Gordon & Co., Knighthead Capital, BlueMountain Capital and units of Goldman Sachs Group Inc. have signed the forbearance pact.

The creditor's proposal would delay principal payments for an average of 7.8 years and cut the coupons on as much as $5.7 billion to an average rate of 4.1 percent from 5.24 percent. Another $2.4 billion of securities would be sold as capital-appreciation bonds, which would push out principal and interest costs for up to 19 years.

The first tranche of current-interest bonds would be issued at a price of about 150 basis points above benchmark tax-exempt debt and the capital-appreciation bonds would be priced at about 200 basis points above top-rated munis, according to the bondholder plan.

Prepa's customers would be charged a new fee, with that revenue stream repaying the bonds. Under the plan, Prepa clients would pay an average 24 cents per kilowatt hour compared with the utility's historical rate of 28 cents. That surcharge may prove to be a tough sell.

"It's very hard to see how the politicians can line up behind this proposal," said Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, said in a telephone interview.

Prepa bonds maturing July 2042 traded Thursday at an average price of 56.2 cents on the dollar, the highest since June 8 and up from 49 cents Wednesday, data compiled by Bloomberg show. The average yield was 9.6 percent.

Bloomberg

by Michelle Kaske

July 22, 2015 — 9:09 PM PDT Updated on July 23, 2015 — 1:58 PM PDT

Moody's: U.S. Unlikely to Bail Out Puerto Rico; Bankruptcy Not a Viable Solution.

New York, July 22, 2015 — Moody's ratings assume no US federal payment on Puerto Rico's (Caa3 negative) debt, and any effort by the federal government on the commonwealth's behalf would have marginal near-term effects, Moody's Investors Service says in a new report.

"The federal government does not provide states or local governments with extraordinary funds to avert defaults on their debt, in part because doing so would induce other governments to take on unsustainable amounts of debt or engage in reckless fiscal practices," says Moody's VP — Senior Credit Officer Ted Hampton in "Frequently Asked Questions About Puerto Rico's Fiscal and Debt Crisis."

The FAQ also addresses the challenges Puerto Rico faces in current efforts to introduce Chapter 9 bankruptcy measures under the US bankruptcy code.

"Since Chapter 9 is unlikely to be a viable way to achieve a consolidated restructuring of all the commonwealth's debt, bankruptcy authorization would not be sufficient by itself to manage Puerto Rico's current pressures," says Hampton in the FAQ.

The very high likelihood that Puerto Rico will default and significantly restructure its obligations affecting all of its bondholders to varying degrees, provokes questions about expectations for bondholder recoveries.

"We believe bondholder recoveries will be lowest on securities lacking explicit contractual or other legal protections. These securities consist of those rated Ca, including notes issued by the Government Development Bank for Puerto Rico (GDB, Ca negative) and the commonwealth's subject-to-appropriation debt," Hampton says.

Moody's ratings below investment grade are based on both the probability of default and the expected bondholder loss given default.

The expected debt restructuring will be unusual, consistent with of Puerto Rico's status as neither an independent nation nor a US state. While similar to US states, Puerto Rico lacks the same legal rights and does not have representation in the US Congress. Unlike Greece (Caa3 on review for downgrade) Puerto Rico cannot turn to a lender of last resort, such as the International Monetary Fund.

The FAQ also address other questions regarding the recent loan by bond insurers to the Puerto Rico Electric Power Authority (PREPA — Caa3 negative), pension assets and the ability of the commonwealth recover fast enough to support its debt.

The report is available to Moody's subscribers here.

Michigan: Wayne County Designated for Financial Emergency Status.

Gov. Rick Snyder on Wednesday declared that Wayne County, home to Detroit, is in a financial emergency, agreeing with the findings of a state-appointed review team. The review team said on Tuesday that it had concluded there was a financial emergency based on the county's out-of-balance budgets over the last four years and an estimated $1.3 billion unfunded health care liability. The county executive, Warren Evans, requested the review last month, asking the state for a fiscal emergency declaration and a consent agreement to fix problems. Under Michigan law, local governments can choose a consent agreement, emergency manager, neutral evaluation or Chapter 9 municipal bankruptcy to deal with a financial emergency. Detroit went through a similar review process that led to the filing of the biggest-ever American municipal bankruptcy, which the city exited last December after shedding about $7 billion of its $8 billion of debt and obligations.

By REUTERS

JULY 22, 2015

Muni Funds Get First Cash Inflow Since April as Bonds Rally.

Investors added money to municipal-bond mutual funds for the first time since April, snapping an 11-week streak of outflows, as state and local debt leads a rally in the fixed-income market.

Individuals poured $125 million into muni funds in the week through Wednesday, Lipper US Fund Flows data show. The stretch of withdrawals that began May 6 had been the longest in 18 months. The last inflow was in the week ended April 29.

The $3.6 trillion municipal market has gained 0.6 percent in July, on track for the strongest return since January, Bank of America Merrill Lynch data show. It's outpacing the rally in U.S. Treasuries and investment-grade corporate debt, which have earned 0.5 percent and 0.3 percent this month, respectively, the data show.

Bond prices have gained amid speculation that the Federal Reserve will begin to raise interest rates at a gradual pace.

Even with the gains, the 2.34 percent yield on benchmark AAA munis compares with 2.25 percent for similar-maturity Treasuries, data compiled by Bloomberg show. The ratio of the two yields, at about 104 percent, is the highest since June 1.

Investors are frequently willing to accept lower yields on municipal bonds because their interest payments are exempt from the federal income tax.

Bloomberg

by Brian Chappatta

July 23, 2015 — 2:14 PM PDT Updated on July 24, 2015 — 6:06 AM PDT

Sports Owners Dip Into the Public's Purse, Despite Their Billions in the Bank.

CLEVELAND — The billionaire owner of the Cleveland Cavaliers, Dan Gilbert, is a lucky man. When LeBron James, his transcendent native son, left for Miami, the owner threw an impressive tantrum, going on about "cowardly betrayal."

Despite that, James felt the tug of home and returned to Cleveland to revive Gilbert's moribund franchise. In the N.B.A. finals, James resembled a Sherpa as he strapped a depleted team to his back and tried to drag it to the summit.

In the off-season, Gilbert dug his fingers into another pile of money, this one made up of taxpayer dollars. A year earlier, Gilbert and his fellow sports billionaires here — Larry Dolan, who owns the Indians, and Jimmy Haslam, who owns the Browns — had worked together to push through a referendum that extended a countywide “sin tax” on cigarettes, beer and liquor.

Over the next 20 years, taxpayers in Cleveland and Cuyahoga County will sluice $262 million into improvements for the city’s arenas and stadiums. This straitened city has already pumped $800 million into its sports stadiums.

Sweet deals for team owners are a distinguishing feature of pro sports capitalism. Costs are socialized, and profits remain private. Cleveland’s owners argue that this is only just: The stadium and the arena are publicly owned, and like any landlord, the city and the county should look after repairs and improvements.

Their logic does not apply more broadly. The team owners took control of the process of auctioning off naming rights for these public stadiums. The Browns sold their stadium’s rights for $100 million to FirstEnergy Corporation; the Indians will get $58 million over 16 years from Progressive Insurance; Gilbert’s home loan business paid a terrific sum to Gilbert’s team to name the place Quicken Loans Arena.

The owners shared not a penny with the hard-pressed city.

The Cleveland Indians have their hearts set on a new sound system. The Browns’ Haslam — whose truck-stop company, Pilot Flying J, just last year paid a $92 million fine to avoid a federal fraud prosecution — has compiled a list of improvements to be funded out of the public purse.

That sports teams, which are active charitable givers, have an umbilical tie to civic identity is not a fanciful notion. That this means that teams are drivers of economic progress, however, is a hallucination.

When James decided to return to Cleveland, city leaders and a few journalists retailed a narrative about L’Effect LeBron. They estimated that his return would pour many tens of millions of dollars into the city and speed the “Cleveland Renaissance.”

Cleveland has charming, leafy neighborhoods, fine museums and theaters and splendid lake views. More college-educated young adults are moving downtown, and there is indisputably more investment, building cranes and vibrancy to be found in Cleveland than a decade ago. At the same time, in the last month for which figures are available, Cuyahoga County’s job growth rate was 0.0.

The city’s poverty rate hovers near 37 percent, and the infant mortality rate is 13.0 per thousand births, compared with about 4.0 in New York City, which has no shortage of poverty.

Public schools have absorbed cut after cut.

I called George Zeller, who has analyzed the economy here for decades. He declined to talk renaissance, saying no such animal existed. “The theory that all of these sports teams are producing a gigantic boom is completely false,” he said.

Yet sin-tax dollars tumble into the hands of billionaires who employ millionaires.

The day after the end of the N.B.A. finals, I walked into the Cleveland office of Peter Pattakos. An ebullient lawyer, a sports fan and an Akron native, he helped lead the battle against the sin-tax extension. Ask a question, and he's off at a sprint.

"It's outrageous that these are public entities and we let these billionaires derive untold profits," he said. "They kept saying, 'Keep Cleveland strong,' with the implied threat that they'd leave town if we didn't underwrite their stadiums."

The anti-sin-tax campaign was a peasant crusade. Pattakos's ragtag band suggested a $3 surcharge on sports tickets. The owners rolled their collective eyes.

"Proposing to punish Cuyahoga County families and sports fans by imposing a new, large ticket tax to pay for major repairs," the owners complained in a news release, "is terribly flawed."

A surcharge, they complained, would make it even more difficult for families to buy tickets. That argument has an out-of-body quality, as the owners set the prices. (The Cavaliers will raise ticket prices 15 percent next year, the first such hike in five years.)

The teams' owners and supporters outspent opponents, $3 million to $30,000. The vote to extend the sin tax, however, was not a blowout. Voters in the city of Cleveland rejected it; suburban voters carried the election.

Pattakos motioned for me to follow him, and we clattered downstairs. He led a walking tour of the Warehouse District. We passed handsome restaurants and bars, and lots of for-rent signs on vacant storefronts. Job losses are like a river eroding the shore.

"You're telling me we should spend our tax money fixing up stadiums?" he asked, over his shoulder.

The Gateway Economic Development Corporation of Greater Cleveland acts as the landlord for the basketball arena and the Indians' field. (The Cavaliers and the Indians pay Gateway's operating expenses, about $3 million per year.) I placed phone calls and sent detailed emails to its executive director, Todd Greathouse. The next peep I hear from that office will be the first.

In editorializing for the sin tax, The Cleveland Plain Dealer argued that the city had a landlord's responsibility to pay for upkeep. Left unexplained was why the landlord had never tried to renegotiate terms with ever more wealthy teams.

(Note: The Indians offer a sort of exception. They rank next to last in the American League in attendance. The night I attended a game, the crowd had the feel of an extra-large backyard barbecue, and 25 percent of the fans seemed to be rooting for the visiting Chicago Cubs.)

Over the winter, the Cavaliers' emissaries arrived with a new proposal. They wanted locals to split the cost — in addition to the sin-tax dollars — of overhauling their arena. Adam Silver, the N.B.A. commissioner, added his voice, saying that the league would love to have the All-Star Game in Cleveland, if only its burghers would ante up again for the billionaire owner.

The Cavaliers' chief executive says the overhaul would add to Cleveland's "economic momentum."

To be a wealthy sports owner is to feel no burn of embarrassment.

THE NEW YORK TIMES

JULY 21, 2015

By MICHAEL POWELL

Junk-Bond Stigma is Costing Chicago.

(Bloomberg) — Chicago is paying a price for the $20 billion pension-fund shortfall that pushed it into junk-bond territory.

The nation’s third-most populous city had to pay yields approaching 8 percent as part of a $743 million taxable-bond offering Wednesday. That puts it in the company of issuers such as telephone company CenturyLink Inc., whose $650 million of similar-maturity securities yield 8.53 percent.

Chicago has been stung by rising borrowing costs as Mayor Rahm Emanuel refinanced floating-rate debt over the past two months, seeking to avoid as much as $2.2 billion of penalties triggered when Moody’s Investors Service cut it below investment grade. The May downgrade left the city of 2.7 million with a lower rating than any major U.S. city except for Detroit, a result of years of failing to put enough into its retirement system to cover promised benefits.

“They’ve taken a notch in the right direction by reducing the liquidity threat related to variable-rate debt,” said Richard Ciccarone, chief executive of Chicago-based Merritt Research Services LLC, which analyzes municipal finance. “But the city will pay a price, and deservedly so.”

ADDITIONAL LIABILITIES

Chicago’s pension obligations are rising, increasing pressure on officials to boost property taxes. The city owes an additional $550 million to police and fire funds next year.

Lawmakers approved a plan to reduce that payment, but Governor Bruce Rauner has yet to sign it. Uncertainty around the city’s pension liabilities worsened after the state Supreme Court ruled that Illinois can’t lower retiree benefits, casting doubt on Chicago’s overhaul of its pension system to stem costs.

The taxable issue and a $344 million tax-exempt offering set for Thursday are the last in Emanuel’s plan to convert variable-rate bonds to fixed-rate securities. The floating-rate debt threatened to add to Chicago’s financial pressures because its tumbling credit rating allowed banks to force Chicago to pay it off early, which it couldn’t afford to do.

‘We expect continued positive investor feedback on the City’s reform efforts,” Elizabeth Langsdorf, a city spokeswoman, said in an e-mailed statement.

COURT DECISION

The city’s escalating borrowing costs are a consequence of a financial outlook that has yet to improve, said Paul Mansour, head of municipal research at Conning & Co., which oversees about $11 billion in municipal debt, including Chicago holdings.

He said he’s not going to buy any of the debt.

The Chicago bonds sold Thursday are exempt from the federal income tax, so the yields will be lower than those set Wednesday. The city’s tax-exempt bonds maturing in 2035 last traded for a yield of 5.6 percent, about 2.5 percentage points more than top-rated debt, according to data compiled by

Bloomberg.

The latest sale, authorized by the city council on June 17, will also allow Chicago to push some bills into the future, said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

Chicago's effort to close the gap in its pension funds could be dealt a setback in court as soon as next week, when a judge is to decide whether Emanuel's overhaul of the pension system is legal. The restructuring, affects about 60,000 municipal employees. Some unions sued to block its implementation.

INVESTOR RISK

If the judge overturns the law, Chicago's credit rating may be cut further, Fabian said. Chicago could have junk ratings from all four rating companies in the next two years, he said.

"With the risk of them potentially losing more investment grade ratings, buyers can't be aggressive," Fabian said.

"There aren't many speculators who are willing to make a bet on Chicago tightening yet. This is a kind of deal that would price cheaply."

John Donaldson isn't among such speculators. Donaldson, who helps manage about $700 million of munis, including Chicago debt, as director of fixed income at Haverford Trust Co. in Radnor, Pennsylvania, said he's steering clear of the city.

"We've shied away from it," Donaldson said. "It's all the liabilities, including the pension, current budget. Do I need that headache right now? No, I do not."

July 16, 2015

New York Bonds Headline $9.48 bln Muni Supply Next Week.

An abundance of New York issuance will hit the U.S. municipal bond market next week amid total supply of bonds and notes estimated at $9.48 billion, down from about $10.5 billion this week, according to Thomson Reuters on Friday.

New York State's Dormitory Authority will offer $1.16 billion of state sales tax revenue bonds through Morgan Stanley. The deal is structured with serial maturities from 2016 through 2025, according to the preliminary official statement (POS). An additional $50 million of bonds will be priced on Thursday via Raymond James & Associates.

Another New York issuer, the Metropolitan Transportation Authority, will sell $500 million of revenue refunding bonds through Siebert Brandford Shank & Co and Morgan Stanley with a retail order period on Wednesday ahead of formal pricing on Thursday.

Moody's Investors Service last week upgraded MTA's rating to A1 from A2, citing growing passenger volume and stable finances.

The deal consists of $500 million of fixed-rate bonds with serial and term maturities, $50 million of mandatory tender bonds and $50 million of LIBOR floating rate tender notes, according to the POS.

Citigroup will price $110 million of New York State Environmental Facilities Corporation tax-exempt and taxable revolving funds revenue bonds on Tuesday.

Topping next week's competitive calendar is a $347 million general obligation bond issue for the Metropolitan Government of Nashville and Davidson County scheduled for Tuesday.

Meanwhile, net outflows from U.S. municipal bond funds decreased to $29.2 million in the week ended on Wednesday from $305.7 million in the previous week, Lipper reported on Thursday. It was the eleventh-straight week of net outflows for the funds.

Flows turned positive for high-yield muni funds with net inflows of $14.5 million posted in the latest week after two weeks of net outflows.

Reuters

(Reporting by Karen Pierog, editing by G Crosse)

July 17, 2015

House Approves Short-Term HTF Fix.

DALLAS — The House on Wednesday voted 312 to 119 to approve a bill that would extend federal transportation funding through Dec. 18, with an $8.1 billion transfer from general funds to the Highway Trust Fund.

The measure proposed on Monday by Rep. Paul Ryan, R-Wis., chairman of the House Ways and Means Committee, would maintain the flow of reimbursements to states for highway and transit projects through that date.

"We want to get to a long-term, six-year highway bill," Ryan said during Wednesday's floor debate. "We're not going to get there in the next two or three weeks. It's going to take two or three months."

The Senate is working on a two-year transportation bill, he said.

Rep. Bill Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee and co-sponsor of Ryan's HTF fix, said there's not enough time to pass a multiyear bill before the current two-month extension ends July 31.

"I believe we can get there, but we can't get there in the next three weeks," he said. "We are committed to a six-year bill."

Lawmakers rejected a proposal by the Democrats to replace the Ryan bill with President Obama's six-year, $478 billion Grow America Act funded with $240 billion of gasoline and diesel tax revenues and $238 billion from a mandatory 14% tax on overseas corporate earnings. "This bill represents what the House should be taking up today on surface transportation," said Rep. Peter DeFazio, D-Ore., one of the sponsors of the Obama proposal and the ranking Democrat on the House Transportation and Infrastructure Committee.

The $8.1 billion transferred from the general fund will require a similar amount of offsets over the next 10 years. The offset revenue includes $3.1 billion of airline passenger security fees and $5 billion from enhanced tax compliance.

President Obama reluctantly supports the HTF extension only in the hope that it leads to a long-term bill before the end of the year, the Office of Management and Budget said Wednesday morning in a Statement of Administration Policy.

The need to keep federal transportation reimbursements flowing to states during the busy summer construction season is an “unfortunate reality” created by a series of short-term HTF fixes, OMB said.

The Transportation Department notified state officials earlier this week that federal reimbursements for road and bridge projects could come to an end Aug. 1 without congressional action on the HTF.

“The administration expects that Congress will use this five-month extension to pass a multiyear bill with significant increases in investment to address the system’s maintenance and repair deficit, enhance safety, and lay the foundations for future growth in critical areas like freight movement,” the statement said. “The administration will not support continued failure to make the investments the nation needs.”

The Senate is expected to take up a transportation bill on Thursday, but Majority Leader Sen. Mitch McConnell declined to provide specifics after Tuesday’s weekly Republican caucus. McConnell said he was “fairly optimistic” about a long-term measure.

“There’s a lot of bipartisan enthusiasm for a multiyear highway bill,” he told reporters. “We’ve had some conversations inside our conference about a way to pay for that, and I’ve also had conversations with prominent Democrats that were involved in this issue,” McConnell said. “We’re hoping to be able to come together behind some way to get a multiyear highway bill.” Senate Minority Leader Harry Reid, D-Nev., was unenthusiastic about Ryan’s HTF proposal. “I don’t know what the House is going to do,” he said. “I’ll take a look at it.”

The Senate Environment and Public Works Committee in June unanimously approved a six-year, $277 billion highway-only bill that does not deal with the $100 billion revenue shortfall in the HTF over that span.

Sen. Ted Cruz, R-Texas, a candidate for the Republican nomination for president in 2016, said on Wednesday he would filibuster a transportation bill that includes a provision reauthorizing the Export-Import Bank as McConnell has proposed.

“I’m willing to use any and all procedural tools to stop this corporate welfare and this corruption from being propagated,” Cruz said.

The Bond Buyer

by Jim Watts

JUL 15, 2015 3:21pm ET

BlackRock Sees 40% Haircut in Puerto Rico Debt Restructuring.

Puerto Rico bondholders may receive an average of just 60 cents on the dollar if the commonwealth wins the ability to restructure its $72 billion in obligations, according to BlackRock Inc.’s head of municipal debt.

The Caribbean island and its agencies need to cut their debt to $40 billion, Peter Hayes, who helps oversee about $116 billion of munis at the world's biggest money manager, said in an interview on Bloomberg Television. That would mean an average recovery of about 60 percent on its securities, which include general-obligation bonds, sales-tax debt and those from its electric utility, he said.

"They have all this debt that they can't afford," said Hayes, whose firm held just $28 million of Puerto Rico debt as of May 31, according to Morningstar. "How do you get out of debt? You either grow your way out — they're not growing — or you restructure. So from the point of view of its citizens, it's the best outcome."

Puerto Rico bond prices have tumbled since Governor Alejandro Garcia Padilla last month said the commonwealth can't afford to pay its debts, raising the specter of an unprecedented restructuring in the $3.6 trillion municipal-bond market.

The Government Development Bank, which lends to the commonwealth and its agencies, said last week it may purchase its notes through cash or exchange the securities at less than par. Standard & Poor's said Tuesday that it considers such an exchange as a default.

Default Risk

S&P cut the GDB's rating by one step to CC on the view that a default "is virtually certain," Brendan Browne, an S&P analyst in New York, wrote in a report.

Puerto Rico and its localities have a history of borrowing to fix budget deficits, racking up more debt than any U.S. state except California and New York. With an economy that has contracted every year but one since 2006, Puerto Rico officials have been building a case for convincing investors to accept less than they are owed.

Puerto Rico officials met with creditors Monday at Citigroup Inc.'s New York headquarters, the first gathering with investors since Garcia Padilla's comments. Officials said they will evaluate every bond as they work on a recovery plan and haven't given any details about which securities may be affected.

Recovery Rates

Recovery rates will differ, Hayes said after his television interview. Holders of general obligations may get at least 60 cents on the dollar, he said. Such debt maturing July 2041 changed hands Tuesday at an average price of 61.3 cents on the dollar, the highest since June 26, according to data compiled by Bloomberg.

Sales-tax bonds, called Cofina, that are second in line for repayment may get restructured at below 60 cents on the dollar if the commonwealth chooses to use that revenue stream for other expenses, he said.
They "are likely to get a fairly low recovery," Hayes said.

Electric Power Authority bonds are trading at levels above what investors may get in a restructuring because the publicly owned electric utility needs to upgrade its plants, Hayes said. Prepa debt maturing July 2028 traded Tuesday at an average 49.1 cents on the dollar, about the same level as the start of the year, Bloomberg data show.

Bloomberg

by Michelle Kaske and Erik Schatzker

July 14, 2015 — 9:29 AM PDT Updated on July 14, 2015 — 1:16 PM PDT

Perry Joins Bullish Puerto Rico Camp as BlackRock Sees Losses.

The divide over the outlook for Puerto Rico's bonds is widening as investors and speculators take sides on the commonwealth's debt restructuring proposal.

Richard Perry, head of Perry Capital, said Wednesday the commonwealth is in better shape than most people realize. Jeffrey Gundlach, co-founder of DoubleLine Capital, likes the debt at current prices. BlackRock Inc. warned Tuesday that investor risk receiving an average of just 60 cents on the dollar in a reorganization.

Perry, speaking at the CNBC Institutional Investor Delivering Alpha Conference in New York, said that the population has only fallen marginally, and that government debt is about 70 percent of GDP, lower than in many other countries, including Japan.

"It's often mischaracterized in the U.S. and it's painted like Detroit," said Perry, who's New York-based firm holds Puerto Rico securities, including its Government Development Bank debt.

Puerto Rico and its agencies owe $72 billion after borrowing for years to fix budget deficits. The island's economy has shrunk every year but one since 2006. Governor Alejandro Garcia Padilla last month directed island officials to create a debt-restructuring plan by Aug. 30 that would delay payments. Garcia Padilla says Puerto Rico cannot pay all of its obligations.

Bearish View

The commonwealth needs to slash its debt load to $40 billion, Peter Hayes, who helps oversee about $116 billion as head of municipal debt at New York-based BlackRock, the world's biggest money manager, said in an interview Tuesday on Bloomberg Television. That would mean an average recovery of about 60 cents on the dollar on its securities, which include general-obligation bonds, sales-tax debt and those from its electric utility, he said.

"They have all this debt that they can't afford," said Hayes, whose firm held just $28 million of Puerto Rico debt as of May 31, according to Morningstar. "How do you get out of debt? You either grow your way out — they're not growing — or you restructure. So from the point of view of its citizens, it's the best outcome."

Recovery rates will differ, Hayes said after his television interview. Holders of general obligations may get at least 60 cents on the dollar, he said. Subordinate sales-tax bonds that are second in line for repayment may get restructured at below 60 cents on the dollar if the commonwealth chooses to use that revenue stream for other expenses, he said.

Returns Forecast

The island's constitution says the commonwealth must repay general obligation bonds before other expenses. Such debt maturing in July 2041 and carrying an 8 percent coupon traded Wednesday at an average price of 72.6 cents on the dollar, the highest since June 26, before the governor called for a debt-restructuring plan.

OppenheimerFunds Inc., the largest U.S. mutual-fund investor of Puerto Rico securities, said last week that sales-tax collections, unemployment and income growth show the economy is strong enough for the government to repay.

Gundlach said he hopes those bonds "might return par," if a presidential candidate were to campaign on helping out Puerto Rico. He spoke on CNBC from the conference.

DoubleLine's $2.24 billion Income Solutions Fund held $45 million of Puerto Rico's 2041 general obligations, as of May 29, data compiled by Bloomberg show. Its $137 million Multi-Asset Growth Fund held $2.5 million of the same securities, as of June 30.

That debt will need to gain in price for investors to consider negotiating changes in debt payments, Perry said.

"The government obligations that are really in the highest part of the pecking order, they are going to have to trade at par if they're going to make this restructuring work," Perry said.

Bloomberg

by Michelle Kaske

July 15, 2015 — 1:21 PM PDT

Puerto Rico Closer to Default After Missed Funds Transfer.

Puerto Rico lurched one step closer to default, saying one of its agencies failed to transfer cash to a trustee to cover an Aug. 1 debt payment because the legislature didn't appropriate the funds.

It's unclear whether the Public Finance Corp. will pay $36.3 million of bonds maturing that day. If it doesn't, that would mark the first time Puerto Rico has defaulted on a debt payment and would come as the commonwealth seeks to negotiate with creditors to restructure $72 billion of obligations.

The missed transfer underscores the fiscal squeeze on the U.S. commonwealth, which is pushing for Congress to allow some of its public corporations to file for Chapter 9 bankruptcy protection.

"This payment may not be made and will probably lead to the government trying to exchange this paper," Luis Fortuno, Puerto Rico's governor from 2009 through 2012, said during a telephone interview. "I don't think this, in and by itself, is enough to cause Congress to act on Chapter 9. There is a lot of talks about some strings attached to Chapter 9, although it's not clear exactly what that would be."

The Public Finance Corp. owes about $1 billion of debt repaid through legislative appropriation, according to the Government Development Bank, which works on the island's debt sales.

Legislative Approval

"In accordance with the terms of these bonds, the transfer was not made due to the non-appropriation of funds," Melba Acosta, president of the GDB, said Wednesday in an e-mailed statement.

Puerto Rico is in need of cash because investors have effectively closed the island's access to the capital markets by demanding high interest rates

Last month, lawmakers included about $300 million in the current budget to repay GDB debt. The bank may be able to use the money to pay bondholders next month, though it would need legislative approval to do so. The legislature is out of session until mid-August.

"Should resources be required from this fund, the GDB only needs to inform, request, and justify the need for these funds to the legislature," Senator Jose Nadal Power, who chairs the Senate Finance Committee, said in a statement Thursday that was in Spanish.

Debt of the Public Finance Corp., which has borrowed to help pay the government's bills, traded July 1 at an average 68 cents on the dollar, a record low, according to data compiled by Bloomberg.

Default Expectations

"Most PFC debt is held on-island, but some is held by U.S. mutual funds and in retail accounts and a further small portion is held by the hedge fund community," Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, wrote in a report Thursday. "We expect the technical default event will signal that more defaults are coming and draw further attention to the liquidity issues facing the commonwealth."

The trustee, U.S. Bank, has hired the law firm Hogan Lovells "to advise it in connection with this matter," according to a filing with the Municipal Securities Rulemaking Board.

Puerto Rico is in need of cash because investors have effectively closed the island's access to the capital markets by demanding high interest rates. The development bank, a source of available cash for the commonwealth, had $778 million of net liquidity as of May 31, down from $2 billion in October. To avoid running out of cash by Sept. 30, the bank wants to exchange its notes for longer-maturity debt.

Next Payment

Another $140 million of development bank bonds mature Aug. 1, Bloomberg data show. The GDB said last week it may purchase its notes "from time to time" with cash, new securities or a combination. Such purchases are expected to be at prices "that are materially less than par," according to a filing through the Municipal Securities Rulemaking Board.

Governor Alejandro Garcia Padilla last month directed island officials to create a debt-restructuring plan by Aug. 30. The governor says Puerto Rico cannot afford to repay what it owes.

Key Democrats including U.S. Senator Chuck Schumer, who represents New York, are backing legislation that would allow Puerto Rico's public corporations to file for Chapter 9, just as U.S. cities can. A bill to do so has stalled for lack of Republican support.

Bloomberg

by Michelle Kaske

July 15, 2015 — 7:39 PM PDT Updated on July 16, 2015 — 2:27 PM PDT

Piper Jaffray Agrees to Acquire BMO Municipal-Bond Business.

Piper Jaffray Cos., the investment bank founded in 1895, agreed to buy Bank of Montreal's GKST

Inc. to expand in municipal bond sales, trading and origination.

The deal is expected to be completed in the fourth quarter and is subject to regulatory approval, Minneapolis-based Piper Jaffray said Monday in a statement that didn't disclose terms. Most of the 130 employees working for the GKST unit will move to Piper Jaffray, said Nini Krishnappa, a BMO spokesman.

Piper Jaffray Chief Executive Officer Andrew S. Duff has been boosting capital markets operations. The company last month added a group of dealmakers from Sterne Agee Group, the firm that was acquired by Stifel Financial Corp.

"The fixed-income business has been a longstanding and core focus for Piper Jaffray, and our commitment to sustainable growth led us to GKST," Duff said in the statement.

New bond sales are accelerating in the $3.6 trillion municipal market. States and cities have issued $231 billion of debt this year, up more than 50 percent from the same period in 2014 and the fastest pace since at least 2003, according to data compiled by Bloomberg.

Muni bonds have gained about 0.4 percent in 2015, while Treasuries are little changed and investment-grade corporate securities declined 0.45 percent, according to Bank of America Merrill Lynch data.

Managers Depart

BMO's decision to divest GKST follows the departure in May of portfolio managers Duane McAllister, Erik Schleicher and analyst Joseph Czechowicz, who all left for Baird Advisors.

Bank of Montreal bought Griffin, Kubik, Stephens & Thompson in 2008 for about $33 million, more than doubling its municipal-bond business at the time. The broker, founded in 1980, employed about 100 people across offices in Chicago, Milwaukee and Monticello, Illinois.

"We're confident that the transaction will enable BMO Capital Markets to focus resources on growing our core U.S. businesses, including our institutional fixed-income business, and strengthen relationships with our institutional clients," Krishnappa said in an e-mail.

Legal advisers on the deal were Mayer Brown LLP for Bank of Montreal and Faegre Baker Daniels for Piper Jaffray. BMO Capital Markets and Berkshire Capital were financial advisers for Toronto-based Bank of Montreal.

Bloomberg

by Katherine Chiglinsky and Katia Dmitrieva

July 20, 2015 — 6:37 AM PDT Updated on July 20, 2015 — 7:10 AM PDT

Chicago Issues Bonds With 'Stunningly' High Yields.

The city of Chicago has been battling a financial crisis since mid-May when a state court rejected its fix for its underfunded pension plan and Moody's downgraded its debt to junk status.

As part of the larger solution to the financial chaos that downgrade unleashed, the city is issuing

$1.1 billion in bonds, both taxable and tax-free. The cash raised will reduce its reliance on short-term debt to pay its bills.

Those new bonds priced Thursday and Friday at rates that have surprised some municipal bond investors, who find them very attractive.

A taxable issue (the city had to issue taxable bonds since the money isn't technically going towards a public good) that is maturing in 2042 priced Thursday with a yield of 7.98%.

The tax-free issue maturing in 2039 priced Thursday at 5.69%. For an investor in the highest federal tax bracket, that's equivalent to a 9% taxable yield.

"That's stunningly high," says Jim Colby, chief municipal strategist at Van Eck Global. "It's far and away significantly cheaper and more attractive than anything of a similar credit quality in the muni space."

One reason these yields strike experts so high is because both Fitch Ratings and Moody's Investors Service rated the issues BBB-plus, which is investment grade (Moody's wasn't hired to rate these issues by the city). "Chicago is not Detroit," says Colby. "It is not a city whose credit rating should be below investment grade."

Colby says he'll be looking at the tax-free issue for both the investment grade and high-yield exchange-traded funds he manages (both can by triple-B securities). For comparison, the 30-day yield of his Market Vectors High Yield Municipal Index ETF (HYD) is currently 4.61% in comparison, says Colby.

Dan Heckman, senior fixed income strategist at U.S. Bank Wealth Management, cautions that the yields are higher because some market participants judge that they are riskier than bonds with the same credit ratings.

"The market really views them as a weaker credit than the rating agencies," says Heckman. "They are attractive if you have an appetite for what is frankly a weaker credit."

Barron's

July 16, 2015, 3:17 P.M. ET

By Amey Stone

[Demand and Rates High for Chicago's Bond Sales.]

(Reuters) – Chicago's $1.08 billion of bond sales this week had big investor demand, but still resulted in hefty interest rates due to the city's festering fiscal woes.

Mayor Rahm Emanuel's office said Thursday's sale of $345 million of tax-exempt, general obligation bonds was 10 times oversubscribed with investor orders.

That allowed underwriters led by Morgan Stanley to reprice the bonds, dropping yields 2 to 8 basis points in several maturities, according to a pricing scale.

The top yield was shaved 8 basis points to 5.69 percent for bonds due in 2039 with a 5.50 percent coupon. That resulted in a 252 basis point spread over Municipal Market Data's benchmark triple-A scale, signaling the fiscally struggling city continues to pay higher borrowing costs than most issuers in the U.S. municipal bond market.

"There's a significant penalty," said Dan Solender, lead portfolio manager at Lord Abbett.

Solender said bonds in tougher sectors of the muni market are able to attract lower yields than Chicago, pointing to $361 million of revenue bonds for a nonprofit corporation financing student housing at Texas A&M University. Tax-exempt bonds rated triple-B-minus in that deal were priced this week to yield 4.54 percent in 2035 — 113 basis points lower than the 5.67 yield for higher-rated bonds due the same year in Chicago's deal.

The city, the third largest in the United States by population, is struggling with a projected $430 million fiscal 2016 budget gap. The deficit is due in part to escalating pension payments that include a looming $550 million contribution increase to its public safety workers' retirement funds.

Chicago sold the tax-free bonds a day after nearly $743 million of taxable GO bonds were priced. Both deals were part of the city's plan to restructure its short-term debt into longer-term, fixed-rate bonds.

Moody's Investors Service, which was not asked to rate this week's Chicago bond sales, in May dropped the city's credit rating to junk, triggering $2.2 billion in accelerated debt payments and fees that led the city to undertake the restructuring.

Since then the city converted more than $900 million of variable-rate debt to fixed rate to end interest rate swaps and bank letters of credit. The deals were also popular with investors but resulted in hefty yields.

Bond sales this week will repay all but about $140 million of the city's short-term borrowing program.

Thu Jul 16, 2015

(Reporting By Karen Pierog; Editing by Andrew Hay)

Puerto Rico Urges Creditors to Avoid Lawsuits Over $72 bln Debt.

(Reuters) – Puerto Rico pleaded with creditors on Monday not to engage in lengthy litigation over its $72 billion debt, but provided little information about how a debt restructuring would affect them.

At a packed meeting with bondholders at Citibank's New York offices, a clutch of the island's top officials and advisors again painted a bleak picture for the U.S. territory's economy and said fixing it would require pain to be shared by everyone with a stake in its future.

"We are hopeful we can … avoid adverse consequences that a highly litigated process could result in," said Jim Millstein, founder and chief executive officer of restructuring advisory firm Millstein & Co, which is advising the island.

Millstein warned bondholders that litigation would hurt the commonwealth's economy, reducing the tax dollars that are the lifeblood of bond payments.

Some top bondholders have already taken Puerto Rico to court over a restructuring law passed last summer which would have affected the island’s public agencies.

Two weeks ago, Puerto Rico Governor Alejandro Garcia Padilla called for a wide-ranging restructuring of the island’s debt. U.S. fund manager OppenheimerFunds, the largest holder of Puerto Rico debt among U.S. municipal bond funds, warned the island it stands ready to defend the terms of bonds it holds.

The meeting came after Garcia Padilla dropped a bombshell on holders of Puerto Rico’s $72 billion debt on June 29, saying he wants to restructure debt and postpone bond payments.

“There is some urgency about the entire situation,” former IMF economist Anne Krueger said at Monday’s meeting. She co-authored a government-commissioned report released in June which painted a bleak picture for the island.

“A delay has costs. If you want to see what those costs are take a look at Greece now.”

The meeting on Park Avenue drew a small protest of about 30 people who yelled “No to the Krueger Plan.”

“(The Governor) should make the foreign corporations, the U.S. corporations in the island, pay for the debt, and the rich,” said Fatima Santana, a nurse who is Puerto Rican but lives in New York.

Inside the meeting, Millstein and Government Development Bank (GDB) head Melba Acosta took a handful of prepared questions after a presentation given by Acosta and Krueger.

Creditors asked questions to try and clarify what kind of adjustment the government planned for their debt, but Millstein said he was not in a position to talk about particular issuers’ debt. He said it would be examined on an “entity to entity” basis.

A fund manager from a prominent mutual fund firm who attended the meeting said he saw no sign investors would heed calls to accept voluntary bond restructuring.

“I am pretty sure that the mood with the creditors is going to be: ‘I am going to stick hard with principles on whatever you promised’,” the fund manager said.

Joseph Rosenblum, director of municipal credit research at AllianceBernstein, said as he exited Citi’s offices that the meeting was “rather general in terms of presentation and the questions they had and answered.”

Acosta said implementing a turnaround plan would require “sacrifice from all our stakeholders, including first and foremost the people of Puerto Rico” who endured a decade of stagnation; as well as government employees and local and multinational businesses. A plan also needs to include the federal government which can aid the economy and its financial creditors, Acosta said.

Replying to a question about whether the commonwealth could get by without federal help, Acosta said the island was “not asking the government for a bail-out” but was seeking help with policies that would remove barriers to economic stability.

A consensual plan agreed with creditors is ideal, Acosta said, with a drawn-out contentious plan bad for the island. She added that it would be premature to suggest the amount of debt adjustment required.

Acosta added that the administration would propose a financial control board be created with the tools to ensure compliance with the plan's targets.

Millstein said he hoped Monday's meeting would be the first in a series of constructive discussions between the commonwealth and investors to put Puerto Rico on a trajectory to growth.

Mon Jul 13, 2015

By Megan Davies and Edward Krudy

(Additional reporting by Jessica DiNapoli; Editing by David Gregorio)

Municipal Bond Sales Poised to Accelerate as Redemptions Rise.

NEW YORK — Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt rises.

States and localities plan to issue $16.2 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.5 billion planned for the coming month. Supply figures exclude derivatives and variable- rate debt. Some municipalities set their deals less than a month before borrowing.

California State University plans to sell $1.07 billion of bonds, Chicago has scheduled $1.07 billion, Maryland will offer $500 million and North Carolina Eastern Municipal Power Authority will bring $478 million to market.

Municipalities have announced $10.9 billion of redemptions and an additional $16.1 billion of debt matures in the next 30 days, compared with the $24.8 billion total that was scheduled a week ago.

Issuers from New York have the most debt coming due with $3.49 billion, followed by California at $3.02 billion and Massachusetts with $1.35 billion. New York City has the biggest amount of securities maturing, with $1.73 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $861 million from mutual funds that target municipal securities in the week ended July 1, compared with an increase of $105 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $13.6 million last week, boosting the value of the ETFs 0.08 percent to $16.7 billion.

State and local debt maturing in 10 years now yields 95.625 percent of Treasuries, compared with 98.105 percent in the previous session and the 200-day moving average of 100.033 percent, Bloomberg data show.

Bonds of Wisconsin and Tennessee had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Wisconsin's securities narrowed 2 basis points to 2.49 percent while Tennessee's declined 1 basis point to 2.33 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 233 to 11.93 percent and Illinois's rose 31 basis points to 4.10 percent.

By Ken Kohn and Luis Daniel Palacios, Bloomberg News

July 13, 2015

Cash-Strapped Chicago Borrows at Rates Approaching 8 Percent.

Mayor Rahm Emanuel's decision to borrow for costs such as debt payments, bank fees and penalty payments on old deals gone bad — the kind of bills cities typically pay with operating funds — will cost Chicago more than $500 million in interest over the next three decades.

Data released Thursday show the city is paying rates that approach 8 percent on the $743 million in taxable debt sold Wednesday. Chicago's borrowing costs have risen dramatically relative to other borrowers as its credit rating has deteriorated.

The high interest costs — calculated by the Tribune using the value of today's dollars — are "punitive," said Richard Ciccarone, president and CEO of Merritt Research Services.

"The weight of the city's problems are clearly reflected in the pricing," he said.

The deal represents the largest taxable bond issue the city has ever sold. Totaling $1.1 billion, it also contains $347 million in tax-exempt debt.

Taxable debt is by nature costly because the federal government discourages borrowing for short-lived expenditures by collecting taxes on the interest investors earn. But Chicago has little room in its operating budget to cover its wide range of bills — many of them racked up before Emanuel took office — and the mayor has so far chosen not to raise property taxes.

Expenditures the city will pay with taxable bonds, which the city detailed for the first time Thursday in connection with the bond sale, include costs related to former Mayor Richard M. Daley's lease of the city's parking meters and his failed Olympic bid, as well as some debt payments coming due on old debt.

Emanuel is adding to the debt burden by borrowing $136 million at taxable rates in order to set aside interest payments for the first two years the bonds are outstanding, a maneuver called capitalized interest. That means the city is borrowing more than $100 million extra so that it doesn't have to pay interest on the bonds until 2017.

Thursday's bond issue was the final step in Emanuel's plan to protect the city against sudden burdensome demands from banks. More than half of the costs the bonds financed were outstanding on the city's line of short-term credit, akin to a city credit card. Some of those credit agreements allowed banks to demand repayment immediately if the city received a junk status rating. Moody's Investors Service rated the city at Ba1 — junk status — in May.

About $140 million remains outstanding on the city's credit card. Officials said those are short-term projects with dedicated revenue sources.

Costs covered by the smaller tax-exempt bond issue included about $150 million to pay back credit used to cash out of variable-rate bonds and interest rate swaps taken on by Daley, liabilities that also exposed the city to possible penalty payments from banks.

Investors settled for slightly lower rates on that debt than they demanded on the city's last tax-exempt bond issue in May, a sign that the city's credit could be improving slightly.

"It's a little bit less lousy," said Matt Fabian, a partner at the municipal bond research firm Municipal Market Analytics. "The city has miles to go and it's only advanced a couple feet."

Indeed, the overall cost the city pays for tax-exempt borrowing — a crucial source of funds for maintaining and improving infrastructure — remains high compared with other major cities and the rates Chicago has paid in the past.

Daniel Berger, an analyst with Thomson Reuters, noted that the interest rates the city is paying for tax-exempt borrowing have increased by a full 2 percentage points since 2010. "That's kind of dramatic," he said.

By Heather Gillers and Hal Dardick

Chicago Tribune

July 17, 2015

Signature Bank in N.Y. Forms Municipal Finance Unit.

Signature Bank in New York has formed a subsidiary to specialize in municipal finance and hired three executives for the division.

Signature Public Funding will provide tax-exempt lending and leasing products to government bodies throughout the U.S., including state and local governments, school districts and fire and police departments. The division is located in Towson, Md.

The $28.6 billion-asset Signature Bank sees an opportunity to provide financing equipment purchases for critical services and for infrastructure-enhancing projects, said Signature Chief Executive Joseph DePaolo.

DePaolo in April told American Banker that Signature was eyeballing the muni-finance market. Its plans were in place before General Electric began its selloff of GE Capital, but GE's exit means there's one less competitor in the field, he said.

"Hopefully we'll be able to buy some assets from them, and hopefully we'll be able to hire some quality people," DePaolo said.

Signature has hired Donald Keough to oversee the muni-finance unit's daily operations as senior managing director. Keough previously worked for Womble Carlyle Sandridge & Rice as a public-finance attorney and for SunTrust Equipment Finance & Leasing. Signature also hired Richard Cumbers from BankUnited's Bridge Capital Leasing as senior managing underwriter; and it hired Tonia Lee from Grant Capital Management as senior documentation officer.

AMERICAN BANKER

by JACOB PASSY

JUL 13, 2015 11:41am ET

[Puerto Rico Confronts Bondholders as Debt Talks Turn Contentious.]

If you thought Greece's negotiations with its creditors were ugly, just wait for the reception Puerto Rico officials will receive after saying they want to restructure their $72 billion debt load.

More than 300 participants ranging from institutional investors to hedge funds to bond insurers are scheduled to attend Monday's presentation in New York explaining why the Caribbean island cannot repay all of its obligations on time. Complicating matters is a push by commonwealth officials to seek federal assistance and even changes in bankruptcy laws.

"It will be a very protracted battle given Puerto Rico lacks a mechanism for restructuring like Chapter 9," Peter Hayes, head of municipal debt at BlackRock Inc., which manages $114 billion of the securities, including Puerto Rico debt, said in an e-mail. "There is likely to be a multitude of lawsuits given the unlikely event creditors are acceptable to terms to be proposed by Puerto Rico."

The New York-based firm plans to attend the meeting, Jessica Greaney, a spokeswoman for BlackRock, said in an e-mail. A link to a live Internet stream of the meeting will be available on the Government Development Bank's website. The bank works on the island's debt sales and lends to the commonwealth and its localities.

Exchange Proposal

Governor Alejandro Garcia Padilla said in a June 29 televised speech that he will seek to postpone debt repayment for "a number of years," and directed island officials to craft a restructuring plan by Aug. 30. A report from three former International Monetary Fund economists made public last week suggests that Puerto Rico swap current bonds for new ones with later maturities and lower payments. The report will serve as a focal point during the 3 p.m. meeting at Citigroup Inc.'s offices on Park Ave.

OppenheimerFunds Inc., the largest U.S. mutual-fund investor of Puerto Rico securities disagrees. Sales-tax collections, unemployment and income growth show the economy is strong enough for the government to repay, its money managers said on a conference call last week.

Garcia Padilla's comments leaves the $3.6 trillion municipal-bond market wondering how much of the island's debt will be altered, for how long and which credits with undergo change. The island's constitution stipulates the government must repay general obligations before other expenses and sales-tax bonds are backed by a dedicated revenue stream.

Competing Agendas

"It has the potential to get ugly," said Craig Brandon, a portfolio manager at Eaton Vance Management, which oversees about $29 billion of munis, including Puerto Rico. "Everyone has a different agenda and everyone has a different endpoint of where they want to get to."

The Boston-based firm plans to attend the meeting, Robyn Tice, a spokeswoman for Eaton Vance, said in an e-mail.

The island of 3.5 million racked up the highest debt per capita in the U.S. as the commonwealth and its agencies borrowed for years to fix budget deficits as its economy shrank almost every year since 2006. That was the final year of a 10-year phaseout of an incentive that had offered businesses outside Puerto Rico tax-free U.S. income for operations on the island.

Tax Exemption

As the unemployment rate grew and residents began to leave the island for jobs on the U.S. mainland, investors were still eager to lend to Puerto Rico, with its securities tax-free nationwide and offering yields higher than comparable investments. The commonwealth faces a cash crunch and lenders have effectively shut the door on more borrowing, leaving it wondering how it will repay all of its obligations.

Puerto Rico securities have been trading at distressed levels for two years on concern the island wouldn’t be able to repay its obligations on time and in full. The three largest credit-rating companies slashed the island to junk in February 2014 and deeper downgrades followed.

Commonwealth general obligations maturing July 2035 and initially sold in March 2014 at 93 cents on the dollar — the most actively-traded island debt in the past three months — changed hands Monday at an average 70.3 cents on the dollar, for a yield of about 12 percent, data compiled by Bloomberg show. The debt fell to as low as 66.6 cents on June 30, with a yield of 12.6 percent, the day after the governor’s televised speech.

Shrinking Population

Investors will have to compromise given the commonwealth’s troubles, Anne Krueger, a former IMF official and one of the authors of the report, said July 8 at a conference on Puerto Rico at The Heritage Foundation in Washington. The island’s gross national product is projected to contract by 1.2 percent in the fiscal year that began July 1, according to the island’s Planning Board, which calculates economic output. The island is expected to lose another 245,000 residents by 2025, according to the Planning Board. Its population has shrunk by 7 percent in the past decade, according to U.S. Census data.

“Without some kind of re-profiling, or whatever you want to call it, they will get back even less over the longer term,” Krueger said at the conference about creditor repayment. “There are inter-creditor disagreements there which would also make those tougher.”

A group of 35 hedge funds that hold $4.5 billion of Puerto Rico securities declined to say whether they would attend, said Russ Grote, a spokesman for the firms at Hamilton Place Strategies in Washington. The group is headed by Fir Tree Partners, Brigade Capital Management and Monarch Alternative Capital LP.

Budget Deficit

In the near term, the island is running out of cash. The budget gap for the fiscal year that ended June 30 is projected to widen to as much as $740 million, from earlier estimates of $191 million, according to financial documents. The Government Development Bank had $778 million of net liquidity as of May 31, down from $2 billion in October.

The island faces a $93.7 million debt-service payment on Public Finance Corp. bonds due July 15. The GDB Friday said it may purchase the bank’s notes “from time to time” as $300 million of tax- and revenue- anticipation notes matured last week. Another $140 million of GDB bonds mature Aug. 1, according to data compiled by Bloomberg.

Municipal debt sold on the island has lost about 9.7 percent through July 10, the worst performance for the period since at least 2007, according to S&P Dow Jones Indices. The broader muni market has earned 0.04 percent.

Biggest Holders

Melba Acosta, Puerto Rico's top debt chief and president of the Government Development Bank, will lead the meeting, being held at Citigroup's 350-seat auditorium.

Spokespeople at OppenheimerFunds Inc. and Franklin Templeton Investments, the two biggest holders of Puerto Rico debt among muni mutual-fund firms, declined to say if the companies will attend the meeting in New York. MBIA Inc.'s National Public Finance Guarantee Corp., which insures $4.5 billion of Puerto Rico debt, plans to attend, Kevin Brown, a spokesman for the Purchase, New York-based insurer, said in an e-mail.
Ashweeta Durani, spokeswoman at Hamilton, Bermuda-based Assured Guaranty Ltd, which guarantees $6 billion of commonwealth debt, declined to say if the company will be at the meeting.

Those who are in attendance may have the same experience as those watching online. Any questions must be submitted prior to the meeting, according to the GDB. Wells Capital Management's Lyle Fitterer said this is just the beginning of a likely protracted process.

"We're not going to fly someone out to New York just to be at this meeting," said Fitterer, who helps oversee $38 billion of munis, including Puerto Rico securities, for Wells Capital in Menomonee Falls, Wisconsin.

Bloomberg

by Michelle Kaske

July 12, 2015 — 4:00 PM PDT Updated on July 13, 2015 — 6:03 AM PDT

Virginia Recovers $149 Million from Failed P3.

DALLAS — Virginia will recoup more than half the money it has spent on a cancelled toll road from the design-build group contracted to construct the failed public-private partnership project in southeastern Virginia.

Gov. Terry McAuliffe announced the settlement with Route 460 Mobility Partners late last week at a ceremonial signing of the Virginia's new P3 legislation passed in April by the General Assembly. The enacted House Bill 1886 amends Virginia's Public-Private Transportation Act of 1995 to provide more public overview of P3 proposals from beginning to end.

McAuliffe said at the July 2 bill signing that U.S. 460 Mobility Partners has agreed to return $46 million of expended funds back to the state and cancel an additional $103 million claim the company had filed under the contract.

McAuliffe terminated the contracts for the proposed $1.4 billion toll road in April after Virginia spent almost $300 million on the project that never received its required environmental clearance.

The total $149 million concession is the result of months of negotiations between the administration and the company, McAuliffe said.

“This settlement will bring millions in taxpayer dollars that were wasted on the U.S. Route 460 project back to taxpayers and prevent the Commonwealth from having to pay millions more,” he said.

The new procedures in the state’s P3 law should prevent similar fiascoes in the future, McAuliffe said.

“The fact remains that Virginians have already spent hundreds of millions of dollars on a project that will never be built because state officials negotiated a contract that left the Commonwealth holding the bag when the environmental risks were too great to move forward,” McAuliffe said. “I regret that that contract did not allow for greater steps to mitigate the impact of this failed project.”

The state paid a total of $240 million to US 460 Mobility Partners in monthly payments that were cut off in 2014 and Virginia Department of Transportation spent approximately $43 million on the project before the project was suspended, said Virginia Transportation Secretary Audrey Layne.

The state had hoped to build the 55-mile Commonwealth Connector toll road as a public-private partnership and fund it mostly with toll revenue bonds, but instead created the Route 460 Funding Corp. as a non-profit to collect the tolls, issue bonds, and operate the highway. The new P3 rules require that proposed transportation projects be certified early in the process by a steering committee as being in the public interest before the state could sign a P3 procurement agreement.

The new law establishes a steering committee that will determine if a proposed project could be financed as a P3 or by the state. The committee will include the staff directors of the House Committee on Appropriations and the Senate Finance Committee, two members of the Commonwealth Transportation Board, a deputy sectary from Virginia Department of Transportation, the chief financial officer from either Virginia DOT or the Department of Rail and Public Transportation, and a non-agency financial expert selected by the transportation secretary.

The transportation secretary will have to certify that sufficient risk had been transferred to the private investors before a final P3 agreement could be signed.

The new procedures will protect taxpayers from undue risk while allowing the use of the P3 process to deliver projects efficiently, Layne said.

“There will be no way to duck responsibility for transportation decisions,” he said.

The Route 460 Funding Corp. of Virginia said after the project’s termination in April that it would use extraordinary redemption provisions to call $293.3 million of revenue bonds it had issued for the project.

The Bond Buyer

by Jim Watts

JUL 6, 2015 2:22pm ET

Can California Find a Way Out of Its Pension Calamity?

The longer you wait to solve a problem, the more painful the fix becomes. Californians are being reminded of that simple truth as their leaders attempt to grapple with the state's snowballing public-pension woes.

As of late last year, California's 130 public-pension systems had a combined unfunded liability of an estimated $198 billion. In 2003, the figure was $6.3 billion. That's an increase of more than 3,100 percent in just over a decade.

In the latest effort to turn those shocking numbers around, a bipartisan group of California pension-reform advocates is trying to get an initiative called the Voter Empowerment Act onto the ballot. It would amend the state constitution to require voter approval for defined-benefit pensions for new public employees, any enhancements to current employees' pensions, and establishment of any pensions in which government subsidizes more than half of a public employee's retirement benefit.

Its sponsors include the mayors of San Bernardino and Vallejo, two cities that have declared bankruptcy due in part to overwhelming pension obligations. If supporters can gather enough signatures, the measure would go on the 2016 statewide ballot. If passed, it would take effect in 2019.

The new initiative effort comes after courts have struck down recent attempts to address the pension problem. Last year, voters in Ventura County collected thousands of signatures for a measure that would have allowed the county to opt out of the current defined-benefit system and replace it with a 401(k)-type system, but a county judge ruled that residents couldn't vote to leave a pension system created by the state.

In 2012, San Jose voters overwhelmingly approved a measure that would have given city employees a choice between a less-generous pension or staying in the current system but contributing a larger portion of their salaries toward paying down the pension debt. A Santa Clara County Superior Court Judge overturned that measure for violating the "vested rights" of public employees.

By applying mostly to new employees, the Voter Empowerment Act is designed to get around the so-called "California rule," which grew out of court cases dating back to 1955 and is followed by a handful of other states. The California rule provides not only that public employees have the right to the amount of the pensions that they have already earned but that they also have the right to continue earning pensions based on rules that are at least as generous. The only provision of the Voter Empowerment Act that would impact current workers is the requirement that voters approve any pension enhancements.

While there is nothing in the ballot proposal that addresses California's current unfunded pension liability, it would go a long way toward preventing that number from continuing to grow.

That's clearly preferable to the status quo. But there's a reason why the Founding Fathers decided the United States should be a representative rather than direct democracy. Any pension referenda would likely result in fed-up taxpayers venting their frustrations at the ballot box rather than any thoughtful decisions about public pensions.

The best result would be if the Voter Empowerment Act pushes the state's leaders to do what they should have done years ago: Craft a political solution to California's pension problems that stops the bleeding, begins to pay down liabilities and sets the pension systems on a path to sustainability.

That won't be easy, both because of the prohibition against impacting the pensions of current employees and the fact that it would require elected officials to take the heat for tough decisions they make now when the benefits of those decisions wouldn't be felt for many years. None of the alternatives is appealing, but it's becoming increasingly clear that they're all better than continuing along the current unsustainable path.

GOVERNING.COM

BY CHARLES CHIEPPO | JULY 8, 2015

Puerto Rico's Development Bank Says It May Purchase Notes.

Puerto Rico's Government Development Bank said it may purchase the bank's notes "from time to time" as the commonwealth pushes to restructure its $72 billion of debt.

The GDB handles the island's debt sales and lends to the junk-rated commonwealth and its localities. The bank expects to sell $300 million of tax- and revenue-anticipation notes this month to pay off securities due Friday, according to financial documents posted on the bank's website. It has another $140 million of debt maturing Aug. 1, according to data compiled by Bloomberg.

Governor Alejandro Garcia Padilla is set to meet with federal officials in Washington Friday about the commonwealth's fiscal situation, according to a statement from his office.

Puerto Rico officials also plan to meet Monday with creditors in New York to discuss the island's high debt and unstable finances. Citigroup Inc. is hosting the meeting, and may also help the GDB with the note purchases, according to a filing Friday through the Municipal Securities Rulemaking Board.

"Other alternative lenders, such as Citi, have made the decision to potentially provide liquidity in the absence of sufficient liquidity at the government level," said Robert Donahue, managing director at Municipal Market Analytics Inc., a Concord, Massachusetts-based research firm.

The GDB had $787 million of net liquidity as of May 31, down from $2 billion in October. It may run out of cash by Sept. 30 unless Puerto Rico issues $2.9 billion of oil-tax bonds or the bank can delay maturities by exchanging its debt.

Purchases of the notes could be made for cash, new securities or a combination, according to the filing. Any purchases are expected to be at prices "that are materially less than par," according to the filing.

The GDB notes maturing Aug. 1 traded Friday for an average 76.5 cents on the dollar, down from 91.3 cents in January, Bloomberg data show.

Bloomberg

by Michelle Kaske

July 10, 2015 — 7:36 AM PDT Updated on July 10, 2015 — 10:05 AM PDT

Citigroup to Host Monday Meeting with Puerto Rico Bondholders.

Citigroup Inc. intends to host a meeting of Puerto Rico bondholders on Monday in New York that will include a presentation by former International Monetary Fund official Anne Krueger, according to a person familiar with the situation.

A recent report by Ms. Krueger, former first deputy managing director of the IMF, recommended reducing the commonwealth's debt payments by offering to exchange some debt for new bonds with longer maturities. Citi has handled such exchanges in the past, including a deal to buy back and refinance water and sewer bonds that helped Detroit save money during its bankruptcy.

Puerto Rico has about $72 billion in debt outstanding and is struggling with a weak economy and declining population. Gov. Alejandro Garcia Padilla said last week the commonwealth can't pay its debts and called for negotiations with bondholders. Analysts have said the commonwealth's government could run out of cash in coming months, which could lead to a government shutdown, employee furloughs and other emergency measures.

Some Puerto Rico bonds sold last year traded Wednesday at about 70 cents on the dollar, after touching all-time lows of around 64 cents last week, according to the Electronic Municipal Market Access website.

Ms. Krueger's presentation is scheduled for 3 p.m. and will be streamed live on the Internet, according to the person familiar with the plans. Citigroup is working as a broker-dealer for the island, handling assignments such as bond tenders and debt exchanges, the person said.

Other Puerto Rico consultants—including restructuring adviser Millstein & Co. and municipal-bond adviser PFM Group, as well as government officials—may also speak Monday.

The meeting comes after the Puerto Rico Electric Power Authority paid all principal and interest due to bondholders last week, buying the publicly owned utility time as it works to reach a deal with creditors. The authority, known as Prepa, said it had agreed with creditors, which include bondholders, banks and bond insurers, to extend restructuring talks to September.

A bondholders' group said in a news release that they would continue to work with Prepa to reach a long-term plan. In addition to negotiations about Prepa's $9 billion in debt, the talks involve plans to modernize the utility's operations.

Investors and analysts had feared a default by Prepa could be the first of many from the commonwealth. Now, there's hope among some investors that the utility will work out an agreement that could be a model for restructuring other Puerto Rico agencies.

THE BOND BUYER

By AARON KURILOFF

Updated July 8, 2015 6:24 p.m. ET

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com

S&P Cuts Chicago Debt One Notch.

Chicago is now three notches above junk

Standard & Poor's Ratings Services has downgraded Chicago one notch to triple-B plus from A-minus, predicting that a "structural imbalance" will lead to "corrective budget measures over several years."

S&P said "in our opinion, the city has not yet fully identified a credible plan" to address the imbalance.

S&P removed the rating, which is now three notches above junk, from CreditWatch. The rating firm has a negative outlook.

In May, Moody's Investors Service cut its rating on Chicago's debt by two notches to junk, citing expected increases in unfunded pension burdens after a ruling by the Illinois Supreme Court that overturned state pension changes.

Shortly after the downgrade, Moody's missed out on a lucrative assignment for Chicago when the city instead hired rivals S&P, Fitch Ratings and Kroll Bond Rating Agency Inc. to provide grades for a refinancing of general-obligation bonds.

S&P cut Chicago's rating by two rungs in May.

S&P said Wednesday that the city "has successfully addressed its most immediate liquidity pressures," but said Chicago needs to address police and fire pension costs.

Moody's changed its methodology for calculating pension liabilities in 2013, a move that has been linked to stricter municipal-debt ratings than those from S&P and Fitch.

Moody's said in a 2013 statement that it believed pension liabilities were "underreported from a balance sheet perspective."

THE WALL STREET JOURNAL

By JOSH BECKERMAN

Updated July 8, 2015 6:56 p.m. ET

Write to Josh Beckerman at josh.beckerman@wsj.com

U.S. Court Upholds Ruling Against Puerto Rico Bankruptcy Law.

(Reuters) – A U.S. appeals court affirmed a lower court decision to strike down Puerto Rican legislation aimed at granting local municipalities the right to enter bankruptcy, but one judge in a concurring opinion said excluding the U.S. territory's public entities from federal bankruptcy law was unconstitutional.

Puerto Rico passed the so-called Recovery Act last year to give certain public corporations, with around $20 billion in debt, the ability to restructure financially in an orderly process. Puerto Rico is currently struggling with a total debt load of around $72 billion, which it says it is unable to pay.

“Besides being irrational and arbitrary, the exclusion of Puerto Rico’s power to authorize its municipalities to request federal bankruptcy relief should be re-examined in light of more recent rational-basis review case law,” Judge Juan Torruella said in a concurring opinion attached to the ruling. The Recovery Act was struck down by a federal court in Puerto Rico in February after bondholders in the island’s power authority, including Franklin Advisers, OppenheimerFunds and Blue Mountain Capital, argued in a law suit that the legislation contravened the U.S. bankruptcy code, which expressly excludes Puerto Rico. While the 49-page ruling ostensibly vindicates the bondholders’ position, the one judge’s concurring opinion also makes a forceful case that Puerto Rico should be given access to Chapter 9 of the U.S. bankruptcy code, which deals with municipal bankruptcies. Bondholders have consistently opposed this view.

The in-depth opinion, steeped in legislative history, may strengthen the case for Congress to act on a bill, currently before a House committee, that seeks to change Chapter 9 to treat Puerto Rico like any other state for the purposes of bankruptcy.

(This July 6 story corrects headline to remove “slams exclusion”; corrects paragraph 1 to show comments on Chapter 9 were from one judge in a concurring opinion, not full three-judge panel; corrects paragraphs 3, 5 attribution of quote to one judge; corrects paragraph 5 to show ruling was 49 pages, not 75.)

By REUTERS

JULY 7, 2015, 10:49 A.M. E.D.T.

(Reporting by Edward Krudy; Editing by Nick Macfie)

Illinois Governor Proposes Sweeping Pension Legislation.

CHICAGO — Illinois Governor Bruce Rauner on Wednesday unveiled pension legislation that calls for sweeping changes, including the ability to file for municipal bankruptcy, to save billions of dollars for the state and local governments.

Illinois and its biggest city Chicago are sinking under huge public pension obligations that are draining money away from core government services. The problem was exacerbated in May when the Illinois Supreme Court ruled that public sector workers have iron-clad protection in the state constitution preventing their pension benefits from being reduced.

Rauner, a Republican, said the bill, crafted with input from Chicago Mayor Rahm Emanuel and Democratic Senate President John Cullerton, would ease contributions to local police and firefighter pensions for Chicago and other cities. The measure also includes Cullerton’s proposal to give state and local workers choices between cost-of-living increases in retirement and having future wage hikes count toward pensions.

The bill would also give Illinois’ local governments a route to Chapter 9 municipal bankruptcy following an evaluation by a third party or the declaration of a fiscal emergency. Rauner has suggested both Chicago and its public school district could be candidates for bankruptcy due to their huge pension funding problems.

A spokeswoman for Emanuel said the mayor had not yet reviewed the proposal.

“The governor’s recognition of the Cullerton model is encouraging, but we will have to review the details of the governor’s new proposal,” said Rikeesha Phelon, Cullerton’s spokeswoman.

Chicago Teachers Union Vice President Jesse Sharkey called the bill an “unconstitutional mishmash of proposals which diminish and impair pensions.”

A coalition of labor unions that successfully challenged a 2013 reform law for state retirement systems said the governor’s proposal “completely disregards” the state Supreme Court’s recent ruling.

Rauner said the pension bill will not be tied to a new state budget for the fiscal year that began July 1. The Democrat-controlled House may vote Thursday on a one-month emergency budget passed by the Senate last week that Rauner said he will not sign. Last month, Rauner vetoed a $36 billion budget full-year budget passed by Democrats, saying it had a $4 billion deficit.

The governor said the legislature must adopt his turnaround reform agenda before he will entertain new revenue for the budget. He said he will present bills for legislative term limits, redistricting changes, a local property tax freeze, workers’ compensation and liability lawsuits. And he singled out powerful Democratic House Speaker Michael Madigan, for obstructing his reforms.

“Speaker Madigan needs to make a decision – support reform or support a tax hike,” Rauner said, noting that Madigan has enough Democratic members in the House to pass a tax increase.

Madigan’s spokesman Steve Brown said the House has already taken up and in some cases rejected some of Rauner’s reforms.

“It’s really a lot of name calling by the governor,” Brown said.

Rauner last month launched a state-wide television campaign mainly targeting Madigan for Illinois’ fiscal woes.

By REUTERS

JULY 8, 2015, 3:58 P.M. E.D.T.

(Reporting by Karen Pierog; Editing by Richard Chang and Lisa Shumaker)

Illinois House Passes One-Month State Budget.

CHICAGO — The Illinois House of Representatives on Thursday passed a bill to fund “essential services” and state worker paychecks for a month, as the chamber controlled by Democrats remained at an impasse with the Republican governor over a full-year fiscal 2016 budget.

The measure, which passed with a veto-proof 71 votes, now heads back to the Senate. That body, also controlled by Democrats, passed a $2.26 billion temporary spending bill last week. However, that bill did not include a provision for worker paychecks.

House Majority Leader Barbara Flynn Currie said the one-month budget would allow Illinois to fund critical services for the disabled, elderly and others, while making sure state workers get paid. But

House Republican Leader Jim Durkin said the bill was a futile exercise.

“It won’t be signed into law and we’ll be back at square one,” he said, after blaming Democrats for the state’s fiscal mess.

A spokesman for the state’s biggest union, American Federation of State, County and Municipal Employees Council 31, said a St. Clair County judge on Thursday ordered the state to pay its workers.

That contradicted a Tuesday ruling by a Cook County judge who said state workers cannot be paid in full and on time without an enacted budget. The first paychecks for fiscal 2016, which began July 1, are due out on Wednesday, July 15.

The House vote came after a lengthy debate in which Republicans pointed fingers at Democrats over Illinois’ huge fiscal woes. There was also name-calling. One lawmaker even sang a made-up song about the state budget with lyrics that included “Budget, budget we need a budget now.” Illinois has the worst-funded pensions and lowest credit ratings among the 50 U.S. states.

Currie said Republican Governor Bruce Rauner will be able to use his veto to alter the bill.

Lance Trover, Rauner’s spokesman, blasted Democratic House Speaker Michael Madigan and his members, saying they “irresponsibly voted for yet another unbalanced budget plan.”

On Wednesday, Rauner dared Madigan to push a tax hike. He also made it clear he would not consider new revenue until the legislature adopts his agenda that includes a local property tax freeze and legislative term limits.

At a press conference following the House session, Madigan made it clear his members cannot accept most of the governor’s agenda. He also held out the possibility Rauner may reverse course as he did on other matters and sign the one-month budget.

“If you follow the governor’s action day by day, there’s a lot of u-turns in the road,” Madigan said.

The governor last month vetoed a $36 billion full-year budget passed by Democrats because it had a $4 billion deficit. The Senate is scheduled to be back in session on Tuesday. In the meantime, Illinois Treasurer Michael Frerichs announced on Thursday a deal with credit unions to offer state workers interest-free loans until payroll resumes.

By REUTERS

JULY 9, 2015, 6:55 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Richard Chang and David Gregorio)

Puerto Rico Not Too Broke to Pay Debt, OppenheimerFunds Says.

Puerto Rico’s governor says the island’s $72 billion debt load is too big to pay. OppenheimerFunds Inc., the largest mutual-fund holder of the bonds, disagrees.

As Alejandro Garcia Padilla begins to make the case for delaying debt payments, the New York-based company is building the opposite argument. On a conference call this week, its money managers said data on sales-tax collections, unemployment and income growth indicate the economy is strong enough for the government to keep paying what it owes.

“The governor’s new rhetoric, which we see as political cover after signing a budget that required unpopular spending cuts, is disappointing,” OppenheimerFunds wrote in a summary of the July 6 conference call. “The ability to pay remains intact.”

OppenheimerFunds has emerged as one of the earliest — and most vocal — opponents on Wall Street of Puerto Rico’s unprecedented push to restructure its municipal bonds. The firm’s comments provide a window into how others may seek to protect their investments in the cash-strapped island, which has amassed more debt than any state except California and New York.

Puerto Rico can’t use bankruptcy to wipe out the debts of its publicly owned corporations, such as its teetering power provider, and its general-obligation bonds are protected by the commonwealth’s constitution. That’s forcing the government to negotiate, a process that’s set to begin next week in New York.

Bonds Tumble

Puerto Rico bonds tumbled after Garcia Padilla last week said the commonwealth’s debts are unpayable. A report by former International Monetary Fund economists released by Puerto Rico said the situation is dire, with high debt, unstable finances and a stagnant economy.

With speculation building about the island’s solvency, Puerto Rico bonds have lost 9.5 percent in 2015, according to S&P Dow Jones Indices data.

No firm has felt the impact as much as OppenheimerFunds. It had about $4.4 billion worth of uninsured obligations from the island as of July 9, according to data compiled by Bloomberg.

Puerto Rico obligations make up 13.8 percent of OppenheimerFunds’s total holdings, excluding tobacco bonds, insured debt and pre-refunded securities, the money manager said in its statement.

OppenheimerFunds’s state funds hold securities from Puerto Rico, which are tax-exempt nationwide. Its Virginia, Arizona, New Jersey, Maryland and North Carolina funds have the biggest losses among open-end, single-state muni funds this year, Bloomberg data show.

Fortune’s Reversal

OppenheimerFunds predicts that the commonwealth’s securities will rebound from record lows reached in the past two weeks.

“We believe Puerto Rico bonds will contribute to very strong total returns going forward and that, at current prices, there is far more upside than downside,” according to the summary of the conference call. The speakers were fund managers Dan Loughran, Scott Cottier and Troy Willis, along with Digby Clements, the product director of OppenheimerFunds.

Ray Pellecchia, a spokesman for OppenheimerFunds, said the managers declined to comment further. He declined to comment on whether the money manager would be represented at a planned July 13 creditor meeting in New York.

That meeting, with Government Development Bank President Melba Acosta, will start at 3 p.m. in Citigroup Inc.’s New York headquarters, said Todd Hagerman, head of investor relations in San Juan for the development bank, which handles the island’s debt transactions. It will focus on the IMF report.

Little Help

OppenheimerFunds disputes that the island's fiscal health would improve if some of its agencies were allowed to file for bankruptcy. Legislation to do so has yet to advance in the Republican-controlled U.S. Congress, even though key Democrats support it.

For one, the commonwealth's aqueduct and sewer authority probably couldn't prove it is insolvent, the money manager said, nor could Puerto Rico convince a court to reduce its sales-tax-backed bonds, known as Cofinas. Proving insolvency is a first step to seek court protection.

Additionally, the Puerto Rico Electric Power Authority, the cash-strapped agency for which legalizing Chapter 9 could be useful, is already working to renegotiate its $9 billion of debt out of court, the company said.

"The financial and reputational costs associated with a Chapter 9 filing are such that most issuers see bankruptcy as the course of last resort," OppenheimerFunds said. "The administration needs to execute on the balanced budget, recognize its capacity to raise taxes, and continue to reduce the size of its underground economy, all of which should help the economy grow."

Bloomberg

by Brian Chappatta

July 9, 2015 — 10:08 AM PDT Updated on July 9, 2015 — 12:06 PM PDT

Muni Yields Driven Lower by Greece as Puerto Rico Woes Ignored.

Who would have guessed that the turmoil in Greece would matter more to municipal-bond investors than Puerto Rico's flirtation with insolvency?

Yields on U.S. tax-exempt debt are the lowest since May, joining a broad fixed-income rally amid Greece's standoff with creditors even after Puerto Rico declared its $72 billion of debt unpayable.

Ten-year yields fell to 2.28 percent Wednesday, the least since May 13, data compiled by Bloomberg show. At the same time, outflows from municipal mutual funds swelled to $1.2 billion in the week through July 1, the most in 18 months, according to Lipper US Fund Flow data.

"It's a very interesting dynamic: you've seen successive weeks of outflows," and yet yields have dropped, said Jeff Lipton, head of municipal research in New York at Oppenheimer & Co. "We've seen a flight to quality, and a lot of that has to do with Greece."

Puerto Rico Governor Alejandro Garcia Padilla's abrupt announcement last week that he wants to restructure the junk-rated commonwealth's debt coincided with an escalating crisis in Greece. The euro-zone tension sent investors into safer assets, with 10-year U.S. Treasury yields plunging 0.15 percentage point on June 29, the most in three months. The highest-quality state and local debt also rallied.

About 40 percent of the fund outflows last week were from high-yield funds, which are the most likely to hold Puerto Rico's bonds. Commonwealth securities have plunged 7.2 percent since June

26, the last trading day before Garcia Padilla's announcement, S&P Dow Jones Indices data show.

The ratio of 10-year muni interest rates to those of Treasuries, a measure of relative value, is about 102 percent, up from 97 percent on June 26. A higher figure signals tax-free bonds have weakened relative to their federal counterparts.

Bloomberg

by Brian Chappatta

July 8, 2015 — 10:43 AM PDT

Puerto Rico Insured Debt at 76 Cents Lures Muni Buyers to Island.

After Puerto Rico bonds tumbled by the most in at least 17 years, Wells Capital Management, MacKay Shields and Belle Haven Investments sifted through the wreckage and decided it was time to buy.

They're not expecting an end to the fiscal crisis gripping the junk-rated Caribbean island. They're betting insurers can stand by promises to cover principal and interest bills if Puerto Rico reneges on its debt.

Governor Alejandro Garcia Padilla's announcement last week that the island can't afford to repay what it owes sparked a rout that caused some insured Puerto Rico securities to trade for as little as 76 cents on the dollar. Prices rebounded as investors snapped up the debt, speculating that a widespread default won't wipe out the biggest guarantors.

"It's one of these classic muni headline issues: A lot of people want to be the first out of the door and sell theirs first," said John Loffredo, who helps oversee $13 billion of munis at MacKay in Princeton, New Jersey. "We've been actively participating in AA rated insured muni bonds that are triple tax-exempt that we believe are mispriced."

The escalation of Puerto Rico's debt crisis last week rattled mutual and hedge funds that have parked money in the island's debt because it's tax-exempt nationwide and offered yields higher than other investments.

$72 Billion

The commonwealth and its agencies owe $72 billion after years of borrowing to paper over budget shortfalls. Garcia Padilla said he wants to negotiate with investors to delay payments that are draining the government's coffers.

Prices on some general obligations backed by a unit of Assured Guaranty Ltd. slid 7 cents on June 30 to an average of 85 cents on the dollar, pushing the yield to 6.4 percent. The same day, sales-tax debt backed by the company plunged 14 cents to 80 cents, after trading for as little as 76 cents. The securities pared losses by July 2, with the general obligations trading for 88 cents and the sales-tax bonds for 87 cents.

Uninsured general obligations due in 2041, by contrast, trade at about 59 cents on the dollar.

Assured Guaranty is rated AA, the third-highest investment grade, by Standard & Poor's, which affirmed the grade last week. Comparably rated 30-year municipal bonds yield about 4 percent.

Bond insurers pledge to pay interest and principal on time if a borrower defaults. That means that even if Puerto Rico officials are able to postpone debt payments, holders of insured securities won't be affected as long as the companies have sufficient funds.

Insurers Stumble

Shares of Assured Guaranty and rivals MBIA Inc. and Ambac Financial Group Inc. fell last week amid speculation about the fallout from Puerto Rico. CreditSights Inc. issued a report Wednesday questioning Ambac's claim that it had $4.8 billion available to cover Puerto Rico losses. The company said its figures are accurate.

Belle Haven and Wells Capital purchased shorter-dated insured bonds because there's greater certainty that the guarantors will have enough cash to weather a default.

Bonds due in less than three years were "down way too much," said Lyle Fitterer, who oversees $38 billion of munis at Wells Capital in Menomonee Falls, Wisconsin. "We have confidence in the claims-paying ability of the monolines in that type of time horizon."

Cash Reserves

Assured Guaranty and MBIA's National Public Finance Guarantee Corp. are each on the hook for about $10 billion of Puerto Rico principal and interest payments, though that would be spread over the next three decades. Ambac has backed $2.4 billion of commonwealth debt.

Investors "can rely on our $12 billion in claims-paying resources and unconditional and irrevocable guaranty of the scheduled payment of principal and interest when due," Robert Tucker, head of investor relations for the Hamilton, Bermuda-based Assured Guaranty, said in a statement.

Kevin Brown, a spokesman for Purchase, New York-based MBIA, said its National unit "will ensure that its policyholders will continue to receive all of their scheduled interest and principal payments on time and in full."

Ambac Interim Chief Executive Officer Nader Tavakoli said in a statement that "if it were to become necessary, we are confident in our ability to pay timely principal and interest."

Pimco Waits

The price declines still weren't enough to attract some investors. Pacific Investment Management Co. is steering clear of Puerto Rico debt until there's a restructuring plan in place and a strategy to grow the island's economy, said Joe Deane, New York-based head of munis for Pimco, which manages $40 billion of state and local debt.

"Show me a solution and I'll show you the money," Deane said. "But until I can clearly see a path forward that would make that debt at whatever price viable, there's absolutely no number in my mind where I would necessarily buy."

Last week's rout echoed one from a year ago, after Garcia Padilla signed a law that would have let some public agencies restructure debt. The Assured-backed Puerto Rico general obligations that slid this week dropped to as low as 80 cents on the dollar in July 2014, only to rebound to 100 cents in less than two months. The law was struck down in court this year.

“I would expect over the coming weeks and months that the insured paper will stabilize,” said Brian Steeves, who helps manage about $3 billion of municipal debt at White Plains, New York-based Belle Haven Investments, which has been adding different Puerto Rico credits guaranteed by Assured.

Bloomberg

by Brian Chappatta and Michelle Kaske

July 5, 2015 — 9:01 PM PDT Updated on July 6, 2015 — 6:19 AM PDT

Illinois Rating Unchanged for Now, Amid Budget Impasse Between State Executive and Legislative Branches.

NEW YORK (Standard & Poor’s) July 6, 2015—Illinois begins fiscal 2016 without an adopted budget as the stalemate between the executive and legislative branches intensifies. On June 25, Gov. Bruce Rauner vetoed 19 of the 20 budget bills that encompass the fiscal 2016 spending proposal sent to him by the Illinois legislature, identifying a $4 billion budgetary gap. As Standard & Poor’s Ratings Services noted in its report, “Late State Budgets: Summer Cliffhangers No One Wants To See,” (published June 4, 2015, on RatingsDirect) it expects Illinois’ budget negotiations to drag out through the summer. Actions both sides have taken so far suggest that they are digging in for a protracted budget negotiation. The governor’s signed education bill, which will ensure that schools open, asked agencies to stock up on critical supplies before the end of fiscal 2015, and the governor is making efforts to ensure state employees continue to get paid in the absence of an adopted fiscal 2016 budget. Likewise, the legislature attempted to pass a one-month budget that would keep government spending in place and provide more time for negotiations.

From a credit standpoint, the absence of a budget does not have an immediate impact on the state’s ability to pay debt. General obligation (GO) debt service in Illinois benefits from a continuing appropriation and the state has made provisions to ensure payment of its moral obligation debt coming due through August. Pension payments and spending tied to federal consent decrees also benefit from continuing appropriations and can still be paid. Because the state has a backlog of payments (estimated at $4.25 billion as of May), it is paying its vendors several months in arrears. Illinois’ ability to continue making payments owed from fiscal 2015 will delay the cash flow impact on vendors, at least while these vendors continue to collect back payments from fiscal 2015. However, to the extent that budget adoption is delayed, the state will continue to build on its payables as payments that require appropriations cannot be made. Furthermore, protracted budget negotiations could have a detrimental effect on the state’s economy due to reduced and delayed spending and investment. Illinois already ranks 48th in year-over-year change in personal income in first-quarter 2015, 49th in year-over-year population change as of July 1, 2014, and 38th in year-over-year employment change as of May 2015.

In our view, the absence of a budget, while not affecting debt service, reflects a failure in the fiscal policymaking process. The legislature is looking for the governor to propose tax increases to close the budgetary gap. Gov. Rauner has indicated his willingness to increase income taxes and expand the sales tax base to tax services, but only in exchange for several reforms he is proposing and which haven’t garnered significant support from the legislature. These measures include worker’s compensation and tort reform, and a property tax freeze tied to limits on prevailing wage requirements and collective bargaining. We have yet to see either side exhibit flexibility on their core policy objectives. And while an extended legislative session can sometimes result in an improved structural alignment or adoption of substantive policy reforms, it can also lead states to resort to budgetary gimmicks. On May 8 we placed our Illinois ratings, including our ‘A-‘ GO rating on the state, on CreditWatch with negative implications. In our view, the outcome of the fiscal 2016 budget deliberations will be pivotal to the state’s credit trajectory given the magnitude of structural imbalance, pension spending burden, and overall liquidity. As we indicated in our CreditWatch, we could take a rating action within the next two months, even in the absence of an adopted budget if, in our view, there is limited progress in budget deliberations or if credit fundamentals weaken.

Under Standard & Poor’s policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.Standard & Poor’s Ratings Services, part of McGraw Hill Financial (NYSE: MHFI), is the world’s leading provider of independent credit risk research and benchmarks. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years’ experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

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California GO Debt Rating Raised To 'AA-' And Removed From CreditWatch Upon Budget Enactment.

SAN FRANCISCO (Standard & Poor’s) July 2, 2015–Standard & Poor’s Ratings Services removed from CreditWatch and raised its rating on California’s general obligation (GO) debt to ‘AA-‘ from ‘A+’. Standard & Poor’s has also raised its rating on the state’s general fund annual appropriation-secured debt to ‘A+’ from ‘A’. The outlook on both ratings is stable.

“The rating action follows enactment of California’s 2015-2016 budget, which, in our view, marks another step forward in the state’s journey toward improved fiscal sustainability,” said Standard & Poor’s credit analyst Gabriel Petek. Seeing the potential for this, in May we placed our ‘A+’ GO rating on the state on CreditWatch with positive implications, pending the outcome of budget negotiations that were underway at the time. In June, lawmakers reached agreement on a budget package that is just $61 million (0.05%) above what the governor had proposed. The spending plan is built upon the Department of Finance’s (DOF) revenue forecast and leaves the state with budget reserves totaling $4.6 billion, or 4% of expenditures, which we consider good. In addition, the budget pays down $1.85 billion in various general fund debt-like obligations, most of which had been incurred during prior years to finance budget deficits.

“Lawmakers’ adoption of the DOF revenue forecast as part of the final budget agreement was significant, in our view,” added Mr. Petek. “Had the legislature adopted the higher Legislative Analyst’s Office’s revenue forecast, lawmakers could have, in effect, generated capacity for new discretionary spending commitments while projecting that operating balance would be maintained. However, by diverging from — and surpassing — the DOF's forecast, primarily by projecting higher capital gains-related tax revenue, the Legislative Analyst's Office's forecast rests on more favorable performance of a volatile revenue stream."

In the end and as they have in recent years, lawmakers agreed on a restrained approach to setting fiscal policy instead of budgeting to a more aggressive set of assumptions. The result is favorable to credit quality, not least because it enables the DOF to project that general fund operations will generate modest surpluses for at least three years. But the projected operating surpluses are narrow and largely spoken for by transfers to the rainy day fund.

Puerto Rico Utility Averts Default After Deal With Creditors.

Puerto Rico's junk-rated power utility said it made a full $415 million bond payment due Wednesday and reached an agreement to continue negotiations with creditors to restructure its $9 billion of debt. Its bonds rallied.

The Puerto Rico Electric Power Authority, called Prepa, made the principal and interest payment by selling $128 million of short-term debt to the companies that insure its bonds, including Assured Guaranty Ltd. It also tapped reserves and used $153 million from its general fund, the agency said in a statement.

The utility's ability to avoid a default marks a break in Puerto Rico's escalating fiscal crisis as the commonwealth and its agencies teeter under $72 billion of debt. The talks with creditors may advance the utility's effort to pare its debt load, which would free up money to modernize a company whose high electricity costs have left it saddled with unpaid bills.

"They seem to be making progress toward a more comprehensive type of agreement," said Joseph Rosenblum, director of municipal credit in New York at AllianceBernstein Holding LP, which manages $32 billion of municipal bonds. He said the agreement may help resolve Prepa's debt issues and "probably moves them further along" toward overhauling its power plants.

Talks Continue

The utility extended a forbearance pact with creditors until Sept. 15, which will keep discussions out of court. It must negotiate a plan to overhaul its debts by Sept. 1 to keep the deal in place, according to Stephen Spencer, a managing director at Houlihan Lokey Inc., the financial adviser to Prepa bondholders.
The utility's bonds rallied Wednesday. The price of uninsured securities maturing in 2042 jumped to an average of 43 cents on the dollar, up 11 percent from Tuesday, data compiled by Bloomberg show.

The payment also eased the immediate risk to companies that insure Puerto Rico bonds against default, whose shares slid this week after Governor Alejandro Garcia Padilla said the commonwealth can't make good on all its debts.

Assured Guaranty bought $72.6 million of Prepa's new bonds, reinsuring some against the risk of default, the company said in a statement. MBIA Inc.'s National Public Finance Guarantee Corp. said it bought $45 million. Together the two companies insure about $2.4 billion of Prepa debt, according to disclosures on their websites.

Buying Time

Assured Guaranty Chief Executive Officer Dominic Frederico said the arrangement will give “all parties time to negotiate a permanent, consensual restructuring.”

Prepa said it will repay the short-term securities in December.

The power company’s deal follows Garcia Padilla’s announcement this week that his administration will seek to persuade investors to delay payments on some of the commonwealth’s $72 billion of debt. That rattled financial markets by raising the risk of losses on Puerto Rico’s direct debt, instead of just securities from agencies such as Prepa.

The island’s crisis has resulted from years of borrowing to pay its bills as the economy struggled to grow. Its power company relies mainly on petroleum to produce electricity, instead of lower-cost fuel such as natural gas. That’s left many residents unable to pay electricity bills because rates are twice as high as those on the U.S. mainland.

“We are pleased we were able to reach an agreement that allowed us to make the payment to our bondholders today and avoid a default,” Lisa Donahue, Prepa’s chief restructuring officer, said in a statement. “Today’s outcome would not have been possible without the support of the insurers and other creditors.”

While investors believe there’s opportunity to reach a plan for paring Prepa’s debt burden by Sept. 1, the agreement may be scuttled if Puerto Rico treats bondholders “unnecessarily unfairly during this process,” Spencer, the adviser to bondholders, said in a statement.

Bloomberg

by Michelle Kaske

July 1, 2015 — 7:00 AM PDT Updated on July 1, 2015 — 12:29 PM PDT

Chicago Cuts 1,400 Jobs as Pension Fight Drags On.

CHICAGO—Mayor Rahm Emanuel on Wednesday said the nation’s third-biggest school district is cutting 1,400 jobs and boosting borrowing in response to the growing fiscal crisis facing Illinois and its largest city.

The job cuts at the Chicago Public Schools, which largely shield teachers and include positions that are vacant, are part of a plan to cut annual spending by $200 million, or roughly 3.5%.

That followed a decision by city officials to make a $634 million payment due to the teachers’ retirement system before a Tuesday night deadline.

“These payments do not come without a cost,” Mr. Emanuel said. “There is a series of political compromises and patchwork over the years that can no longer continue.”

State and city pensions systems have long been underfunded, leaving the funds well short of the assets needed to pay promised benefits. Chicago schools have sought help from state lawmakers, who have considerable control over education spending and the pension systems. However, they so far have taken no steps to assist the city school system.

“Your stalemate is having consequences,” Mr. Emanuel said.

In the short term to ensure schools open on time and keep class sizes from rising, the district drew down on two credit lines to make the pension system payment due this week and is asking to put off for a year $500 million in pension payments due in the new fiscal year.

Mr. Emanuel has proposed that teachers’ pension contributions and local property taxes would be increased if the state would make increased payments into Chicago’s teacher retirement system.

Parts of such a proposal are being discussed at the Illinois capitol. But the Illinois government remains mired in a battle over the next state budget, which had yet to be approved as a new fiscal year began Wednesday, an impasse that threatens to force a partial state government shutdown.

The Democratic-controlled legislature and Republican Gov. Bruce Rauner, who took over in January promising to overhaul state government, remain divided over spending and tax policies. They face an estimated shortfall of more than $6 billion for fiscal 2016 that must be closed.

Mr. Rauner has pushed for deep cuts and changes he says will promote business growth, including curbs on unions and overhauling the medical malpractice system. Democrats oppose many of Mr. Rauner’s proposals and are looking to blunt the cuts, but haven’t provided details on how they would pay to preserve services. “We got a mess. It is going to take a little while to fix,” Mr. Rauner said this week.

Nationally, Illinois and Chicago remain outliers among state and municipal governments. Illinois has the lowest credit rating among U.S. states, while Moody’s Investors Service has lowered the debt rating of Chicago and its school district to below investment grade in recent months.

The budget impasse will likely immediately hurt private, nonprofit agencies that rely in some cases exclusively on state funds, like health-care clinics, mental health treatment centers and housing for victims of domestic violence.

State workers aren’t likely to be affected initially, since paychecks for the last two weeks of June are typically paid by July 15. But if the impasse carries on, they could end up in court to ensure pay continues without a budget in place. On Wednesday, a one-month stopgap budget that would continue funding state services passed in the Senate, but failed in the House.

The job cuts in Chicago have reignited a strained relationship between the district and the Chicago Teachers Union, which are in the midst of negotiating a contract that ended this week. Teachers here went on strike in 2012, and while the relationship between the mayor and the union have shown signs of improving, labor leaders described the latest round of reductions as deceptive and retaliatory.

THE WALL STREET JOURNAL

By MARK PETERS and MICHELLE HACKMAN

Updated July 1, 2015 7:12 p.m. ET

Write to Mark Peters at mark.peters@wsj.com

Michigan Sets Formal Fiscal Review of Detroit's County.

(Reuters) – Wayne County, home to Detroit, was under “probable financial stress,” the state of Michigan said on Wednesday and announced plans to start a formal fiscal review.

The state’s Local Emergency Financial Assistance Loan Board said Governor Rick Snyder will appoint a review team that includes Michigan’s treasurer and budget director to see if a financial emergency exists.

“While county officials have taken some important steps in an effort to remedy the current crisis, the county continues to face significant financial difficulties that must be addressed now,” State Treasurer Nick Khouri, who chairs the Emergency Loan Board, said in a statement.

A preliminary review of the county pointed to chronic budget deficits projected to hit $171.4 million by fiscal 2019 and big pension pressures. Since fiscal 2004, the county’s pension funding ratio has fallen to 45 percent from nearly 95 percent and the unfunded pension liability has climbed to $910.5 million from just $49.6 million, according to the review.

Detroit went through a similar process that led to the filing of the biggest U.S. municipal bankruptcy, which the city exited last December after shedding about $7 billion of its $8 billion of debt and obligations.

Wayne County Executive Warren Evans requested the review last month, asking the state for a fiscal emergency declaration and a consent agreement to fix the problem.

Last week, the county sold nearly $188 million of taxable notes due on Dec. 1, 2017 with a hefty 6 percent yield and 5.75 percent coupon.

By REUTERS

JULY 1, 2015, 5:01 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Grant McCool)

Puerto Rico's Deepening Crisis Threatens High-Yield U.S. Funds.

(Reuters) – Puerto Rico’s deepening financial crisis could speed up an exodus of money from U.S. municipal bond funds that have placed big bets on the cash-strapped Caribbean island.

Investors, for example, pulled $634 million from muni bond funds run by OppenheimerFunds during the first five months of 2015, according to Lipper Inc, a unit of Thomson Reuters.

And that was before Puerto Rico Governor Alejandro Garcia Padilla admitted Monday that the country’s budget gap was bigger than thought and it could not repay more than $70 billion in debt.

Over the past year, funds run by Goldman Sachs Group Inc have increased their exposure to Puerto Rico to attract yield-hungry investors, U.S. regulatory filings show.

Before this week’s bad news, veteran Eaton Vance bond fund manager Tom Metzold said Puerto Rico’s problems could trigger a domino effect, partly from portfolio managers selling assets to meet investor redemption demands.

“I’m worried about that contagion effect,” said Metzold, who’s leaving his post July 31 to join muni bond insurer National Public Finance Guarantee Corp., a unit of MBIA Inc.

U.S. municipal bond funds are the largest owners of Puerto Rico debt, in a strategy that seeks high yield amid rock-bottom interest rates. The bonds are typically exempt from local, state and federal income taxes, widening their appeal to single-state funds that use Puerto Rico debt to diversify their portfolios while boosting income for investors.

To be sure, investing in Puerto Rico could be a winning strategy for those able to stomach the many recent episodes of tumult.

The $6 billion Oppenheimer Rochester Fund Municipals has generated a 1-year return of 4.81 percent, beating 91 percent of peers, using a mix of New York muni bonds (about 77 percent of assets), with much of the rest invested in Puerto Rico, according to Morningstar Inc.

The fund lost nearly 11 percent in 2013 as Puerto Rico’s fiscal woes triggered an industry-wide sell off.

Nuveen Asset Management’s exposure to Puerto Rico is about $330 million out of $100 billion in overall municipal bond assets. Nuveen says 100 percent of Puerto Rico debt is either insured, escrowed by U.S. treasuries or tobacco bonds.

By contrast, OppenheimerFunds, a unit of MassMutual Financial Group, mostly owns uninsured Puerto Rico debt. Its stable of Rochester muni bonds funds owns about $5 billion in Puerto Rico debt. That’s the largest amount in the U.S. fund industry, making up 21 percent of the muni bond group’s $26 billion in assets.

OppenheimerFunds declined to comment for this story. During the 12-month period that ended May 31, investors withdrew $2.73 billion from the muni fund group, according to Lipper.

Meanwhile, Puerto Rico’s budget gap is estimated to surge to $7 billion by 2018, from about $3.7 billion in 2016, according to a report by former International Monetary Fund economists.

“Perhaps of greatest concern to investors is (the report’s) inclusion of general obligation debt in debt relief,” said Robert Donahue, a research analyst at research firm Municipal Market Analytics Inc.

Restructuring general obligation debt carries a heavy implication because most investors see those bonds as the safest among fixed-income securities.

By REUTERS

JUNE 29, 2015, 8:04 P.M. E.D.T.

(Editing by Bernadette Baum)

Hedge Funds Fight to Save Puerto Rico Investments.

Hedge funds like Appaloosa Management, Paulson & Company and Blue Mountain Capital gathered in a conference room at the Barclays offices in Midtown Manhattan last September to talk about what was then the hottest trade: Puerto Rico.

An hour into the conversation, however, it became clear that if things started going bad, not everyone in the room was going to get along. Some had wagered on real estate, while others had bought up the debts of the central government and its troubled electric utility.

Those divisions intensify an increasingly contentious battle the hedge funds are beginning to wage to salvage an investment that, less than a year ago, looked like a sure thing.

This week's announcement by Gov. Alejandro García Padilla of Puerto Rico that the commonwealth may seek to delay debt payments has thrown the hedge funds' investment strategies into turmoil.

Even debts that appeared to be secure now seem in jeopardy, sending hedge funds and other investors scrambling to re-examine their legal rights and potential remedies should the government push for a restructuring.

A vast restructuring of the commonwealth's bonds could scare away more risk-averse investors from buying them for many years to come, causing major problems for the hedge funds.

"Those investors are not coming back," said Robert Donahue, a managing director at Municipal Market Analytics. "The hedge funds miscalculated and they are feeling the pain."

While some hedge fund managers say they were caught off guard by Governor García Padilla's call for a debt restructuring, they are not panicking, even as the price of some of their bond holdings has fallen 17 percent in the last two days.

They see the governor's announcement as more of an opening salvo in a negotiation rather than an indication of imminent and widespread defaults, particularly on debts that Puerto Rico's Constitution says must be repaid.

Some analysts say the governor's announcement may have been intended in part to drive down the value of the hedge funds' bonds so that the firms would be more willing to agree to concessions in order to minimize their losses.

"The Puerto Rico government has engaged in the creation of a crisis where there isn't one," said Hector Negroni, a principal at Fundamental Advisors, which owns Puerto Rico debt. "But I don't think they will ultimately flout the rule of law. At the end of the day, they need to borrow money again. And no one will lend them money if they break the Constitution."

Lending more money to Puerto Rico had been a major part of some hedge funds' strategy. They planned to allow the commonwealth to help fund its operations with borrowed money so it could take steps to jump-start the economy.

When Puerto Rico issued $3.5 billion in general obligation bonds last March, a long list of hedge funds participated, including Paulson & Company and Och-Ziff Capital Management.

Paulson & Company immediately sold its approximately $120 million holding, according to a person familiar with the firm's trading, and it was unclear whether the other hedge fund managers later sold their similarly sized positions.

The bonds were sold last March at about 93 cents on the dollar. On Tuesday, the bonds were trading as low as 64 cents, according to Municipal Market Analytics.

Many of the same hedge funds have been offering to lend the government as much as $2.9 billion in a bond supported by a fuel tax. But the government has refused to negotiate a deal in recent months, hedge funds managers say.

Aides to Governor García Padilla said in an interview last week that they had not ruled out borrowing more money from hedge funds, but that they first needed to examine all their options, including a vast restructuring of current debts. The aides added that the initial deal terms were too onerous.

Some hedge funds had invested in Puerto Rico debt, expecting a restructuring all along. Firms like Blue Mountain Capital have bought up bonds owed by the Puerto Rico Electric Power Authority at steep discount. On Tuesday, the utility was close to a deal that would avert a default and possibly allow some of its creditors to eventually profit from their investments in its $9 billion in debt.

Until this week, a restructuring of general obligation bonds, which carry a constitutional guarantee to repay, seemed like an impossibility, making the hedge funds' investment look bulletproof.

For the hedge funds, the idea was to lend the money at high interest rates, then flip the bonds to traditional municipal bond investors, like mutual funds, once the fiscal crisis on the island had passed. As part of that strategy, some of the hedge funds circulated research last summer arguing that Puerto Rico's problems were overstated.

But Governor García Padilla is now contending exactly the opposite, releasing a report by former officials at the International Monetary Fund and the World Bank that says that Puerto Rico's deficit is worse than it appears and that the commonwealth cannot solve its problems without restructuring its debts, possibly even its general obligation bonds.

Still, Puerto Rico's relationship with the hedge fund industry is complicated. At the same time the government is gearing up for a series of restructurings with hedge funds and other creditors, officials are courting investments in the broader economy.

Hedge funds have been among the few investors willing to take a chance that Puerto Rico can turn things around.

Puerto Rico's biggest hedge fund cheerleader in New York has been the billionaire John A. Paulson. Mr. Paulson told investors at an investment conference in San Juan last year that Puerto Rico's economy was turning a corner. He went as far as to predict it would be the Singapore of the Caribbean, referring to the Southeast Asian city-state that is considered the region's biggest economic success story.

Mr. Paulson bought up some of the island's most exclusive luxury hotels, including the St. Regis Bahia Beach Resort, the Condado Vanderbilt Hotel and the La Concha Renaissance hotel and tower.

And he has acted as a de facto liaison between the commonwealth and Wall Street.

Mr. Paulson recently suggested that Puerto Rico officials attend the hedge fund industry's biggest event of the year — the SkyBridge Alternatives Conference in Las Vegas, according to Alberto Bacó Bagué, Puerto Rico's secretary of economic development.

Mr. Paulson met with Mr. Bagué on the sidelines of the conference and helped arrange a meeting with James J. Murren, the chief executive of MGM Resorts, Mr. Bagué said.

"He is building a home, and he is validating our economic model with all his colleagues and friends and the investments that he has," Mr. Bagué said.

THE NEW YORK TIMES

By MICHAEL CORKERY and ALEXANDRA STEVENSON

JUNE 30, 2015

Puerto Rico Signals Chapter 9 Push With Ex-Detroit Judge on Board.

NEW YORK — When Puerto Rico hired former Detroit judge Steven Rhodes it sent a signal to creditors that one possible solution it sees is the one thing it cannot do now: declare bankruptcy.

Gaining access to the U.S. Chapter 9 bankruptcy laws for the commonwealth would give a framework for creditors and debtors of public corporations to work out their differences. Allowing the Commonwealth itself to follow the same path as the city of Detroit, which emerged from bankruptcy last year, would be a further step.

"The parallels between Detroit and Puerto Rico are strong enough that I think any of the public corporations or the commonwealth itself could take advantage of the same kind of process that we used in Detroit," Rhodes told Reuters.

A more concerted push for a bankruptcy framework concerns some creditors, who fear it will weaken their negotiating position and reduce their chances of recovering their money.

"Every time Chapter 9 is used, bondholders get destroyed," said one creditor source.

In testimony ahead of a February congressional hearing on a proposal to allow Puerto Rico to apply the code to its municipalities, Thomas Mayer, a partner at Kramer Levin law firm representing PREPA utility's bondholders, cited recoveries in Detroit, Stockton, Vallejo and Jefferson County and concluded that the code hurt bondholders.

Puerto Rico's Governor Alejandro Garcia Padilla dropped a bombshell on holders of its $73 billion debt on Monday by saying that he wants to restructure debt and postpone bond payments. He also called on Washington to make changes to U.S. bankruptcy laws to include Puerto Rico.

Padilla's office had hired Rhodes, who is retired, on June 1, to use his experience from presiding over Detroit – the biggest U.S. municipal bankruptcy. Rhodes will be devoting 25 percent of his time to the island, he said.

"(Rhodes) has made a very public statement about wanting Chapter 9 applied to the Commonwealth," said David Tawil, president of New York-based hedge fund Maglan Capital, which sold its Puerto Rico exposure about a year ago. "It's a big deal."

The creditor source said Rhode's appointment gave them the impression that Puerto Rico was "hiring him to help push for Chapter 9," because of his experience.

Chapter 9 is the bankruptcy statute governing municipal filings. Puerto Rico's entities now cannot use the statute because it only covers political subdivisions or public agencies of a state.

The island's congressional delegate, Democrat Pedro Pierluisi, has already proposed legislation to allow Puerto Rico’s public corporations such access.

Rhodes said that creditors “need to accept that the island, the commonwealth and its public corporations are simply not able to pay their obligations as they come due.”

“What bondholders need to understand is that the filing of a bankruptcy by itself doesn’t create any harm to any creditors,” Rhodes said. “What creates the harm to creditors is the inability of public corporations to pay their debt.”

CHAPTER 9 STRETCH

Allowing Puerto Rico to use Chapter 9 as it is currently proposed would not apply to general obligation debt issued by its government because the statute excludes states from restructuring their own debt, said Daniel Hanson, analyst at Height Securities.

“To give them a special ability to restructure their obligations on a state level would be different to what the rest of the states have,” said Hanson. “It seems extraordinarily unlikely to pick up any kind of political traction.”

One large Puerto Rico bondholder said that anything that opened the door to a restructuring of the island’s general obligation bonds would be negative for the bonds, but played down such a possibility.

“They will have a hard time defending why bondholders should be getting less than they are currently getting.”

Puerto Rico would have to amend the bankruptcy laws to have it considered a state for the purpose of Chapter 9; and then get a provision to allow it to file its state debt.

Pierluisi himself sees no appetite in Congress for giving Puerto Rico more favorable treatment than the states have, his spokeswoman said.

But Rhodes said there could be less resistance to allowing such an option for the territory than it would have been with a state.

“Territories are not sovereign entities in our constitutional structure the same way states are,” Rhodes said. “So while from a constitutional perspective, Congress probably could even authorize a state to file bankruptcy, the political, legal and constitutional sensitivities are very much stronger when you are dealing with a state compared to a territory.”

The push for Chapter 9 took on more importance when a U.S. federal judge in February voided a restructuring law Puerto Rico had introduced to make some of its agencies eligible for court-supervised debt restructuring.

But Chapter 9 also looks like a long shot and some negotiations go on despite the lack of a legal framework. Puerto Rico’s utility PREPA continues to negotiate a restructuring of its $9 billion debt and on Wednesday struck a deal to avoid default. Puerto Rico could also consider setting up a financial control board, such as that used by the then nearly-bankrupt District of Columbia in 1995.

Rhodes said some form of a settlement was still the best option, but that could be facilitated if Chapter 9 were available, even if it were not used.

“All parties would much rather have an out of court solution,” said Rhodes, who is not expecting to play any role in negotiations with creditors. “Bankruptcy is always the last resort.”

By REUTERS

JULY 3, 2015, 11:28 A.M. E.D.T.

(Additional reporting by Edward Krudy and a contributor in San Juan; Editing by Tomasz Janowski)

Puerto Rico Crisis Leaves Few Market Ripples as Yields Fall.

The $3.6 trillion municipal-bond market’s first reaction to Puerto Rico saying it can’t pay its $72 billion of debt? A collective yawn, as far as prices went.

While the commonwealth’s securities tumbled after Governor Alejandro Garcia Padilla said his administration will seek to restructure its debt, the fallout has so far been contained: Yields on top-rated 10-year municipal bonds declined 0.02 percentage point, or 2 basis points, this week, as prices rose, according to data compiled by Bloomberg. Top-rated 30-year bond yields were little changed, even as investors pulled money from municipal-bond funds for a ninth straight week.

Puerto Rico securities have traded at speculative levels for more than a year, which has given investors time to pare holdings of the junk-rated island. The long-building strains on the U.S. commonwealth, which has more debt per resident than any state, are also unique.

“Problems with Puerto Rico aren’t news,” said Phil Fischer, head of municipal research at Bank of America Merrill Lynch in New York. “Puerto Rico paper has been treated as speculative for a long time now.”

Garcia Padilla said this week that his administration will seek to put off some debt payments for a “number of years.” The specter of such a restructuring caused Puerto Rico’s newest general-obligation bonds to trade at an average of 69.8 cents on the dollar Thursday, down from 77.3 cents last week.

Risk Appetite

Fischer said individual investors have reduced their holdings of Puerto Rico bonds, many of which are now owned by hedge funds and other buyers with more appetite for risk. About half of U.S. mutual funds that focus on municipal debt hold the securities, down from 77 percent in October 2013, according to Morningstar Inc.

The island’s debt crisis could force fund managers to sell other bonds if losses lead investors to withdraw their money. Investors have pulled cash from municipal-bond funds for the past two months, and some analysts say a Puerto Rico restructuring could weigh on a market already bracing for higher interest rates.

Investors withdrew $1.2 billion from municipal bond funds in the week ended Wednesday, the most since Jan. 2014, Lipper US Fund Flows data released Thursday show. About 40 percent of that total was from high-yield funds.

High Yield

If Puerto Rico defaults, some high yield funds, which have higher concentrations of the commonwealth's bonds, may be the hardest hit. Municipal debt backed by a 1998 national settlement with tobacco companies and those issued by lower-rated hospitals may be vulnerable, said Mikhail Foux, municipal debt strategist at Barclays Plc.

Still, Bank of America's Fischer said Puerto Rico's struggles don't reflect any broader financial pressure on state and local governments.

"The risk with regard to Puerto Rice is not in some sense a contamination of other municipal credits," he said. "There's almost no economic dependency of other muni issuers on Puerto Rico."

Bloomberg

by Martin Z Braun

July 2, 2015 — 12:19 PM PDT Updated on July 2, 2015 — 3:16 PM PDT

Franklin Templeton Sees Costly Legal Fight Over Puerto Rico Bonds.

Municipal bond researchers at Franklin Templeton, whose funds are among the largest owners of Puerto Rico debt, on Wednesday predicted a "long and costly" legal battle as the Caribbean nation tries to restructure more than $70 billion in obligations.

"At the very least, in our assessment, Puerto Rico can expect creditors to seek legal affirmation and protection of contractual rights," said Rafael and Sheila Amoroso, co-directors of the municipal bond department at Franklin Templeton. Their report was published on the company's website.

"Unfortunately, we think it will likely be a long and costly battle regardless of the outcome," they said.

However, the co-directors said they didn't see Puerto Rico's problems affecting the rest of the $3.7 trillion U.S. municipal bond market in a negative way.

Reuters

Wed Jul 1, 2015 12:39pm

(Reporting By Tim McLaughlin)

Best Credit Data Partners with Exchange Data International to Distribute Municipal Bond Pricing Data.

Best Credit Data (BCD), a provider of end of day bond pricing data, is partnering with Exchange Data International (EDI), to distribute BCD Municipal Bond End-of-Day Pricing data to EDI clients around the world.

BCD Municipal Bond Pricing provides end of day pricing for over 1.25 million US municipal bonds every day and roughly 8 years of daily history. The partnership gives EDI's customers the opportunity to subscribe to BCD municipal bond pricing data. Customers will be able to access data fields including: price, yield, spread, multiple duration calculations, convexity, and OAS.

“We are excited to partner with EDI,” says Pierre Robert, CEO of Best Credit Data Inc. “Its global presence and its extensive experience with data-feeds makes it an ideal partner.”

“We are excited to bring BCD on as a new partner to help us fill the need for customers in regards to municipal bond pricing,” says EDI CEO, Jonathan Bloch, “It is the perfect partner to help bring transparency to a market sorely in need of high quality information due to severe illiquidity.”

MBIA Plummets After Downgrade.

The firm BTIG came out on Monday and downgraded Assured Guaranty Ltd. (NYSE: AGO) and MBIA Inc. (NYSE: MBI). BTIG said that this risks makes the two insurers not buyable and that investors should not get involved in the names. Assured Guaranty and MBIA are municipal bond insurers, and their ratings were each downgraded to Neutral from Buy.

Puerto Rico has warned that it is effectively near default after Puerto Rico’s governor said that its $72 billion in debt is unpayable. The governor had previously said that Puerto Rico would effectively do whatever was necessary to pay its debt.

Puerto Rico faces crunch time this week with a June 30 deadline to restructure some of its debt or bump the deadline.

It is estimated that Puerto Rico stands to have an overall deficit of $2.5 billion per year, over the next five years.

MBIA Inc. (NYSE: MBI). shares fell 23.50 % by days end to $6.36 per, down $1.95 per share with more than 20 million shares trading hands. The average daily volume is 3 million shares. That marks the lowest level for the issue since mid-November 2012 when it bottomed at $6.78.

About MBIA

MBIA Inc. (NYSE:MBI) provides financial guarantee insurance, as well as related reinsurance, advisory and portfolio services, for the public and structured finance markets, and asset management advisory services. MBIA conducts its United States public finance only financial guarantee business through its subsidiary National Public Finance Guarantee Corporation (National), and its global structured finance and non-United States public finance financial guarantee insurance business through its subsidiary MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). Related advisory and portfolio services are provided by the Company’s subsidiary Optinuity Alliance Resources Corporation (Optinuity), which provides support services, such as surveillance, risk management, legal, accounting, treasury and information technology.

Ira Market Report

June 30, 2015

By Don Miller

U.S. Muni Bond Issuance Jumps 49 pct in 1st-Half 2015.

U.S. municipal bond issuance rose to $213 billion in the first half of 2015, nearly 49 percent higher than the same period last year, according to preliminary Thomson Reuters data on Tuesday.

Refundings comprised $139.6 billion, or 66 percent, of the total for the period.

Reuters

Jun 30, 2015 3:26pm EDT

(Reporting by Hilary Russ in New York)

Puerto Rico's Crisis Deals a Blow to Municipal-Bond Funds.

Puerto Rico's debt headache isn't confined to the island. Some of the largest mutual funds have placed sizable wagers on the U.S. commonwealth's municipal bonds.

One fund, in fact, had nearly half its assets in Puerto Rican debt.

Now, investors are bracing for losses after the island's governor said Puerto Rico can't pay its debts. Already, some of the Puerto Rico holdings in the mutual funds are touching record lows.

In a low-interest rate world, Puerto Rico's bonds have offered investors juicy yields over the past several years. Puerto Rico's $3.5 billion in general-obligation bonds issued in 2014 initially had a yield of 8.7%. The yield on 10-year U.S. Treasury notes, by contrast, hovered between 2% and 3% last year.

But now investors are getting a fast lesson on the risk that comes with those sorts of high yields. More than half of all U.S. municipal-bond funds, or 298 of 565, have invested in Puerto Rico's debt, according to the most recent fund holdings compiled by Morningstar.

Municipal-bond mutual funds run by OppenheimerFunds and Franklin Resources BEN -0.24%' Franklin Templeton Investments have the highest exposure to Puerto Rico's debt, Morningstar says. OppenheimerFunds and Franklin Templeton respectively hold roughly $4.5 billion and $2.3 billion of Puerto Rico's $73 billion in municipal debt, according to the most recent Morningstar data.

The mutual fund with the biggest exposure, a roughly $230 million fund called the Franklin Double Tax-Free Income Fund trading under the ticker "FPRTX", had about 47% of its assets in Puerto Rico debt at the end of the first quarter, the highest on Morningstar's list. OppenheimerFunds' Oppenheimer Rochester line of funds have between 2% and 37% of their assets in Puerto Rico's debt.

Of Wells Fargo's 14 municipal-bond funds, ten have wagered on Puerto Rico's debt, and 20 of Eaton Vance's 27 muni funds have invested in Puerto Rico's bonds, according to Morningstar.

Puerto Rico bonds pay interest that is exempt from federal taxation and have the ability to issue bonds exempt from federal and state taxes in every state. By contrast, most muni-bond interest is exempt from both federal and state income taxes only if the investor lives in the state where the bonds were issued.

A spokesperson for OppenheimerFunds said that its among creditors that have offered Puerto Rico's governor "numerous creative and viable solutions to the current fiscal situation," and said the firm is "disheartened" by the governor's recent comments. He added: "We expect Puerto Rico to act within the tenets of the law, including the Commonwealth's Constitution, and are ready to defend the previously agreed to terms in each and every bond indenture."

A spokesperson for Franklin Templeton said in an email that they "are currently analyzing the report, and we are waiting to hear more from the governor on next steps."

THE WALL STREET JOURNAL

By MAUREEN FARRELL

Jun 30, 2015

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12 New Ways to Close Infrastructure Funding Gaps Highlighted by CA Fwd and Economic Summit Partners.

It's a problem state government can't solve with existing resources, the private sector won't take on without public partners, and nonprofits can't address alone.

California lacks funding for every type of infrastructure—from moving goods to moving information—but the scope of this challenge (a $300 billion shortfall over the next 10 years just for maintaining the state's transportation system) has proven too much for traditional public investment. The state and federal government simply haven't been able to close these gaps.

Continue reading.

JUNE 25, 2015 BY JUSTIN EWERS

U.S. Muni Bonds Lifted by Greek Credit Woes.

Prices on benchmark U.S. municipal bonds rose on Monday, driving down yields as much as 6 basis points on Municipal Market Data's preliminary scale read.

The lift came after a weekend of financial turmoil in Greece left investors pulling money out of stock markets and pouring into safe haven securities including bonds, according to MMD analyst Gregory Saulnier. MMD is a unit of Thomson Reuters.

Reuters

(Reporting by Hilary Russ)

Mon Jun 29, 2015 10:14am EDT

Will Maine Create a $500 Municipal Broadband Fund?

The state of Maine is firmly committed to municipal broadband — it just doesn't want to pay for it.

If Maine Gov. Paul LePage signs LD1185, the state will create a new fund that would endeavor to provide residents with a wider array of high-speed broadband providers in the coming years. The fund would offer grants to research how municipalities might build open-access gigabit broadband networks, expanding competition in a rural state dominated by Time Warner Cable and Fairpoint Communications.

When the bill was introduced, the fund was $12 million, then reduced to $6 million; now the fund is a $500 placeholder that Congress will revisit next year.

Originally municipalities would have been eligible to apply for up to $200,000 in funding to research the development of an open-access gigabit network. The old version of the bill required that a minimum of 50 such grants be made available, at least half of which would be granted to low-income areas. If signed, the new fund will exist in spirit, but with no funds to distribute.

The organization that would distribute the funds should they become available would be the ConnectME Broadband Authority, the state's broadband advocacy and engagement arm. Lisa Leahy, associate executive director of ConnectME, said the bill is an excellent idea that has had a lot of support from all directions.

"It establishes that there can be a fund and now the work will continue in regard to 'OK, how do we fund it?'" Leahy explained. "At this time, I think there's been such a concern around budget that any bill that has a fiscal note attached to it is being looked at very closely."

When or how the fund would contain more than $500 is unknown, but it's something the state Legislature will look at next year, Leahy said.

Chris Mitchell of the Institute for Local Self-Reliance said that what the state is doing is smart, though the lack of funding is disappointing.

"The thing that I found really exciting is it's only for municipalities or nonprofit types of approaches and it's requiring open access, and I think that's a real smart thing for states to do," Mitchell said. "Because I think local governments can be trusted to maintain that sort of open-access approach for a very long time, where I think the private sector might decide to go back to a monopoly model."

In an open-access model, a network's physical infrastructure is available for rent to any company that wants to sell services to the public, allowing for more competition than if each provider is required to build their own network to compete.

"I like that it's open access because in most of Maine, if you don't build competition into your system, there won't be competition," Mitchell said. "Either one of the existing incumbents will stick around or the city will build a system, but people aren't going to have a real robust choice unless you build a network that allows multiple providers to do it, and there's one company already operating in Maine called GWI that does a really good job."

In Maine today, several municipalities are investing in municipal fiber, like the town of Rockport, which is working with GWI to develop an open-access municipally run fiber network. Broadband development often goes slowly — projects often take years rather than months — but if this bill is signed into law, consumers might find in the next few years that both the speed of Internet access and the number of providers available will have increased dramatically.

It’s frustrating to see such a promising piece of legislation relegated into uncertainty, Mitchell said.

“It still sets an interesting precedent in terms of targeting municipal open-access approaches, which I think is valuable, although clearly much less so if they’re not going to put any money into it,” he said. “Just about every elected official wants to vote and tell their constituents that they supported better broadband, but they really don’t want to upset the Fairpoint and Time Warner Cable lobbyists, so they’ve kind of done both. The lobbyists are happy because there’s no real funding, but a lot of people will go home and say, ‘Well, I voted for better broadband for the state.’”

The bill’s potential passage into law could have some positive effects. If federal funding becomes available, Maine would be well positioned with such a fund in place to apply for it. Such funding from the federal government, however, doesn’t appear to be forthcoming, Mitchell said, nor would Maine be guaranteed a slice of the pie anyway.

There is at least one precedent of an unfunded state broadband fund that might indicate the future of Maine’s legislation, which can be found in the Virginia Resource Authority — a state agency that funds infrastructure projects. In 2007, the state of Virginia decided to add broadband to its repertoire, but as with Maine’s recent legislation, it provided no funding to support such projects. In the department’s 2014 annual fiscal report, there is just one mention of broadband: The department maintains authority to fund such projects. Any evidence of actual funding for such projects is absent.

Editor’s Note: This story was updated on June 26, 2015 to reflect the fact that Rockport is a town, not a city.

Governing.com

Colin Wood Colin Wood | Staff Writer

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Phoenix's Quest to Turn Trash Into Cash.

As City Manager Ed Zuercher tells it, trash “is in Phoenix’s DNA.” From two guys throwing cans of garbage into the back of a truck to automated side-loading trucks to single-stream recycling, Phoenix, says Zuercher, has always been innovative in solid waste. Now the desert city has plans to take its long-running relationship with waste innovation a step further: It wants to turn trash into a resource.

That’s the tagline for the city’s new sustainability initiative, which calls for reducing the amount of trash sent to city landfills by 40 percent over the next five years. It’s an ambitious goal. While Phoenix was one of the first cities in the country to introduce single-stream recycling, it only has a 16 percent diversion rate — well below the national average of 34 percent.

In order to meet the ambitious target, Phoenix needs an ambitious plan. That’s where its Resource Innovation Campus comes in. As its name suggests, the campus will be a hub for waste innovation. The focus will be on what city leaders call the “5 R’s”: reduce, reuse, recycle, reconsider and reimagine. This might mean, for instance, turning a beer bottle into new glassware or compost into natural gas.

Construction on the hub is scheduled to start next year on 50 acres of vacant land in the southern portion of the city. Adjacent to a closed landfill, a transfer station and a recycling facility, the land will become home to an Arizona State University (ASU) research center and waste-to-products companies. With access to the city's solid waste stream, these businesses will work with the university to create new uses for garbage. "We're giving local researchers the tools they need to turn trash into cash," says Mayor Greg Stanton.

In addition to the research and development campus, Phoenix is building a compost facility on the site, which will be completed and in operation by next summer.

Part of the incentive for creating the hub is growth. Like many cities, Phoenix is expecting to see rapid expansion in the next few decades. "With our population projected to double by 2050, it's just not sustainable for us to keep burying trash," says John Trujillo, director of the city's public works department. "With this program, we are trying to create a circular economy. We want to create a system where the material gets used over and over again here in Phoenix."

While still in the preliminary stages, the Resource Innovation Campus has already garnered a lot of interest. When Phoenix put out a "call for innovators" this spring, it received 117 proposals from 70 different companies across the U.S., Canada and abroad, including Sweden, Switzerland and the U.K. Perhaps the most important attention it has earned so far came in the form of funding. The Closed Loop Fund, which is composed of Fortune 100 consumer goods companies and retailers such as Coca-Cola, Procter & Gamble and Walmart, will offer below-market interest rate loans (some as low as zero percent) to the businesses selected to be part of the campus. The group, according to Trujillo, is also interested in providing funding to help build the site.

Specialized hubs like Phoenix's Resource Innovation Campus are becoming more and more common. Milwaukee started transforming an old industrial area in the southeast part of the city into a center for water research and technology a few years ago. Charlotte, N.C., is working to be a clean energy hub. These hubs are largely modeled after university business parks. In the 1980s, North Carolina State University's Centennial Campus brought academics, nonprofits and businesses together to facilitate the interaction required to bring research breakthroughs to market.

For Phoenix, bringing everyone together in one place "creates an entrepreneurial spirit around garbage," says Trujillo. As he sees it, trash can become a valuable resource that encourages entrepreneurship, creates jobs, brings environmental benefits to the community, elevates the quality of life and creates alternative forms of energy. "Who," he says, "would have thought trash would be so exciting?"

Governing.com

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Texas Sets $8 Billion Bond Deluge for Water Works After Drought.

The worst Texas drought in half a century has ended, with storms flooding downtowns and onceparched prairies. A deluge of $8 billion of bond sales for water works in the Lone Star state is just getting under way.

The Texas Water Development Board is planning to sell $800 million of municipal debt this year, beginning a decade-long borrowing spree for projects like reservoirs, pipelines and plants that make saltwater fit to drink.

No state is growing as much as Texas, whose infrastructure is being taxed by a population that's swelling by more than 1,000 a day. The water supply is no exception: It's projected to decline over the next 50 years, while global warming is raising the risk of droughts like the one still gripping the far West. So Texas is borrowing to lend cities money for needed work, using $2 billion of its reserves to subsidize the cost.

"It's very hard to capture the funds needed to ensure large supplies," said Randall Gerardes, vice president for municipal research at Wells Fargo Securities LLC in New York. "This could be a model for how states work with smaller jurisdictions."

The Texas economy expanded at the second-fastest pace in the U.S. last year, even as a slide in the price of oil began rippling through the energy industry. With an influx of residents, the state is pouring billions into construction to keep up. Texas and its localities have sold $23 billion of debt this year, 47 percent more than the same period a year earlier, according to data compiled by Bloomberg.

Drought Racked

In November 2013, voters approved tapping the state's reserves for the water program, following the onset of a drought that devastated its farms. Texas forecasts that the amount of available water will decline by about 10 percent by 2060, while its population will grow by some 20 million.

Under the program, top-rated Texas will sell bonds and lend the proceeds to local governments. Those loans will be cheaper than issuing debt on their own: Texas will charge as much as 36 percent less than what it pays to borrow.

The state expects to sell $8 billion of bonds over the next 10 years, with the first coming in September or October, said Amanda Lavin, assistant deputy executive administrator with Texas's water board. Over the next five decades, the program may finance as much as $27 billion of work.

The agency has received applications for about 25 projects that will cost a total of $3.9 billion, said Merry Klonower, its spokeswoman. It will decide by the end of July which to fund with the first round of bond money.

Dallas Saves

Dallas is among those looking to borrow. It's working on a $2 billion pipeline with the neighboring Tarrant Regional Water District, which supplies more than 1.7 million people. Terry Lowery, assistant director of business operations for Dallas's water utility, said the subsidies would cut costs by about $1 million a year.

"It helps us, but it also helps utilities that don't have a lot of funding," Lowery said.

Texas already enjoys low borrowing costs because it's one of just nine states with the highest general-obligation bond rating from both Standard & Poor's and Moody's Investors Service. Its 30-year bonds yield 3.57 percent, or 0.16 percentage point above benchmark municipal debt, according to data compiled by Bloomberg.

Unlike other water programs funded with Texas general-obligation bonds, the new securities will be backed by the revenue it receives when the loans are repaid.

Brandon Ratzlaff, a financial adviser with Carter Financial Management in Dallas, said he expects yields to be around 3 percent, based on estimates from its affiliate, Raymond James Financial Inc. That's equivalent to about 5 percent for an investor in the top federal tax bracket.

"It's not going to come with a coupon that will get everyone excited," said Ratzlaff, whose firm manages $850 million. "But the social impact appeals to some of our investors because they want to make a difference."

Bloomberg

by Darrell Preston

June 21, 2015 — 9:01 PM PDT Updated on June 22, 2015 — 4:29 AM PDT

Chicago Fire's Arena Losses Have Village Taking on More Debt.

Bridgeview, Illinois, is saddling taxpayers with more debt as the arena it built almost a decade ago to host Major League Soccer's Chicago Fire fails to hit the economic goal promised by its proponents.

The village 15 miles (24 kilometers) southwest of Chicago is selling $16 million in general-obligation debt this week to refinance existing securities, most of which are tied to the site that opened in June 2006. The venue, called Toyota Park, generates an annual loss of $3 million to $4 million for Bridgeview, said Daniel Denys, owner of Austin Meade Financial Ltd., the government's financial adviser.

Standard & Poor's this month cut the municipality's grade one step to BBB, two levels above junk, and said it could reduce it again because of its high debt burden. After the sale, the village would have about $250 million in debt, mostly tied to the stadium and the area around it slated for redevelopment, Denys said.

Bridgeview's experience demonstrates the challenges faced by small communities building facilities for sports teams, said Jim Colby, who manages about $1.6 billion of high-yield munis at Van Eck Global in New York.

"It's very hard to stomach the long-term risks that occur with some of these stadium financings," Colby said. For Bridgeview, "it has to be a pretty significant fiscal drag on their budget because they are the ultimate payer relying on a soccer team."

Colby said he would consider buying its new bonds since the rating fits the criteria for his purchases. Denys said the sale may be Wednesday.

'Economic Anchor'

The cost of hosting professional sports has strained municipal finances, from hockey and baseball spring-training facilities in Glendale, Arizona, to the NFL stadium in Indianapolis. States and cities have sold more than $9 billion of debt for professional sports sites since the 1980s, seeking to keep teams or revitalize local economies.

A 2004 Bridgeview newsletter to residents said the soccer stadium would be “an economic anchor” that would pay for itself and spur development around it. A much-publicized water park never materialized. A gas station that opened this year is the only business on the site around the stadium that was expected to be redeveloped, said Denys, who’s based in Naperville, Illinois. Bridgeview officials are closing on deals with developers for more growth, he said.

“We’re optimistic that the economic development will help reduce or eliminate the need for future debt restructuring,” Denys said. “If not, there’s still a solid tax base there that could sustain our worst-case plan. Either way, we’re fine.”

Debt Burden

The village sold $134.6 million of bonds in 2005 for the project, and its debt burden has nearly doubled from subsequent refinancing deals. If restaurants and other revenue-generating ventures don’t work out, Bridgeview could push its debt back to 2056 with another restructuring and tax increases, Denys said.

Residents have paid higher taxes for the past five years due to stadium losses, Denys said. The levies more than doubled between 2009 and 2013, according to the S&P report this month.

Each resident’s share of the village’s total debt burden is about $18,000, deal documents show. The home of the Fire, which is in last place in its conference this season after finishing second-to-last in 2014, is “not yet self-sustaining,” according to the documents.

S&P said there’s “at least one-in-three chance” it could lower the community’s rating again in a year, depending on its financial position, costs and ability to win more revenue.

A Bridgeview general-obligation due in December 2043 traded on June 19 at an average yield premium of 4.48 percentage points, compared with the 3.12 percentage point average this year, data compiled by Bloomberg show.

Residents like having the stadium in their hometown, said Denys, who said he was speaking about the issue for Mayor Steven Landek, who had pushed for the venue.

“There is high enthusiasm in the community,” Denys said. “There’s a lot of pride.”

Bloomberg

by Romy Varghese

June 23, 2015 — 2:00 AM PDT Updated on June 23, 2015 — 5:30 AM PDT

U.S. States Reduce Debt for First Time in 28 Years, Moody’s Says.

The debt load of U.S. states declined in 2014 for the first time in almost three decades and probably won’t rebound this year, showing lawmakers are still reluctant to borrow even six years after the recession.

Total net tax-supported debt among states fell 1.2 percent to $509.6 billion last year, according to a

Moody’s Investors Service report released Wednesday. It marked the first annual drop in the 28 years the company has compiled the data.

States and cities have rejected raising fresh cash at the lowest interest rates since the 1960s, instead opting to tap the $3.6 trillion municipal market mostly to refinance. The scars from the financial crisis and tepid economic growth have left lawmakers struggling to balance budgets and wary of embarking on capital projects.

“States continue to be reluctant to take on new debt with tight operating budgets, a slow economic recovery, and uncertainty over federal fiscal policy,” analysts at New York-based Moody’s said in the report. “We expect debt levels to remain stable or even decline again in 2015.”

Credit Barometer

The debt medians can serve as a barometer of a state’s creditworthiness. New York and California were two of the three states that paid down the most debt last year, according to the report. They both won rating increases in June 2014.

In contrast, Moody’s two lowest-rated states, Illinois and New Jersey, had the largest increases in 2014 as they borrowed for transportation and other projects.

About two-thirds of the $206 billion of munis sold this year through June 18 were for refunding, rather than new projects, according to Bank of America. That would be the biggest portion since 1993. Most refinancing deals don’t add to municipalities’ debt load because the higher-cost bonds are replaced with obligations carrying lower interest rates.

California, Massachusetts, Pennsylvania and Washington are among issuers with the biggest refunding deals of 2015, data compiled by Bloomberg show.

Debt Aversion

“Most states will continue to avoid major new debt service commitments in the face of moderate revenue growth and continuing pressure for increased education and health care spending,” Moody’s said. “Few states have announced large new borrowing initiatives.”

An index of state obligations has lost 0.2 percent this year, compared with a 0.1 percent decline for all munis, Bank of America Merrill Lynch data show. The governments’ securities have still outpaced Treasuries and investment-grade company debt, which have fallen 0.6 percent and 0.9 percent, respectively.

Adjusted for inflation, tax revenue is still lower than at the start of the recession in 21 states, according to a report Tuesday from the Nelson A. Rockefeller Institute of Government in Albany, New York.
Connecticut, where officials are confronting limits in how much revenue they can squeeze out of their tax base, has the most debt per capita among states, at $5,491.

Massachusetts, Hawaii, New Jersey and New York round out the top five, each with more than $3,000 of obligations per person.

Puerto Rico, the junk-rated U.S. commonwealth, had $55.5 billion of net tax-supported debt last year, more than all states except California and New York. That comes out to $15,637 per person.

Bloomberg

by Brian Chappatta

June 23, 2015 — 9:01 PM PDT Updated on June 24, 2015 — 6:42 AM PDT

Municipal Bond Sales Poised to Accelerate as Redemptions Fall.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $12.9 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $11.6 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Los Angeles plans to sell $1.386 billion of bonds, Massachusetts has scheduled $938 million, Miami-Dade County School Board will offer $461 million and Maryland Health and Higher Education Facilities Authority will bring $263 million to market.

Municipalities have announced $12.8 billion of redemptions and an additional $32.2 billion of debt matures in the next 30 days, compared with the $49.9 billion total that was scheduled a week ago. Issuers from California have the most debt coming due with $8.51 billion, followed by New Jersey at $3.66 billion and New York with $3.38 billion. California has the biggest amount of securities maturing, with $2.82 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Fund Flows

Investors removed $653 million from mutual funds that target municipal securities in the week ended June 10, compared with a reduction of $1 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $87.72 million last week, boosting the value of the ETFs 0.53 percent to $16.761 billion.

State and local debt maturing in 10 years now yields 102.783 percent of Treasuries, compared with 100.086 percent in the previous session and the 200-day moving average of 99.236 percent, Bloomberg data show.

Bonds of Puerto Rico and Tennessee had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Puerto Rico's securities narrowed 24 basis points to 9.33 percent while Tennessee's declined five basis points to 2.36 percent. Illinois and New Jersey handed investors the worst results. The yield gap on Illinois bonds widened 38 to 4.2 percent and New Jersey's rose 25 basis points to 3.18 percent.

Bloomberg

by Luis Daniel Palacios and Kenneth Kohn

June 22, 2015 — 4:12 AM PDT

GFOA Accepting 2015 Standing Committee Membership Applications.

Applications to become a GFOA standing committee member are being accepted through July 24. Serving on a standing committee is an excellent opportunity for GFOA members to contribute their experience and knowledge to the entire membership. GFOA's seven standing committees meet twice each year and develop best practices, advisories, and policy statements for the approval of the Executive Board and membership. GFOA associate members from the private sector may also apply to be advisors to one of the committees.

The GFOA's seven standing committees are: Accounting, Auditing and Financial Reporting; Canadian Issues; Economic Development and Capital Planning; Governmental Budgeting and Fiscal Policy; Governmental Debt Management; Retirement and Benefits Administration; and Treasury and Investment Management.

Submit your application today.

Wednesday, June 17, 2015

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Bloomberg

by Luis Daniel Palacios & Kenneth Kohn

June 22, 2015 — 4:12 AM PDT

Asset Manager Wants SEC to Probe Providence Pensions.

Controversy, Intrigue, Investigations Surrounding 38 Studios Investigations are Far from Over
A Rhode Island asset manager has asked the U.S. Securities and Exchange Commission to investigate the pension fund of capital city Providence after an accounting firm acknowledged a $62 million spike in its unfunded liability.

"I did file an official complaint," said Michael Riley, co-founder of investment firm Coastal Management Group LLC in Narragansett, R.I. "My feeling is that this has been going back a long time. I think it's huge."

Riley, who ran for Congress in 2012, said he noticed what he considered irregularities while participating in a Stanford Graduate School of Business class. He questions how the city's handling of municipal bond documents and financial disclosure statements, and also said the shortage could run up to $200 million.

City and state officials say the problem reflects timing and cash flow, not mismanagement or chicanery.

"All would agree that the timing of the city's contributions to its pension plan is not the norm or desirable," state Auditor General Dennis Hoyle wrote Riley. "However, my perspective is that the city has appropriately accounted for these events consistent with generally accepted accounting principles.

"I don't believe it is fair or appropriate to characterize the city's accounting for this matter as a 'scam and fraud.' My point is not to endorse the city's practice of making its pension contribution subsequent to year-end. However, I believe it is important not to mischaracterize the situation unfairly."

Hoyle said he would continue to work with city officials to explore options of making contributions "on a more normal and frequent basis" during the fiscal year.

A $62 million payment to the pension fund is due June 30. Providence traditionally has been making such payments in October.

Two months ago, accounting firm Segal Group Inc. told the City Council's finance committee that an actuarial asset method change and to a lesser degree a change in rate-of-return assumptions increased the unfunded liability of the Employee Retirement System of the City of Providence by $62.2 million. Segal officials at the time said the system's unfunded liability stood at $894.3 million as of July 1, 2014.

Segal officials advised the city to begin making its payments in June.

"We will not be able to do this immediately, but we will make sure it happens. We're working with our actuary," said Evan England, press secretary to Mayor Jorge Elorza. "We've done everything to be open, transparent and proactive on this."

According to England, Elorza's administration is working to bring the city's long-standing pension payment practices into compliance with new reporting standards, notably the Governmental Accounting Standard Board's rules 67 and 68. In consultation with Segal, said England, the administration is developing a three-year plan that phases in periodic pension contributions so the city can complete its actuarially required contribution, or ARC, payment by June 30.

England called the late payments "a not-a-best-practice decision made a decade ago."

Elorza succeeded Angel Taveras in January, after Taveras vacated his seat in an unsuccessful run for governor.

Segal replaced Buck Consulting Inc. after the city fired Buck and sued it early in 2013, accusing the firm of miscalculating $700,000 in savings. Segal told council members in April that the plan's funded ratio has dropped to 29% on a market-value basis and 27.4% on an actuarial basis.

Last year Segal said Providence shouldn't count future pension contributions as part of current assets. "We recommend that future valuations exclude discounted contributions from reported assets," the firm said in mid-2004. "This does not affect the determination of the contribution requirement, which is based on projected liabilities and assets."

City officials at the time – and shortly after criticism from Riley — rewrote bond documents to include Segal's concerns.

In May, Local 799 of the International Association of Firefighters said it would sue the city, alleging misreported pension funds and seeking immediate replenishment of the $62 million.

"Our concern is that this practice dates back farther than we originally understood when the issue came to light, and that our members may suffer – or may have already suffered – a loss because of this unorthodox and potentially illegal practice," union president Paul Doughty said at the time.

As of Friday, though, no evidence existed of such a lawsuit filed. A message seeking comment was left with Doughty.

Separately, the union this week asked Rhode Island Superior Court to block Elorza's plan to restructure the department until both sides can agree on payment to firefighters for working 14 extra hours each week.

Providence in 2012 crafted a series of pension and health care benefit reductions after Taveras likened the situation to a “Category 5 hurricane” and said the city was headed to bankruptcy.

The new package reduced the city’s costs by suspending cost-of-living adjustments for retired pensioners for 10 years and transferred retirees to Medicare. City officials at the time estimated nearly $15 million of annual savings in pension contributions.

THE BOND BUYER

BY PAUL BURTON

JUN 22, 2015 9:30am ET

[Federal Judge Overturns OK of Illiana Toll Road.]

CHICAGO – A federal judge has ruled that the federal government’s approval of the controversial Illiana toll road is invalid.

The decision could deliver a death blow to the bi-state project, which has already been on life support.

The June 16 ruling comes a week after Illinois Gov. Bruce Rauner, who has never publicly supported the project, halted all work on the Illiana to save money for the cash-strapped state, which is facing a budget crisis.

The project, estimated to cost $1.5 billion, would build a 47-mile toll road between Indiana and Illinois. Both states planned to use public-private partnerships to finance their portions.

U.S. District Judge Jorge Alonso of the Northern District of Illinois Eastern Division ruled that federal approval was “arbitrary and capricious” and in violation of environmental law because state transportation officials used a “fatally flawed” analysis to justify the project.

“It’s a very big deal,” Howard Learner, executive director of the Environmental Law & Policy Center, which represented the environmental groups, including Openlands, Midewin Heritage Association and the Sierra Clubs, that brought the lawsuit.

The environmental law center describes Illiana as a waste of taxpayer money that conflicts with long-term regional development plans and threatens globally significant wildlife prairie habitat.

The center argues that rebuilding, modernizing and maintaining current roadways in high-density areas makes more sense than building a greenfield highway project it sees as encouraging sprawl.

The U.S. Department of Transportation and the Illinois and Indiana transportation departments were defendants.

“This ought to be the opportunity for the federal and state transportation departments and Gov. Rauner and [Indiana] Gov. [Mike] Pence to stop wasting money and bring the Illiana tollway to and end and move forward with high-priority projects,” Learner said.

The opinion overturns the federal highway administration’s tier one record of decision approving the project. A separate lawsuit targets the tier two record of decision, which the FHWA granted in December 2014, allowing the two states to move from planning to the implementation stage.

Learner said the new ruling will likely invalidate the tier two record of decision as well.

"As a practical matter the tier one record of decision was the foundation for the tier two record of decision," said Learner. "The federal highway administration, the Indiana and Illinois departments of transportation need to go back to square one and redo the environmental review process in a way that complies with federal law and good policy sense, or not do it at all and simply bring the proposed boondoggle to an end."

Alonso ruled that state transportation officials used a "faulty" analysis that, among other things, relied on the research of "market-driven forecasts developed by consultants" instead of long-range forecasts crafted by professional planners Chicago Metropolitan Agency for Planning and Northwestern Indiana Regional Planning Commission.

The transportation agencies also relied on a faulty 'no build' review when deciding to move forward with the Illiana, the ruling said.

"In short, the purpose and need for the Illiana Corridor identified in the EIS are derived directly from the faulty 'no build' analysis," Alonso wrote. "Because that analysis does not substantiate the purpose and need, the FHWA's approval of the [record of decision] and final [environmental impact statement] is arbitrary and capricious and in violation of [the National Environmental Policy Act."

The Illinois transportation department said it was reviewing the ruling and "exploring our options."

A spokesman for the Indiana department also said its attorneys were reviewing the ruling and that meanwhile, work "remains temporarily suspended."

THE BOND BUYER

BY CAITLIN DEVITT

JUN 17, 2015 3:29pm ET

Chicago Schools Seen as City's Next Hurdle as Pension Bill Looms.

Chicago's next financial obstacle lies with its school system, which for the first time ever may not have enough cash to make a required payment into its teachers' retirement fund.

As the Chicago Board of Education faces a $634 million pension payment due June 30, yields on some of its bonds are climbing toward records set last month. Officials of the nation's third-largest school district are also struggling to plug a $1.1 billion deficit for the fiscal year starting July 1 and trying to get out of $228 million of termination payments for derivatives that went awry.

Given the demands, the district may fail to make the full pension payment, inflating its retirement-fund shortfall and leaving it vulnerable to more downgrades after its $6.2 billion of debt was cut to junk last month, said Laurence Msall, president of the Civic Federation, a Chicago-based research group that's tracked the city's finances since 1929.

"Of all the Chicago issuers, CPS seems to be the one that's struggling the most," said Adam Stern, director of muni research in Boston at Breckinridge Capital Advisors, which oversees $20 billion in municipal strategies, but holds no Chicago school debt. "I don't think anyone is investing with the thought that the spreads are going to come back in. There are a lot of medium- and long-term structural issues."

'Tough Choices'

Charles A. Burbridge, executive director of the teachers' pension fund, called for the full payment in a statement Wednesday, while noting the "tough choices" confronting the district. Bill McCaffrey, a schools spokesman, didn't respond to e-mail and phone queries Thursday regarding the payment.

Mayor Rahm Emanuel signaled a solution has to come from the state capital. Chicago, with 2.7 million people, gets less pension cash than suburbs and cities downstate, he said.

"Springfield has to step up and help," Emanuel told reporters Wednesday. Kelley Quinn, a city spokeswoman, didn't respond to e-mail and phone messages seeking comment Thursday.

The school system may not get much assistance given Illinois's deteriorating finances. The state doesn't have a spending plan for the year starting July 1, and if a budget isn't passed, schools won't get aid set for distribution Aug. 10.

Junk Move

Moody's Investors Service and Fitch Ratings cut the district, which educates about 400,000 students in more than 600 schools, to one level above junk in March, giving banks the right to demand payments to end interest-rate swaps. Moody's lowered the district again in May to Ba3, three levels below investment grade, citing the strain of pension costs on its "precarious financial position."

Board of Education bonds maturing in December 2039 yielded 2.66 percentage points above benchmark munis Thursday, the widest spread since May 21, according to data compiled by Bloomberg on the most-traded debt of the past week. The data are for trades of more than $1 million, a benchmark for institutional investors.

The securities yielded as high as 6 percent, approaching the record of 6.5 percent set May 14.

Burbridge at the teachers' fund said that to his knowledge the board has never missed a required payment.

The system, which was 51.5 percent funded as of June 30, 2014, has three options, said Msall at the Civic Federation: skip or delay the payment, make budget cuts or seek relief from state lawmakers.

"It would not be surprising to find that the Chicago Public Schools may have difficulty having the cash to make the payment," Msall said.

'Worse Picture'

"Any deferral of the pension contribution could provide short-term budgetary relief, but it would also provide for a much worse picture down the road," Rachel Cortez, a Moody's analyst in Chicago, said by phone.

The board has already cut more than $740 million in non-classroom spending since 2011 and drawn on reserves.
After the mayor-appointed school board closed 50 schools in 2013, saving an estimated $40 million, the move fueled a voter backlash that helped push Emanuel into an unprecedented mayoral runoff election.

“The sad reality is how many schools can you shut down? How many teachers can you lay off?” said Dan Heckman, senior fixed-income strategist at U.S. Bank Wealth Management, which oversees about $127 billion in Kansas City, Missouri. The firm holds no Chicago school debt, because of the rating.

“They’re still going to have daunting challenges financially,” he said.

Bloomberg

by Elizabeth Campbell & Brian Chappatta

June 18, 2015 — 9:01 PM PDT Updated on June 19, 2015 — 6:10 AM PDT

Moody's: Flood Risk in Coastal Virginia Supports Need for Proactive Planning, Capital Investments.

New York, June 18, 2015 — Coastal cities in southeastern Virginia’s Hampton Roads region are becoming more vulnerable to flooding risk caused by weather-related and tidal flooding, and will require continued capital investment and effective planning to mitigate negative credit effects on the municipalities, Moody’s Investors Service says in a new report.

The region includes notable cities like Virginia Beach (Aaa stable) and Norfolk (Aa2), whose significant urbanization and military development has exacerbated flooding risks and stormwater drainage issues. Hampton Roads is home to the world’s largest naval base and second-largest US east coast port.

“Annual planning and spending for stormwater management in the near term reduces the need for Hampton Roads municipalities to spend larger amounts later. However, cost forecasts indicate a potential need for greater investment in this area by local governments across the region,” Moody’s Analyst Tiphany Lee-Allen says in “Virginia’s Hampton Roads Region Responds to Flood Risk.”

Hampton Roads’ municipalities have relatively high credit ratings and conservative fiscal management, owing to the region’s economic strength, which is buttressed by its concentrated military and government presence, port activity and tourism, Moody’s says. These cities therefore possess the financial flexibility to manage fixed costs and support day-to-day operations.

In the last three years, Hampton (Aa1) has spent $28.7 million on flood mitigation and has set aside funds in its 2016 budget for additional consultancy preparation.

Other cities, such as Virginia Beach have completed $43 million in flood control projects in the last five years and plans to spend $135 million in the next decade on multiple stormwater management projects.

Norfolk’s annual capital investments of $7 million for flood resiliency projects have helped minimize long-term costs and allowed the city to manage increases related to storm events without significantly impacting its debt profile.

The report is available to Moody’s subscribers here.

Justices Rule for Small Arizona Church in Sign-Law Dispute.

WASHINGTON — The Supreme Court ruled Thursday for an Arizona church in a dispute over a town's sign law in a decision that three justices said could threaten municipal sign regulations across the country.

The court unanimously agreed to strike down a law in Gilbert that set tougher rules for signs that direct people to Sunday church services than for signs for political candidates and real estate agents.

But the justices divided over why the law violated the rights of the Good News Community Church.

Gilbert's attorney said the ruling will make it exceptionally hard for cities across the nation to regulate signs, and it will be a special problem for Arizona because of a state law specifically allowing political signs.

"All municipalities throughout the country and especially in Arizona are going to have to review this matter," said Gilbert Town Attorney Michael Hamblin. "Arguably, the contention is if you allow political signs in the right of way for these periods of time then you can't make distinctions for other types of signs."

But the attorney for the church, David Cortman of the Scottsdale, Arizona-based Alliance Defending Freedom, said the fears of cities were overblown.

"I think it's an overstatement – I don't think the sky is falling, nor will it," Cortman said. "Towns and municipalities have many different ways to regulate signs in a constitutional fashion."

The church complained that the law forced the church to put up smaller signs than those for political candidates, real estate agents and others. The church's signs also could be in place for short periods of time.

Lower federal courts upheld the town's sign ordinance, saying the distinction it drew between different kinds of temporary signs was not based on what a sign said.

Justice Clarence Thomas rejected that argument in his majority opinion for six of the nine justices. Thomas said political signs are "given more favorable treatment than messages announcing an assembly of like-minded individuals. That is a paradigmatic example of content-based discrimination."

Under the rigorous review the court gives to laws that treat speakers differently because of content, the law must fall, Thomas said.

Justice Elena Kagan said she fears that all sign ordinances now will have to face the same strict review and many "are now in jeopardy" because of Thursday's decision.

There was a narrower way to decide the case in the church's favor, Kagan said. The town's defense of its sign ordinance was marked by the "absence of any sensible basis" for distinguishing between signs and did not pass "even the laugh test," she said.

Justices Stephen Breyer and Ruth Bader Ginsburg joined Kagan's opinion.

"I think Justice Kagan got it right," said Charles Thompson, executive director and general counsel for the International Municipal Lawyers Association. “It’s likely to make the courts a super sign board. We’re going to be seeing the federal courts litigating questions over whether a sign falls within the narrow exception.”

Thomas said the decision would not prevent cities and towns from regulating signs to take account of safety and aesthetic concerns.

The Good News Community Church is led by Pastor Clyde Reed and serves roughly 30 adults and up to 10 children, but lacks its own building. The church and Reed sued Gilbert for treating religious groups more severely than others, alleging violation of the First Amendment’s guarantee of religious freedoms.

The sign ordinance struck down Thursday allowed directional signs, like the ones put up by the church inviting people to Sunday worship, to be no larger than 6 square feet. They had to be placed in public areas no more than 12 hours before an event and removed within an hour of its end.

Signs for political candidates, by contrast, can be up to 32 square feet and stay in place for several months.

By THE ASSOCIATED PRESS

JUNE 18, 2015, 5:36 P.M. E.D.T.

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Associated Press reporter Bob Christie contributed from Phoenix

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[Detroit's County Seeks State Help on Fiscal Woes, Delays Note Sale.]

(Reuters) – Michigan’s Wayne County, home of Detroit, has asked the state for a fiscal emergency declaration to deal with a chronic budget deficit, spokesmen for the county and state confirmed on Thursday.

Wayne County Executive Warren Evans late on Wednesday formally asked Michigan Treasurer Nick Khouri to initiate a review process that would lead to a consent agreement between the county and the state.

The action led the county to postpone until next week the sale of nearly $187 million of general obligation, limited-tax notes through Bank of America Merrill Lynch that had been scheduled for Thursday.

“It is now expected to be rescheduled to Wednesday or Thursday of next week in order to give investors time to digest and react to the executive’s announcement as well as understand the strengths and vitality of the delinquent tax program,” Wayne County Deputy Treasurer Christa J. McLellan said in a statement.

In a letter to Khouri, Evans said the county’s general fund budget deficit was projected to jump to $171.4 million in fiscal 2019 from $9.9 million this year due to declining tax revenue and escalating personnel costs. In addition, the county’s finances are sagging under an $870 million unfunded pension liability and its credit ratings have fallen into the junk level.

Michigan Treasury spokesman Terry Stanton said the county's request was under consideration.

Wayne County's taxable notes, which mature on Dec. 1, 2017, will raise money to cover delinquent 2014 property taxes due the county and local governments in it.

In its offering document for the note sale, the county warned potential investors it could be headed to federal bankruptcy court if it did not implement its plan to address chronic budget deficits by curbing pension and healthcare benefits and cutting wages. That could lead to an appointment of an emergency manager, who could recommend a Chapter 9 municipal bankruptcy filing, the document said.

Detroit exited the biggest-ever municipal bankruptcy last year, shedding about $7 billion of its $18 billion of debt and obligations.

By REUTERS

JUNE 18, 2015, 11:09 A.M. E.D.T.

(Reporting by Karen Pierog; Editing by Lisa Von Ahn)

Chicago City Council Approves Mayor's $1.1 bln Bond Plan.

The Chicago City Council on Wednesday approved with no debate Mayor Rahm Emanuel's proposal to sell $1.1 billion of bonds to continue restructuring outstanding debt and pay other obligations.

"This is a step that is necessary to refund existing debt and begin to take steps to claw out of the financial condition we are in at the present time," said Alderman Ed Burke, chairman of the council's finance committee, which approved the bond plan on Monday.

The city is repairing damage from Moody's Investors Service's downgrade of its credit rating to junk last month, even as it braces for a possible further drop in the rating as pension payment pressures mount.

Chicago will use the authorization to convert short-term commercial paper into long-term fixed-rate bonds and complete the refinancing of interest rate swap agreements. The bond deal will free up $170 million for the city's coffers by pushing payments on outstanding bonds into future years.

Proceeds will also be used to cover obligations, including $75 million in retroactive police pay.

The general obligation (GO) bonds will be priced through senior underwriter Morgan Stanley this summer.

Moody's downgrade of Chicago's GO bond rating to Ba1 triggered $2.2 billion in accelerated debt and fee payments by the city.

Forbearance agreements with banks that provided letters of credit backing the variable-rate debt or swaps used to hedge interest-rate risk on it gave the city time to convert $918 million of variable-rate debt into fixed-rate bonds so far. Those debt conversions attracted many yield-hungry investors, but still left Chicago with hefty interest costs compared to higher-rated issuers in the U.S. municipal bond market.

The city, the third largest in the United States by population, is struggling with a projected $300 million structural budget deficit and a looming $550 million contribution increase to its public safety workers' retirement funds.

A bill passed by the Illinois Legislature last month would reduce the pension payment, but Governor Bruce Rauner, who has criticized the legislation, may not sign it into law.

With hope fading, the mayor is moving up the process for the city's next budget that normally starts in October.

"I think it's important for the city of Chicago to seize the moment and as best it can determine its own future and not have it held somewhat by (the state government) and their inaction," Emanuel told reporters after the city council meeting.

Wed Jun 17, 2015 4:00pm EDT

REUTERS/JIM YOUNG

(Reporting by Karen Pierog; Editing by James Dalgleish and Jeffrey Benkoe)

Georgia Passes New Social P3 Legislation: Ballard Spahr.

Georgia Governor Nathan Deal signed into law new public-private partnership (P3) legislation, the Partnership for Public Facilities and Infrastructure Act (SB 59) (the Act) on May 5, 2015. The Act allows state and local government entities to partner with private entities on "qualifying projects," broadly meaning any project deemed to meet a public purpose or public need and satisfying those requirements set forth under the Act.

The Act covers those qualifying projects pursued with local government entities, meaning any county, municipality, consolidated government, or board of education, as well as with state government entities, including institutions of the University System of Georgia.

The Act does not apply to projects procured through the State Transportation Board, the Department of Transportation, or the State Road and Tollway Authority; these state authorities are already authorized to engage in and procure P3 projects. Projects involving the generation of electric energy for sale, communication services, cable and video services, and water reservoirs, however, are not eligible to be qualifying projects under the Act.

Summarized below are some of the key terms of the Act. The procurement process and requirements for projects on the local level are similar in many respects to the procurement process the State is required to follow. Certain distinctions are worth highlighting, however, and we have addressed these in more detail below.

New P3 Committee

The Act requires the establishment of a new 10-person committee (the Committee) to prepare model guidelines for local government entities, including counties and municipalities. The Governor will appoint four members, and the Speaker of the House of Representatives and the Lieutenant Governor will each appoint three members to the Committee.

The Committee is required to issue model guidelines to local governments by July 1, 2016. These guidelines then are required to be updated every two years.

Guidelines

Local Government P3 Projects

A local government must adopt a set of guidelines prior to executing an agreement for a qualifying project with a private entity. It may adopt the model guidelines from the Committee or establish its own set of guidelines as a policy, rule, regulation or ordinance, but such guidelines must contain such information that is required to be contained in the model guidelines under the Act.

At a minimum, the model guidelines must set forth the following:

- Key Dates: Specific periods during the calendar year when the local government will consider unsolicited proposals for qualifying projects.
- Financial Review: Procedures for the financial review and analysis of an unsolicited proposal.
- Fees: Criteria for determining any fees that the local government elects to charge the private entity for the processing, review, and evaluation of an unsolicited proposal.
- Issuance of an RFP: A requirement that the local government issue a request for proposal (RFP) if it decides to proceed with a qualifying project pursuant to an unsolicited proposal.
- Certain Procedures for Competing Proposals: Procedures for posting and publishing notice of the opportunity to offer competing proposals, procedures for the processing, review, and consideration of competing proposals, procedures for determining whether information included in an unsolicited proposal should be released as part of any RFP to ensure fair competition, and procedures for identifying and appointing an independent owner adviser with certain expertise to assist the local government in evaluating unsolicited proposals if the local government elects to have such an adviser.

State Government P3 Projects

The Act also requires that those public entities at the state level participating in the procurement of qualifying projects adopt a set of guidelines, and designates specific entities as responsible for setting such guidelines. For qualifying projects undertaken by the State Properties Commission, guidelines for the process must be developed by the Georgia State Financing and Investment Commission. For qualifying projects undertaken by the University System of Georgia, guidelines for the process must be developed by the Board of Regents of the University System of Georgia. The Act does not specify any further guideline requirements for other state government entities.

Unsolicited Proposals

Private entities may submit for consideration, and the applicable local or state government may approve, an unsolicited proposal for qualifying projects.

Certain materials and information must be submitted as part of any unsolicited proposal, including a project description, a feasibility statement, a project schedule, a financial plan, a business case statement describing benefits to be derived from the project, and any such other materials that may be reasonably requested by the local or state government.

The private entity bears all risk in submitting an unsolicited proposal and the local government has the right to reject any such proposal at any time without providing reason for its denial.

Additional Requirements for State Level Projects

For those projects on the state level, unsolicited proposals must be submitted to a “responsible public entity” between May 1 and June 30 of each year. A responsible public entity means a public entity that has the power to contract with a private entity to develop an identified qualified project. More specifically, for any unsolicited proposal for a project at one or more institutions at the University System of Georgia, the responsible public entity is the Board of Regents of the University System of Georgia or its designees. For any unsolicited proposal for a project for one or more state entities other than an institution of the University System of Georgia, the State Properties Commission is the responsible public entity.

There is an additional notice requirement for private entities submitting proposals for qualifying projects at the state level. Any private entity submitting an unsolicited proposal to a responsible public entity must also notify each affected local jurisdiction, meaning any county, municipality, or school district in which all or a portion of a qualifying project is located, by furnishing each such jurisdiction with a copy of its proposal.

There will be a comment period for unsolicited proposals. Each affected local jurisdiction that is not a responsible public entity for such project may submit comments to the responsible public entity within 45 days of receiving such notice, indicating whether the project is compatible with local plans and budgets. For instance, a project must be consistent with zoning and land use regulations of the responsible public entity and of each affected local jurisdiction.

Determination of a Qualifying Project

Before the procurement process begins, the state or local government must decide which projects, both solicited and unsolicited, become “qualifying projects.” For unsolicited proposals, once a state or local government receives an unsolicited proposal, such public entity must review such proposal according to its guidelines adopted pursuant to, and the requirements set forth under, the Act and make a determination of whether such project meets a public purpose or public need. If a determination is made that a project is a qualifying project, the relevant state or local government entity will take the following steps:

- First, seek competing proposals for the qualifying project by issuing an RFP;
- Second, review all such proposals received in response to the RFP and rank them based on various factors, such as the cost of the project, the design of the project, the general reputation, expertise and financial capacity of the private entity, and benefits of the project to the public, among other factors; and
- Lastly, negotiate with the highest-ranked private entity, or the next-ranked private entity if it is unable to reach a comprehensive agreement or interim agreement with the highest-ranked entity.

At any time during the above process, and prior to executing a comprehensive agreement, the relevant state or local government entity may cancel its RFP or reject all proposals received in response to an RFP for any reason whatsoever without any liability to the private entities or third parties.

Comprehensive Agreement

Upon determination of a qualifying project, the relevant state or local government entity and the selected private entity may enter into a comprehensive agreement setting forth the terms and conditions of such project. In addition to any terms and conditions that the state or local government entity determines will serve the public purpose contemplated by the Act, each comprehensive agreement must include, among other provisions, the following:

- A thorough description of the duties of each party in the completion and operation of the qualifying project.
- Dates and schedules for the completion of the qualifying project.
- Any user fees, lease payments, or service payments as may be established by agreement of the parties (as well as any process for changing such fees or payments) and a copy of any service contract.
- Any reimbursements to be paid to the state or local government entity for services provided by such public entity.
- A process for reviewing the plans and specifications for the qualifying project, inspecting such, and monitoring the practices of the private entity by the relevant state or local government.
- Terms regarding performance and payment bonds and insurance policies.
- Provisions governing the rights and responsibilities of the parties in the event of termination or material default.
- In the event of a material default by the private entity, the ability of the relevant state or local government entity to terminate the comprehensive agreement and exercise any other rights and remedies that may be available at law or in equity.

Miscellaneous

All power or authority granted under the Act to public entities is in addition to and supplemental to, and not in substitution for, the powers conferred by any other general, special, or local law. Remember, the Act does not apply to all procurement projects. For instance, state or local government entities that proceed with procurement pursuant to competitive sealed bidding or any other traditional purchasing options available under existing law are not required to comply with this Act.

by Han C. Choi, Brian Walsh, Stephanie S. Kim, and Steve T. Park

June 1, 2015

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