Nantucket Sells Refunding Debt After Winning Record Moody's Mark.

Nantucket, the Massachusetts island that's a tourist destination and summer getaway, is issuing $3.4 million of debt after earning its highest Moody's Investors Service grade.

The general-obligation bonds, to be sold Thursday in a competitive offer, will refinance higher-cost borrowings, according to Brian Turbitt, the director of municipal finance. Moody's raised Nantucket's $83 million in general obligations Jan. 16 to Aa1, one step below the top and a high for the municipality from the company.

The island, about 30 miles (48 kilometers) south of Cape Cod, has a year-round population of about 11,000 that can soar to about 50,000 during the summer. Buoying its finances, the municipally owned airport hasn't received subsidies from the general fund for two years, according to Turbitt.

"We believe the airport itself has stabilized," he said in an interview. Under a new manager, there has been better review of the facility's revenue and spending, according to Turbitt.

With benchmark municipal interest rates the lowest since May 2013, Nantucket stands to save about $340,000 by refinancing, Turbitt said.

"We certainly could've played the waiting game to see if it got better," he said. "But it just made sense to do it based on that projection."

The median home value on the island is about $930,000, compared with about $330,000 across Massachusetts, according to U.S. Census data. Its primary revenue comes from property taxes. The median family income of about $93,000 exceeds the statewide level of about $85,000.

Bloomberg

By Meenal Vamburkar Jan 21, 2015

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Abbott Takes Reins in Texas as Crude Stalks Economy: Muni Credit.

(Bloomberg) -- Greg Abbott, Texas's first new governor in 14 years, takes over as an oil boom that helped stoke the economy and tax collections shows signs of fading.

Abbott, a 57-year-old Republican who was sworn in Tuesday, faces the challenge of extending the "Texas Miracle" that added 1.5 million jobs since the end of the recession and left the government with a $7.5 billion budget surplus. He confronts pressure to cut taxes and bolster the second-mos--populous state's infrastructure even after crude prices sank more than 50 percent since June.

"The major price correction represents a significant change in Texas," said Robert Dye, chief economist at Comerica Inc., a Dallas-based bank. "It will result in slower economic growth, and will result in lower revenues to the state as well."

Abbott, Texas's former attorney general, follows Republican Rick Perry, the longest-serving governor in state history and a former presidential contender who may try again in 2016.

Perry Era

The economy, equivalent to the world's 13th-largest as of 2013, expanded under Perry as the population swelled, businesses moved in and energy discoveries revived oil and natural gas production.

The state has added 2.2 million jobs since Perry took office in December 2000, accounting for more than a quarter of the growth in the U.S.

The crude-price slide — to about $47 a barrel from above $100 in June — casts a pall over the biggest oil-producing state. The energy industry has benefited from new drilling technologies, including fracking, that are unlocking shale reserves. The discoveries reversed a decades-long decline in production, creating high-paying jobs and lifting tax collections.

The Federal Reserve Bank of Dallas said in a report this month that job growth may slow to as little as 2 percent this year from 3.6 percent in 2014. Comptroller Glenn Hegar forecasts that economic growth will slow to about 3 percent this year, from 3.7 percent in 2014.

Tax Trickle

That may trickle through to tax collections, said Douglas Benton, senior municipal credit manager for Cavanal Hill Investment Management, a Tulsa, Oklahoma-based company that handles about $6 billion, including Texas municipal bonds.

"We'll look closely at those holdings that will be impacted," said Benton, who works from the firm's Richardson, Texas, office. "It will have a ripple effect that will be felt in other parts of the state's economy."

The biggest and third-largest oil-field service providers, Schlumberger Ltd. (SLB) and Baker Hughes Inc. (BHI), are cutting about 16,000 workers. The second-largest, Halliburton Co. (HAL), said on Tuesday it expects to make reductions in line with its competitors. Though the companies are mainly based in Texas, the cuts will come worldwide.

Abbott said last month that there would still be money for schools and infrastructure.

Spending Money

Texas may have $113 billion for general-purpose spending through 2017, an increase of about 10 percent from the previous two years, according to the comptroller. It has top ratings from Standard & Poor's and Moody's Investors Service.

The state faces rising costs for pensions to make up for underfunding the plans, according to Moody's. The Employee Retirement System, the main plan for state workers, requested a 59 percent funding boost for the next two-year budget cycle, according to Moody's.

The governor didn't mention oil prices during his inaugural address.

"I will ensure that we build the roads needed to keep Texas growing," he said in a speech on the steps of the Capitol in Austin. "Taxes raised for roads will be spent on roads. I will speed up our needed water projects, and I will secure our border."

Texas has struggled to build roads and infrastructure fast enough to accommodate new residents.

While the population has grown by 125 percent over the past four decades, to 27 million, capacity on the state's roads and highways has increased by only 19 percent, said Scott Haywood, president of Move Texas Forward, a group that advocates more spending on transportation projects.

Wall Street hasn't punished the state yet. In August, Texas sold $5.4 billion of one-year notes at a record low 0.13 percent yield to cover the cost of schools and other expenses before tax money flows in. It was the state's smallest short-term note sale since 2007, underscoring how its finances have strengthened since the recession that ended in 2009.

1980s Shadow

Comptroller Hegar said in a press conference this month that he didn't expect Texas to repeat the 1980s oil-induced recession, when plunging crude prices led to a crash in housing prices and bank failures.

"I — in no shape, form or fashion — am saying that Texas is going into a recession," he told reporters earlier this month.

The Texas economy is more diverse than three decades ago, cushioning against plummeting oil. The industry comprises 2.7 percent of employment, compared with 4.5 percent in the early 1980s, according to the Dallas Fed.

JPMorgan Chase & Co. Chief U.S. Economist Michael Feroli foresaw a broader impact in a December report. He warned that a prolonged slump in crude prices may push Texas into recession.

"The challenge for the state is going to be in meeting all of its spending expectations amid slower revenue growth," said Nick Samuels, a Moody's senior credit officer. "This is going to a very different story for Texas."

Bloomberg Muni Credit

By Lauren Etter and Darrell Preston

Jan 21, 2015

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[Texas Bill Would Take Away Eminent Domaine Power for Private Road Builder.]

A bill introduced in the Texas legislature would strip the Texas Turnpike Corp. of its eminent domain authority, preventing it from building a private toll road northeast of Dallas.

The company was founded one day before the legislature's 1991 repeal of a law allowing private toll road companies to use eminent domain to build private highways went into effect.

"They're the only private company that is currently able to do this kind of turnpike because they fall under grandfathered rights," state Rep. Cindy Burkett (R), who filed House Bill 565, told the Texas Tribune. No other company that would be impacted by her bill, her staff discovered.

The state has used P3s to build many new highways in recent years, allowing companies to build, operate and maintain the projects, but in those P3s, the state maintains ownership of the property.

The Texas Turnpike Corp.'s bid to build the Northeast Gateway on the northern outskirts of Dallas faced strong opposition from the public.

"There was no justifiable transportation need … and it was a private company trying to take private land," said Christopher Kurinec, a resident who opposed the plan. "I think those things combined really undid it."

The North Central Texas Council of Governments reversed an earlier recommendation to approve the toll road and the firm is no longer moving ahead with the project.

NCPPP

By Editor January 22, 2015

[North Carolina Toll Project Faces Citizen Lawsuit.]

A citizen advocacy group on Tuesday filed a lawsuit against the state of North Carolina and its private sector partner to block the construction of toll lanes on I-77 in Charlotte, N.C., arguing the project is not in the best interest of the public.

Widen I-77, an anti-toll community group, claims the $655 million project includes illegal contracts, violates public policy and benefits the private company more than drivers.

"The state has unconditionally delegated taxing authority and failed to provide appropriate limitations on taxing powers it has delegated," Widen I-77 attorney Matt Arnold, told WSOC TV.

The group expects the lawsuit to permanently stop the toll road, but hopes to have a hearing on their preliminary injunction request in the next few weeks. A trial would likely take more than a year.

The lawsuit comes two days before Mobility Partners, the private sector team formed by Spanish-owned Cintra, was supposed to have secured financing. The North Carolina Department of Transportation, however, granted Mobility Partners an extension as two move toward completing all contractual requirements.

I-77 currently has one high-occupancy-vehicle (HOV) lane in each direction. The 26-mile project stretching from Charlotte to Mooresville will convert those HOV lanes to express lanes. The company also will build a second express lane alongside the converted HOV lane on I-77 North and South.

NCPPP

By Editor

January 20, 2015

Atlantic City Rating Cut by Moody's on Emergency Manager Plan.

Atlantic City, New Jersey's struggling gambling hub, had its rating cut six levels deeper into junk by Moody's Investors Service after Governor Chris Christie appointed an emergency-management team.

The reduction to Caa1 from Ba1 on on the city's $344 million in general-obligation debt follows the governor's decision Thursday to install a management team that includes Kevyn Orr, who shepherded Detroit through its record $18 billion municipal bankruptcy last year. Orr will serve as a consultant, with Kevin Lavin taking the role of emergency manager.

"The downgrade to Caa1 reflects the appointment of an emergency management team of two bankruptcy specialists mandated to consider debt restructuring, which could involve a loss to bondholders," analysts Josellyn Gonzalez Yousef and Naomi Richman said in a statement.

Adding to the increased risk of default is the city's plan to sell about $12 million of bond-anticipation notes next week to refund debt maturing Feb. 3, the analysts said. The one-year notes, to be sold Jan. 27, will refund an equivalent amount of securities issued a year ago, according to data compiled by Bloomberg.

Speaking in Atlantic City Thursday, Orr and Lavin both dismissed questions of a possible bankruptcy as premature. Orr declined to answer questions about the appointment and the note sale. Kevin Roberts, a spokesman for Christie, declined to comment.

Revenue Down

Christie, a 52-year-old Republican in his second term, has struggled with a five-year plan to turn around Atlantic City. Casino revenue dropped to $2.9 billion last year, from a peak of $5.2 billion in 2006, as Pennsylvania, Delaware, Maryland and New York expanded gambling. Moody's dropped the city's rating to junk in July because of dependence on casinos.

The city has borrowed $345 million since 2010 to cover tax appeals and municipal deficits, and debt service now makes up about 15 percent of its budget, according to the executive order Christie signed authorizing Orr and Lavin. The city is relying on "unsustainable bond issuances" in part to fund pension payments of $23 million this year and $25 million next year, the order said.

Investors are demanding more additional yield to buy Atlantic City general obligations. Debt sold December 2013 and maturing December 2021 traded Friday at an average yield of 5 percent, the highest since August, data compiled by Bloomberg show.

Michael Stinson, the city's revenue director, said he didn't think Moody's "has a clue'" about a bills pending in Trenton that would help the city. The legislation would have the state-administered Casino Reinvestment Development Authority cover as much as $30 million in debt payments and have the casinos enter into payment-in-lieu-of-taxes agreements to guarantee debt service.

"I'm speechless; I'm in shock,," Stinson said. "These guys came in with the governor's blessing. Up to this point, any additional state involvement has been met positively by the market."

Bloomberg

By Terrence Dopp Jan 23, 2015 9:16 AM PT

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Moody's: Texas Pension Costs Rising for State and Its Local Governments.

New York, January 21, 2015 — The State of Texas (Aaa stable) and some of its local governments face rising pensions costs due to a history of contributions below actuarial requirements, Moody's Investors Service says in a new report, "Cost Deferrals Drive Rising Pension Challenges for Texas and Some Locals."

While the state has a broad ability to tackle pension funding challenges, many local government pension plans are subject to state constitutional protection.

"Most Texas local governments face greater legal constraints and procedural hurdles to pension reform, while the state has substantially more legal flexibility to change and adjust benefits to its plans," said the report's author and Moody's Assistant Vice President — Analyst, Thomas Aaron.

Texas participates in four single-employer plans, with the majority of costs associated with the Employee Retirement System (ERS), and the Teachers Retirement System (TRS). In order to address an ongoing funding challenge, the ERS requested a 59% increase in the state's contribution rate for the fiscal 2016-17 biennium for that system alone, a cost increase of nearly $540 million across all of the state's funds.

Local governments can have one or more single-employer plans, and may also participate in either the Texas Municipal Retirement System (TMRS), or the Texas County and District Retirement System (TCDRS). The state's largest cities — Houston, Dallas, San Antonio, and Austin – face varying levels of projected pension cost and liability growth, driven in part by divergent historical contributions compared to plan funding requirements.

While state statute governs TRS, TMS and TCDRS, the control of benefits and contributions for local single-employer plans varies. Some local single-employer plans are solely governed solely by state statute, while in other cases state law delegates authority to local control. However, local control does not necessarily translate to unilateral authority to enact benefit changes for local governments, because many share authority over their pension systems with the plan boards of trustees.

In August 2015, the City of Fort Worth (Aa1 stable) will head to federal court to settle a disagreement regarding whether its reduction to the future pension benefits of current employees violates state constitutional protections.

The report can accessed at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1002263

Stockton, Calif., Can Leave Bankruptcy During Appeal, Judge Rules.

Forcing Stockton, Calif., to remain in bankruptcy while an unhappy bondholder group protests the city's plan to cut millions of dollars would unfairly delay payments to the city's retirees, a federal judge said Tuesday.

From his Sacramento courtroom, U.S. Bankruptcy Judge Christopher Klein ruled that mutual-fund giant Franklin Templeton Investments shouldn't be allowed to hold up the city's departure from bankruptcy protection.

Franklin Templeton's lawyers wanted the city to remain in bankruptcy while they appeal Judge Klein's Oct. 30 decision approving a plan that pays Franklin-managed funds about $4 million for their roughly $37 million claim. The fund manager says the 300,000-resident city can afford more than that.

On Tuesday, Judge Klein ruled that the Franklin-managed funds aren't likely to win that battle and that a delay during the appeals process would unfairly tie up payments to retired city workers who have agreed to give up their health-care benefits and accept a one-time payment instead.

"Since we're dealing with retirees who presumably are in the later stages of their lives, longer term delays are very obviously and poignantly to their detriment," Judge Klein said. He added that cities and counties that borrow money in the roughly $3.6 trillion municipal bond market "are served by some definitive resolution of cases."

Earlier Stockton's leaders said that delaying implementation of the plan also would make it hard for the city's police department to recruit new officers and prevent some city workers from moving out of an aging municipal building that has a leaky roof and rat problem.

The Franklin-managed funds are the only creditors to continue to challenge the city's bankruptcy-exit plan.

The city spent some of the municipal-bond money extended by the Franklin funds on fire stations and parks. The municipality made four interest payments before it missed a payment on March 1, 2012.

Stockton filed for bankruptcy protection in June 2012, with more than $700 million worth of debit, making it the largest city to seek bankruptcy protection under Chapter 9 until Detroit's filing about a year later.

Stockton, which is some 80 miles inland from San Francisco, was hit hard by the housing crash.

Judge Klein blamed the city's financial woes on former leaders who offered overly generous pay to municipal workers and took on debt for new projects that Stockton couldn't afford.

Throughout the bankruptcy, the city cut costs. Voters also approved a new 3/4-cent sales tax to pay for more police officers.

Stockton leaders didn't try to reduce costs by paying less money into a pension plan administered by the California Public Employees' Retirement System, even though Judge Klein decided that a California city's pensions could indeed be cut using bankruptcy's power.

THE WALL STREET JOURNAL

By KATY STECH

Jan. 20, 2015 3:29 p.m. ET

Write to Katy Stech at katherine.stech@wsj.com

Atlantic City Bankruptcy Talk 'Premature': Turnaround Team.

ATLANTIC CITY NJ/NEW YORK — It's "premature" to talk about bankruptcy for troubled gaming resort Atlantic City, Detroit's former turnaround expert said Thursday as he signed on with the latest bid to revive a city some see as bound to follow the path taken by the Motor City.

Atlantic City's lifeblood, gaming revenue, has been decimated as newer casinos in nearby states such as New York and Massachusetts lured gamblers away from the storied but downtrodden New Jersey shore locale.

New Jersey Governor Chris Christie on Thursday appointed a turnaround team, including former Detroit emergency manager Kevyn Orr – a step the struggling casino town has resisted.

"There's only one reason to hire Kevyn Orr after Detroit and that's if you're going into bankruptcy, said Tamara Lowin, Municipal Analyst at Belle Haven Investments.

Christie, a potential 2016 presidential candidate, acknowledged multiple bipartisan attempts to get the city on firm financial footing, but said they had failed. All of those plans required significant state resources.

"We are digging out of an enormous hole," Christie said. "We have problems we have to fix… none of them are unfixable if in fact we have the political will to be able to get them done."

The team will be led by Emergency Manager Kevin Lavin, who previously worked for turnaround specialist FTI Consulting. Lavin is an expert in "delicate discussions with constituencies with different interests," said John Rapisardi, a bankruptcy lawyer at O'Melveny & Myers, who has worked with him.

Orr will support Lavin as special counsel. A former corporate bankruptcy lawyer at the firm Jones Day, Orr most recently guided Detroit through the biggest-ever U.S. municipal bankruptcy.

Orr said it was "premature" to talk about bankruptcy for the city, which must repay a $40 million bridge loan from the state by March 31. It would take about 90 days to implement a plan and another 90 days to see results, he said.

Still, observers said that the appointment was a clear indication of direction.

“(New Jersey) does have a path to municipal bankruptcy in its statutes – given that, the appearance of Mr. Orr is surely making a impression on the municipal finance community,” said Melissa Jacoby, a law professor at the University of North Carolina.

In New Jersey, a city must win permission from the Local Finance Board to file for Chapter 9 municipal bankruptcy.

“If Chris Christie is moving this forward then presumably that access wouldn’t be denied,” said bankruptcy lawyer Michael Sweet.

The appointment of an emergency manager was rejected by Atlantic City lawmakers earlier this month as they endorsed steep budget cuts.

“I’m not in support of it, but if we do get an emergency manager, I’ll work with him,” said State Assemblyman Vince Mazzeo, who represents Atlantic City, ahead of the announcement.

There were, however, doubts that Orr can work magic on a city that saw four of its 12 casinos close in 2014. A fifth, Trump Entertainment’s Taj Mahal, narrowly averted closing but remains in bankruptcy. The operating unit of Caesars Entertainment, the owner of Bally’s Atlantic City and Caesars Atlantic City, filed for bankruptcy earlier in January.

“No one should expect that the appointment of a very competent fiscal manager is the solution for Atlantic City,” said Peter Reinhart, professor and director of the Kislak Real Estate Institute at Monmouth University, as it would not solve the underlying problems of a stagnant tourism and casino industry.

Atlantic City has some parallels with Detroit in the importance of casino revenues – Detroit’s reliance on casino cash to help fund a recovery was criticized during its restructuring process.

Still, Detroit turned to its art collection to ease cuts to pensions as it climbed out of bankruptcy.

When asked about comparisons to Detroit, Orr said each place was different and “had to be taken on its own.”

By REUTERS

JAN. 22, 2015, 6:02 P.M. E.S.T.

(Additional reporting by Tom Hals, Lisa Lambert, Curtis Skinner, Megan Davies, writing by Megan Davies; Editing by Diane Craft and Christian Plumb)

Christie Uses Executive Order to Appoint an Emergency Manager in Atlantic City.

Moving to take greater control over Atlantic City, which is struggling financially as its casino industry shrinks, Gov. Chris Christie on Thursday appointed a corporate finance lawyer to be the city’s emergency manager.

Along with the lawyer, Kevin Lavin, Mr. Christie brought in Kevyn Orr — the lawyer who led Detroit through the bankruptcy it emerged from last month — as a consultant. Mr. Christie said the appointments were not intended to “marginalize or minimize” the roles of the city’s elected government, led by Mayor Don Guardian.

But the governor’s move, made through an executive order, came just two weeks after Mr. Guardian flatly rejected the proposal of an emergency manager, saying that it would simply add another layer of bureaucracy. The appointments drew immediate fire from the president of the state Policemen’s Benevolent Association, Patrick Colligan, who called the managers “hatchet men.”

Three casinos are the latest victims of Atlantic City’s troubled gambling industry. Showboat is scheduled to shut down Aug. 31.Like a Domino, Another Atlantic City Casino FallsJUNE 27, 2014
Police and Fire Department officials are wary because a report issued in November by a commission appointed by the governor recommended reducing the size of Atlantic City’s police and firefighting forces as one way of saving money. That report, which also suggested installing an emergency manager, said that the city’s property tax revenue would fall to $8 billion in the 2016 fiscal year, less than half of what it was three years ago.

Atlantic City has never fulfilled the hopes that led lawmakers to legalize gambling there almost four decades ago. But its financial problems turned into a crisis after neighboring states, most notably Pennsylvania, created their own casinos and siphoned off many of the gamblers who had streamed to the Jersey Shore.

Four of Atlantic City’s 12 casinos closed last year, and a fifth, Trump Taj Mahal, barely averted a shutdown last month. The closings left about 9,000 casino workers unemployed.

The steady deterioration led Mr. Christie to declare on Thursday that he could not “wait any longer.” He said that “more aggressive action” was needed, and that “it’s time to confront the dire circumstances.”

Mr. Christie said his appointees would provide the city’s elected officials with tools to help them resolve the city’s financial problems. His executive order calls for Mr. Lavin to report back within 60 days with “a plan to place the finances of Atlantic City in stable condition on a long-term basis by any and all lawful means.”

Despite such strong language, some close observers of the situation expressed relief that the governor’s action was not more autocratic.

“I was loaded for bear this morning,” said Bill Dressel, the executive director of the New Jersey State League of Municipalities. “I was ready to roll the cannon out of the closet and aim it at the golden dome.”

He said he had been prepared to criticize the governor for usurping the authority of the city’s elected officials. But after reading the order and talking with Mr. Guardian, Mr. Dressel said he was pleasantly surprised by the tone of the first-day discussions.

Continue reading the main storyContinue reading the main storyContinue reading the main story
In a statement, Mr. Guardian said that “although no timetable was given, they communicated to us that they wanted to get in, help us fix the city’s finances, and get out.”

Assemblyman Vince Mazzeo, who has proposed legislation aimed at stabilizing Atlantic City’s tax base, issued a statement backing Mr. Guardian and opposing Mr. Christie’s action.

“The appointment of an emergency manager is not something that I support, but I will work with him and his team in a cooperative manner to fix and reform Atlantic City’s dire property tax situation," Mr. Mazzeo said. He added that "even with the appointment of an emergency manager — and some questions about his powers and what he's going to be able to accomplish — the need to reform and stabilize the Atlantic City tax structure is still the most pressing fiscal issue facing our region."

The appointment of Mr. Orr, who was the emergency manager of Detroit for about 20 months, is not an indication that Atlantic City is likely to file for bankruptcy, Mr. Dressel said. He said that New Jersey laws effectively ruled out a municipal bankruptcy, and that there had not been one in the state since the Great Depression.

But now that he will be working closely with Mr. Orr, Mr. Guardian may regret a line or two he uttered last week in his State of the City speech. "At least we're not Detroit," the mayor said, as he ran through a series of quips.

Then he gave his reaction to the idea of appointing an emergency manager. "Yeah, of course," he said then. "It's a great idea to have the state monitor monitor the state monitor who's already monitoring me."

THE NEW YORK TIMES

By PATRICK McGEEHAN

JAN. 22, 2015

New Illinois Governor Orders Spending Freeze.

CHICAGO — Illinois' new governor, Bruce Rauner, took his first shot Monday at addressing the state's crippling financial crisis, ordering all state agencies to freeze non-essential spending.

State workers were also instructed to turn down office thermostats and turn off lights to save money when their offices are not in use, according to a wide-ranging executive order from the Republican first-time officeholder and former private equity investor.

In his inaugural address, Rauner said Illinois' history of bad fiscal management was hurting the state's ability to compete.

"Our government has spent more than we could afford; borrowed money and called it revenue," he said. "Rather than responsibly budgeting the money we had, we implemented programs we couldn't afford."

The Land of Lincoln is buckling under a chronic structural budget deficit and the lowest credit ratings and worst-funded pension system among the 50 states. The fiscal crisis is the worst the state has seen for decades and could be the nation's biggest. The crisis is also weighing on its largest city Chicago, which is struggling with a big pension funding burden of its own.

Rauner ordered agencies to produce lists of contracts that could be terminated and to put a hold on new state contracts and grants until July 1 with certain exceptions. He also ordered a halt on planning for highway projects pending reviews, put limits on state worker travel and said the state should sell equipment it does not need.

On Friday, his transition team said an effective plan would include spending cuts and tax reform.

Rauner also said the fifth-largest state is facing moral and ethical crises and that he will sign an order on Tuesday to improve ethics and accountability in the executive branch of state government.

To make progress, Rauner will need to find a way to work with a legislature dominated by longtime Democrat power broker Mike Madigan, speaker of the Illinois House."You have a Democratic legislature and a Republican governor, so they're going to have to figure out some way to work together," said David Merriman, an Illinois budget expert at the University of Illinois.

Rauner pledged "to work on a bipartisan basis to drive results and get things done." A Madigan spokesman said the speaker will "work with the governor in a professional and cooperative manner."

Pension payments are projected to jump to nearly $7.6 billion in fiscal 2016 from $6.8 billion this fiscal year as the state defends cost-saving reforms in court. Outgoing Democratic Governor Pat Quinn's budget office recently estimated Illinois' unpaid bills will climb to $9.8 billion at the end of fiscal 2016, from $4 billion this year. The state's projected general fund deficit is expected to balloon to nearly $5.8 billion, from $180 million this fiscal year.

"In the modern era… the state has never been in this poor of a financial condition," said Laurence Msall, president of Chicago-based government finance watchdog group Civic Federation.

Continue reading the main storyContinue reading the main storyContinue reading the main story
In a pre-inaugural tour on Saturday, Rauner told local media outlets that his team discovered unpaid bills stashed in drawers. Rauner's spokespeople did not respond to requests to confirm the reports.

Robert Amodeo, a portfolio manager at asset manager Western Asset, put Illinois in the same class with the most troubled municipal bond issuers in the nation. "We will continue to monitor developments in Puerto Rico, New Jersey and especially Illinois, all of which face challenging fiscal conditions," Amodeo said.

To sell its debt, Illinois has had to offer hefty yields. Illinois bonds due in 10 years yield about 140 basis points more than stellar AAA-rated debt, according to Municipal Market Data. California, which is bouncing back from its fiscal morass, has a so-called credit spread of only 24 basis points.

Illinois' credit ratings, at A-minus and A3, are the lowest among the states, and rating agencies have warned of further downgrades. An immediate concern is the Jan. 1 partial expiration of 2011 temporary tax hikes that dropped the personal income tax rate to 3.75 percent from 5 percent, and the corporate rate to 5.25 percent from 7 percent.

Rauner said the tax hike hurt Illinois' economy and put more stress on the state's social safety net. "As a result, today Illinois is not as competitive as we need to be and cannot be as compassionate as we want to be," he said.

By REUTERS

JAN. 12, 2015, 9:09 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by David Greising, Eric Walsh, Megan Davies, Dan Grebler and Ken Wills)

Obama Announces Moves to Encourage Expansion of Public Broadband Networks.

CEDAR FALLS, Iowa — President Obama announced executive actions on Wednesday to expand high-speed Internet access and make it more affordable, including an effort to spur the creation of municipal broadband networks that could challenge the nation's large telecommunications companies.

"In too many places across America, some big companies are doing everything they can to keep out competitors," Mr. Obama said at Cedar Falls Utilities, a municipal service that provides one-gigabit broadband — 100 times the national average speed — to a city of 40,000. "We've got to change that — enough's enough."

Pointing to Cedar Falls as the "guinea pig" for unfettered expansion of broadband service, Mr. Obama called on the Federal Communications Commission to override state laws that keep communities from providing high-speed Internet.

The telecommunications industry reacted angrily to the president's move, saying that it was circumventing Congress and state legislatures. The industry is also opposed to Mr. Obama's proposal that the F.C.C. regulate the Internet as a public utility, which he announced in November.

"The private sector is much better at deploying capital efficiently than the government," said John E. Sununu, a former Republican senator from New Hampshire who is now co-chairman of Broadband for America, an industry coalition.

"Standing up in public and saying you're taking on the big guy always inspires some populist sentiment," said Mr. Sununu, who is also on Time Warner Cable's board of directors. "But I think what the president is doing here is giving up on Congress, undercutting state laws and pushing rhetoric that doesn't match the facts."

It is not clear how far Mr. Obama can go in clearing the obstacles to broadband competition. Nineteen states restrict cities' ability to provide high-speed data service.

Still, his advisers said, the president hoped the F.C.C. could "level the playing field." Two other cities that offer high-speed Internet service — Chattanooga, Tenn., and Wilson, N.C. — have petitioned the agency to override state laws that prohibit them from expanding their service.

Michael K. Powell, who served as F.C.C. chairman under President George W. Bush, said Mr. Obama was chasing "false solutions."

"While government-run networks may be appropriate in rare cases, many such enterprises have ended up in failure, saddling taxpayers with significant long-term financial liabilities and diverting scarce resources from other pressing local needs," said Mr. Powell, the president and chief executive of the National Cable & Telecommunications Association, an industry group.

In his speech on Wednesday, the president criticized large Internet providers that he said had a near monopoly in many markets around the country and often provided subpar service.

"You're stuck on hold, you're watching the loading icon spin, you're waiting and waiting and waiting," Mr. Obama told an audience of about 200 in a utility warehouse as he stood in front of a pegboard full of tools and shelves of router boxes and cable. "Meanwhile, you're wondering why your rates keep getting jacked up when your service doesn't seem to improve."

Mr. Obama's initiative includes an effort by the Commerce Department to help communities build broadband infrastructure. It would also provide Agriculture Department loans and grants to Internet providers in rural areas, and it would create an interagency council to speed up broadband deployment, White House officials said.

The president will also convene a meeting of mayors and local officials at the White House in June to discuss broadband expansion efforts.

The moves are in line with Mr. Obama's efforts to improve American competitiveness and spur innovation and with his recent emphasis on policies meant to ensure that the economic recovery is felt more broadly throughout the country.

"I'm going to focus on how we can build on the progress we've already made and help more Americans feel that resurgence in their lives," Mr. Obama said.

THE NEW YORK TIMES

By JULIE HIRSCHFELD DAVIS

JAN. 14, 2015

Kansas Follows Red-Ink Road With Brownback Tax Cuts: Muni Credit.

Kansas Governor Sam Brownback is touting tax cuts enacted in 2012 as the way to achieve the economic strength of oil-rich Texas. The question is whether his government will go broke first.

The reductions that the second-term Republican championed are producing hundreds of millions of dollars of deficits and placing the state of 2.9 million in a tightening fiscal vise. Brownback stayed the course in his 2016 budget Friday, while acknowledging the stress and altering his approach.

"We will continue our march to zero income taxes," Brownback told lawmakers Thursday night in Topeka, the capital.

Yet the march is about to slow. Responding to the fiscal crisis, Brownback, 58, proposed making the reductions more gradual and recommended raising taxes on tobacco and liquor.

His plan would lift the cigarette tax to $2.29 per pack from 79 cents, while the alcoholic beverage levy would rise to 12 percent from 8 percent. The moves would raise an additional $394 million over two years, helping close a gap of more than $710 million for that period, according to the budget document.

Payoff Wait

As Kansas awaits the payoff from Brownback's Tea Party-inspired tax-cutting wager, the governor and legislature are racing time as the treasury runs out of money. Moody's Investors Service cut Kansas's credit rating in April and Standard & Poor's lowered it in August, potentially increasing borrowing costs for agencies and municipalities.

"The challenge for the state is in the interim — how do you make up for the shortfall?" said Dan

Heckman, a senior fixed-income strategist in Kansas City at U.S. Bank Wealth Management, which oversees $126 billion.

Because the tax cuts produced greater revenue losses than anticipated, the state faces a $280 million shortfall for the remainder of this fiscal year, which ends June 30.

“We must acknowledge that the most recent data regarding state government revenue and expenditures present a clear challenge that must be addressed,” Brownback said Thursday night.

While he repeated his conviction that states without income taxes grow faster than those with high levies, the slower pace of cuts and recommendations for higher consumption levies are a nod to the stress Kansas faces.

November Victory

The response will be instructive to states such as Oklahoma and Missouri that have followed suit with tax cuts aimed at stimulating their economies.

While Republican governors as a group have advocated reductions, Brownback stands out for leading his state to the precipice, triggering the credit downgrades and the elimination of a $700 million surplus.

Brownback won re-election in November in a race that was a referendum on the cuts. He offered oil-rich Texas, which has no income tax, as the model for Kansas.

“If lawmakers look at the situation and say they will try to cut their way out of it, then it is a dramatic turning point for the state because you’re talking about significant downsizing of services,” said Duane Goossen, a former budget director under Republican and Democratic Kansas governors.

Court Decision

There are more complications looming after a state court ruled that Kansas was unconstitutionally underfunding schools. While the decision is expected to be appealed, S&P said this month that the case “could require substantially higher education funding.”

The company said next fiscal year’s budget “will be an important component” of Kansas’s credit quality.

Part of Brownback’s solution to balance this year’s spending plan is to cut the state’s contribution to its retirement system by $40 million. Kansas has the fifth-weakest pension among U.S. states, according to data compiled by Bloomberg.

“We’d like to see some sort of balance,” David Hitchcock, an analyst at S&P in New York, said in an interview. One-time fixes won’t address the longer-term structural deficit, he said.

In 2012, the legislature cut the top income-tax rates 26 percent, eliminated levies on about 191,000 small-business owners and increased standard deductions for married and single head-of-household filers. While revenue declines were anticipated, the degree was greater than state budget analysts forecast.

‘In Trouble’

Brownback, a former U.S. senator and 2008 presidential candidate, has insisted the reductions will eventually spur growth.

Goossen, a senior fellow at the Kansas Center for Economic Growth, a nonprofit in Topeka that researches budget and tax policy, said Kansas can't wait.

"The state's in trouble right now," he said.

While Kansas doesn't issue general-obligation debt, the Moody's downgrade to Aa2, two steps below the top, affected $2.8 billion of securities, including bonds for highway improvements. S&P dropped it to an equivalent AA.

"Governor Brownback does believe that eventually this will lead to greater economic activity and will bring additional revenue sources to the state," said Heckman at U.S. Bank. "But his time frame has to meet up with the revenue, and I think that's a bit of a mismatch."

Bloomberg Muni Credit

By Tim Jones

Jan 16, 2015 9:04 AM PT

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California Zooms Past Russia, Italy and Soon Brazil in Economic Might.

California is overtaking Brazil as the world's seventh-largest economy, bolstered by rising employment, home values and personal and corporate income, a year after the most-populous state surpassed Russia and Italy.

The Golden State, with an equivalent gross domestic product of $2.20 trillion in 2013, expanded last year by almost every measure, according to data compiled by Bloomberg. Brazil's gross domestic product, in contrast, declined 1 percent from $2.25 trillion in the first three quarters of 2014 as its export of raw materials fell.

Governor Jerry Brown, 76, sworn in this month to an unprecedented fourth term, is presiding over the turnaround as he steers away from persistent deficits and fiscal turmoil that prompted Republican presidential candidate Mitt Romney in 2012 to compare California to Greece, which has about a 10th of its GDP. California-based companies from Apple Inc. to Walt Disney Co. handed investors a total return of 119 percent since January 2011, when Brown returned to the governor's office, compared with 96 percent for the Standard & Poor's 500.

"It's the diversity of the California business environment, from movies to the Internet to agriculture — the incredible array of businesses that make up the state," Brown said yesterday in an interview at his office in Oakland, where he was mayor from 1999 to 2007. "Certainly getting our finances in line as a state is also helpful: the new investments in our schools; solid universities; investments in water and energy. All this gives security and keeps California very much in the forefront of investment, change, cultural adaptation and leadership."

Sustained Momentum

Brown’s economy has sustained its momentum since 2013, when the value of goods and services produced in the state topped that of Russia and Italy to vault California to No. 8 in the world. California grew an average of 4.1 percent annually during the first three years of Brown’s most recent term.

Economists in Brazil, with a population five times bigger than California’s 38.3 million, cut their growth estimate and raised their inflation forecast for this year on Jan. 12, as the central bank raises rates in the world’s second-biggest emerging market. Its economy grew 0.1 percent in the third quarter over the three previous months, after contracting 0.6 percent in the second quarter.

“Resource-rich nations are traditionally subject to boom and bust,” Brown said. “We’re not just dependent on one particular industry or resource.”

Renewable Energy

Brown, in his inaugural speech on Jan. 5, said the California economy can expand even as the state grows more aggressive in requiring the use of renewable energy sources and reducing the use of gasoline.

“We have to prove to the world that you can move forward with progressive and forward-thinking climate change policies while growing the economy simultaneously,” Kevin De Leon, a Democrat and state senate president pro tem, said yesterday in an interview in Sacramento. “They’re mutually compatible and inclusive as opposed to exclusive.”

Brown’s policies, for the most part, are proving beneficial to the long-term economic health of California, said Chris Thornberg, principal at Beacon Economics LLC, a Los Angeles-based research company. Thornberg credited larger forces, though, from Federal Reserve policy to the purging of bad loans from the real-estate market for the state’s recovery.

‘Better Job’

“From an investor standpoint, I don’t think anybody could have done a better job,” said Michael E. Johnson, managing partner at Gurtin Fixed Income Management in Solana Beach, California.

California’s ascendance comes as the World Bank cut its forecast for global growth this year, with the improving U.S. economy and lower fuel prices failing to offset disappointment elsewhere in the world.

“The global economy today is much larger than what it used to be, so it’s a case of a larger train being pulled by a single engine, the American one,” World Bank Chief Economist Kaushik Basu told reporters on a Jan. 13 conference call. “This does not make for a rosy outlook for the world.”

California leads U.S. states in agriculture, technology and manufacturing revenue growth, Bloomberg data show. It’s home to more companies on the S&P 500 than any other state. The state’s job growth outpaced the nation’s in the first nine months of last year. California’s non-farm employment of 15.7 million people is at an all-time high.

Poverty Rate

Challenges remain. While employment rebounded last June to levels from before the 18-month recession that ended in 2009, its jobless rate of 7.2 percent as of November was tied with

Mississippi for the second-highest among U.S. states.

Almost a quarter of Californians live in poverty, the highest rate in the nation, according to the U.S. Census Bureau. Spending on welfare remains lower than before the recession began.

“We’ve brought our unemployment rate down rather quickly and we’ve recovered the jobs deficit that we incurred during the recession, which in percentage terms was bigger than the nation’s,” said Robert Kleinhenz, the chief economist for the Los Angeles County Economic Development Corp. “It dug itself into a deeper hole but it did manage, through faster growth, to recover almost as quickly.”

California has rebounded from when Romney, the former governor of Massachusetts, dismissed the state as a failed economy as it grappled with the prospects of tax increases and budget cuts.

‘Like Greece’

“Entrepreneurs and business people around the world and here at home think that at some point America is going to become like Greece or like Spain or Italy, or like California — just kidding about that one, in some ways,” Romney said, to laughter from his audience.

Like California, the city of Oakland, of which Brown was mayor for two terms, has experienced an economic revival.

“The proximity of San Francisco and being located in the Bay area” are the pivotal factors behind Oakland’s resurgence, Brown said. “There is a dynamic interplay. Oakland is closer to San Francisco than San Francisco is to itself. West Oakland is closer to the financial district and even south of Market than most of San Francisco. I did push condo development and responsible policing to keep the crime down.”

The new Oakland mayor, Libby Schaaf, was a former Brown aide and City Council member who emerged as frontrunner after winning the governor’s endorsement in October.

More Bullish

Analysts are more bullish on California-based businesses than on U.S. companies, as measured by the Russell 3000 index, Bloomberg data show. Companies based in the state will provide a 15 percent return to investors in the coming year, compared with 12 percent for the index.

To those who assert that California’s tax and regulatory structure make it a hostile place to do business, Brown offers an anecdote: He tells a story about a Silicon Valley investor he met at a cocktail party who started and sold three technology-related businesses.

The man told the governor he’s in California because the state has “more smart people with money and more people who know how to spend that money by way of tech companies and ventures that are constantly sprouting up.”

The cost of protecting bonds of California from default tumbled the most among all the states in the four years ended Dec. 31. Credit-default swaps, which investors use to hedge against losses or to speculate on creditworthiness, declined 201 basis points to 104 basis points, Bloomberg data show.

Investor Confidence

Credit swaps, which typically decline as investor confidence improves and rise as it deteriorates, pay the buyer face value if a borrower fails to meets its obligations, less the value of the defaulted debt.

A basis point equals $1,000 annually on a contract protecting $10 million of debt.

“That huge deficit was a shock to the political sensibility,” Brown said. “I was able, in that context, to win substantial cuts on the part of government spending. I was also able to win approval of Proposition 30 to inject more revenue into the economy. All of that together brought us a place of more stability.”

While final figures for 2014 for the California economy won’t be available until June, projections in Brown’s proposed state budget show the gains.

Per-capita annual income in California was estimated to have increased by $1,700 to $50,338 in 2014, according to state data. California home prices climbed an average of 12 percent last year through Sept. 30.

‘Growing Faster’

“California is growing faster than the U.S. economy, which is a bright spot in the global economic situation,” said Sung Won Sohn, a professor at California State University-Channel Islands in Camarillo who was chief economist at Wells Fargo & Co. “California is always more volatile than the U.S. We tend to go down more rapidly and we tend to rise more rapidly.”

Brown’s Jan. 9 budget proposes spending a record $165 billion. Temporary sales and income tax increases that he championed in 2012, combined with surging capital gains revenue tied to stock market gains, have left the state with a $5 billion surplus in the fiscal year that begins in July. The governor is seeking to store much of that surplus in reserves to cushion against economic downturns.

California-based technology companies brought in $692 billion in revenue in the past 12 months, about half the industry’s sales across the U.S. The value of manufacturing in California climbed 8 percent to $204 billion in 2012, compared with a 7.4 percent increase in Texas to $176 billion.

California Agriculture

Agriculture in California produced $21.4 billion in revenue in 2012, three times more than the $6.8 billion in second-ranked Iowa. The number of companies in California that rank in the top 500 in the world in terms of market capitalization rose almost 48 percent since 2009.

High-technology jobs in the business and professional services sector in California were forecast to grow to 15.7 percent of the economy in 2014, up from 15.4 percent a year earlier.

“I’ve found that people get very stuck in what is,” Brown said. “I very much like tradition, but you have to be able to change and disrupt while balancing tradition. The continuity and the change blending together is your creative task.”

Bloomberg

By Michael B. Marois and Shin Pei

Jan 15, 2015 9:00 PM PT

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[Munis Still Cheap as Best Rally in a Year Can't Match Treasuries.]

The $3.6 trillion municipal market is rallying the most in 12 months. It still looks cheap compared with Treasuries.

Benchmark 10-year muni yields have fallen 0.28 percentage point in January to a 20-month low of 1.83 percent, data compiled by Bloomberg show. If that decline holds, it would be the steepest monthly drop since January 2014.

While muni interest rates are the lowest since May 2013, the debt is close to the cheapest since December 2013 relative to federal debt. The ratio of interest rates on state and local bonds relative to Treasuries touched 106 percent on Thursday in New York. That signals tax-free bonds have weakened relative to their federal counterparts, which are on pace for the strongest month since August 2011.

"Despite the performance in munis over the last 10 days, it's lagged Treasuries," said Adam Buchanan, vice president of sales and trading at Ziegler, a broker-dealer in Chicago. "There's still room to run here."

The municipal market rallied in 2014 by the most in three years. Analysts including Michael Zezas at Morgan Stanley predicted smaller gains in 2015 amid rising interest rates on Treasuries. Instead, yields plunged anew this week after Switzerland's unexpected decision to abandon its currency cap drove investors to the safest assets.

Resurgent Rally

At 1.75 percent, 10-year Treasury yields are close to the lowest since May 2013. The Treasury market has gained 2.28 percent this month, compared with 1.45 percent for munis, Bank of America Merrill Lynch data show. The local-government market hasn't earned that much since rallying 2.27 percent in January 2014.

Individuals poured $1.34 billion into muni mutual funds in the week through Jan. 7, the most in two years, Lipper US Fund Flows data show. They added $689 million in the week through Jan. 14.

The muni-Treasury ratio has historically been below 100 percent because interest on state and local debt is tax-exempt. The 1.83 percent yield on AAA munis is equivalent to 3.03 percent taxable for top earners.

Investors looking to capitalize on the relative cheapness have the chance next week. States and cities plan $8.8 billion of bond sales next week, the most in about a month. U.S. bond markets are closed Jan. 19 for Martin Luther King Jr. Day.

Bloomberg

By Brian Chappatta and Elizabeth Campbell

Jan 16, 2015

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Michigan Budget Facing Shortfall as Businesses Use Tax Credits.

Michigan faces a $324.6 million shortfall in its $9.5 billion budget, mostly because businesses are cashing in more tax credits aimed at stirring economic growth, according to state economists.

A separate $12.3 billion fund that pays for public schools is running a $35.8 million surplus because it relies more on sales-tax revenue that reflects a healthier economy, according to an agreement on the numbers announced Friday by the treasury, House and Senate. The figures will shape the current budget and the fiscal 2016 spending plan Governor Rick Snyder will propose to lawmakers on Feb. 11.

The projected net shortfall will rise to $526.5 million in fiscal 2016, which begins Oct. 1. The deficits are based on revenue predictions from May.

"We will be making reductions in real services," said Budget Director John Roberts, following a semi-annual meeting at the Capitol to forecast revenue. Roberts said he didn't know if those cuts would result in layoffs.

Although total revenue is increasing, money for programs is being reduced by higher-than-expected use of business tax credits. The credits were granted before 2012 to businesses on the condition that they invest in facilities and hire specified numbers of people.

As the economy improved, hiring increased and more businesses qualified for the credits, said Mary Ann Cleary, director of the House Fiscal Agency. In some cases, rules for tax credits were eased after they were granted to make them easier to cash in, Cleary said.

The state next month will pay $195 million to Detroit's pension funds as part of the city's bankruptcy settlement. The money will come out of payments received from tobacco companies in a multistate lawsuit settlement.

Bloomberg

By Chris Christoff Jan 16, 2015

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PennDOT Signs Contract for P3 Rapid Bridge Replacement.

The Pennsylvania Department of Transportation finalized all terms for the $899 million Rapid Bridge

Replacement P3 and signed a contract with the Plenary Walsh Keystone Partners on Monday, clearing the way for the replacement of 558 bridges throughout the state.

PennDOT selected Plenary Walsh Keystone Partners and its team of 11 Pennsylvania-based subcontractors in October.

“The Plenary Walsh Keystone Partners team has already begun preparing for construction of these bridges,” Barry Schoch, PennDOT Secretary, said in a release. “This is an important milestone in the state’s most ambitious public-private partnership initiative to date.”

PennDOT expects to realize considerable savings and will expedite the project’s completion under the P3. The average cost per bridge for design, construction and maintenance will be $1.6 million and will include 25 years of maintenance following construction. Under PennDOT’s normal procurement process, the cost for each bridge would average more than $2 million.

Twenty-three percent of all the bridges in the state are structurally deficient, and many need to be replaced, the highest percentage in the nation. In their 2014 report card for state infrastructure, the American Society of Civil Engineers gave the bridges in Pennsylvania a grade of D+, noting the current state of its infrastructure was constraining economic growth in the state.

January 12, 2015

S&P: Kansas' Proposed Midyear Budget Adjustments and Recent Court Ruling on Education Could Hamper Structural Budget Balance.

NEW YORK (Standard & Poor’s) Jan. 9, 2015—Standard & Poor’s Ratings Services believes two recent credit developments for the State of Kansas — a lower court ruling that could require substantially higher education funding if upheld on appeal, and the state’s projection of a substantial fiscal 2015 shortfall — raise additional obstacles for Kansas to achieve structural budget balance in fiscal 2016 and potentially beyond. In this respect, the extent of the state’s movement toward structural budget alignment in fiscal 2016 will be an important component in our view of Kansas’ future credit quality.

The lower court ruling on education could require the state to spend more than $500 million extra per year, beyond the $129 million of increased education funding the Kansas Supreme Court required the state to spend in fiscal 2015. We do not see an immediate impact from the new court ruling, as it will likely be appealed to the state supreme court. In our opinion, however, the ruling adds uncertainty to future years’ budgets.

Kansas also released a new forecast that projects a negative $280 million general fund budget balance at the end of fiscal 2015, or a negative 4% of budgeted expenditures, absent corrective action. This is in contrast to the adopted 2015 budget, which forecasts a positive 6% ending balance and also assumed that fiscal 2014 would end with a large 11.6% balance; instead the state’s preliminary estimate is that fiscal 2014 ended with a lower balance equal to 6% of 2014 expenditures, or $380 million.

The projected negative ending balance for fiscal 2015 has prompted Governor Sam Brownback to propose an offsetting $280 million of midyear corrective actions that would eliminate the projected general fund deficit position, although still leave the state with essentially no general fund balance at the end of the year. The bulk of the governor’s proposed midyear adjustments, involving fund transfers and other measures, will require legislative approval when the legislature reconvenes Jan. 12.

In our view, the proposed budget adjustments, if enacted, would result in a state general fund balance position broadly consistent with our expectation in August 2014, when we lowered our rating on Kansas to 'AA' from 'AA+' and assigned a negative outlook, although it would appear that the state's structural imbalance has grown. We had earlier expected a marginal fiscal year-end 2015 balance due to large shortfalls in the April 2014 income tax collections that were not reflected in the adopted fiscal 2015 state budget. Kansas' current revenue forecast now incorporates the earlier April shortfall, resulting in a lower beginning balance that carries forward into a lower year-end balance. However, the state's structural imbalance appears to have grown further due to increased education and Medicaid spending. Although the proposed midyear corrective actions could eliminate a year-end deficit position, they do not appear to significantly address the mismatch between recurring revenues and expenditures.

The governor's $280 million proposed midyear adjustments include: $201 million of one-time transfers from other funds, the delay of a scheduled increase in pension funding ($41 million), savings from a bond refinancing ($3 million), delays in a hospital expansion ($5 million), reduced transfers out for capital construction ($5 million), and 4% spending reductions for many state agencies.

Although Kansas will likely make adjustments to bring its general fund balance back to a marginally positive level at fiscal year-end 2015, we remain concerned about the one-time nature of most of the budget fixes, and the large fund balance drawdown on a budgetary accounting basis. (On a generally accepted accounting principles [GAAP] basis the fund balance is lower — the recent release of the state's fiscal 2014 GAAP financial statement shows a fiscal year-end 2014 general fund balance of only $2.5 million.) We believe the state will have enough working cash to operate using its other internally borrowable funds. However, the large reduction of the fund balance in the past two years during a period of economic recovery indicates credit stress, in our opinion, and contributes to our negative rating outlook. Kansas reduced its top individual income tax rate to 4.6% from 4.8% in fiscal 2015, and has another reduction in the top rate scheduled in fiscal 2018 to 3.9%. State credit quality could be affected to the extent tax reductions are not paired with ongoing spending cuts, absent significant economic growth.

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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St. Louis Stadium Plan Likely Requires Public Approval.

ST. LOUIS — A proposed open-air football stadium that backers hope will persuade St. Louis Rams owner Stan Kroenke to keep the team from returning to Los Angeles will likely require voter approval of its public financing component.

A St. Louis municipal ordinance and a St. Louis County charter amendment each prohibit the use of taxpayer dollars on pro sports stadiums without the consent of voters, the St. Louis Post-Dispatch reported.

A two-man team appointed by Gov. Jay Nixon last week unveiled details of a 64,000-seat stadium along the Mississippi River downtown that would cost as much as $985 million. Up to $350 million could come from extending bond debt used to pay off the Edward Jones Dome, the Rams' current home.

Additional details about the financing plan have not yet been released. And while both former Anheuser-Busch President David Peacock and current Jones Dome attorney Robert Blitz emphasized that the plan would not involve new taxes, it does depend on the infusion of an additional $12 million from the state, $6 million from the city and $6 million from the county each year, the same amount now provided from bond payments set to expire in 2021.

"It's going to be tough to argue that a vote is not required," said Peter Salsich Jr., a retired St. Louis University law professor.

Peacock and Blitz's plan calls for as much as $250 million from Kroenke, $200 million in National Football League loans to the team, $55 million in state support and tax credits and $130 million in the sale of personal seat licenses, which allow fans to buy season tickets.

By: The Associated Press

January 14, 2015 5:07 pm

[562 Pa. Municipalities Categorized as Having 'Distressed' Pension Funds.]

Pittsburgh Finance Director Paul Leger can draw a line from the problems of the city's underfunded pension to its recent property tax increase: Pension payments went up by $11 million and the millage rate increased 0.5 mills.

"That's $11 million you can't spend somewhere else, so you either have to move $11 million out of other expenditures for services or you have to increase revenues," Leger said. "What we did was increase revenues, a large portion of which went to that pension payment."

Pittsburgh is one of 562 Pennsylvania municipalities with distressed pension funds, according to figures Auditor General Eugene DePasquale released Wednesday.

About 1,200 municipalities in Pennsylvania administer their own pension plans. Collectively, they were $7.7 billion underfunded through 2012, up from $6.7 billion the year before.

"It's gone up by $1 billion with no sight of action yet by the Legislature," DePasquale said. "There's no way around it; we need a statewide solution."

Most of the shortfall was in Philadelphia, where the city's unfunded liabilities surpass $5.3 billion, according to July 2013 figures. Pittsburgh was the second-highest as of January 2013 at about $484 million.

Western Pennsylvania governments with plans among the 25 largest unfunded liabilities in dollars included Penn Hills, Monroeville, New Castle and Erie. Of the top 25 worst-funded plans by percentage, Braddock Hills made the list at 46 percent funded.

DePasquale recommends some short-term fixes. Governments should prohibit employees from “spiking” their pensions by working extra overtime, increase age and service requirements in accordance with increased life expectancies, and ensure all plans require members to contribute.

Long term, DePasquale wants local plans consolidated into a state system with job-specific classes: police officers, firefighters and non-uniformed employees.

“If you live in any of these municipalities, if it’s not addressed, you’re going to be dealing with tax hikes or cuts to public safety or a combination of it,” DePasquale said.

DePasquale plans to release an audit on Pittsburgh’s pension plan next month.

The city has taken steps to shore up its fund, including lowering its assumed rate of return on investments and paying more than its minimum required payments. But ever-increasing costs to meet obligations continue to put pressure on the budget, Leger said.

“We have to remember the promise to current employees that pension income will be available to them, but we also have to assure the taxpayers that all of their tax dollars will not eventually be going to pay pensions instead of providing services,” he said. “It is a difficult tightrope to walk.”

According to city data, the unfunded liability was $511 million in November; the plan is 57 percent funded.

Pension plans funded at 90 percent or higher are considered healthy, according to state criteria. Anywhere below that is under “minimal,” “moderate” or “severe” distress.

Brian Jensen, senior vice president at the Allegheny Conference for Community and Economic Development, said unfunded liabilities can result from a decrease in employees, which means fewer pay into the system, or a decrease in government payments into the fund. This causes fewer dollars to go into the plan, although the payments still must be made. Other budget problems, such as employee costs, tax-exempt properties and shifting tax bases, exacerbate the problem, Jensen said.

Eileen Norcross, a senior research fellow with the Mercatus Center at George Mason University who studies public finance, said pensions are “the Pac-Man of budgets,” eating into other areas with increasing costs to cover. In the extreme case of one Rhode Island municipality with a weak tax base, pensions were cut for retirees when Central Falls could not make payments.

“You’re going to see the possibility of service cuts and other changes to these local budgets in order to make good on these pension benefits,” Norcross said.

By Melissa Daniels

Wednesday, Jan. 14, 2015, 11:18 p.m.

Melissa Daniels is a staff writer for Trib Total Media. She can be reached at 412-380-8511 or mdaniels@tribweb.com.

[De Blasio: Overhaul N.Y. City Corporate Tax Structure.]

Mayor Bill de Blasio on Monday proposed a major overhaul of New York City's corporate tax structure that would conform important parts of the city's business tax system with state tax law.

De Blasio said the move would modernize an outdated system and provide relief to small businesses and local manufacturers while streamlining city and state corporate tax codes.

The changes would be retroactive to Jan. 1. Gov. Andrew Cuomo is expected to release his state budget proposal later this month. The governor and state legislature must approve the city's proposal.

New York State overhauled its business taxes last year.

According to city finance Commissioner Jacques Jiha, the overhaul would ensure that firms need not maintain separate records for city and tax purposes and create consistency in tax computing that is essential for joint audits.

De Blasio said the changes would be revenue neutral. The mayor said the moves would prevent major administrative burdens for both taxpayers and the city. "These are common-sense reforms that will modernize and streamline a corporate tax code that hasn't seen real changes since the 1940s," he said.

Carol Kellermann, president of the Citizens Budget Commission, said her watchdog organization has backed the concept, but wants to study it further. "We've supported it as a way to simplify and create a uniform basis of taxation, but whether it is truly revenue neutral is what I'd concerned about," she said in an interview. "We'd need to see more information."

Kellermann considered vague a statement by officials that said broadening the tax base "by eliminating certain special deductions and exemptions" would offset a revenue loss estimated at up to $300 million.

The overhaul would exclude the first $10,000 of capital tax base; reduce the tax rate for small non-manufacturers with less than $1 million in allocated net income from 8.85% to 6.5%, and reduce the tax rate for small manufacturers with less than $10 million in allocated net income from 8.85% to 4.425%. The city would also provide a smaller rate reduction to manufacturers with incomes between $10 million and $20 million.

The city would retain the alternative tax base on capital, merge the bank tax into the corporate franchise tax for large corporations, change the method for computing net income that broadens the tax base by treating most income as business income, and redetermine how corporations attribute net income based on the location of a firm's markets rather than the location of its business operations.

"The state made these changes a year ago and the city pretty much had to conform, at least in broad strokes," said George Sweeting, deputy director of the Independent Budget Office. "It would be nice to have more information about the number of firms and the kinds of firms affected, and how much revenue is lost or gained through each."

According to de Blasio, the latter would eliminate a tax penalty for increasing operations and employment while incentivizing business to locate employees and jobs within the five boroughs. The proposal also called for adopting unitary combined reporting rules, to prevent shifting of income and expenses among related entities to inappropriately reduce taxes.

“This long-overdue reform represents another initiative that moves the city forward while protecting our long-term fiscal health,” said budget Director Dean Fuleihan.

THE BOND BUYER

BY PAUL BURTON

JAN 12, 2015 3:04pm ET

Goldman Sachs Joins BlackRock in New Flexible Funds: Muni Credit.

An investor may argue that if a fund beats 96 percent of peers in a five-year run, it doesn’t need fixing.

That’s not the philosophy of the municipal-bond chiefs at Goldman Sachs Asset Management and BlackRock Inc. (BLK)

The Goldman Sachs arm, which oversees $37 billion in munis, changed its core tax-free mutual fund this month to give it flexibility to extend or shorten maturities and buy junk debt. The fund, ranked in the top 5 percent of its class in the past five years, follows BlackRock’s Strategic Municipal Opportunities Fund (MAMTX), which altered its mandate a year ago and saw assets more than triple.

“This is a market that provides a lot more opportunity if you can be more flexible than just having a specific duration band that you have to stay in, or only investment grade,” said Ben Barber, head of munis in New York at the Goldman Sachs unit. “There’s more volatility — that leads to more opportunity.”

The moves jettison labels in the $3.6 trillion municipal market that restrict purchases to certain maturities or credit ratings, and take a page from unconstrained bond funds in the taxable universe. While those were the best-selling part of fixed-income in 2014, they underperformed intermediate-term funds, traditionally the most popular bond investment, according to Morningstar Inc.

Swing State

The Goldman Sachs fund aims to buy bonds that others sell amid swings in fund flows resulting from shifts by individual investors, who own the majority of the market either directly or through mutual funds.

Local debt rallied 9.8 percent last year, the most since 2011, as individuals added $21 billion to muni funds, Lipper US Fund Flows data show. In 2013, they pulled a record $63 billion amid a 2.9 percent loss, the worst since 2008.

Barber said he envisions Goldman Sachs’s Dynamic Municipal Income Fund as an investment for all market circumstances. He and co-manager Scott Diamond plan to adjust average maturity and credit quality based on market moves.

Under its former name, the Goldman Sachs Municipal Income Fund (GSMTX), it had a duration of within one year of its benchmark, according to July documents filed with the U.S. Securities and Exchange Commission. It invested in securities rated at least BBB, two levels above junk.

Duration Stretch

Now, average duration can range from two to eight years, and speculative-grade debt may represent 30 percent of the fund.

That's still a stricter mandate than some peers. The Eaton Vance Municipal Opportunities Fund (EMOAX), which began in 2011, isn't constrained by duration and can invest 50 percent in junk. It delivered better returns than 99 percent of peers in the past three years.

Under the new mandate, the Goldman Sachs fund could have added high-yield and long-maturity debt when those areas cheapened in 2013, Barber said. Individuals that year yanked $9.9 billion and $27.5 billion, respectively, from funds focused on those segments.

"Each year over the last five or six years is different in terms of where flows go into or come out of," Barber said. "It creates pressure on one portion or another of the curve."

BlackRock's $2.7 billion strategic muni fund could serve as a guide. The world's largest money manager altered it in January 2014 to allow for an average duration of zero to 10 years, said Peter Hayes, who oversees about $114 billion as head of munis.

Duration reflects bonds' price sensitivity to movements in interest rates. The longer the duration, the more the security's price will rise as interest rates fall.

Junk View

The fund, formerly known as the BlackRock Intermediate Municipal Fund, previously had at least 80 percent in investment grade, according to documents from November 2013 detailing the strategy change. The average maturity was from three to 10 years.

The fund can now invest as much as 50 percent in junk-rated bonds and 20 percent in securities other than tax-free munis, and may use derivatives, according to the prospectus.

The BlackRock strategic fund attracted about $1.9 billion of cash in 2014, after starting the year with $680 million, Bloomberg data show. That was the second-highest growth rate among muni mutual funds.

The fund outperformed 88 percent of peers in the past year, and 96 percent for the last five. The new mandate is tailored to outperform as interest rates rise, said Hayes, who began managing it last year. It's betting on declines in Treasury futures, according to data from the company as of Nov. 30.

Unconstrained Risk

"People don't expect a negative return in their muni portfolio, so the way we're managing this is to try to give them some positive return when rates rise," Hayes said in a telephone interview.

"The risks are clearly asymmetric: Rates are more likely to go up than go down, so this is the type of vehicle that should succeed in that environment," he said.

It's fitting that BlackRock and Goldman Sachs are among the first adopters of more flexible muni funds, since they were among early entrants into unconstrained taxable funds, said Jason Kephart, an alternative-strategy analyst at Morningstar in Chicago.

Those taxable funds also highlight the risks in betting on movements in interest rates, he said. The $25.4 billion Goldman Sachs Strategic Income Fund (GSZIX), which began in 2010, trailed 98 percent of peers for the past 12 months as it fell 2.6 percent while the broad bond market gained almost 7 percent, Bloomberg data show.

The BlackRock Strategic Income Opportunities Portfolio (BSIIX) trailed about 60 percent of peers, according to Bloomberg data that categorizes it among aggregate bond funds. That's the same group against which the Goldman Sachs Strategic Income fund is measured, according to Bloomberg classifications.

'Manager Risk'

"Beyond interest-rate risk and credit risk, you're taking on 100 percent manager risk because they have so much freedom," Kephart said in an interview. "You have to be right about interest rates for these funds to really work."

Analysts failed to predict the muni rally in 2014 as the consensus forecast was that interest rates would rise. Projections are mixed for this year: Forecasts range from gains of 5 percent to losses.

The Goldman Sachs fund's biggest stakes as of Sept. 30, before its transition, were bonds due in 2034 for Houston's airport system and convertible capital-appreciation debt backed by Puerto Rico sales taxes, Bloomberg data show. Tax-exempt general obligations from California and Illinois were also in the top 10.

The entry of Goldman Sachs shows the segment will keep growing, said Lyle Fitterer, who helps run the $1.6 billion Wells Fargo Advantage Strategic Municipal Bond Fund. (VMPAX)

"People are really worried about what's going to happen to their bond portfolios once interest rates start to rise," said Morningstar's Kephart. Increased flexibility "has been popular in taxable income, so I don't see why it wouldn't become as popular in tax frees."

Bloomberg Muni Credit

By Brian Chappatta Jan 20, 2015 9:36 AM PT

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Vanguard to Introduce its First Municipal Bond Index Fund and ETF.

Vanguard today filed a registration statement with the U.S. Securities and Exchange Commission to offer a national municipal bond index fundwith an exchange-traded fund (ETF) share class. Vanguard Tax-Exempt Bond Index Fund will be the firm's first tax-exempt index fund and ETF. Vanguard is one of the largest managers of municipal bond funds in the industry—with about $140 billion in tax-exempt bond and money market funds—and one of the largest ETF providers, with $422.6 billion in assets.

Vanguard Tax-Exempt Bond Index Fund's target benchmark is the S&P® National AMT-Free Municipal Bond Index. The fund will offer investors exposure to investment-grade municipal bonds across the entire yield curve. The fund is intended to provide a sustainable level of current income that is exempt from federal personal income taxes.

"For investors in high tax brackets, a high-quality, broadly diversified municipal bond fund or ETF can provide tax advantages as well as diversification from the risks of the equity market," said Vanguard CEO Bill McNabb. "Vanguard is pleased to bring a low-cost index option to the municipal category as a complement to our lineup of low-cost actively managed tax-exempt bond funds."

The fund, which is expected to be available in the second quarter of 2015, will offer three share classes: Investor Shares, Admiral Shares, and ETF Shares (with estimated expenses ratio of 0.20%, 0.12%, and 0.12%, respectively). The municipal bond funds in Lipper's General and Insured Municipal Debt Funds category have an average expense ratio of 0.97%; comparable ETFs in the category have an average expense ratio of 0.49% (source: Lipper, a Thomson Reuters Company, December 31, 2013).

Investor Shares will require a minimum initial investment of $3,000 and Admiral Shares will require a minimum initial investment of $10,000. These share classes will also include a 0.50% purchase fee to defray portfolio transaction costs and enable the fund to more closely track its benchmark.

A municipal bond funds pioneer

Vanguard Fixed Income Group is one of the world's largest fixed income managers, overseeing more than $800 billion, of which $140 billion is invested in tax-exempt bond and money marketfunds. Vanguard offers 12 actively managed municipal bond funds (five national, seven state-specific) and six tax-exempt money market funds (one national, five state-specific).

Vanguard offered its first three tax-exempt bond funds (short-, intermediate-, and long-term) in 1977. It was the first mutual fund company to offer shareholders a choice among municipal bond funds of differing durations.

Adam Ferguson, a portfolio manager in Vanguard Fixed Income Group, will manage the new fund. Mr. Ferguson joined Vanguard in 2004 and currently manages multiple municipal bond funds.

Vanguard has an experienced municipal team of approximately 40 professionals, including portfolio managers, senior credit research analysts, research associates, and traders. The team's approach, whether managing money market funds, bond index funds, or actively managed bond funds, is to invest shareholders' money in a disciplined, risk-controlled manner.

A leader in ETFs

Vanguard offers 67 low-cost ETFs in the U.S., including 15 bond ETFs. Cash flow continues to be strong, with investors entrusting $63.5 billion to our ETFs year-to-date through November 2014 (and $55 billion in calendar year 2013).

About Vanguard

Headquartered in Valley Forge, Pennsylvania, Vanguard is one of the world's largest investment management companies. It manages more than $2.85 trillion in U.S. mutual fund assets, including more than $422.6 billion in ETF assets. The firm offers more than 160 funds to U.S. investors and more than 120 additional funds in non-U.S. markets. For more information, visit vanguard.com.

January 6th, 2015

[5 Top-Ranked Municipal Bond Mutual Funds for High Yield.]

Debt securities will always be the natural choice of the risk-averse investor because this category of instruments provides regular income flow at low levels of risk. Income from regular dividends helps to ease the pain caused by plunging stock prices. When considering safety of capital invested, municipal bond mutual funds are second only to those investing in government securities. In addition, the interest income earned form these securities are exempt from federal taxes and in many cases from state taxes as well.

Below we will share with you 5 top rated municipal bond mutual funds. Each has earned a Zacks #1 Rank (Strong Buy) as we expect these mutual funds to outperform their peers in the future.

Nuveen CA High Yield Municipal Bond A (NCHAX – MF report) invests a lion's share of its assets in tax-exempted interest paying municipal bonds. The investment includes obligations approved by the State of California or by its affiliates, or issued by other sates of the US. The fund seeks high level of current income. The municipal bond mutual fund returned 21.3% over the last one year period.

The fund has an expense ratio of 0.87% as compared to category average of 0.91%.

Eaton Vance High-Yield Municipal Income A (ETHYX – MF report) seeks tax free high current income in form of interest payment. The fund invests the majority of its assets in municipal obligations affiliated by the District of Columbia and by other US states and territories. The obligations also include notes and commercial papers that are exempted from taxes. It focuses on acquiring high yielding municipal bonds. The municipal bond mutual fund returned 18.1% over the last one year period.

As of October 2014, this fund held 277 issues with 1.93% of its assets invested in New York Liberty Dev Corp Liberty Rev Bd 5%.

BlackRock High Yield Municipal Investor A (MDYHX – MF report) invests a large portion of its assets in municipal bonds that provide tax exempted return. The fund may invest a minimum of 65% of its assets in medium to low rated bonds. It may also invest a maximum of 10% of its assets in bonds that are considered to be distressed derivatives. The municipal bond mutual fund returned 17.6% over the last one year period.

Theodore Jaeckel Jr. is the fund manager and has managed this fund since 2006.

Invesco High Yield Municipal A (ACTHX – MF report) seeks tax free current income and taxable capital growth. The fund invests heavily in municipal bonds. It invests a minimum of 75% of its assets in medium and low rate municipal bonds that are expected to provide high yield. The fund also invests a maximum of 25% of its assets in bonds that derive revenues from industrial development. The municipal bond mutual fund returned 16.8% over the last one year period.

The fund has an expense ratio of 0.87% as compared to category average of 0.98%.

Lord Abbett High Yield Municipal Bond A (HYMAX – MF report) invests a major portion of its assets in tax free interest paying municipal bonds. The fund invests a significant portion of its assets lower rated bonds or junk bonds. Its dollar-weighted average maturity varies from 10 to 25 years depending on the market condition. The non-diversified municipal bond mutual fund returned 14.5% over the last one year period.

As of September 2014, this fund held 538 issues with 1.52% of its assets invested in Buckeye Ohio Tob Settlement Fi To 5.125%.

To view the Zacks Rank and past performance of all municipal bond mutual funds, investors can click here to see the complete list of funds.

About Zacks Mutual Fund Rank

By applying the Zacks Rank to mutual funds, investors can find funds that not only outpaced the market in the past but are also expected to outperform going forward. Learn more about the Zacks Mutual Fund Rank in our Mutual Fund Center.

Published on January 06, 2015

Mercedes-Benz USA Seeks Bonds for New Georgia Home: Muni Credit.

Mercedes-Benz USA is applying to borrow $93 million through a sale of municipal debt to build its new Atlanta-area headquarters, part of a package of incentives the carmaker may get for leaving New Jersey.

The development agency for Fulton County, home to Atlanta, voted Jan. 6 to proceed with negotiations on incentives for the unit of Daimler AG (DAI) as part of its relocation, the authority's executive director, Al Nash, said in a phone interview.

If the plan is approved by the county economic-development authority, the agency would issue taxable revenue-backed bonds for the project, Nash said. The deal may find stronger demand in the $3.6 trillion municipal-bond market, which has been shrinking since 2011, than in the $6.1 trillion market for company securities, said Burt Mulford at Eagle Asset Management.

"A $100 million corporate bond deal is relatively small, whereas the average deal for the municipal market is significantly less," said Mulford, who helps oversee about $2 billion of munis in St. Petersburg, Florida. If Mercedes offered the debt itself, "it might not be as well-received."

Land Lease

The Fulton County authority would take ownership of the headquarters' land and lease it to Mercedes-Benz for 10 years, in a deal that would reduce the the Germany luxury automaker's property taxes for the same period.

"It's very preliminary," Nash said. "They would have to decide what they want to do, there would be a public hearing and then we would approve it or deny it."

The Daimler unit announced its headquarters move from Montvale, New Jersey, this week. The Georgia Department of Economic Development will unveil the state's contribution to the incentive package on Jan. 12, according to an e-mail from a spokeswoman, Stefanie Paupeck Harper.

Mercedes would join Spelman College in Atlanta, charter school Amana Academy and the Georgia

Tech Athletic Association in borrowing through the county development authority, data compiled by Bloomberg show.

The carmaker's move is a blow to New Jersey and Governor Chris Christie, who has said high property taxes are driving out business. It's also the latest signal that the U.S. auto industry is centered in the South, instead of the Midwest and Canada. BMW AG, Mercedes, Nissan Motor Co. (7201) and Volkswagen AG have plants in the region. Porsche and Nissan have also located headquarters there.

800 Jobs

The carmaker's U.S. manufacturing plant is in a town outside Tuscaloosa, Alabama, and it ships out of a port in Brunswick on Georgia's coast.

"First they moved in the manufacturing, then they bring in the white-collar jobs," said John Boyd, a principal in Princeton, New Jersey, with The Boyd Company, which advises companies on relocation.

Mercedes expects to bring 800 employees to the new site, according to documents filed with the county agency that also specified the size and tax status of the proposed borrowing. There are several locations under consideration for the headquarters, according to the company.

Industrial-development bonds, issued by local agencies on behalf of private companies, are the riskiest corner of the municipal market. While most muni debt is backed by state and city tax revenue or public-utility fees, the project securities often depend on the success of a single site.

Examples of projects funded with such debt include a power plant serving the shuttered Revel Casino in Atlantic City, New Jersey, a central Florida facility that converts sewage into fertilizer and a Noah's Ark theme park that's fighting with Kentucky to keep promised tax incentives.

Mariella Kapsaskis, a Mercedes-Benz spokeswoman in New Jersey, said she'd forward questions about the bond issue to the carmaker's legal department, because the company hasn't chosen a specific location for the new headquarters.

Bloomberg Muni Credit

By Margaret Newkirk and Brian Chappatta

Jan 8, 2015 11:06 AM PT

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Kansas Education Ruling Adds to Budget Stress, Says S&P.

A Kansas court decision on money for schools and a projected $280 million deficit have raised "additional obstacles" to balancing the state's budget in this year and beyond, according to Standard & Poor's.

A court ruled last week that public schools were unconstitutionally underfunded. While the ruling is expected to be appealed to the Kansas Supreme Court, S&P said today the impact "could require substantially higher education funding" if upheld. The ratings company said next year's budget, beginning July 1, "will be an important component" of Kansas's future credit quality.

Under Republican Governor Sam Brownback, the state has cut income taxes, contributing to shortfalls and, in August, a credit downgrade from S&P, to AA from AA+. The company also assigned a negative outlook to the state. Moody's Investors Service also cut the grade.

Brownback, a 58-year-old who was re-elected in November, said last month he must take "corrective action" to close a $280 million budget hole created by the tax cuts, saying he would reduce spending on pensions and highways.

"We remain concerned about the one-time nature of most of the budget fixes," the S&P report said.

Eileen Hawley, Brownback's spokeswoman, said in an e-mail that the governor will present "structurally balanced budget proposals" for the 2016 and 2017 fiscal years next week.

Brownback has said he plans to continue the tax-cutting strategy as part of a plan to increase economic activity and attract new residents.

Kansas has the fifth-weakest pension system among the U.S. states, according to data compiled by Bloomberg.

Bloomberg

By Tim Jones

Jan 9, 2015 11:04 AM PT

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William Selway

Teachers Hired Across U.S. as Local Government Funding Picks Up.

State and local governments last year filled more jobs in education and other areas than they have since 2008, which helped offset deep cuts to schools during the recession.

States added 21,000 jobs, including 13,700 in education, while local governments increased payrolls by 87,000, with 43,900 in schools, according to a report today from the U.S. Bureau of Labor Statistics.

Governments have been increasing spending since the 18-month recession that ended in 2009, according to a report last month by the National Association of State Budget Officers. While not all jobs lost have been replaced and budgets remain tight, an improving fiscal picture is allowing hiring, said Brian Sigritz, director of state fiscal studies for the Washington group.

"We're not necessarily seeing states get back to the job levels where they were before the downturn, but the total situation for states definitely has improved," Sigritz said.

More than half the 108,000 state and local government jobs added during 2014 were in education, according to federal data.

Spending has risen especially in elementary and secondary education, which suffered deeper cuts during the recession than in previous economic downturns because politicians traditionally had been reluctant to cut school funding, Sigritz said.

Government Gigs

The cuts to education were deep. More than 60 percent of the 47 states analyzed by the Center on Budget and Policy Priorities are still providing less per-student general aid in the current school year than they did in 2007-08, the Washington-based group said in an October report.

Thirty-nine states boosted funding for elementary and secondary education by a net $11.1 billion during fiscal 2015, according to the group's report. Forty also increased spending for higher education by a net $4.4 billion, the group said.

By the end of fiscal 2015, state general-fund spending is expected to be 9.4 percent above the prerecession peak without adjusting for inflation, according to the report.

At the municipal level, more U.S. cities are increasing rather than decreasing their workforces for the first time since 2008, according to an annual survey by the National League of Cities released in October.

The hiring has been driven by increased property taxes as well as sales- and income-tax collections, the group said.

Thirty percent of cities and towns expanded their workforces in 2014, compared with 18 percent that reduced them, the report said. In 2013, only 20 percent of municipalities added workers as 32 percent cut jobs, the group said.

Eighty percent of city finance officers said their municipalities were better able to meet fiscal needs, the highest percentage in the 29 years the survey has been conducted, the league said.

Cities have not reached full recovery, and revenue projections for 2015 show slow growth as well as increases in service costs, long-term infrastructure needs and pension obligations, the league said.

Bloomberg

By Mark Niquette

Jan 9, 2015 10:10 AM PT

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[Indiana Fertilizer Planning Bond Deal by April as Plant Advances.]

A $1.3 billion municipal-bond sale for a fertilizer plant in Indiana may come to market by April, two years after the state expressed concern that the product from the Pakistani company backing the project was linked to explosives.

Midwest Fertilizer Co. plans to build and run a fertilizer manufacturing facility in Posey County, in southwest Indiana. The company, majority-owned by Lahore, Pakistan-based Fatima Group, said it plans to break ground this quarter and start operating in 2018.

By April, Midwest Fertilizer also plans to offer bonds for the $2.6 billion project, said its president, Mike Chorlton. The county's economic development agency has about $1.3 billion of notes out for the project that must be redeemed by April 2.

"We're definitely planning to move forward on a long-term deal," Chorlton said in a telephone interview yesterday. "We're trying to get it done before April 2."

He declined to disclose other details about the borrowing plan.

If the securities are rated speculative grade, it would be the second-largest junk deal ever in the $3.6 trillion municipal market, data compiled by Bloomberg show. It would eclipse a $1.2 billion offering for a fertilizer facility in Iowa, ranked three steps below investment grade.

Yield Appeal

High-yield muni funds logged the market's biggest returns in 2014 as investors sought riskier debt with interest rates approaching generational lows. Junk-rated Puerto Rico issued $3.5 billion in general obligations last year, a record speculative-grade muni deal.

Posey County stepped in to help finance the fertilizer plant after Governor Mike Pence pulled his support for the project in May 2013. The Pentagon had raised concern that the Fatima Group's products were ingredients in bombs known as improvised explosive devices that were used against U.S. soldiers in Afghanistan.

The state reopened discussions about incentives last year after getting assurances from the U.S. Defense Department that a formula being developed by Fatima Group was "more inert and less-detonable to limit its usefulness to extremists and terrorists," Pence said in an April statement.

Because of the support offered by Posey County, Midwest Fertilizer withdrew its request for about $4 million in state incentives, Chorlton said.

Bloomberg

By Brian Chappatta and Mark Niquette

Jan 9, 2015 6:53 AM PT

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Cities Urge Senate to Pass Terrorism Risk Insurance Extension.

Washington, D.C. – Following today's vote by the U.S. House of Representatives to extend the Terrorism Risk Insurance program for an additional six years, National League of Cities CEO & Executive Director Clarence E. Anthony issued the following statement:

"We applaud the House for passing a six-year extension to the Terrorism Risk Insurance Act (TRIA) with broad, bipartisan support. Terrorism risk insurance enables city governments to continue to provide critical services to residents in the event of an attack by protecting against loss or liability that could affect a municipality's personnel, property and finances. TRIA's public-private risk sharing mechanism ensures that risk insurance coverage remains available and affordable to local governments. Since TRIA expired at the end of December, it is crucial that the Senate pass TRIA as soon as possible to ensure America's cities have affordable access to risk insurance."

The National League of Cities (NLC) is dedicated to helping city leaders build better communities. NLC is a resource and advocate for 19,000 cities, towns and villages, representing more than 218 million Americans.

JANUARY 7, 2015

Judge Approves $26 Million Revel Tax Settlement.

A bankruptcy judge on Tuesday approved a $26 million tax settlement between Atlantic City, N.J., and the closed Revel Casino Hotel.

The settlement, which saves the boardwalk resort more than $7 million on unpaid property taxes and penalties that exceed $33 million, comes after the city failed to attract any bids for a tax lien against Revel at a sale earlier this month.

Following a hearing Tuesday morning, Judge Gloria M. Burns of the U.S. Bankruptcy Court in Camden, N.J., said she would also sign an order increasing an interim bankruptcy financing package allowing Revel to fund the settlement, which calls for payment no later than Wednesday.

The financing package will include an additional $21 million from Wells Fargo NA, $19 million of which will be combined with $7 million in cash on hand to fund the $26 million settlement. The remaining $2 million in financing is intended to provide enough cash to allow Revel to pay its operating expenses until Jan. 8, according to court papers.

No objections to the settlement or the increased financing were filed, though some creditors have made it clear they intend to challenge a final order on the financing package at a hearing expected to be held in early January.

At Tuesday's hearing, John Cunningham, a lawyer for Revel, said he hoped negotiations would produce more settlements on a number of key sticking points Revel faces, including a dispute with the bondholders behind its custom-built power plant. "This is the first settlement in what we hope will be many settlements coming down the road," Mr. Cunningham said. "We still have a long way to go, but we needed to start somewhere."

ACR Energy Partners, which operates the power plant, has warned that it, too, may be forced to file for bankruptcy protection as a result of Revel's troubles. ACR, which issued $120 million of municipal bonds in 2011 to cover 75% of the power plant's construction cost, missed a $6.9 million bond payment earlier this month, according to a notice filed by trustees for the debt. A lawyer for ACR wasn't immediately available for comment Tuesday.

Atlantic City relies heavily on its casinos for tax revenue, with the industry providing over 60% of the city's total property tax revenue, according to court papers.

Four Atlantic City casinos, including the $2.4 billion Revel, have shut down this year, throwing thousands out of work and weakening the city's tax base.

Revel, which filed its second Chapter 11 case in as many years in June, shut down in September after it was initially unable to find a buyer. After a $110 million deal with Canadian private-equity firm Brookfield Capital Partners LP fell through, Revel is hoping to sell to Florida real-estate developer Glenn Straub. However, Mr. Straub is requesting a price reduction to $87 million from $95.4 million.

THE WALL STREET JOURNAL

By TOM CORRIGAN

Updated Dec. 30, 2014 4:00 p.m. ET

—Stephanie Gleason contributed to this article.

Illinois Faces Big Revenue Hit in 2015.

Expiration of Tax Increase Comes as State Grapples With Budget Crunch, Unpaid Bills and Pension Woes

As fiscal prospects rebound for most states, Illinois has continued to struggle—and things are about to get worse.

Thanks to the expiration of a four-year tax increase put in place because of fallout from the 2007-09 recession, the state with the nation's most dire fiscal outlook will see income-tax rates fall by 25% in coming days even as it faces a budget shortfall, a deeply underfunded retirement system and billions of dollars in unpaid bills.

Blurring the picture is how Illinois will respond following November's elections. Before losing his re-election bid, Gov. Pat Quinn failed to get fellow Democrats in the legislature to make the higher taxes permanent, saying the money was needed to address the financial challenges that have left Illinois with the lowest credit rating among U.S. states.

Now, Republican Gov.-elect Bruce Rauner must work with Democrats, who kept control of the state House and Senate, to address the state's fiscal problems. "I'm the dog who caught the car," said Mr. Rauner in a recent speech.

State forecasters have projected that tax revenues will decline because of the falling rates by $2.1 billion in the current fiscal year and an additional $2.7 billion in the new fiscal year starting July 1. The state spends around $36 billion annually on services such as schools and health care, pension costs, and other operating expenses.

Illinois's budget challenges come as other states see their fiscal positions continue to stabilize and reserves build after weathering the deep recession at the end of last decade that fueled sizable drops in tax revenue. Illinois will need a projected $760 million to make through the fiscal year ending June 30 and, along with states like New Jersey and Connecticut, has one of the most deeply underfunded employee pension systems in the nation.

"Illinois is an outlier obviously in many respects," said Nick Samuels, a vice president at Moody's Investors Service, which has a negative outlook assigned to the state. The negative outlook corresponds with the significant fiscal challenge Illinois faces, and Moody's analysts said they will be watching closely to see what steps Mr. Rauner takes in the coming months.

In the bond market, Illinois has been helped by a strong demand for state government debt. Still, Matt Fabian, managing director at Municipal Market Advisors in Concord, Mass., expects investors will watch closely as Illinois's tax rate drops and state officials respond.

"There are a lot of institutional investors who expect Illinois will be downgraded immediately if the tax cuts expire and the budget deficit isn't accounted for," he said.

The governor-elect, who takes office Jan. 12, has talked broadly about stimulating economic growth by holding down taxes and curbing government spending but has provided few details. During his campaign, Mr. Rauner talked about having the income tax at 3% for individuals by the end of his first term, but he hasn't spelled out what rates he favors over the next four years to get there.

The individual income tax rate in Illinois is currently 5% and will fall to 3.75% on Jan. 1. It was at 3% before Mr. Quinn and lawmakers approved the temporary increase. Illinois doesn't have tax brackets; residents pay the same rate on all of their income.

Mr. Rauner also has discussed broadening the state's sales tax. Illinois's sales tax is largely applied to just goods and not services. A spokesman for Mr. Rauner said he will provide more details on his budget plans after being sworn into office.

Illinois Senate President John Cullerton said if Mr. Quinn had been reelected, the state likely would have stuck with the higher rate. At 5%, he sees Illinois as competitive with its Midwest neighbors, noting nearby states such Iowa and Wisconsin have top rates that are higher. But Mr. Cullerton added voters made a choice in November and now it's up to Mr. Rauner to propose a new plan.

"The guy said 'I'm going to lower your taxes and spend more money on education.' So he got elected and gets to tell us his budget," Mr. Cullerton said.

THE WALL STREET JOURNAL

By MARK PETERS

Dec. 30, 2014 2:28 p.m. ET

— Aaron Kuriloff contributed to this article.

New Jersey to Bail Out Atlantic City With Short-Term Loan.

(Reuters) – Atlantic City, New Jersey's struggling gambling hub, will get a short-term $40 million loan from the state rather than try to borrow the money in the capital markets this year, a city official said on Tuesday.

Even the city's originally planned $40 million note sale, now squashed, was itself a scaled back version of a larger bond issuance that was delayed amid uncertainty over the city's next financial steps.

The city must repay the loan by March 31 at a 0.75 percent interest rate, according to the loan agreement, signed on Dec. 18 by Mayor Don Guardian and the state.

Atlantic City still hopes to issue at least $140 million of bonds in the first quarter of 2015, revenue director Michael Stinson told Reuters. That will help pay down property tax appeals won by casinos.

The delayed bond sale and other financial uncertainties prompted Moody's Investors Service to warn this month that it could downgrade the city's Ba1 credit rating further into junk territory.

By next spring, officials hope that more pieces of Atlantic City's financial puzzle will be solved, which would make borrowing from investors at lower rates more feasible.

By then, lawmakers could have finalized a package of legislation that aims to prop up Atlantic City and stabilize its revenue stream from casinos.

Early next year, Governor Chris Christie will also present his proposed state budget, which itself could be strained by rising public pension costs and revenue growth that has lagged the nation.

Atlantic City is also due to receive money from a settlement with Wells Fargo, the bankruptcy lender to Revel Casino Hotel, regarding nearly $32 million in unpaid taxes owed by Revel.

Stinson would say only that the agreement covers a "significant" portion of the total bill. The Philadelphia Inquirer, citing the mayor, reported on Tuesday that Wells Fargo would pay $26 million. The city council and Revel's bankruptcy judge must approve the deal.

Tax collectors in the city had hoped to auction off Revel's tax lien earlier this month, but they got no bidders. They did sell about $22 million of tax debt associated with the bankrupt Trump Taj Mahal and Trump Plaza casinos.

New Jersey's "constructive" approach to its distressed municipalities could be sending positive signals to investors, Municipal Market Advisors said in a commentary on Tuesday.

By REUTERS
DEC. 23, 2014, 4:34 P.M. E.S.T.

(Reporting by Hilary Russ; editing by Gunna Dickson)

The 2015 Frederic L. Ballard, Jr. Memorial Scholarship Program - Now Accepting Applications.

NABL is pleased to announce that it is once again offering up to five scholarships to law school students to attend the 2015 Fundamentals of Municipal Bond Law Seminar. Now in its fourth year, the scholarship program was renamed in honor of Frederic L. "Rick" Ballard, Jr. by the NABL Board of Directors in September 2014. This year's seminar is being held April 22-24, 2015 at the Hyatt Grand Cypress in Orlando, Florida.

Qualified candidates must be currently enrolled in the Doctor of Jurisprudence Program or a Masters of Law (LL.M.) Program at an accredited law school located within the United States of America. Each scholarship will include a waiver of the enrollment fee and travel expenses to the 2015 Fundamentals of Municipal Law Seminar. [Click here for more details and the application.] Completed applications are due no later than March 6, 2015. If you have any specific questions about this scholarship, please contact Linda Wyman at (202) 503-3300.

Puerto Rico May Allow Higher Yields on Bond Sale to Lure Buyers.

Puerto Rico lawmakers plan to alter a bill so the Government Development Bank can offer higher interest rates on a $2.9 billion petroleum-tax-backed bond sale to increase demand for the debt.

Governor Alejandro Garcia Padilla is set by mid-January to sign legislation authorizing the sale, Assembly Representative Rafael "Tatito" Hernandez said today in a phone interview. Immediately afterward, the legislature will ease limits on the bonds' coupon and a provision that links a petroleum-tax increase to broader tax-law changes, Hernandez said.

"The language of the bill has some ties between the tax reform and the date when the revenue starts and that isn't supposed to be that way," said Hernandez, who chairs the House Treasury Committee. "So we're going to change that."

The $2.9 billion borrowing, which will have the additional security of the commonwealth's general-obligation pledge, would be the first bond sale for the junk-rated commonwealth since it sold $3.5 billion of general obligations in March, the largest speculative-grade offering ever in the $3.6 trillion municipal-bond market. Proceeds will repay $2.2 billion the Highways & Transportation Authority owes to the GDB. That amount accounts for about 21 percent of the bank's loan portfolio.

Petroleum Tax

The measure increases the island's petroleum tax to $15.50 per barrel, from $9.25, with the new revenue backing the planned $2.9 billion sale. The higher petroleum fee is set to begin March 15. The plan is to remove language that makes that start date dependent on lawmakers approving broader changes to Puerto Rico's tax system, Hernandez said.

The bill also limits the average coupon on the new securities to 8.5 percent and sets a floor on the price of 93 cents on the dollar, according to Hernandez. Lawmakers are discussing how to relax those guidelines and give the GDB more flexibility in structuring the deal to ensure there are enough buyers, Hernandez said. He declined to give more details on potential changes to the deal's structure.

"Our goal is to fix it to get about $2.9 billion," Hernandez said. "So if we want to do that, we need to have the language that can help us get to that number."

An 8.5 percent coupon and 7-cent discount would generate a yield of about 9.19 percent for debt maturing in January 2045, according to data compiled by Bloomberg.

General obligations sold in March, with an 8 percent coupon and maturing in July 2035, traded today at an average yield of about 9.4 percent, or about 87 cents on the dollar, Bloomberg data show.

Luring Buyers

Lawmakers want the GDB, which works on the island's debt sales, to offer the securities to all types of buyers, not just hedge funds and alternative investors that bought most of the bonds sold in March, Hernandez said.

"There's going to be an obligation that the GDB has to go to all markets to make the sale, not just one group," Hernandez said.

Puerto Rico's next legislative session begins Jan. 12. Hernandez said he is already in discussions with House and Senate leaders regarding the changes.

Bloomberg

By Michelle Kaske

Jan 8, 2015 12:51 PM PT

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Kentucky to Build State-of-the-Art Broadband Under a P3.

Kentucky will leverage private sector financing to develop a fiber backbone to bring high-speed Internet service to residents across the commonwealth.

The state will partner with Macquarie Capital to build a 3,000-mile network of major fiber lines throughout the state, Gov. Steve Beshear (D) and Rep. Hal Rogers (R) announced Tuesday. The project is estimated to cost between $250 million to $350 million and will be supported by $30 million in state bonds and $15 to $20 million in federal grants.

"We are on an aggressive timeline and believe that the Macquarie team's technical capabilities and history of innovative solutions are the best fit for this important project," said Beshear. "This partnership puts us on the path to propel the commonwealth forward in education, economic development, health care, public safety and much more."

When complete, the network will connect all 120 counties in the state. The push for reliable, accessible high-speed broadband is one recommendation that emerged from SOAR, the "Shaping Our Appalachian Region" initiative.

"This new Super I-Way is the cornerstone of SOAR's mission to diversify the economy in eastern Kentucky with improvements in business recruitment, fast-tracking telemedicine in the mountains, and adding high tech advancements in education," Rogers told the Harland Daily.

Under the P3, the fiber Internet will be built by Macquarie, but the state will oversee the main broadband lines. Internet and cell phone providers will lease the lines to complete the connection to homes and cell phone networks. Cost to consumers will be lowered by eliminating the need for service providers to build duplicate infrastructure.

Macquarie will begin work immediately on phase one to design the overall statewide system and determine the project's scale. The design and cost estimates are due by the end of February 2015 with construction of the first segments expected to begin in the summer and completed by April 2016.

"We believe that this project will be the centerpiece of Kentucky's long-term economic infrastructure, demonstrating the core principles of value for money and risk transfer to the private sector that will translate into a successful long-term partnership with the commonwealth," said Nick Hann, senior managing director at Macquarie Capital.

NCPPP

By Editor

January 6, 2015

[Municipal Market Advisors Alters Name to Highlight Independence.]

The research firm Municipal Market Advisors Inc. changed its name to Municipal Market Analytics Inc., in an effort to highlight its independence, according to a memo from president and founder Tom Doe.

Leadership, staff and contact information will remain the same at the Concord, Massachusetts-based firm, Doe said in the memo dated today. The company prepares market outlook pieces for bond buyers and municipal officials, and tallies first-time defaulters in the $3.6 trillion market.

"We wanted to establish that there was no confusion regarding our role as an independent research firm, where there had been, especially with the new regulations concerning municipal advisers" from the U.S. Securities and Exchange Commission, Doe said today in an interview.

With the 2010 Dodd-Frank law, Congress ushered in the first rules for municipal advisers, which took full effect last year. The main effect is firms that render advice need to act in client's best interests.

MMA doesn't advise issuers on specific transactions, Doe's memo said. Its consulting and bank-credit services won't change, he said.

Bloomberg News

By Brian Chappatta and Michelle Kaske

Jan 2, 2015 7:54 AM PT

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Michelle Kaske in New York at mkaske@bloomberg.net

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Costs of Detroit's Bankruptcy Reach About $178 Million.

Legions of lawyers, consultants and other advisers have been paid nearly $178 million for their work on Detroit's historic bankruptcy, a number that comes in under budget but still makes it the most expensive municipal restructuring in U.S. history.

The city of Detroit detailed the fees and expenses paid to dozens of advisers in a filing made Tuesday in U.S. Bankruptcy Court in Detroit. The city recently exited bankruptcy protection after cutting about $7 billion of $18 billion in long-term obligations and promising to reinvest more than $1.4 billion in essential city services.

As the bankruptcy advisers and a court-appointed emergency financial manager leave the city, a new set of overseers will soon enter the scene. As part of its restructuring, a financial oversight commission will have direct control over the city's budget for at least three years and indirect oversight for at least 10 years after that.

The law firm Jones Day led the way in the fees disclosed Tuesday with a $57.9 million bill. Detroit hired the firm in the months leading up to its July 2013 bankruptcy filing and chose one of its former partners, Kevyn Orr, to be emergency manager. Mr. Orr resigned in mid-December after almost 21 months in office.

Jones Day is among 10 firms advising Detroit that must have their fees scrutinized by a court-appointed fee examiner. That group includes restructuring firm Conway MacKenzie, with a $17.3 million bill, investment bank Miller Buckfire & Co. at $22.8 million, and financial adviser Ernst & Young at $20.2 million.

A total of $164.9 million in fees have been paid out of Detroit's general fund, the filing shows, to advisers of the city, others that advised a committee of Detroit retirees, counsel to the fee examiner, and experts hired by U.S. Bankruptcy Court Judge Steven Rhodes. Mediators that helped negotiate key deals in the Chapter 9 case billed $980,000, which doesn't include the work of U.S. District Judge Gerald Rosen, who worked on the mediations for free.

The general fund tally comes in under a $177 million budget allotted as part of the bankruptcy-exit plan, according to the filing, and was decreased by a $5.3 million contribution made by the state of Michigan.

Other advisers were paid from an enterprise fund, the filing shows, and two city unions paid a total of about $12 million directly to law firm Clark Hill and investment bank Greenhill & Co.

Judge Rhodes still has the final say on whether the fees will stand. In a Dec. 15 court order, the judge said that once he reviews the city's disclosures, he will "determine what further process is appropriate to determine the reasonableness of fees."

THE WALL STREET JOURNAL

By SARA RANDAZZO

Dec. 31, 2014 2:52 p.m. ET

Write to Sara Randazzo at sara.randazzo@wsj.com

NJ Supreme Court Seeks Input for Prism Bonds Appeal.

WEST ORANGE — The “outstanding briefs” that caused the New Jersey Supreme Court to indefinitely postpone oral arguments last month in the lawsuit filed by five residents against West Orange have been discovered to be amicus curiae briefs, which the court requested from acting New Jersey Attorney General John Hoffman and invited from the New Jersey State Bar Association, the New Jersey League of Municipalities and the National Association of Bond Lawyers.

An amicus curiae, or a “friend of the court,” is someone who advises the court on legal matters pertaining to a case without advocating for either the plaintiff or the defendant.

State Supreme Court Clerk Mark Neary sent a letter to Hoffman on Oct. 31 requesting that he submit a brief on the case and speak as amicus curiae on behalf of the Local Finance Board in the Department of Community Services.

According to the letter, a copy of which was provided to the West Orange Chronicle, Hoffman was given until Dec. 22 to submit a brief, with all parties involved allowed to submit briefs responding to it by Jan. 20.

Neary likewise sent a letter to the NJ State Bar Association, the League of Municipalities and the National Association of Bond Lawyers on the same day inviting them to provide briefs and appear before the court as amicus curiae. According to the letter, which was provided to the Chronicle, they were also asked to submit their briefs by Dec. 22, with all parties involved able to submit response briefs through Jan. 20.

Mayor Robert Parisi declined to comment on the matter at this time. Windale Simpson, one of the plaintiffs and spokesman for the group, was not able to be reached before press time Dec. 22.

Though the fact that the Supreme Court is willing to examine the case in depth should be encouraging to both sides hoping to be proven right in court, the delay is undoubtedly frustrating. The Supreme Court had originally agreed to take the case Jan. 24. After months with no word on a hearing date, in October the clerk’s office told the Chronicle a date had been tentatively set for Nov. 10. That date was later scrapped due to what the clerk’s office told the Chronicle were “outstanding briefs,” now known to be the amicus curiae briefs.

Once it is eventually heard, the case will decide whether the township’s ordinance granting $6.3 million in municipal bonds to Bloomfield real estate operator Prism Capital Partners is valid. It is being questioned because the town did not apply for approval to the Local Finance Board.

The matter was first brought before the municipal court by residents Rosary Morelli, Mark Meyerowitz, Althia Tweiten, Michael Scharfstein and Simpson on May 14, 2012, after they had twice failed to get a petition certified for a referendum on the project’s bond issuance. They objected both to the bond and the township’s granting a 30-year property tax abatement to Prism, which had been contracted by West Orange to construct the Edison Village mixed-use complex in the downtown redevelopment area.

The five plaintiffs lost that case, and their appeal as well, before successfully appealing to the state Supreme Court.

The bonds were issued to Prism as part of its 2006 redevelopment agreement with the township to build Edison Village, the 21-acre mixed-use project that will offer apartments, retail space and townhouses in the downtown district when completed.

Of course, the question of when the project will get off the ground has been a subject of controversy during the past six years without construction even beginning. The township maintains that the current lawsuit is causing the delays since the bonds are tied up in the litigation; however, critics argue that Prism's financial situation might be the real issue. Currently the real estate operator is approximately $1 million behind in property taxes owned to the township of West Orange. Jack Sayers, the West Orange business administrator, previously told the Chronicle that West Orange is utilizing "every legal remedy available" to get Prism to pay what it owes.

Essex News Daily

By: Sean Quinn – Staff Writer

Fitch: Chicago Pension Litigation Threatens Progress.

Fitch Ratings-New York-19 December 2014: Tuesday's legal challenge to Chicago's recent pension reform plan was expected and underscores the difficulty the city faces in its efforts to put its pension plans on firmer footing. Illinois affords particularly strong legal protection to pension benefits.

If the litigation succeeds and changes to the cost of living adjustments (COLAs) and employee contributions are struck down (and no replacement legislation is passed), the city would likely revert back to the lower, statutorily based payments, as annual payments on an actuarially sound basis would rise dramatically. These increases would occur in the context of a statutorily required $538 million increase in contributions for the city's other two pension systems (police and fire) in 2016. The city has not yet said how the increased pension costs will be accommodated, but Fitch Ratings believes they threaten to crowd out other governmental priorities and remain a formidable challenge to the city's financial equilibrium.

The city benefits from a strong local economy and enjoys broad home rule authority to raise revenues. However, increasing pension costs are a common problem among Chicago-area governments and funding these increases will likely place a considerable stacked burden on the area's resource base.

All four of Chicago's (A-/Outlook Negative) pension plans are poorly funded, at a combined 35%, according to Fitch. Annual payments historically were calculated and made based upon a statutory formula, rather than on actuarial projections. The Illinois legislature passed changes to two of Chicago's four pension plans in April 2013, trimming future growth of the liability with changes to the COLA while providing increased contributions from employer and employees.

If the new plan is upheld, it would require significant payment increases from the city, approximately half of which are expected to be funded by increased property taxes and half by budgetary savings. The city plans to gradually increase its revenues for pension payments, which may include property taxes, by $50 million (approximately 6%) annually for five years before reaching the target increment of $250 million in the fifth year.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Chattanooga Touts Transformation Into Gig City.

CHATTANOOGA, Tenn. — A city once infamous for the smoke-belching foundries that blanketed its buildings and streets with a heavy layer of soot is turning to lightning-fast Internet speeds to try to transform itself into a vibrant tech hub.

Through a combination of political will and federal stimulus money, 175-year-old Chattanooga became the first U.S. city to broadly offer a gigabit per second internet speeds — nearly 50 times the national broadband average.

Whether that's enough to turn a modest southern city into a mini Silicon Valley remains to be seen, but local leaders are betting they've positioned themselves well for what lies ahead in the global economy.

"This is an old town with a new vision," said Aaron Welch, who became a hero of the emerging tech scene when he sold his app that reserves specific tables at restaurants to a rival for $11.5 million.

Other startups migrating to the "Gig City" to tap into the government-owned broadband network include 3D Ops, which converts MRI or CT scans into anatomical replicas to help doctors prepare for surgeries; shoemaker Feetz, which makes custom footwear using 3D printing technology; and moving service Bellhops, which coordinates the logistics of managing 8,000 college student contractors nationwide.

The nascent tech scene is the latest development in Chattanooga's decades-long effort to reinvent itself after a 1969 federal study called it the most polluted U.S. city.

A downtown revival over the last two decades was anchored by the Tennessee Aquarium and a $120 million redevelopment of the Tennessee River waterfront. German automaker Volkswagen in 2008 cited the city's turnaround in its decision to build a $1 billion assembly plant on the site of a former TNT plant.

The city inaugurated its fiber optic network — with a $111 million boost from the 2009 federal stimulus package — even as larger cities like Atlanta and Nashville wait for private providers like AT&T and Google to roll out comparable service.

"We're at a pivotal time in the relationship between cities and communications networks," said Susan Crawford, a professor at Harvard Law School who has written extensively about the power of Internet providers. "And there are mayors all over the country who are watching Chattanooga with envy and wishing and planning for fiber optic networks of their own."

While commercial providers pick and choose which neighborhoods to serve, Chattanooga's network covers the city.

"The whole point is that you want everyone to have this capacity, and not to leave anyone behind," said Crawford.

Chattanooga's fiber network grew out of efforts to install a smart electric grid in a city where tornados and ice storms have caused serious power outages. During the upgrade, the Electric Power Board, or EPB, also issued $226 million in bonds to help fund a fiber optic network, hoping the super fast phone and Internet service would attract new business.

According to the Federal Communications Commission, the average broadband speed in 2013 was 21.2 megabits per second. A gigabit equals 1,000 megabits.

"Our competitors have said things like, 'Oh nobody needs a gig,'" EPB's president and CEO Harold DePriest said at a recent tech forum in a converted downtown church. "That's absolutely true. But how many of us need color TV? We have color TV because we want color TVs.

"And in America we have this unique way of making wants into needs," he said.

The fiber network has upload speeds matching downloads, bringing near real-time transfer of information between high-bandwidth users. It let musicians T Bone Burnett in Los Angeles and Chuck Mead in Chattanooga play a live concert together while thousands of miles apart in December 2013.

Jonathan Taplin, director of the Annenberg Innovation Lab at the University of Southern California, which helped organize the concert, said entertainment executives might be intrigued.

James Cameron, director of the movies "Avatar" and "Titanic," wants to make films at double the current ultra-high definition 4K standard, Taplin said. The 500 megabits per second needed would be out of reach for most, but Chattanooga's fiber customers "could handle that today."

The municipal network has been criticized for unfairly crowding out private providers.

“EPB’s entire network is propped up on the backs of ratepayers and taxpayers,” said Justin Owen, head of the Beacon Center of Tennessee, a conservative think tank.

Mayor Andy Berke counters that the city had no other option.

“No one was begging to come to Chattanooga to put up a fiber optic network,” he said.

EPB initially charged $350 a month for the gigabyte speed, but has slashed that to $70, driving subscriptions from fewer than 100 to more than 4,700. Another 55,000 residential customers get the cheaper 100-megabyte service.

Tech startup guru Sheldon Grizzle founded The Company Lab to hold tech competitions and mentorship programs that take advantage of the city’s internet capacity — and to connect entrepreneurs with investors. They included Welch, who first hashed out his reservation app idea in one of the lab’s 48-hour startup competitions.

Grizzle in 2011 persuaded Welch to quit his day job by helping land a $65,000 investment in his company, Quickcue, which was sold to reservation giant Open Table in 2013. Welch went on to found Iron Gaming, which hosts competitions for gamers, and is working on creating a television network for computer geeks.

But Welch said developers still struggle to lure financial backers in a city long associated with heavy industry, the Chattanooga Choo-Choo and the country’s first Coca-Cola bottling plant — though there are signs that venture capitalists in cities like San Francisco and Los Angeles might finally be paying attention.

“Now, it’s like ‘Oh, yeah, they have that really forward-looking, advanced infrastructure,'” Grizzle said.

Other cities, including Austin, Texas; Santa Monica, California; and Kansas City, are coming online with their own fiber networks, while several others have plans to build them. Berke sees that as a good thing for his city.

“If nobody else has it, there’s nothing for us to develop that will work elsewhere,” he said. “So it’s essential that more cities get this.”

By THE ASSOCIATED PRESS

DEC. 27, 2014, 10:45 A.M. E.S.T.

Creditor to Oppose San Bernardino Bankruptcy Plan Favoring Calpers.

LOS ANGELES (Reuters) – A major capital markets creditor of bankrupt San Bernardino, California, will oppose any exit plan that is more favorable to Calpers, California’s public pension fund, a source familiar with the creditor’s strategy said on Thursday.

The creditor intends to pursue a new approach when hearings resume next year, in light of a deal the city reached with Calpers in November that will see the pension fund paid in full under a bankruptcy plan. The city has been ordered to produce a plan by May.

“We will strongly resist a plan that treats its pension claims substantially better than our claim,” the source involved in the creditor's San Bernardino strategy said, who spoke on the condition of anonymity because negotiations with San Bernardino are subject to a judicial gag order.

The move is significant because all the capital market creditors have so far supported the bankruptcy and it signals a change in course, speaking to the wider fight between Wall Street and pension funds over how they are treated in municipal bankruptcies.

San Bernardino declared bankruptcy in July 2012 with a $45 million deficit. Along with Calpers, other major creditors include Ambac Assurance Corp, the insurer of $50 million of pension obligation bonds issued to the city in 2005; Erste Europäische Pfandbrief-und Kommunalkreditbank AG, the holder of the bonds; and Wells Fargo Bank, the bond trustee and the flagship bank of Wells Fargo & Co.

The deal with Calpers has alarmed many of the city's other creditors, who fear they will be forced to bear the brunt of the city's debt restructuring if the pension fund is left unharmed.

San Bernardino, a city of 205,000, 65 miles east of Los Angeles, is one of a handful of municipal bankruptcies that has been closely watched by the $3.6 trillion U.S. municipal bond market.

Bondholders, public employees and state and local governments want to understand how financially distressed cities handle their debts to Wall Street, compared with other creditors like large pension funds such as Calpers, during Chapter 9 protection.

Two other U.S. cities – Detroit, Michigan and Stockton, California – produced bankruptcy plans this year where pensioners emerged relatively unscathed but where Wall Street bondholders and insurers took significantly greater losses.

Gary Saenz, San Bernardino's city attorney, said Stockton chose to pay Calpers in full in its bankruptcy plan. "The city has to have a life after bankruptcy," Saenz said. "To achieve that there needs to be a stable workforce. Without stable pensions it's difficult to maintain a stable workforce."

Calpers said: "The city (San Bernardino) has made the right decision to fulfill the retirement security promises made to its employees."

Reuters News | Dec 18, 2014

By Tim Reid

(Reporting by Tim Reid; Editing by Bernard Orr)

Contesting Traffic Fines, Missouri Sues 13 Suburbs of St. Louis.

ST. LOUIS — Missouri's attorney general announced lawsuits against 13 of this city's suburbs on Thursday, accusing them of ignoring a law that sets limits on revenue derived from traffic fines. The move comes after widespread allegations of harassment and profiteering by small municipal governments against the poor and minorities.

The attorney general, Chris Koster, a Democrat, spoke in downtown St. Louis and suggested that more sweeping changes could be needed to bring municipalities into line.

Since the racially charged protests over the death of Michael Brown at the hands of a police officer in nearby Ferguson in August, demonstrators have frequently complained about a perceived hypervigilance to minor traffic violations in St. Louis County's patchwork of 90 municipalities. Many of those cities have their own courts and police departments, but some are only a few square blocks in size and have populations smaller than some high schools.

"When traffic ticketing is used to promote public safety, that's appropriate," Mr. Koster said. "When traffic tickets are used to promote revenue, that's inappropriate." Such practices, he said, are "predatory."

Ferguson, with roughly 20,000 residents, was not among the suburbs sued by Mr. Koster, and is large compared with many nearby cities in the northern part of the county, where many of the suburbs sued by Mr. Koster are situated.

State law requires towns to report the percentage of general operating revenue that comes from fines for traffic violations, and limits their potential to profit by requiring that proceeds beyond 30 percent be turned over to the state.

In Normandy, a city near Ferguson, 38 percent of the revenue came from fines and court costs. Mr. Koster sued five St. Louis municipalities that he said failed to file any report, four that filed a report without calculating a percentage, and four, including Normandy, that had revenue over the limit.

At its meeting here this week, the state-appointed Ferguson Commission discussed possible changes to municipal courts. The 16-member commission was asked by Gov. Jay Nixon to listen to residents and propose ideas for lasting social and political changes around St. Louis. The commission's leaders appeared with Mr. Koster at Thursday's announcement.

Many say young black men, who are pulled over at a higher rate than whites in some St. Louis County towns, are particularly affected by police officers' enforcement of traffic laws and municipal judges who impose fines. If defendants do not pay their fines, they are sometimes jailed.

"We have heard across the board, there's broad agreement, that the municipal courts create challenges for us," said the Rev. Starsky Wilson, a Ferguson Commission chairman. "Municipal courts are a focal point between policing on the streets and community relations there and municipal fragmentation."

Mr. Koster said he had not reviewed Ferguson's records on traffic ticket revenue because the suburb's report for the last fiscal year is not yet due.

Mayor Francis G. Slay of St. Louis, in a separate news conference Thursday, said that his city's municipal judges could now take into account someone's financial means when setting up payment schedules. Mr. Slay suggested that the region's other courts, where some defendants also struggle to pay, could look into similar changes. But he cautioned that widespread implementation outside St. Louis city limits might be a challenge.

"If you want to get something done in the city, you know where to go," Mr. Slay said. "In the suburbs, there's a lot of municipalities."

Though protests have continued on an almost daily basis, there are signs that St. Louis is returning to some level of normality. Governor Nixon allowed a monthlong state of emergency to expire on Wednesday, resulting in the withdrawal of the Missouri National Guard.

But even with the Guard gone, conversation continues about perceived racial inequities around St. Louis. On Thursday, the American Civil Liberties Union filed a federal lawsuit against the Ferguson-

Florissant School District, arguing that the district’s method of electing school board members dilutes the influence of African-American voters. Only one of seven board members is black, though African-Americans constitute a majority of the student body.

THE NEW YORK TIMES

By ELI YOKLEY and MITCH SMITH

DEC. 18, 2014

Eli Yokley reported from St. Louis, and Mitch Smith from Chicago.

NYT: Foes of Unions Try Their Luck in County Laws.

BOWLING GREEN, Ky. — Conservative groups are opening a new front in their effort to reshape American law, arguing that local governments have the power to write their own rules on a key labor issue that has, up to now, been the prerogative of states.

Beginning here in the hometown of Senator Rand Paul and the Chevy Corvette, groups including the American Legislative Exchange Council, the Heritage Foundation and a newly formed nonprofit called Protect My Check are working together to influence local governments the same way they have influenced state legislatures, and anti-union ordinances are just the first step in the coordinated effort they envision.

A carefully devised plan began to unfold last week, when the Warren County Fiscal Court met here and preliminarily approved, in a 6 to 1 vote, a “right to work” ordinance that would allow employees represented by a union to opt out of paying union fees. This week two more Kentucky counties, Fulton and Simpson, followed suit, and a dozen more are expected to do the same in the next six weeks.

Supporters of the effort say that if they are successful in Kentucky, they will try to pass similar local laws in Ohio, Wisconsin, Pennsylvania and other places that do not have a statewide right-to-work law. Protect My Check is promising to pay for the legal battles of any local government that tries it.

“There are literally thousands of targets for the initiative,” said Brent Yessin, an anti-union consultant and lawyer who is on the board of advisers for Protect My Check, said at a recent meeting in Washington. “Doing this county by county, city by city is more time consuming, but it’s also more time consuming and draining for the unions to fight.”

Mr. Yessin was speaking at a conference held by the exchange council, also known as ALEC, an influential organization whose supporters include the oil and pharmaceutical industries and the Koch brothers. The group has coordinated efforts to get Republican-controlled legislatures to enact a template of business-friendly legislation including privatizing education, water systems and roads and stopping the expansion of Medicaid under the Affordable Care Act. This year the group introduced a program, the American City County Exchange, to do the same for local governments.

The session on local right-to-work ordinances was open to journalists; a session on combating local minimum wage increases was not. The panelists mapped out a strategy that included raising money from local businesses, persuading lawyers to work pro bono and convincing local politicians that supporting right-to-work ordinances would not be political suicide.

Bill Londrigan, the president of the Kentucky State A.F.L.-C.I.O., objected: “This is being promoted here in Kentucky by outside interests who have nothing else in mind but to damage unions, weaken unions and lower wages.”

Under federal labor law, a union that bargains a contract for all employees can require employees who choose not be union members to pay fees to cover the cost of being represented, unless “prohibited by state or territorial law.” About half of the states have enacted such prohibitions, becoming right-to-work states.

Kentucky provides a perfect laboratory, said Jason M. Nemes, a Louisville lawyer involved in the initiative, because it is the lone Southern state that does not have a right-to-work law, and its neighbor West Virginia, where Republicans captured control of the Legislature last month, may soon pass one. Other states where Republicans expanded their control in the midterms, like New Mexico and Wisconsin, are also considering statewide bills.

A right-to-work law became a major issue in Kentucky’s midterm elections when Republicans, who control the State Senate, promised to pass one if they gained control of the House. They fell short of that goal, priming local officials like Judge-Executive Mike Buchanon, the elected head of Warren County, to act.

“We’ve always been interested in promoting right to work, and as all of our states around us became right to work, it has become a competitive issue,” Mr. Buchanon said, asserting that many businesses would not even consider locating in areas without right-to-work laws. He added that he was put in touch with Protect My Check by Senator Paul or one of his aides and was promised that the county’s legal bills would be covered.

Mr. Yessin, based in Tampa, Fla., said his group’s donors were not public but, other than his own contribution, all of the money raised so far had been from local businesses and employers in the targeted counties.

Nearly 1,000 union members make Corvettes at a Chevrolet plant in Bowling Green, Ky. Credit Bryan Lemon for The New York Times

Last week’s vote in Bowling Green took local union members by surprise. It was advertised in advance as “an ordinance relating to the promotion of economic development and commerce,” and there was little public comment, though there were presentations by the Chamber of Commerce and the Bluegrass Institute, a policy group with close ties to ALEC.

“It was sprung on everybody,” said Connie Warren, the financial secretary of the United Automobile Workers Local 2164. “The other side had all their ducks in a row; we didn’t have even the opportunity to say how we felt about it.”

Officials acknowledged that the county was doing relatively well without a right-to-work law. “The Warren County economy is very strong; it’s very diversified,” said Ron Bunch, the president of the local Chamber of Commerce. “We have the lowest unemployment rate in Kentucky.”

But they said they lost out on many prospects, pointing to Beretta, the gun manufacturer, which chose Gallatin, Tenn., 45 miles south, over Bowling Green as its new home. “What we’re passing is putting an ‘Open for Business’ sign on our front door,” Mr. Buchanon said.

It is difficult to measure the effects of right-to-work laws on wages and jobs, but experts say they do weaken unions, discouraging organizing efforts and creating “free riders,” employees who benefit from collective bargaining but decline to pay fees. Unions and some economists argue that if right-to-work laws succeed in attracting businesses, it is because they drive down worker pay.

The ordinance will certainly be challenged in court. A recent paper by the Heritage Foundation argues that because cities and counties are not specifically prohibited from passing such laws, they can do so. Supporters say that despite earlier federal and state rulings that cities cannot pass right-to-work laws, counties are political subdivisions of the state and are thus imbued with its powers. The Supreme Court has never ruled on the issue, but conservatives are hoping to find a sympathetic ear on the federal bench.

Lynn Rhinehart, a lawyer with the A.F.L.-C.I.O., asserted that federal law unambiguously pre-empted local ordinances and that trying to prove otherwise was a waste of taxpayer money. “Nice try — state means state,” she said. As for “territorial,” she added, “It’s fair to say it means Guam, and it doesn’t mean county.”

Conservatives, though, point to a 2002 circuit court ruling allowing right-to-work laws on tribal lands as evidence that there is wiggle room.

Mr. Buchanon said he believed that Kentuckians overwhelmingly favored the right to work and that union members had quietly told him that they did, too.

Chad Poynor, a United Auto Workers committeeman at the Corvette plant, conceded as much, saying that concessions made by the union in recent years had angered rank-and-file members, even though the recession was largely to blame.

“We haven’t had a raise in eight years, so those things are hard to swallow. You hear people all the time say, ‘If I were in a right-to-work state, I’d withdraw’ ” from the union, he said. “But you have to look at the big picture over the last 30 years, what we’ve kept. We went through a bankruptcy and kept our pension. A lot of people can’t say that.”

THE NEW YORK TIMES

By SHAILA DEWAN

DEC. 18, 2014

Judge Nixes $110 Million Deal to Sell Atlantic City’s Revel Casino.

A bankruptcy judge on Friday scrapped a $110 million deal to sell Atlantic City, N.J.’s closed Revel Casino Hotel to a Canadian private-equity firm.

During a hearing at the U.S. Bankruptcy Court in Camden, N.J., Judge Gloria Burns approved a request from the boardwalk resort to terminate the sale, placing a Florida-based real-estate developer in line to purchase the property.

Revel had asked Judge Burns in an emergency filing earlier this week to cancel the sale agreement with the firm, Brookfield Capital Partners LP, and instead declare Florida developer Glenn Straub the winning bidder.

Mr. Straub, whose final $95.4 million bid for Revel was ultimately topped by Brookfield, was named the backup bidder at the end of an auction for the property in early October.

A hearing to approve the sale to Mr. Straub, who didn't attend the hearing Friday, has been scheduled for Jan. 5.

"We have to get the sale process moving," Judge Burns said during the hearing.

Last month, Brookfield informed Revel that it planned to pull out of the deal over costly payments related to the property's custom-built power plant. Brookfield later missed a Nov. 28 deadline to close the sale.

"They failed to close as they were required to do," John Cunningham, a lawyer for Revel, said at the hearing Friday. "We believe we absolutely have the right to terminate this agreement."

According to Mr. Cunningham, Brookfield didn't respond to Revel's request to terminate the sale and wasn't present in the courtroom Friday.

A spokeswoman for Brookfield declined to comment.

A showdown with the bondholders backing Revel's power plant, which Mr. Cunningham called a "game of chicken," remains a major obstacle for Revel.

The plant, operated by ACR Energy Partners LLC, is located next to the resort and is Revel's only source of both electricity and hot water, court records show. Revel, in turn, is ACR's only customer.

ACR issued $120 million worth of municipal bonds in 2011 to cover 75% of the power plant's construction cost, according to court filings. In return, Revel agreed to purchase power, hot and chilled water exclusively from ACR for 20 years. Revel also agreed to pay the plant's operating costs and guaranteed at least a 15% return on ACR's $40 million equity investment.

The monthly payments to ACR total more than $3 million, according to estimates in court papers.

Mr. Cunningham said Friday that if Mr. Straub wins approval to buy Revel, he will ask for court permission to revoke the contract with ACR.

Mr. Straub, who has expressed interested in purchasing other Atlantic City properties, is continuing to appeal Judge Burns' decision to approve the sale to Brookfield. The developer accused Revel of failing to disclose information about competing bids and conducting much of the auction behind closed doors.

The $2.4 billion Revel emerged from its first bankruptcy in May 2013 under the control of its lenders after having slashed more than $1 billion in debt from the balance sheet.

The beachfront resort filed its second Chapter 11 case in June.

THE WALL STREET JOURNAL

By TOM CORRIGAN

Dec. 12, 2014 12:15 p.m. ET

Write to Tom Corrigan at tom.corrigan@wsj.com

300 Hedge Funds Not Enough as Tax Fails Connecticut: Muni Credit.

Four months after becoming Connecticut's first Democratic governor in two decades, Dannel Malloy signed a budget that raised taxes by a record amount. He vowed the revenue would stabilize a reeling economy.

"It's a tough vote — it's also the right vote," Malloy said in May 2011. "The budget is balanced, honest and contains none of the gimmicks that helped get us into this mess."

More than three years later, the wealthiest U.S. state, home to as many as 300 hedge funds, is still struggling to rebound from the recession that ended in 2009. While tax revenue has risen faster than any other state, growth in jobs, personal income and home prices ranks in the bottom 10 and trails neighboring New York and Massachusetts, according to data compiled by Bloomberg.

Malloy, 59, won re-election last month, enduring a rematch with Republican Tom Foley, who campaigned on a narrative of Connecticut trailing the U.S. recovery. The Democrat painted his challenger, who founded a private-equity firm, as out-of-touch with voters.

A week after his victory, Malloy ordered hiring limits and spending cuts to close a projected deficit. He also faces the third-most underfunded state pension system and the most debt per resident.

'Much Weaker'

"Connecticut's financial position is much weaker than people realize," said Tom McLoughlin, head of muni fixed-income in New York at UBS Wealth Management Americas, which oversees $1 trillion. "The pension-funding ratio is going to be a persistent problem for Malloy and his successors. The state is really going to have to address its issues in the near future."

Connecticut's economy contracted in 2011 by more than all but three states, prompting a credit downgrade in 2012. Its unemployment rate has exceeded the U.S. figure each month since May 2012 as jobs shrink in the finance industry, the biggest contributor to the state economy.

Malloy's plight shows how a struggling economy saddled with debt and pension costs can strangle even the wealthiest governments. Connecticut ranked first with per-capita personal income of about $61,000 last year, Bureau of Economic Analysis data show.

Digging Out

Samaia Hernandez, a spokeswoman for Malloy, referred questions for the governor to the budget office.

"We're competitive on taxes and doing the responsible thing to control the long-range costs of government," Benjamin Barnes, head of the budget office in Hartford, said in a telephone interview. "It did take us a long time to get into this mess, and it's taking us a little while to dig out. But we're doing it in the right way."

The budget shortfalls and underfunded retirement plan mirror nearby New Jersey, which ranks fourth in per-capita income and has had its credit rating cut a record eight times under Governor Chris Christie. Malloy has described himself as the antithesis of the Republican.

While Christie has refused to raise taxes, Malloy signed a two-year budget in 2011 that increased them by $2.6 billion to tackle deficits, boosting levies on incomes of more than $50,000 a year and on sales of previously exempt goods and services. Republicans who opposed the plan said lawmakers would use the revenue to boost spending.

More Cuts

Instead, the tepid recovery has spurred more cuts. Malloy's administration curtailed hiring and told agencies to reduce spending in a Nov. 12 memo, which outlined a projected $59 million deficit for the fiscal year through June, out of $17.5 billion in expected general-fund revenue.

"Connecticut is still in a struggle to get on sustainable footing while other states are not having these problems," said Paul Mansour, head of municipal research at Conning in Hartford. "They're still dealing with budget deficits when they should be having surpluses."

Conning, which oversees $11 billion in munis for insurers, ranks Connecticut's economic health 45th among states. The standing makes Conning less likely to invest there, Mansour said.

With the $3.6 trillion municipal market rallying the most in three years, investors haven't demanded higher yields.

Connecticut sold 10-year bonds Nov. 21 to yield 2.51 percent, data compiled by Bloomberg show. That compared with 2.26 percent for benchmark munis. The 0.25 percentage-point spread matched the average on its five deals since March.

Extended Rally

The bonds extended their rally today. Debt from last month's sale due in November 2033 traded at an average yield of 2.82 percent, down from 3.09 percent when it last changed hands Nov. 25.

Malloy won last month with 50.7 percent of the vote, to 48.2 percent for Foley, outpolling his rival by about 27,000 ballots — after a margin of almost 7,800 votes in 2010, Associated Press data show.

"My first year in office was really hard," Malloy said in a Nov. 7 interview on MSNBC. "I had to raise revenue. I had to renegotiate contracts. I had to trim some services."

"It continues to be a tough environment," he said a day earlier on the news channel. "Election Night showed that. But here in Connecticut, a race that Republicans had been claiming they were going to win for the better part of two years, I was re-elected."

Malloy has also signed into law bills that repeal the death penalty and raise the minimum wage, and oversaw a measure that tightened gun laws in April 2013, four months after the Newtown shootings.

Debt Constraint

He enters his second term with a lower rating from Moody's Investors Service than when he began in 2011. Connecticut's Aa3 grade, fourth-highest, is below all states but Illinois and New Jersey.

The rank is partly a result of its $5,457 of tax-supported debt per resident, the most nationwide and five times the median, according to the New York-based credit rater.

That number is inflated because the state assumes debt for school construction, while localities pay that tab elsewhere in the U.S., Barnes said.

The money still comes from state coffers, limiting efforts to revitalize the economy, said Douglas

Offerman, an analyst at New York-based Fitch Ratings, which gives Connecticut a negative outlook.

Pension Pinch

“The state has not had an easy time of it in this recovery because the economy has not come back as strongly,” he said in a telephone interview. “That’s not unusual, but the difficulty for Connecticut is it is carrying high fixed costs for labor and retirees, and there’s a lot of debt outstanding.”

Connecticut is falling behind on retirement promises. The state has 49.1 percent of assets to cover obligations, Bloomberg data show. Only Illinois and Kentucky have lower ratios among U.S. states.

Malloy announced a plan to boost contributions above the annually required amount in January 2012 so the systems would be fully funded by 2032. The approach would save $5.8 billion over 20 years, the state’s actuary projects.

“We are working to pay down the debts we owe for past sins,” Barnes said. “We’ve done all the things we need to do to control pension funding. It’s going to take a while for it to show in our funded ratio, but we’re pretty sure we’re on the right track.”

Greenwich Appeal

Connecticut’s wealth is concentrated in Greenwich. The city and surrounding Fairfield County have more than 95 percent of the state’s 250 to 300 hedge funds, according to Bruce McGuire, president of the Connecticut Hedge Fund Association.

“You talk to people in New York about Connecticut, and they think Greenwich,” said Tom Metzold, co-director of munis in Boston at Eaton Vance Management, which oversees about $27 billion in local debt. That doesn’t mean the rest of the state is doing so well, he said.

Greenwich has lost some appeal, said Julia Chiappetta, who grew up there and runs a consulting business in the town. She returned to Connecticut after a five-year consulting job in Florida through 2006. Her friends are going in the opposite direction.

Connecticut’s population grew 0.1 percent from 2011 to 2012, among the 10 slowest rates nationwide, while Florida’s increased 1.2 percent, Census data show.

“I see a lot of friends leaving Connecticut because they can no longer afford to live here,” she said by phone. “It makes me sad because it used to be a thriving economic community.”

‘Insurance Capital’

Bond documents refer to Connecticut as the “insurance capital of the world,” citing companies such as Aetna Inc. (AET), Cigna Corp. (CI) and Hartford Financial Services Group Inc. (HIG)

Hartford Financial ranked eighth among nongovernmental employers in 2013, with 7,700 workers in Connecticut, according to the state’s annual financial report. That’s down from 12,000 in 2004, when it ranked third.

United Technologies Corp. (UTX) is the top employer, with 27,000 workers in the state, the same as in 2004. Yale University is second-biggest.

United Technologies’ count includes the headquarters of divisions Pratt & Whitney, which designs and produces aircraft engines, and Sikorsky Aircraft Corp., which makes helicopters. The units will stay in the state as part of the Connecticut Aerospace Reinvestment Act that Malloy signed in September, which provides tax incentives.

UBS Incentive

The governor has also acted to retain finance jobs.

In October, the state extended through 2021 an agreement with UBS AG that gave the bank a $20 million loan that doesn't have to be repaid if it keeps at least 2,000 employees in Connecticut.

UBS in 1997 merged with Swiss Bank Corp., which built a trading floor in Stamford that's the size of two football fields. Zurich-based UBS still has people working in the space, said Marsha Askins, a spokeswoman in New York.

While finance — which includes insurance and real estate – – accounted for almost 31 percent of gross state product in 2012, those jobs are becoming scarcer. Financial-services employment fell in 79 of the past 87 months, according to state data.

Last year, finance and insurance exerted the biggest drag on the economy, which expanded 0.9 percent, or half the nation's pace, according to June data from the Bureau of Economic Analysis. The 6.4 percent October jobless rate compared with 5.8 percent (USURTOT) nationally.

Tax Challenge

"We're a high-income, high-value-added state, with an educated workforce — our jobs are more difficult to create," Barnes said.

Higher taxes make Connecticut less attractive to fund managers, said Stephen McMenamin, executive director of Greenwich Roundtable, a nonprofit that educates alternative investors and hedge funds.

Tax collections surged 58.6 percent in Connecticut in the three years through June, the most nationwide, according to the Bloomberg Economic Evaluation of States.

Connecticut's 2014 business-tax climate is ninth-worst in the U.S., according to the Tax Foundation in Washington. The rank is based on levies on individual income, sales, corporations, property and unemployment insurance.

"When a manager calls me and says I'm looking to come up to Connecticut, I say keep going," McMenamin said in a telephone interview. "It's just a horrible tax situation here."

Bloomberg Muni Credit

By Brian Chappatta Dec 12, 2014 8:42 AM PT

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[Atlantic City Tax Liens Draw Less Than Half Expected $53 Million.]

Atlantic City, the junk-rated onetime U.S. East Coast gambling center on New Jersey's coast, drew bids for less than half of the $53 million of casino tax liens it tried to sell yesterday at auction.

Michael Sklar, an Atlantic City attorney, was the sole bidder for $22 million of debt owed by the Trump Taj Mahal, according to Michael Stinson, the city's revenue director. No bids were received for the $31 million in debt linked to Revel, the boardwalk high-rise that was among four casinos to close this year, battered by out-of-state competition.

"The city's obviously disappointed," Stinson, speaking by telephone today, said of the outstanding Revel debt.

Atlantic City was counting on the sale of the tax liens to help close a $70 million revenue shortfall, 27.6 percent of the budget that ends in less than 30 days, according to Moody's Investors Service. The company, which in July cut the city's credit rating two steps to the non-investment grade Ba1, put it on review yesterday for a possible downgrade.

Smaller Plans

Mayor Don Guardian, a Republican, canceled a planned November bond sale for as much as $140 million that would have helped cover some casinos' successful tax appeals. Instead, the city plans a $40 million note sale by year end, Stinson said.

"Atlantic City's recently postponed bond sale of $140 million poses significant budgetary, cash flow and balance sheet risk," Moody's said in its report.

Moody's said its review, which affects about $244 million of general-obligation debt, should be finished by mid-January.

Sklar, the Trump bidder, didn't immediately return a phone call to his law office.

No Talks

Yesterday's auction drew another $2 million to $3 million for debt owed by non-casino properties, Stinson said. City officials are taking steps to resolve the financial stress, and "have tried to keep the rating agencies informed of what we're doing," he said.

"I'm just a little bit surprised," Stinson said of the possibility of another downgrade. "They already had us on negative watch and adjusted our rating in September, and there have been no conversations with the city since then."

The city, which began the year with 12 gambling resorts, had counted on casinos for about 70 percent of income. Casino revenue dropped to $2.9 billion last year, from a peak of $5.2 billion in 2006, as Pennsylvania, Delaware, Maryland and New York expanded gambling.

Pennsylvania replaced Atlantic City as the second-largest U.S. gambling market, behind Las Vegas, in 2012.

Relief Measures

Taj Mahal will be the fifth Atlantic City casino to close this year unless more than 1,100 unionized employees decide by Dec. 15 to accept cuts in health care and pensions.

Governor Chris Christie, a 52-year-old Republican in his second term, is advocating for non-gambling attractions, including dining and entertainment.

The Moody’s report said bills before the legislature “may provide some level of relief.” Its report also called a state-appointed fiscal monitor a positive. Christie, after a second summit meeting on Atlantic City’s future last month, said he is considering an emergency manager.

Bloomberg News

By Elise Young Dec 12, 2014 8:50 AM PT

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Utilities Worry Water's Becoming Unaffordable.

Water utilities — many of them government agencies — increasingly are worried that their services will become unaffordable to low-income customers.

“In addition to the need for infrastructure replacement and big investments required there, we are now coming face to face with a social problem of big dimensions, namely the hardship that these investments are going to impose on customers at the bottom of the income spectrum,” said Tom Curtis, the head of governmental affairs for the American Water Works Association, which represents water utilities.

Water and sewer bills are increasing faster than bills for natural gas, electricity or phone service. They have been far outpacing inflation for 30 years, and there is no sign the rate hikes will slow down anytime soon.

Between 2001 and 2011, water bills grew the fastest as a percentage of income for the poorest customers. Water expenses grew faster than all other utility bills for low-income Americans except electricity. At the same time, though, the take-home pay for low-income Americans has fallen, when adjusting for inflation, Curtis noted.

The affordability of water became a major point of contention in recent months, as Detroit’s water utility disconnected some 50,000 customers who were behind in their bills. The cut-offs drew criticism from sources as diverse as the United Nations and The Daily Show. As part of Detroit’s bankruptcy proceedings, the city reached a deal with counties in the region to restructure the utility, which included a new $4.5 million fund to help customers struggling with their water bills.

The reasons for Detroit’s shut-offs were unique, but the underlying concern about water cost is not.

“The era of cheap water is really coming to an end,” Curtis said.

Customers usually pay only one water bill, but it covers many systems. The drinking water system delivers water to sinks, sprinklers and washing machines. The waste water system whisks water from customers’ drains to the water treatment plant. And the storm water system prevents floods after rains.

The costs of all of those systems are going up.

In older cities, pipes installed as much as a century ago need to be replaced. Booming Sun Belt regions not only need to expand their reach to cover new developments, but they are trying to find new sources of water in often-parched areas.

It could cost more than $2 trillion over the next 25 years to replace and expand drinking water and waste water systems nationally, according to a rough estimate by the AWWA.

Many sewer systems must also make major upgrades as a result of federal environmental enforcement actions. Local governments are considering upgrades to the same water infrastructure to reduce flooding from heavier storms and higher sea levels brought on by climate change.

Meanwhile, drinking water utilities are coping with a drop in water usage, which makes it more difficult for them to cover the fixed costs of maintaining their infrastructure with per-gallon rates.

For utilities and regulators, though, there is often no easy way to shield low-income customers from the higher costs.

The Northern Kentucky Sanitation District, which operates waste water and storm water systems in the Cincinnati suburbs, convinced federal and state regulators in 2009 that a plan to keep local rivers clean would be unaffordable for rate payers. But the district and the regulators still have not agreed on an alternative.

Sewer bills in the district have shot up by 500 percent since 2000, said David Rager, the agency's executive director.

The utility has built two new treatment plants to handle sewage in response to a 2007 federal court order. The agency, known as SD1, had to install new pipes and pumping stations to change how the waste water flows, so it would get to the new treatment plants. It is about 70 percent done with that work.

But there is still more work to be done to get the agency to comply with the federal Clean Water Act.

Existing pipes in the many areas of the agency's three-county territory are too small, so sewage overflows out of manholes and into basements in 160 different places after heavy rains. The U.S. Environmental Protection Agency also wants the district to cut back the amount of untreated water it releases into area creeks and rivers after storms.

The price of fixing those problems while paying off debt for the earlier improvements would reach $1.3 billion — or more than $4,600 for every person served by the utility. To make those improvements by 2025, as the EPA originally wanted, would require 20 percent rate hikes for each of the next 10 years, Rager said.

That would hit low-income customers especially hard, because the water bill is a bigger share of their expenses. Kentucky law prohibits subsidized rates, so the agency cannot charge different rates for customers with different incomes.

The northern Kentucky district is one of a small, but growing, number of utilities working to convince federal regulators that plans to improve water quality are too expensive.

Two years ago, for example, federal regulators agreed to give Atlanta 13 more years to comply with a 1999 consent decree because of the financial difficulties it would have placed on the city to meet the target by 2014.

Atlanta residents have some of the highest water bills in the country, with a typical family of four paying $150 a month (compared to about $50 a month for a typical family nationally). The high bills came after the city's water department raised rates by 250 percent over a decade. Separately, residents also approved a 1 percent sales tax to help fund the improvements to its sewer system. Without the sales tax, Atlanta officials estimate, residents' bills would have increased another 25-30 percent annually.

In a shift welcomed by local governments, the EPA indicated last week that it may take into account more factors — including the impact on low-income customers — when determining whether future projects are affordable for cities. Mayors, other city officials and utilities had criticized how the agency decided which projects were affordable.

For example, the EPA considers the potential impact of increased costs for customers earning the area's median household income, not for poor customers. The EPA said last week it would consider other information on how rate increases could disproportionately affect customers in certain income brackets or geographic areas.

As welcome as the news is for water utilities, it only addresses one of the many financial pressures affecting rates.

Janice Beecher, director of the Institute of Public Utilities at Michigan State University, said utilities may have to look beyond the rates they set to help low-income customers. After all, she said, rates still need to give customers incentives to be efficient and, of course, they need to cover the cost of providing the water infrastructure.

"It's very difficult to solve our poverty and equity issues all within rate design," she said.

Many utilities use non-profit groups to provide financial assistance to customers. The public sector can also help them by ensuring there is enough funding for the federal Low Income Home Energy Assistance Program (LIHEAP) and its state counterparts, which help low-income residents pay their energy bills.

"In many cases, we're talking about the same families who are struggling," she said. "Rather than reinvent the wheel, maybe we should have some coordinated effort to make sure they're able to pay their energy bills. That will make it easier to afford their water bill."

GOVERNING.COM

BY DANIEL C. VOCK | DECEMBER 4, 2014

Hedge Funds Ready to Back Puerto Rico Bond Sale Despite Rate Cap.

Dec 9 (Reuters) – Puerto Rico imposed an 8.5 percent interest rate cap on a proposed bond sale of up to $2.9 billion late on Monday, but hedge funds that hold the U.S. commonwealth's debt still appeared likely to back the deal.

Lawmakers added the rate cap to a bill with a 68 percent oil tax hike needed to raise funds to back the bond sale. They also included other conditions such as tying the hike to comprehensive tax reform and delinking it from inflation.

While the conditions are unlikely to endear Puerto Rico to traditional municipal bond investors, they also seemed unlikely to deter hedge funds that have been major buyers of the U.S. commonwealth's general obligation debt.

"The rate limit does not change the broad view on Puerto Rico or the bond sale itself," said a source close to the hedge funds, who declined to be named as details of the transaction were not public.

The bill provides protection for investors such as pledging general tax revenues and allowing investors to sue under a New York jurisdiction in case of legal disputes.

House Finance Committee Chairman Rafael "Tatito" Hernandez Montanez called the approval of the measure a "gigantic achievement" but expressed concerns that the conditions could dampen investors' enthusiasm.

"Last night was a political transaction, not a financial transaction. This is an extremely positive development for Puerto Rico," said Hernandez.

The tax hike, which raises the tax on a barrel of oil to $15.50 from $9.25, is unpopular during an austerity drive that has cut government spending by $1.4 billion this year. Officials said the tax increase will raise $178 million annually.

The amendments were an attempt by lawmakers to deflect the political blow of the tax. Puerto Rico will hold elections in 2016.

The $2.9 billion bond issue would be used to repay a $2.2 billion loan the Highways and Transportation Authority (HTA) has with Government Development Bank (GDB). The funds would shore up the HTA and the GDB, the U.S. commonwealth's financing arm.

A institutional investor who holds Puerto Rico's general obligation debt said a pledge to back the bonds from the general fund would be enough to get hedge funds to buy.

"Having a dedicated tax stream is good but also having the additional protection of the GO guarantee, which gives you access to all available revenues, should make bondholders feel pretty protected," the investor said.

(Reporting by Edward Krudy in New York and Reuters in San Juan; Editing by James Dalgleish and Richard Chang)

Iowa Fertilizer Bonds Drop as Junk Deal Needs Extra $100 Million.

Speculative-grade bonds issued for a fertilizer plant in Iowa sank after the company building the facility said it needs an additional $100 million to finish the project.

The Iowa Finance Authority sold $1.2 billion of debt in April 2013 to fund the building of a 320-acre nitrogen fertilizer plant in southeastern Iowa by Cairo-based Orascom Construction Industries. At the time, it was a record amount for a junk muni offering. The company said in a filing posted Dec. 8 that it may issue more equity or debt because costs are exceeding projections.

Iowa fertilizer bonds maturing in December 2025 traded yesterday with the highest volume since

July, data compiled by Bloomberg show. They changed hands at an average yield of 4.19 percent, the highest since Nov. 17. That's 2.17 percentage points above benchmark munis, the widest spread since the same date.

Orascom has used all but $100,000 of the project's $68 million construction reserve fund, initially funded by bond proceeds, and has spent $13.5 million of the equity-funded reserves, according to a Dec. 8 call on which attorneys for the trustee and the company briefed investors. The draws on the reserves didn't require bondholder consent.

Junk Risk

The cost overruns show the risk in investing in high-yield munis for stand-alone projects. Standard & Poor's rates the bonds BB-, three steps below investment grade. The credit rater said last month the higher costs wouldn't immediately lower the rank because the facility is set to begin operating in November 2015, as planned. Construction is about 55 percent complete.

Orascom could sell $58.7 million of tax-exempt debt that has the same protections as outstanding obligations, according to bond documents, which stipulate a debt-to-equity funding ratio. Any additional securities would have to be subordinate.

Junk-rated Puerto Rico's $3.5 billion general obligation deal in March eclipsed the Iowa deal. While some of the largest municipal-bond managers have trimmed holdings of commonwealth debt, they're among the biggest holders of the fertilizer securities. They include Legg Mason Inc. (LM:US), Nuveen Asset Management, Vanguard Group, Invesco Ltd. and BlackRock Inc. (BLK:US), Bloomberg data show.

Sarah Rackoff, a New York-based attorney representing Orascom at Orrick, Herrington & Sutcliffe; and Shawn Rana, a representative for Iowa Fertilizer, didn't respond to e-mails seeking comment on the filing. Laura Roberson of UMB Bank Corporate Trust in St. Louis, the bond trustee, didn't return a call seeking comment.

Bloomberg

By Brian Chappatta and Kate Smith

December 10, 2014

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Kate Smith in New York at ksmith304@bloomberg.net

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ACA Statement Regarding Loan Default by the City of Buena Vista.

Following the recent decision by the City of Buena Vista to renege on forbearance terms negotiated in 2011, the bond trustee for the city's approximately $9 million in Golf Course Project Bonds has issued an Event of Default Notice.

"I'm disappointed that the City Council decided to act precipitously rather than first enter into good faith discussions with ACA," said Maria Cheng, head of remediation at ACA Financial Guaranty Corporation. "We worked in good faith with the City several years ago to accommodate the City's needs, and the City was making progress in following the terms of that deal until this abrupt policy change."

As the insurer of the Golf Course Bonds, ACA provided credit enhancement that allowed the issuer to obtain a lower interest rate on the Bonds and reduce financing costs for the project. Such insurance does not permit the City to absolve itself of this debt nor does it allow ACA or any other third party to absorb the City's liabilities or commitments.

"The prior City Council acted more responsibly," said Ms. Cheng, referring to their 2011 action to approve a Forbearance and Reimbursement Agreement negotiated with ACA after the City failed to appropriate funds for debt service payments due December 1, 2010 and July 1, 2011. "Once the City Council heard the reactions of various advisors and state officials they understood that their actions would affect the City's future access to financing, so they came to ACA and asked for leeway while the City figured out a long-term solution for the golf course. ACA agreed to make 50% of the debt service payments for five years and allow the City to repay those payments after the original debt is paid. Now, part way through this forbearance period and even though funds for the required payments were included in the budget the City approved earlier this year, they've simply thrown up their hands and have refused to pay the reduced debt service that was agreed to by the City."

The City's initial refusal to pay full debt service on the Golf Course Bonds cost it the ability to finance needed infrastructure improvements with public funding, as evidenced by the decision of the Virginia Resources Authority (VRA) to deny the City's request for a loan for its water treatment facility.

"While the VRA encouraged the City to return and discuss ways it could improve its borrowing profile, this recent decision to dis-appropriate funds can only hurt its credit profile and further limit access to the infrastructure funding it needs," stated Ms. Cheng.

The remedies available to ACA include foreclosure on the real estate the City pledged to secure the Golf Course Bonds, including the town hall (other than the court facilities), the building that houses the police department as well as the golf course. ACA will continue to be owed any money ACA pays to the bondholders to cover the debt service.

"We have always been willing to work with the City to come up with a comprehensive solution. In 2011, we gave them breathing room to work through their problems by agreeing to five years of partial payments and deferring repayment of the shortfalls we have been advancing to bondholders until 2035, interest free," said Ms. Cheng. "The unilateral act by the current City Council demonstrates an unwillingness to act in good faith to negotiate a solution. It is also highly disingenuous to characterize ACA's insurance as giving the City the ability to try to walk away from its decision in 2005 to finance the golf course. We provided credit enhancement that allowed the city to save money on interest – our insurance protects bondholders, not the City."
As a result of the City's recent actions, ACA has reached out to the various constituents that helped in the negotiation of the Forbearance Agreement in 2011. "Despite the City Council's recent act, I hope that cooler heads will prevail so that we can find a solution that is workable for all parties," said Ms. Cheng.

About ACA Financial Guaranty Corporation: Founded in 1997, ACA Financial Guaranty Corporation is a monoline bond insurance company licensed in 50 states and 5 territories and regulated by the Maryland Insurance Administration. On August 8, 2008, the Company and counterparties to its structured finance products reached an agreement on a restructuring plan for ACA. The plan, approved by the Maryland Insurance Administration, provided for settlement of the structured finance obligations and protection for ACA's municipal policyholders. ACA operates as a runoff insurance company and focuses on actively managing its remaining insured municipal obligations. ACA's portfolio consists of less than 200 obligors guarantying timely payment of principal and interest on approximately $2.9 billion of generally high yield municipal bonds.

U.S. Municipal Bond Market Shrinks to Smallest in Five Years: Fed.

(Reuters) – The U.S. municipal bond market contracted to $3.63 trillion in the third quarter, the smallest amount of outstanding debt in five years, according to Federal Reserve data released on Thursday.

The total was only slightly less than the second quarter, when all outstanding bonds equaled $3.66 trillion, the Fed's quarterly report showed.

A year earlier, the market size was $3.68 trillion and in the third quarter of 2012, it was $3.72 trillion.

The size of the municipal bond market peaked in the fourth quarter of 2010, when a rush to sell Build America Bonds helped push the amount of outstanding debt to $3.77 trillion. Falling interest rates at the time kept cities, counties and states hungry to borrow and refinance, and the market held steady at around $3.7 trillion.

But when interest rates began falling more than a year ago, a borrowing binge ended. Since then, the market has steadily diminished, shrinking 2.6 percent from the first quarter of 2013.

Demand from retail buyers appeared to fall alongside supply in the third quarter, with households dropping $155.5 billion of municipal bonds. The Federal Reserve adjusts data on the flows of municipal holdings for seasonal variations.

This marked the 15th quarter in a row that households, the biggest investors in the municipal market, shed their holdings, according to the central bank. In the second quarter, retail buyers dropped $34.7 billion of bonds.

Buying from institutional investors, though, picked up. Banks acquired $34.4 billion municipal bonds in the third quarter, after buying $17.4 billion in the second quarter. Mutual funds acquired $60 billion, compared to $48.7 billion in the previous quarter. Property-casualty insurance companies acquired $2.6 billion and life-insurance companies $4.8 billion.

The contraction in outstanding debt could pause in the near future, as interest rates on municipal bonds have begun falling again.

According to Municipal Market Data, a unit of Thomson Reuters, the yield on a top-rated 10-year bond is currently 78 basis points below where it began 2014. The yield on a highly rated 30-year bond has dramatically plunged, and is now 130 basis points lower than on the first trading day of 2014.

Last week, an industry group forecast total issuance to rise to $357.5 billion in 2015 from $348.1 billion estimated for this year.

BY LISA LAMBERT

WASHINGTON Thu Dec 11, 2014 11:45pm

(Editing by Bernadette Baum)

[Detroit Seen as Model in Ohio City Facing Collapse: Muni Credit.]

The council president in East Cleveland said if she had her way, the city would follow Detroit's path and become Ohio's first municipality to file for bankruptcy to help solve its fiscal woes.

State Auditor Dave Yost said the suburb of 17,500, where oil baron John D. Rockefeller once had a summer estate, is insolvent. The community lacks a working ladder truck in its fire department, had its mobile phones shut off and faces $1.7 million in unpaid bills.

City officials say the options include asking voters to raise taxes, deeper spending cuts, merging with Cleveland or filing for bankruptcy. Council President Barbara Thomas favors the latter, following the Motor City's record $18 billion bankruptcy in July 2013. Detroit was able to reduce its liabilities by $7 billion and exited Chapter 9 as of today.

"We might come out a little bit better, just like Detroit," Thomas said in a telephone interview. "Isn't it better to clear away your debt in a proven process than to keep trying to rob Peter to pay Paul?"

Second Stint

Ohio has rebounded from the recession that ended in 2009, recovering all but a quarter of the 375,000 jobs it lost. Yet it has designated 23 local governments as being in a state of fiscal emergency. While Yost's office said those municipalities aren't dealing with the same distress as East Cleveland, they meet certain criteria, such as failing to make payroll for more than 30 days because funds are lacking.

This is East Cleveland's second stint in the fiscal-emergency program, which triggers the appointment of a state commission to supervise the municipality's finances. The city spent 17 years under state oversight through February 2006 and returned to that designation in October 2012, according to the auditor's office. Unlike in Michigan, where the state can take over a community's finances, Ohio maintains local control during fiscal emergencies, said Carrie Bartunek, a Yost spokeswoman.

East Cleveland, a city of three square miles (7.8 square kilometers), has struggled with its finances for decades, said Finance Director Jack Johnson. About 43 percent of residents live in poverty, almost triple the state level, while median household income, at about $20,600, is less than half the Ohio average, U.S. Census data show.

'Devastating' Challenges

It encountered "the perfect storm" after the recession, with the 2011 closing of a Cleveland Clinic hospital that generated about $1.5 million a year in income taxes and the loss of about half its annual $3 million in state aid since 2010, he said.

"There have always been challenges here, but those two things just sort of made it devastating," he said.

The city, with about 170 full- and part-time employees and a general-fund budget of $11 million, had deficits totaling $4.9 million as of Oct. 31 — even after eliminating about a quarter of its workforce this year, Johnson said.

East Cleveland has no municipal debt, with its most-recent revenue bonds maturing in 1997, data compiled by Bloomberg show.

Yost sent a Nov. 21 letter to the commission overseeing its finances saying East Cleveland is insolvent, and that its recovery plan "is inadequate to return it to fiscal health in this current environment."

Borrowing Plan

"It is fair to say the City is on the verge of collapse," Yost wrote.

The city had anticipated borrowing as much as $6.9 million to reduce cash-flow pressures and buy time to restructure, said Johnson, the finance director. Yost has said he can't support that without a plan to eliminate the structural deficit.

East Cleveland must pass at least a temporary 2015 budget by year-end. The mayor and city council will decide on long-term options of asking voters for an income- or property-tax increase, more restructuring, merging with Cleveland or bankruptcy in coming months, according to Johnson.

Thomas, the council president, said she doesn't see a viable alternative to bankruptcy. There's no support in council for a merger, voters won't pass a tax increase and it isn't feasible to find revenue quickly enough through spending cuts, she said.

Mayor Gary Norton Jr. declined to comment.

Bartunek, the spokeswoman for Yost, said East Cleveland's situation doesn't reflect the performance of localities across Ohio.

The experience of Detroit shows bankruptcy can freeze the market for new debt in an entire state. Bond sales in Michigan plunged to the lowest in a decade in August 2013.

Not Stirred

Ohio issuers have sold $8.6 billion of debt this year through Dec. 5, compared with $10 billion in the same period of 2013.

Detroit's Chapter 9 also shows how local distress can affect state finances. Standard & Poor's revised its outlook on Michigan's AA- rating to stable from positive in June, in part because of the possibility of future payments to strained municipalities.

S&P rates Ohio two steps above Michigan at AA+, the second-highest grade.

An East Cleveland bankruptcy would probably cause less of a stir among bondholders than those in Detroit and Central Falls, Rhode Island, said Howard Cure, head of muni research in New York at Evercore Wealth Management LLC, which oversees $5.5 billion.

"Detroit is different because it's the biggest city in Michigan, and Central Falls is different because Rhode Island is such a small state," Cure said in a telephone interview. "Here, you have a small city in a big state, and I don't think it would garner the same concerns."

Bloomberg

By Mark Niquette and Brian Chappatta

Dec 11, 2014 8:26 AM PT

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Massachusetts Bonds? There's an App for That.

Massachusetts is boosting its efforts at transparency by offering investors financial information and disclosures via a smart phone app.

The app comes on the heels of this year's launch of MassDirect Notes, which Massachusetts billed as the first online state marketplace selling bonds directly to mom-and-pop investors. It includes quarterly economic data, budgeted operating funds, annual financial reports, monthly revenue and expenditure reports and ratings information, some updated in real time.

Massachusetts Treasurer Steven Grossman said the app was part of the state's effort, which also includes a revamped website and investor calls, to reach out to individual investors.

"We think providing this kind of disclosure will ultimately reduce the state's borrowing costs," he said.

Those unable attend the state's 2014 Investor Conference last week in Boston, for example, could use the app to access the agenda, presentations, speaker biographies, the state's 2015 finance calendar and even photographs of relevant public works, such as a new building for Hingham Middle School.

The app follows other efforts by Massachusetts to reach out to the retail investors who make up the bulk of the $3.6 trillion U.S. municipal bond market, including the MassDirect Notes offering program. Modeled on the U.S. Treasury's TreasuryDirect service, it allows investors to buy bonds when they need them, two weeks a month, instead of waiting for typically infrequent sales. Officials also took inspiration from companies including Duke Energy Corp.DUK -0.64% and General Electric Co.GE -0.41%, which allow investors to buy corporate debt directly from the firms, also on a rolling basis.

The moves come amid efforts by federal regulators to increase price transparency and protect individual investors in a market that a 2012 Securities and Exchange Commission report described as "illiquid and opaque." Individual investors own almost three-quarters of the debt issued by cities, states and other municipalities, either directly or through mutual funds, with many buying the bonds for tax-free income as a way to fund their retirements.

Tom Metzold, senior portfolio advisor at Boston-based Eaton Vance EV +0.43%, said he's a "big fan" of the program, noting increased transparency would help retail investors better understand the market for all Massachusetts bonds.

"That's how we're going to create true equality between institutional and retail investors," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

California's Most Financially Stressed Cities and Counties.

A recently released study of California's cities and counties ranks the various jurisdictions based on the financial stresses they face and the possibility of default, with local governments among those rated.

In its report, the California Policy Center completed 492 assessments of the state's cities and counties, using municipal finance data to look at bankruptcy risk.

Specifically, the center – working with the firm Civic Partner, which collects and analyzes municipal finance data – used four metrics to reach its conclusions: general fund balance/general fund expenditures, general fund surplus or deficit/general fund revenues, change in annual revenues (total government funds), and interest and pension expenses/total governmental fund revenues.

Those metrics were used to calculate a default probability score to reflect how likely a local government is to "either declare bankruptcy or default on its general obligation bond issues within one year."

Read the full report.

by Marc Joffe, Julie Lark, and Ed Ring on November 5, 2014

California County Hires Financial Advisor for P3 Highway Project.

Transportation officials from Monterey County, Calif., on Wednesday approved the hiring of a financial adviser to review a draft P3 deal for the Highway 156 toll road.

The Transportation Agency for Monterey County's (TAMC) approved the hiring over the objection of longtime Supervisor Lou Calcagno, who encouraged the board to address constituents concerns raised in the comment period before moving forward, reported the Monterey Herald.

TAMC is in the process of exploring the $268 million construction of a toll road in partnership with Caltrans and a private developer. The four-lane road would link Highway 1 and Highway 101 fifty miles south of San Francisco.

The financial advisory firm of Ernst & Young Infrastructure Advisors will be in charge of reviewing partnership documents from Caltrans, including the project proposal and business plan, and will offer financial advice on the project.

Under the current proposal, a private developer would finance, design, build and operate the toll road.

TAMC's board will take up the draft agreement in a February workshop and will make a final decision in March. The project would then move to the state Transportation Commission and eventual review by the state legislature.

The request for proposals for a private partner is expected to be released by summer 2015.

The National Council for Public-Private Partnerships

By Editor

December 4, 2014

San Diego Pension Moves to Replace Investment Adviser.

Board members of San Diego County's pension fund discussed plans yesterday to hire a chief financial officer to manage their $10.1 billion portfolio, potentially replacing a Texas consultant.

If the San Diego County Employees Retirement Association goes ahead with the proposal, it would mean the end of the fund's five-year relationship with Houston-based Salient Partners LP, said board member Dianne Jacob, a San Diego County supervisor.

Just two months ago, the board voted 5-4 against firing Salient after some officials criticized the chief investment officer, Lee Partridge, as needlessly risking retiree income through use of futures contracts tied to securities and commodities.

"It sounds like we are going to terminate the contract," Jacob said yesterday in a board meeting in San Diego. "It's just a matter of timing and the transition."

The company remains committed to its work in San Diego, said Chris Moon Ashraf, a spokeswoman for Salient at Jennifer Connelly Public Relations.

"Should the board determine that a change in provider is in the best interest of its members, Salient will work to ensure a smooth and expeditious transition," she said in a statement.

The pension board directed its staff to set the timing for terminating the contract with Salient. The board didn't schedule a vote on ending the contract, or take action on hiring an internal investment chief.

Leverage Portfolio

Partridge, whose firm is paid $8 million a year, invested as much as five times the value of the portfolio in stock, bond and commodities markets. The board voted in October to reduce the maximum leverage to twice the value of the portfolio.

In November, the board voted to hire an internal investment chief to work alongside Partridge. Under its contract with Salient, the pension fund can sever relations with 30 days notice.

The San Diego fund, which provides retirement benefits to more than 39,000 current and former employees, embraced risk even as the California Public Employees' Retirement System and the California State Teachers' Retirement System turned more conservative.

San Diego's gain in the year ended June 30 was 13.3 percent, compared with Calpers' 18.4 percent and Calstrs' 18.7 percent.

Bloomberg News

By James Nash

Dec 4, 2014 9:01 PM PT

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California Town Seeks Financial Salvation in Imprisonment.

Adelanto, California, a Mojave Desert community with more prisons than supermarkets, is poised to authorize two more detention facilities as city leaders try to stave off insolvency.

The city of about 31,300 residents 85 miles (135 kilometers) northeast of Los Angeles has faced boom-and-bust property markets. The residential foreclosure rate is four times the California average and five times the U.S. level, according to RealtyTrac.

Officials face a $2.6 million deficit on a $13.3 million spending plan for the year through June 2015 after the defeat of a ballot measure last month to raise rates at its utility. Adelanto leaders are set to consider proposals for a 1,000-bed, privately run prison and a city-owned facility to house as many as 3,264 overflow inmates from Los Angeles County. The City Council is scheduled to vote Dec. 10 on the larger facility, and take up the smaller one Jan. 28.

"Should Adelanto be known as a prison town? No, but I'd rather have it known as a prison town than a crime or gang or a 12 percent-unemployment town," Mayor Cari Thomas, who leaves office this month after losing in November's election, said by telephone. "We have no other way."

Jail Revenue

With the nation's cities and towns still finding ways to mend their finances five years after the recession, Adelanto isn't alone in looking to jails to raise revenue. Littlefield, Texas, was trying to fill its empty 382-bed prison earlier this year with undocumented migrants, and officials in Oregon's Multnomah County want to sell an unused jail. Adelanto bailed out its budget in 2010 by selling a city-owned jail to a Florida operator for $28 million.

Adelanto stands to gain from the prisons because of fees it will receive from developers as well as business related to the jails. The facilities aren't a sure bet. In November, California voters approved a measure to reduce sentences for some non-violent offenses, which the state's legislative analyst estimated could apply to 40,000 prisoners. Los Angeles County, the source of most of Adelanto's expected new inmates, is pushing offenders into treatment programs rather than jails.

Baseball Too

Adelanto, home to the High Desert Mavericks, an affiliate of Major League Baseball's Texas Rangers, was founded in 1915 by E. H. Richardson, inventor of what became the Hotpoint Electric Iron. It has one full-service supermarket. It also boasts a private detention facility for immigrants awaiting deportation, a county jail and a federal correctional site on the border with neighboring Victorville.

Boca Raton, Florida-based GEO Group Inc. (GEO) is expanding the Adelanto detention facility it bought from the city four years ago by 640 slots to accommodate 1,940 people by next year. San Bernardino County houses about 700 inmates in Adelanto. More than 4,700 federal prisoners occupy the Victorville correctional complex.

City Manager James Hart said prisons bring hundreds of jobs. Adelanto's median household income of about $41,100 compares with $61,400 statewide, according to U.S. Census data. Its poverty rate of 32 percent is more than double the state level. The city government gets about $230,000 directly in prison-related fees a year, he said.

'Stay Solvent'

GEO is offering about $300,000 in mitigation fees to compensate for costs related to its proposed 1,000-bed facility, while LCS Holdings, the developer proposing the 3,264-bed prison, would pay about $1.2 million, according to a staff report to the city council. Both fees are recurring and will vary depending on how many prisoners are housed.

"While these funds will greatly assist the city with its deficit, the city will still have to focus on other businesses to make up the difference," Hart said via e-mail.

After the school district, the city's biggest employer is General Atomics, with 250 workers, according to Adelanto's website.

The California Municipal Finance Authority would issue $327 million of tax-free debt on the city's behalf, provided that Los Angeles County agrees to send overflow inmates to Adelanto and pay the city to house them, said Doctor R. Crants, a principal in LCS Holdings and a founder of Corrections Corp. of America. Adelanto would use the proceeds to pay the developer of the 3,264-bed prison. Payments from the county would go toward repaying the debt.

'Prison Community'

City documents describe LCS as the developer, while Crants said in a telephone interview that the company is a consultant.

Councilman Jermaine Wright said the mitigation fees aren't worth the cost to Adelanto's reputation and quality of life.

"We're building this into a prison community and not a place where you'd want to bring a family and work in good-paying jobs," said Wright, who runs an armored-car business in nearby Apple Valley. "We've turned into a community of no opportunity, unless you're an inmate."

GEO Chief Executive Officer George Zoley and the company's media department didn't return calls and e-mails seeking comment on the plan. Crants said the city-owned prison would create dozens of high-paying jobs and boost the municipal budget.

The town has struggled for years: It dissolved its police department in 2001 and declared a fiscal emergency last year, even as its population grew from about 18,000 in 2000.

Bankruptcy Precursor

Ambac Assurance Corp. sued Adelanto's Public Utility Authority in 2009 after it missed a termination payment on an interest-rate swap. Hart at the time said the water authority faced financial strains after Ambac lost its top credit rating, which inflated interest rates on authority debt. A federal court awarded Ambac the $4.5 million termination payment plus interest and fees, according to authority bond disclosures.

Since the fiscal emergency, a precursor to municipal bankruptcy under California law, Adelanto has cut spending by about $2.5 million by closing a fire station, letting go almost a quarter of employees and eliminating its building and safety department, according to a report by Hart. The city is still projected to run out of cash by the end of next year, Hart's report said.

Adelanto has no general-obligation bonds. The utility authority, which provides water and sewer service and is separate from the city general fund, has $73.5 million in debt, according to its annual fiscal report.

Authority bonds maturing in July 2020 traded as recently as Nov. 21 at an average yield of about 2.1 percent, or about 0.9 percentage point above benchmark municipal debt, data compiled by Bloomberg show. The tax-exempt bonds are unrated.

City officials have considered bankruptcy or disincorporation, although Hart said there's still hope of avoiding those outcomes by trying another utility-tax measure or counting on fees for new prisons.

Terry Delgado, who has lived in Adelanto for 10 years, looks up at a prison from his house. He said he's skeptical that new jails will do much for the city.

"Adelanto has not worked for anybody for a long time," Delgado said. "Every other house is a drug house. They need to clean up what they have before they keep going."

Bloomberg

By James Nash

Dec 5, 2014 8:36 AM PT

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Mark Tannenbaum, Mark Schoifet

Study Shows California Cities Face Growing Costs From Federal Water Regulations That Unfairly Burden Lower and Now Middle Income Households.

Washington D.C. – In a report released today, The U.S. Conference of Mayors found that the current cost per
household for public water services in California is unfairly burdening lower income households. Municipalities
already coping with tight budgets and their water customers who have not seen real income growth since the 2007

economic recession face looming high bills to comply with new federal water regulations.

The number of households whose water and sewer costs exceeded 4.5% of their income, ranged as high as 39.4% of Paramount households to 35.3% in La Verne to 34.4% in Escondido.

The report, titled [“Public Water Cost Per Household: Assessing Financial Impacts of EPA Affordability Criteria in California Cities,”] will be released as part of the 2014 Water Council Summit of the Mayors’ organization in Washington, DC.

Mayors hope the report’s findings will convince the U.S. Environmental Protection Agency to use a more accurate affordability measure to justify greater flexibility around regulations, especially in cities with high percentages of poverty, low and moderate income and fixed income households, and local economies that are stagnant or failing.
The Mayors’ report looked at 35 California communities, clustered in Los Angeles County, who provided 2014 information on public water (water, sewer, and flood control) average annual cost per household. Los Angeles County was chosen, as it is one of the first areas in the nation to be regulated under a federal TMDL (total maximum daily loadings) Consent Decree for storm water. Early estimates suggest that substantial rate increases will be necessary to comply with long term obligations.

“This report details the economic burdens that a growing percentage of city residents are experiencing in water and wastewater services,” said Tom Cochran, CEO and Executive Director of The U.S. Conference of Mayors. “We want and need clean water, but cities need greater flexibility, especially in low-income areas. Local governments face serious challenges to sustain an enormous physical infrastructure necessary to deliver public water services and the persistent growth in federal water mandate costs. A more rational model will be needed to be successful over the next decades.”

MSRB Chair Receives Public Finance Award.

Alexandria, VA – MSRB Chair Kym Arnone has received the Freda Johnson Award for Trailblazing Women in Public Finance from the Northeast Women in Public Finance. The award is given annually in recognition of the recipient’s contributions to public finance as well as her volunteerism and role as a mentor. Arnone is the first recipient working in the private sector to receive the award, which also went to public-sector recipient Lois Scott, the chief financial officer of Chicago.

Arnone, who is serving her third year on the MSRB Board of Directors, is Managing Director and

Head of Municipal Securitization Initiatives at Barclays. As Chair of the MSRB, Arnone is leading the organization through multiple initiatives. Watch a video message here.

Arnone pioneered the structuring of $43 billion in tobacco securitization bonds for states that were part of a civil settlement major tobacco companies in 1998. She has led Barclays' underwriting work for New York City for 20 years helping to create its Transitional Finance Authority personal income tax credits, and has led transactions of virtually every type and product for municipal entities throughout the Midwest.

In presenting the eponymous award, Freda Johnson said of Arnone, "I have never known a more consummate professional," she said. "There is no one more dedicated, hard-working, energetic or innovative when it comes to public finance." Kimberly Lyons and Vivian Altman, co-heads of the Northeast Women in Public Finance, said, "Along with Lois Scott, Kym Arnone epitomizes the contributions women have made to public finance and both women serve as role models to all the women in this industry."

Prior to her role with Barclays, Arnone was a senior banker at Bear Stearns. Arnone is a trustee for the Citizens Budget Commission, and a board member of the Municipal Forum of New York. Arnone graduated magna cum laude from St. John's University with a bachelor's degree in finance.

Past winners of the Freda Johnson award are 2013 recipient Philadelphia Treasurer Nancy Winkler, Connecticut State Treasurer Denise Nappier and Rhode Island State Treasurer Gina Raimondo. The award was created in honor of Freda Johnson, a Founding Board Member of New England Women in Public Finance whose trailblazing four-decade career in public finance helped inspire many women in the industry. Johnson began her career at The Dun & Bradstreet Corporation and its subsidiary, Moody's Investors Service, and later served as president of Government Finance Associates, Inc.

Date: December 5, 2014

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Munis Extend Record Rally to 11th Month With Gains Seen in 2015.

The $3.7 trillion municipal market extended a record win streak in November, rallying to end the month as state and local debt reached the cheapest relative to Treasuries since December.

Munis earned 0.14 percent in November, Bank of America Merrill Lynch data show. The 11th-straight month of gains in 2014 marked an unprecedented stretch to start a year since the data began in 1989. The market has advanced 9.1 percent this year, the most since 2011. It may generate a 0.68 percent return in 2015, according to the most likely scenario presented in a report today by Michael Zezas at Morgan Stanley.

Benchmark 10-year munis yield 2.21 percent, compared with 2.17 percent on similar-maturity Treasuries, data compiled by Bloomberg show. The ratio of the yields, about 102 percent, is close to an 11-month high, signaling that state and city bonds are relatively cheap compared with their federal counterparts heading into year-end.

"People can balk at the absolute yields because they're so low, but when you look at that relative basis, there's still some attractive value in munis," said Dan Toboja, senior vice president of muni trading at Ziegler, a Chicago broker-dealer.

Money managers have bought state and local debt amid signs of demand. Individuals added $1.8 billion to muni mutual funds in the three weeks through Nov. 26, the most since May, Lipper US Fund Flows data show.

In a challenge to the performance streak, issuers have already scheduled $20.4 billion of bond sales for the next 30 days, the most since 2010, Bloomberg data show. That includes $15.5 billion of sales planned for this week.

Zezas, chief muni strategist at Morgan Stanley in New York, projects $354 billion of supply in 2015, up about 15 percent from this year. The bigger risk to another year of gains is if individuals switch to pulling money from mutual funds, he said.

Bloomberg

By Brian Chappatta

Dec 1, 2014 7:32 AM PT

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Muni Market Set to Shrink as Texas Leads Rising Sales.

The U.S. municipal bond market is poised to contract in the next month as redemptions and maturing debt exceed the accelerating pace of new securities sales.

The gap between redemptions and new debt, a signal of supply and demand in the $3.5 trillion municipal market, will total $6.77 billion over the next 30 days, according to data compiled by Bloomberg. A week ago, the estimated contraction was $27.2 billion for the coming month. In October, the market diminished by $4.71 billion.

States and localities have scheduled $20.8 billion of sales in the next 30 days, the data show. On the previous trading day, the calendar showed $18.9 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.

Municipalities have announced $10.7 billion of redemptions and an additional $16.9 billion of debt matures in the next month.

In the coming weeks, Texas Transportation Commission plans to sell $1.23 billion of bonds, New York State Thruway Authority has scheduled $750 million, Pennsylvania will offer $750 million and Phoenix Civic Improvement Corp. will bring $610 million to market.

Issuers from Illinois have the most debt coming due in the next 30 days with $1.84 billion, followed by New Jersey at $1.57 billion and Ohio with $1.56 billion.

New Jersey Transportation Trust Fund Authority has the biggest amount of securities maturing, with $465 million.

Bloomberg

By Ken Kohn Dec 1, 2014 4:24 AM PT

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Reed Smith: Pa. Gas Utility May Use Eminent Domain to Supply Private Power Plant.

A Lycoming County, Pennsylvania, judge recently authorized a natural gas public utility to use its eminent domain power in condemning easements for the construction and maintenance of a pipeline to supply gas to a private power plant. The owners of the property subject to the easements had protested the condemnation, arguing that the taking was for private instead of public use. The court considered the extent of the public and private contacts with the project, as well as the potential public benefit, and ultimately determined that the condemnation sufficiently fell within the public utility exemption to Pennsylvania's Property Rights Protection Act (PRPA).

After a court order approving the condemnation requested by UGI Penn Natural Gas, Inc. (UGI) in late August, the property owners filed an Answer and Action in Equity, challenging the condemnation on the grounds of (1) inadequate bond, (2) taking more than is required for the purpose intended, and (3) condemning for a private enterprise as opposed to a public use. In addressing the property owners' objections, the court focused primarily on the issue of whether condemnation is appropriate where the pipeline at issue will be constructed to service a private business. The court acknowledged that the PRPA prohibits the use of eminent domain power to take private property for use in private enterprise, but found that as a regulated public utility, UGI falls within a limited class of condemners "permitted to use the eminent domain power to provide public services in tandem with benefits to a private enterprise."

The court emphasized the limited private contacts with the project, pointing out that UGI was the "sole owner of the easements and the operator of the pipeline," and stating the private power plant will not "own, operate or control the condemned property in any way." The court also characterized the condemnation as incidental to the services the gas utility is authorized to provide, indicating UGI is the chosen supplier of natural gas to customers at the location of the power plant. Finally, the court acknowledged the public benefit of the proposed pipeline, noting the power plant will use the natural gas it receives "to generate enough energy to power approximately 1 million homes."

Judge Richard Gray issued the decision on November 7, 2014. The case is In re Condemnation of Temporary Construction Easement Across Lands of Curtis R. Lauchle and Terri L. Lauchle, case numbers 14-02219, 14-01790, and 14-01791, in the Lycoming County Court of Common Pleas.

Last Updated: November 22 2014

Article by Lucas Liben and Tom Galligan

Reed Smith

This article is presented for informational purposes only and is not intended to constitute legal advice.

S&P: Illinois Ratings Unaffected By Pension Reform Law Judgment.

NEW YORK (Standard & Poor's) Nov. 21, 2014–Standard & Poor's Ratings Services today said that its rating and outlook on Illinois (A-/Negative) are unaffected following the declaratory judgment issued today by the Sangamon County Circuit Court on Illinois' pension reform law (Public Act 98-0599), declaring the same unconstitutional and void and making permanent the restraining order and injunction on enforcing or implementing any provision of the law. The state's attorney general issued a statement following the decision that indicated the state would appeal the decision to the Illinois Supreme Court.

Key elements of the reform were to take effect June 1, 2014, and apply to all state pension plans except the Judges' Retirement System. We cited the legal challenges to the pension reform legislation and the associated implementation risk as part of our credit review on July 23, 2014, when we revised the outlook on the state to negative from developing, and we will continue to monitor the legal process relating to the pension legislation. More importantly, from a credit perspective, savings from the pension reform are not included in the fiscal 2015 budget.

The Illinois general assembly adopted comprehensive pension reform legislation (Public Act 98-0599) on Dec. 3, 2013, and Governor Quinn signed the law on Dec. 5. This followed years of inaction and a lack of consensus on how to proceed with the large and increasing pension liabilities. From a credit standpoint, Standard & Poor's views the pension reform as a significant accomplishment that could lead to improved funding levels, greater plan sustainability, and improved prospects for budget stability. However, if the reforms don't move forward as planned, we believe the significant fixed-cost pressure associated with postretirement benefits will escalate.

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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Stockton: Bankruptcy Exit Should Move Ahead.

City leaders in Stockton, Calif., are urging a federal judge to let the city exit bankruptcy with a court-approved reorganization plan, despite an appeal of that proposal filed by mutual-fund giant Franklin Templeton Investments.

In court papers, Stockton officials said the appeal from Franklin Templeton, which is arguing that the 300,000- resident city can afford to repay more money on the municipal bonds it issued, could take years to litigate.

During the appellate process, Franklin Templeton's lawyers asked that Stockton remain in bankruptcy, which city leaders argued would unfairly delay payments to retired municipal workers who have agreed to give up their health-care benefits and accept a one-time payment instead.

That includes a payment to a longtime city mechanic Wayne Klemin, who told Judge Christopher Klein in court papers that he is counting on the money to pay for treatments for his diabetes and hypertension.

Delaying the plan also would prevent some city workers from moving out of an aging municipal building that has a leaky roof and rat problem, Gordon MacKay, director of the Public Works Department, said in court papers.

"The drinking water is suspect due to lead pipe joints," Mr. MacKay wrote. "The building is not anywhere near modern expectations for an acceptable office environment."

Eric Jones, the city's police chief, said in a separate court document that the city's bankruptcy has made it difficult to recruit new officers.

"There is no way to quantify the uncertainty of a city retiree waiting for funds to pay for health care, the unease of a police force long stretched too thin, the loss of new business that might have moved to the city had it emerged from bankruptcy, or delay's harm to a municipal administration whose roof is literally crumbling over its head," the city's lawyers said in their request to put the bankruptcy exit plan into action.

On Oct. 30, Judge Klein confirmed a plan from the city that proposed to pay Franklin-managed funds about $4 million for their roughly $37 million claim. Franklin's lawyers said the city can afford to repay more, and they argued that Judge Klein made "several fundamental errors of law" with his decision.

The Franklin Templeton Investments-managed funds are the only creditors to continue to challenge the plan.

The city spent some of the municipal-bond money extended by the Franklin funds on fire stations and parks. The municipality made four interest payments before it missed a payment on March 1, 2012.

Stockton filed for bankruptcy protection in June 2012, with more than $700 million worth of debit, making it the largest city to file for Chapter 9 protection until Detroit's case about a year later.

Stockton, which is about 80 miles inland from San Francisco, was hit hard by the housing crash.

Judge Klein blamed the city's financial woes on former leaders who offered overly generous pay to municipal workers and took on debt for new projects that Stockton couldn't afford.

Throughout the bankruptcy, the city cut costs. Voters also approved a new 3/4 -cent sales tax to pay for more police officers last year.

Stockton leaders didn't try to reduce costs by paying less money into a pension plan administered by the California Public Employees' Retirement System, even though Judge Klein decided that a California city's pensions could indeed be cut using bankruptcy's power.

By Dow Jones Business News

November 28, 2014,

By Katy Stech

Muni Sales Total $27.8 Bln in November, $278 Bln So Far in 2014.

(Reuters) – U.S. municipal bond sales totaled $27.8 billion in November, pushing 11-month volume to $278.3 billion, just 3.3 percent less than the same period in 2013, according to Thomson Reuters data on Wednesday.

November sales of debt by states, cities, schools, hospitals and other issuers in the U.S. municipal bond market was down 20.4 percent from October, but 21.8 percent higher than in November 2013.

Refundings of outstanding bonds so far in 2014 totaled $155.9 billion, outpacing the sale of $122.4 billion of new debt. While the amount of refunded debt was running 1.7 percent over the same period in 2013, new money issuance was down 9 percent, Thomson Reuters reported.

Demand for munis has remained strong with U.S. muni funds reporting net outflows in only six weeks so far this year, according to Lipper, a unit of Thomson Reuters.

(Reporting by Karen Pierog; Editing by Jonathan Oatis)

CHICAGO Wed Nov 26, 2014 11:03am EST

Illinois Fights Court Block of $111 Billion Deficit Fix.

Illinois Attorney General Lisa Madigan is asking the state's top court to reinstate a plan to fix a $111 billion pension deficit, a case that may resonate across the U.S. as governments seek to trim public employee benefits to close budget gaps.

Illinois's pension deficit is the biggest in the U.S. Democratic Governor Pat Quinn signed legislation in 2013 that would save $145 billion over 30 years by cutting cost-of-living increases and raising retirement ages.

Judge John W. Belz in Springfield on Nov. 21 struck down the law, ruling it violated a state constitutional prohibition against reducing public worker retirement benefits.

“The court finds that there is no police power or reserved sovereign power to diminish pension benefits,” Belz wrote, rejecting the state’s arguments to the contrary.

Madigan filed a notice of appeal yesterday.

State constitutions have been invoked elsewhere to try to prevent cuts to public pensions. In Rhode Island, unions settled with the state over pension cuts before their constitutional challenge could be put to the test. In municipal bankruptcy cases in Detroit and California, judges ruled that federal law overrode state bans on cutting pensions.

State Constitutions

Seven states have constitutional provisions that protect public worker pensions, said James Spiotto, a bankruptcy specialist and managing director at Chicago’s Chapman Strategic Advisors LLC, which advises creditors on financial restructuring.

State and local governments must confront the rising costs of retirement benefits before they hurt essential services such as police and fire protection, Spiotto said last week in an e-mail.

Challengers of the Illinois legislation, which included a coalition of public unions and pension plan beneficiaries, received a boost in July when the Illinois Supreme Court disallowed a plan to reduce contributions to retiree health-insurance premiums, citing the same constitutional provision.

Quinn lost a bid for re-election to Republican Bruce Rauner on Nov. 4.

The case is In re Pension Litigation, 2014-MR-000001, Sangamon County, Illinois, Circuit Court (Springfield).

BLOOMBERG

By Andrew Harris Nov 26, 2014 9:01 PM PT

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Fitch: Indiana Toll Road Bankruptcy Not Due to PPP Structure .

Fitch Ratings-New York-17 November 2014: The bankruptcy of the Indiana Toll Road won’t remove the long-term value from the project nor diminish the importance of public-private partnerships (PPP) to US project finance, Fitch Ratings says. As an integral part of the interstate system, the highway is a strong asset serving long-distance markets and carrying high volumes of commercial vehicle traffic. Last week a bankruptcy judge cleared the highway’s consortium to take the project out of Chapter 11.

In our view, in addition to optimistic traffic forecasts, the project was troubled by factors that are specific to its timing and implementation. The project built in a large and aggressive refinancing and was exposed by the depth, timing and slow recovery from the Great Recession. In 2010, traffic on the highway was approximately half the originally projected level, due in part to the high original forecast and significant toll increases. Meanwhile the project also had to contend with rising debt costs.

The highway has several strengths that will benefit it in the future. It provides a major, high-speed interstate connection for automobiles and trucks with limited other options for many trips, which provides inherent economic and financial strength over the long haul. The concession agreement ensures proper asset preservation and distances the state of Indiana from toll increases. However, in Fitch's view the potential political fallout from increases above the inflation rate would be felt by the state, as flexibility for above-inflationary toll increases has been granted contractually to the concessionaire through an index tied to economic growth. Aggressive increases could divert traffic to the state-run network, leading to greater congestion on other routes.

Fitch believes the factors that led to Indiana Toll Road's bankruptcy should not color the prospects for PPPs. The asset is being well run and will be better maintained over its useful life under this framework. However, we believe PPPs must be carefully crafted to address all stakeholder concerns. When structured well, their use can effectively balance the responsibilities and risk among all parties and maximize public benefit. Despite a mixed track record to date, we believe PPPs can be effective if lessons from the past are learned.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Applicable Criteria and Related Research:
Global PPP Lessons Learned

AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Illinois $111 Billion Pension Deficit Fix Struck Down.

Illinois will have to find a new way to fix the worst pension shortfall in the country after a judge struck down a 2013 law that included raising the retirement age as unconstitutional.

Today's decision by state court Judge John Belz in Springfield undoes a signature achievement of outgoing Democratic Governor Pat Quinn and hands responsibility for finding a solution to the state's $111 billion pension deficit to Republican businessman Bruce Rauner, who defeated him in the Nov. 4 election.

State constitutions have been invoked elsewhere to prevent cuts to public pensions. In Rhode Island, unions settled with the state over pension cuts before their constitutional challenge could be put to the test. In bankruptcy cases in Detroit and California, judges ruled that federal law overrode state bans on cutting pensions.

Illinois Attorney General Lisa Madigan, a Democrat, said she'll appeal Belz's ruling and ask the Illinois Supreme Court to fast-track the review.

"Today's ruling is the first step in a process that should ultimately be decided by the Illinois Supreme Court," Rauner said. "It is my hope that the court will take up the case and rule as soon as possible. I look forward to working with the legislature to craft and implement effective, bipartisan pension reform."

Belz ruled a 1970 constitutional provision stating public employee retirement benefits can't be cut, tops the state's claim that it has the power to trim future cost-of-living adjustments and delay retirement eligibility for some workers.

Police Power

"The court finds there is no police power or reserved sovereign power to diminish pension benefits," he said, voiding the legislation in its entirety and permanently barring the state from enforcing any part of it.

The plan to save about $145 billion over 30 years by reducing those adjustments and raising the retirement age for workers 45 and under was set to take effect on June 1 before being put on hold by a court order in May.

Illinois bonds weakened after the ruling. Taxable pension debt maturing in June 2033, the most frequently traded state securities, traded after the decision at a yield of 5.32 percent, compared with an average of 5.26 percent today and 5.3 percent this month, data compiled by Bloomberg show. It's about 2.7 percentage points more than Treasuries.

Arguments Heard

Public worker unions sued over the legislation in January. Belz heard arguments over the pension reform plan yesterday.

The legislation's challengers were buoyed in July by an state Supreme Court ruling that Illinois couldn't cut contributions to government retirees' health insurance premiums, known as other post-employment benefits or OPEB.

"The market may be a little disappointed — between the OPEB ruling and then this one, the new governor is going to have his hands pretty much tied," said Triet Nguyen, a managing director at New York-based NewOak Capital LLC.

The health insurance case stands for the proposition the constitution's shield "absolutely protects pension benefits from any unilateral diminishment and impairment by the state under any circumstance," members of the Illinois State Employees Association, the Retired State Employees Association and others suing to overturn the fix said in an August filing.

On Track

The state argued that it had been "on track" to pay down its unfunded pension liabilities over the next 40 years pursuant to 1994 legislation before being derailed by "a series of adverse events," most significantly the economic downturn that gathered strength in 2007 and 2008, cresting the following year.

"To respond to the severe financial impacts of the Great Recession, the state is fully justified in exercising its reserved sovereign powers to enact modest reductions in future benefit increases for system members," according to an Oct. 3 filing by Madigan.

That argument offers no legal support for the legislation, its challengers said in a June filing.

"The Pension Protection Clause has no exception, regardless of the exigency," they said.

We Are One Illinois, a coalition of public employee unions that sued to overturn the law, today issued as statement applauding Belz's decision.

"The Illinois Constitution means what it says," the coalition said. "The court held today, as our unions have long argued, that the state cannot simply choose to violate the Constitution and diminish or impair retirement benefits if politicians find these commitments inconvenient to keep."

The case is In re Pension Litigation, 2014-MR-000001, Sangamon County, Illinois, Circuit Court (Springfield).

BLOOMBERG

By Andrew Harris and Tim Jones

Nov 21, 2014 1:31 PM PT

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Hawaii Paves the Way with First Green-Energy ABS.

Hawaii has become the first state in the union to tap the securitization market with a US$150m green energy bond, a rare capital markets transaction designed to meet a social purpose.

The two-tranche financing is part of an expansive plan by Hawaii to have 70% of its energy derived from clean or renewable sources by 2030.

To get to these goals, a securitization platform was set up to provide funding to bridge the "divide between those who directly benefit from clean energy technologies and those who cannot," stated a copy of the 2014 legislative order permitting the bond sale and loan program.

"When we did a deeper dive, we found there were haves and have-nots," said Tan Yan Chen, project manager of Hawaii's Green Energy Market Securitization (GEMS) program, a part of the State Department of Business, Economic Development and Tourism, which issued the bonds.

"More wealthy folks do better getting those (solar panel) systems in place," Chen said. "Our target market is (residents), who don't have up-front cash or can't get access to financing."

Initial funding to achieve this goal came from the recently-closed bond sale, which was structured and led by Goldman Sachs.

The trade securitized a roughly US$1.25 flat monthly payment attached to the utility bill of each Hawaiian household that relies on the power grid, according to analysts at Moody's Investors Service.

These monthly payments would flow into a green infrastructure fund run by the State of Hawaii and service interest payments on the ABS.

Both tranches, rated Triple A, were oversubscribed and ended up pricing 10bp–15bp inside of initial talk to offer a blended coupon of less than 3%.

"Investor interest was strong," said Timothy Romer, a managing director and head of Goldman's Western region public sector and infrastructure financing group. The issue sold not only to buyers in the asset-backed world, but also accounts focused on municipal bonds and socially responsible investors, he said.

The bond proceeds will also be put into the green fund that, in turn, is expected to originate 5,000 to 7,000 low-interest loans over a two-year period starting in December to help defray the costs of installing solar panels, Chen at GEMS said.

The trade clearly puts Hawaii ahead, in terms of taking decisive steps to raise money in the asset-backed bond market to meet its green goals, even though a number of US states have also in the past 30 years passed legislation to wean themselves off fossil fuels.

Analysts at Moody's attribute Hawaii's headstart to a combination of its high fuel costs, ample sunshine and political will to promote green energy legislation.

"Much of Hawaii's energy production is based on oil," said Pedro Sancholuz Ruda, assistant vice president at Moody's, who rated the bond issue. "All of this starts because Hawaii passed legislation to achieve its energy efficiency goals."

But other states with energy surcharges of their own have already taken notice, with a few making quiet inquiries with Hawaii about potentially replicating its program, Chen said.

And while Hawaii's latest estimates are that it will need roughly US$30bn in funding to reach its clean energy goals, the latest securitization is a start.

"In terms of raising money, (Hawaii is) just starting to get into the market for that," Chen said. "For the GEMS program, this is the first true effort to start that process in financing."

IFR Asia

19 November 2014 | By Joy Wiltermuth

Notice of Class Action - Industrial Development Authority of the City of Moberly, Missouri.

BIRMINGHAM, Ala.–(BUSINESS WIRE)–If you purchased bonds issued by the Industrial Development Authority of the City of Moberly, Missouri with respect to "Project Sugar" during the period between July 23, 2010, and September 30, 2011, you are a member of a class certified in Cromeans, et al. v. Morgan Keegan & Co., Inc. and Armstrong Teasdale, United States District Court for the Western Division of Missouri, Case No. 2:12-cv-04269.

In July 2010, the Industrial Development Authority ("IDA") of the City of Moberly, Missouri issued municipal bonds in the total amount of $39 million (the "Moberly Bonds") to build a sucralose manufacturing facility in Moberly. The project was sometimes called "Project Sugar" because sucralose is a modified sugar molecule used as an artificial sweetener in products like Splenda. A company called Mamtek U.S. ("Mamtek") was to manage and operate the facility. The lawsuit claims that the Moberly Bonds were sold to Class Members using untrue and misleading statements and omitting certain important facts. Plaintiffs want to cancel their purchases, get their purchase price back, and get compensation, damages, costs, and attorneys' fees. Morgan Keegan and Armstrong Teasdale deny that they engaged in any wrongdoing or caused bond purchasers to lose money. The Court has not ruled on the legal claims and defenses in this lawsuit or decided whether the Plaintiffs are entitled to benefits. Bond purchasers will not benefit unless and until the Plaintiffs are successful at trial and any appeals are resolved in their favor. The case is set for trial on January 12, 2015.

A notice of class action regarding your rights as a member of the class is available here or you can call 1-800-754-9649, or write Moberly Class Action Administrator, Tilghman & Co., P.C., P.O. Box 427, Birmingham, Alabama 35202-0427.

Contacts
Tilghman & Co.
Steve Tilghman, 800-754-9649

November 21, 2014 04:37 PM Eastern Standard Time

Jersey City to Save $2.5M by Refinancing Bonds after Moody's Upgrade.

Jersey City will save more than $2.5 million in future debt service payments after refinancing approximately $68 million in outstanding bonds, city officials announced in a press release today.

The cost-saving maneuver comes on the heels of an announcement earlier this month that financial investors service firm, Moody's, has upgraded Jersey City's municipal bond rating to A1 with stable outlook.

In a statement, Jersey City Mayor Steve Fulop said refinancing the bonds will provide added funds to the city's budget and allow the city to hire additional police officers, firefighters, while improving city parks, infrastructure and recreation opportunities.

"This year, when we crafted our first budget we began looking toward the future to develop a framework and bond refinancing was one of our objectives," Fulop said. "I am pleased we were able to achieve these significant savings for the taxpayers."

Moody's cited the city's "improved financial position" and "rising income levels," while also noting that Jersey City's A1 stable rating is higher than that of the state of New Jersey, which has an A1 negative rating.

The refinancing will save the city $716,652 on a Series 2006 General bond, $804,440 on a Series 2006 Public bond, $76,907 on a Series 2006 Water bond and $902,892 on a Series 2005 School.

According to the Moody's report, the service has assigned an A1 rating with a stable outlook to Jersey City's $34.7 million General Obligation Bonds, Series 2014. Concurrently, Moody's has upgraded Jersey City's underlying general obligation rating to A1 with a stable outlook from A2 with a positive outlook, affecting $833 million of city and city-guaranteed long-term general obligation bonds.

Patrick Villanova | The Jersey Journal

November 24, 2014 at 2:23 PM

University of Cincinnati Is First U.S. Public University to Sell Green Bonds.

During the first week of December, the University of Cincinnati will enter the market to sell approximately $29 million in Green Bonds to fund a portion of the estimated $35 million renovation of campus' Scioto Hall.

This step will make UC the first public university in the United States to bring a Green Bond to market. (The first-ever higher education green bond in the country was by the Massachusetts Institute of Technology in September 2014, when MIT issued refunding bonds to pay off existing debt related to green projects.)

Green Bonds are a relatively new segment of the municipal bond market. A green bond is one in which the proceeds are used to fund environmentally friendly projects, such as ecological construction or projects associated with energy efficiency, clean water, river/habitat restoration and more. Green Bonds were first issued by the World Bank in 2008 as a means to finance environmentally friendly projects and to help stimulate and coordinate public and private sector activity to combat climate change.

The General Receipts Bonds, Series 2014C, that UC will market on or about Dec. 2, meet the definition of a green bond as they will fund the majority of the costs of the Scioto Hall renovation where energy efficiencies and energy recovery system as well as reuse and recycling of materials will be prominently featured in the building's redesign. After it reopens for use in August 2016, Scioto is expected to earn a minimum of Leadership in Energy and Environmental Design (LEED) Silver Certification from the U.S. Green Building Council, as has its "twin" structure, Morgens Hall, which was recently renovated with sustainable features and design.

Including Morgens, seven major buildings at UC are already LEED Gold, LEED Silver or LEED certified.

UC President Santa Ono stated, "The University of Cincinnati was among the first public universities to be recognized by the Princeton Review as a best 'green' school. We continue to expand our commitment to sustainability through our academic master plan and the university's Creating Our Third Century goals. Green bonds are a natural next step in our efforts to foster a deliberate and responsible approach to our environment."

Robert Ambach, UC senior vice president for administration and finance, explained that the university is designating this Series as a Green Bond, as it meets the voluntary, best-practices Green Bond Principles established in January 2014 by environmental finance experts and banks.

He added, "Since sustainability is woven into all aspects of the university in terms of academics, research and extracurricular activities, it only made sense to further extend that to our financing. UC is already nationally recognized for our sustainable energy efficiencies and savings and our high-performance green buildings. That momentum will only continue at UC, and this step is an important milestone in our focus on sustainability.

The University of Cincinnati

Date: 11/24/2014 7:00:00 AM

By: M.B. Reilly

Phone: (513) 556-1824

James A. Lebenthal, Muni Bond Expert, Dies at 86.

James A. Lebenthal, America's best-known municipal bond salesman, who turned the tax-free financial instruments called munis into a household word with radio and television ads dramatizing how ordinary investors built subways, sewers, bridges and schools, died on Friday in Manhattan. He was 86.

He died at New York Hospital a day after suffering a heart attack, said his daughter, Alexandra Lebenthal, who succeeded him in 1995 as head of the family business, Lebenthal & Company.

An irrepressible showman and financial wizard, Mr. Lebenthal (pronounced LAY-ben-thol) was widely regarded as a spokesman for the $3.7 trillion municipal bond industry — both as a commercial pitchman and as a prominent lobbyist who resisted federal efforts to impose taxes on traditionally tax-free munis and restrict bond markets by limiting the amounts of certain bonds issued yearly by each state.

For decades starting in the 1970s, Mr. Lebenthal wrote and starred in commercials that pitched the importance of rebuilding America through public works financed by municipal bonds. With missionary zeal, he went into landfills and subways and posed in front of incinerators, college dormitories and water tunnels to sell the bonds that financed the infrastructure of states and cities.

He also talked on camera with individual investors about why they had bought municipal bonds from Lebenthal & Company. "In showing people who bought the bonds," he said, "I did the same thing as with dog food. You show the dog eating the food."

In a foreword to Mr. Lebenthal's 2006 book, "Confessions of a Municipal Bond Salesman," Paul A. Volcker, a former chairman of the Federal Reserve Board, hailed him for "popping out of sewers, standing in front of the Verrazano Bridge as if he owned it, equating the bonds he sold to the city's bridges, its water supply and, yes, its subways and sewers."

While he was licensed to sell municipal bonds in scores of states, Mr. Lebenthal focused mainly on bonds issued in New York, where his quirky commercials — a mixture of public works evangelism and Wall Street sizzle — were staples of drive-time radio and late-night television.

Mr. Lebenthal went into bonds via Hollywood and Madison Avenue. After he graduated from Princeton in 1949, his first job was covering the movies for Life magazine. Loudon Wainwright, a Life columnist, remembered him as "a bright-eyed, intense young man with so much energy he seemed at times about to ignite and lift off."

He loved to tell stories about being thrown off a movie set by Frank Sinatra or lunching with Humphrey Bogart. He also produced a film for Walt Disney, "Flash, the Teenage Otter," and a short about a tumbleweed blowing across America that was nominated for an Academy Award in 1958. Later he was an advertising copywriter for Ogilvy & Mather and Young & Rubicam.

In 1963, after years of resisting impulses to go into what he regarded as a boring family enterprise, Mr. Lebenthal joined Lebenthal & Company. The company had been founded in 1925 by his parents, and was still being run by his mother. With characteristic energy and a well-honed talent for producing attention-getting advertisements, he threw himself into selling bonds and fighting the larger battles of the industry.

One of his early crusades was a 1967 campaign against federal legislation that would have removed municipal bonds from their tax-exempt status. He argued successfully that the step would have virtually destroyed the municipal bond market, drying up enormous financial resources needed to sustain the infrastructures of states and cities.

In 1975, when New York City was threatened with bankruptcy, he took to the hustings to explain why the city's bonds should not be allowed to fail, forecasting "higher property taxes, more slums, fewer jobs and higher rents."

Mr. Lebenthal was repeatedly the industry's point man in its media campaigns to preserve the tax-free status of municipal bonds. But the Tax Reform Act of 1986 curbed the practice of writing off interest payments on money borrowed to purchase munis, and certain private-purpose bonds became subject to the Alternative Minimum Tax.

Lebenthal & Company went out of business in stages. It was sold in 2001 to the Advest Group, which was acquired in 2005 by Merrill Lynch. Former Mayor David N. Dinkins, who had been a Lebenthal client, called it a sad day.

"When I think of the Lebenthal brand, I think of New York," Mr. Dinkins said. "It's like losing the

Brooklyn Dodgers."

James Avram Lebenthal was born in New York on June 22, 1928, the son of Louis and Sayra Lebenthal. They had founded their business three years earlier in a two-room office on Lower Broadway, selling munis to store owners, Florida retirees and dentists in odd lots of $500 or so at a time when municipal securities were mostly the province of the rich who could afford $100,000 blocks returning lucrative tax-free interest and the time to wait for a full refund of their principal in 20 or 30 years.

He graduated from the Dalton School in 1941, from Phillips Academy Andover in 1945 and from Princeton four years later.

Mr. Lebenthal and his first wife, Jacqueline Beymer, were married in 1961 and had three children: Claudia, James B., and Alexandra. His wife died in 2010. Mr. Lebenthal later married Betty Wright Landreth. He is survived by his second wife, his three children and five grandchildren.

After Mr. Lebenthal's father died in 1951, the company was led by his mother until she retired in 1992 at age 93. Mr. Lebenthal served as president until 1988 and chairman until 1995, and remained as a consultant after his daughter succeeded him. They both left when Merrill Lynch took over in 2005. In 2007, James and Alexandra Lebenthal founded a new Lebenthal & Company, a wealth management and municipal bond firm.

Mr. Lebenthal, who had homes in Manhattan and Pawling, N.Y., was a longtime trustee of the Museum of the City of New York. In addition to "Confessions of a Municipal Bond Salesman" with Bernice Kanner, he was the author of "Jim Lebenthal: Lebenthal on Munis — Straight Talk About Tax Free Municipal Bonds for the Troubled Investor Deciding, 'Yes' or 'No' " (2009).

THE NEW YORK TIMES

By ROBERT D. McFADDEN

NOV. 14, 2014

Emanuel Says He Didn't Do Risky Interest-Rate Swaps, But He's Done Four.

Mayor Rahm Emanuel this week distanced himself from the risky derivatives that are draining funds from the city's school system, declaring: "Under my tenure, there have been no swaps."

But records show the city of Chicago has entered into at least four interest-rate swaps under the Emanuel administration.

The deals brought the city nearly $20 million upfront but will require regular payments for up to 30 years, much like the derivative deals sapping Chicago Public Schools.

The Tribune series "Borrowing Trouble" this month found that CPS' decision to issue $1 billion in auction-rate debt paired with interest-rate swaps will likely cost $100 million more than what the school district would have paid for traditional fixed-rate debt. One draw of those risky deals was the hefty upfront payments that accompanied some swaps.

The Tribune analysis sparked questions from reporters after the City Council meeting Wednesday, and Emanuel was quick to point out that his administration has canceled derivatives the city entered under Mayor Richard M. Daley.

“Under my tenure, there have been no swaps, and we actually terminated nearly about a billion dollars in value of swaps,” he said. “So I’ve been clear about righting the ship going forward.”

Records show that the four swaps entered by the Emanuel administration are linked to existing debt — floating-rate bonds issued in 2003, 2005 and 2007, under Daley. The records obtained by the Tribune show new contracts with new banks, layered on top of existing swaps, in effect creating double swaps on the old debt.

When the Tribune contacted City Hall on Thursday, the mayor’s office described what the Emanuel administration has done as modifications of existing swap deals.

The four swaps entered in December 2011 and February 2012 under Emanuel “are not new swaps,” the mayor’s office said in a statement. “They are modifications to the original underlying swaps, all of which were inherited by this administration.” A spokeswoman for the mayor’s office said the Tribune is “parsing words” by reporting that the Emanuel administration has entered into new swaps.

A letter the city provided to the Tribune in September offers a nuanced assessment of the Emanuel administration’s record. That month, the city’s chief financial officer wrote to union representatives, who have been critical of city and school swaps, that the city has not entered swaps on “additional debt.”

CFO Lois Scott wrote to union representatives that the mayor “halt(ed) the city from entering into any new swaps on additional debt.”

She also wrote: “Mayor Emanuel shares your concerns about the substantial risk and potential cost of these transactions.”

A document showing that the Emanuel administration entered into the four swaps is a listing of the city’s swap deals, titled “City of Chicago Swap Portfolio,” from December 2012. The document was provided to the Tribune months ago in response to a public records request. The city also provided the signed agreement with PNC Bank for one of the February 2012 deals.

Three of the four new swaps increase the unpredictability of the city’s interest payments, experts said. One expert called the new derivatives “speculative.”

“Basically what they wound up doing is speculating on interest rates,” said Matt Fabian, a managing partner at Concord, Mass.-based Municipal Market Advisors. “It might work out well.”

Governments typically use swaps to protect against unpredictable payments — not as a way of betting on interest rates. Under a typical interest-rate swap contract, a bank agrees to pay a government based on a floating rate and the government agrees to pay the bank based on a fixed interest rate.

The government pairs these swaps with floating-rate bonds in hopes that the floating rate coming from the bank will cover the payments owed on the bonds and the only money coming out of the government’s pocket will be the fixed payments on the swap. The 2003, 2005 and 2007 bonds were paired with that type of swap at the time they were issued.

The Emanuel administration layered new swap contracts with different banks on top of the existing swaps, records show. Under the new swaps, the city agreed to pay a second set of banks a floating rate — the same floating rate the city is receiving from the first set of banks — and receive a different floating rate.

But in three of the four cases, the Emanuel administration was trading a more predictable arrangement for a less predictable one, Fabian said.

On those three swaps, the rate the city had received under Daley was linked to a composite variable-rate municipal bond index published by the Securities Industry and Financial Markets Association, a trade group. The SIFMA rate is based on actual government bonds and was a fairly reliable match, experts say, for the interest the city could expect to pay on its debt.

Under the new double-deck swaps created by the Emanuel administration, however, the city is receiving a rate linked to the London Interbank Offered Rate, or Libor, the rate banks charge one another for short-term loans, which can diverge from municipal bond rates, creating a mismatch — called "basis risk" — between what the city gets from banks and what it owes bondholders.

If the Libor-based swap payments exceed what the city owes, the city makes money; if not, the city loses money.

Switching from SIFMA-based swaps to Libor-based swaps increases the possibility of that mismatch, said Andrew Kalotay, whose New York debt management advisory firm advised the city on separate deals.

"Before (the swaps) there's very little basis risk if any," Kalotay said. "After, there's definitely basis risk."

The mayor's office said it took steps to protect against any risk created by the switch from SIFMA to Libor by, for example, negotiating a higher upfront payment. The double-deck swaps Emanuel entered into also typically cost less to get out of than other kinds of swaps, which can be prohibitively expensive to terminate.

By Heather Gillers

Chicago Tribune

Tribune reporters Jason Grotto and Hal Dardick contributed.

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Tougher P3 Rules Adopted by Virginia Transportation Board.

The Virginia Commonwealth Transportation Board on Wednesday adopted strict new rules governing the implementation and oversight of P3s, including the creation of a steering panel of board members and key legislators to review proposed projects.

The new rules will increase transparency throughout the procurement process.

State lawmakers will be involved early and will have a voice in the evaluation and selection of prospective projects. All legislators and the public will be notified of a project's progress from beginning to end and will be notified of the risks early in the process.

Projects receiving a single bid will be revaluated for a re-bid, postponed or built via a conventional contract, according to Virginia Commonwealth Transportation Secretary Aubrey Layne. Should a project's scope change during the process, the selection process will be restarted.

"While a valuable tool to deliver certain projects, the P3 process had to be reformed to draw clear lines of accountability, strengthen competition, increase transparency and public engagement, and minimize the risk to taxpayers," Layne said, reported Bond Buyer.

The rules change comes after former Gov. Bob McDonnell's administration spent $400 million on the Commonwealth Connector before the project broke ground. The P3 project had not yet received environmental clearance.

NCPPP

By Editor

November 13, 2014

Lessons from Kokomo on How to Spend Responsibly.

How the Indiana city that was the center of the auto industry collapse became an unlikely poster child for long-term fiscal sustainability.

There's a debate raging about whether governments should spend more money on economic development and infrastructure, or whether they should cut spending to bring finances under control, a strategy often dubbed "austerity" by critics.

In reality, the two are inseparable. Until you have a firm handle on your finances, you can't afford to invest on any sort of sustainable basis. This is the logic underpinning what Bruce Katz at the Brookings Institution calls "cut to invest." That is, there's no new magic pot of money arriving, so everyone from the federal government to cities needs to make some cuts in order to free up cash to spend on higher-priority items. An unlikely poster child for this philosophy is the small industrial city of Kokomo, Ind. With a population of 57,000 about 45 miles north of Indianapolis, Kokomo made national news as the center of the auto industry collapse, even prompting a visit from President Obama. At its bleakest moment, Kokomo's unemployment rate hit 20 percent and it faced a near-cataclysmic fiscal crisis when bankrupt Chrysler, the city's largest employer, didn't pay its property tax bill.

Fortunately for Kokomo, its plants survived the auto bankruptcies and it weathered the crisis. But the city determined never to return to business as usual; rather, Mayor Greg Goodnight and other leaders embarked on a program of change involving both fiscal restructuring and major investment.

A history of fiscal prudence on the part of past city leadership helped. Foremost, the city had no non-utility debt. It was able to further bolster its tax base by annexing seven square miles — including new freeway interchanges — and 11,000 people from Howard County. But while expanding physically and in population, the city shrank its government payrolls by 20 percent, going from 521 employees to 417. This was done in a variety of ways, including adopting something as simple as single-side-of-the-street garbage collection, which won a Bright Ideas award from Harvard's Ash Center, to more controversial fire department layoffs.

The focus on efficiency has continued as tax revenues recovered, freeing up cash for investment. New spending included reengineering every downtown street from one-way back to two-way, removing all stoplights from the core of downtown, building a high-quality trail system, investing in a $1 million renovation of city hall, creating a new fareless bus system, and erecting a new mixed-use downtown parking garage that includes apartments, a YMCA and two new fire stations — all funded with cash and no debt. Its only borrowing was for a new municipal baseball stadium.

Kokomo can spend money on these items because it took care of fiscal business. Not all debt is bad, but in this case, by mostly resisting the urge to borrow, Kokomo will retain the ability to invest well into the future by not encumbering future cash flow. As a small industrial city, Kokomo still has challenges to be sure, but it appears to be on the right track.

Other cities are in different stages of this process. Consider Los Angeles, which is also making national news, this time for its crumbling infrastructure. The New York Times reported that it faces more than $8 billion in needed repairs just to bring its worst roads, sidewalks and water lines up to par.

Why can't Los Angeles afford to invest in infrastructure? Because it allowed its budget to get out of control. Some blame this on the city's fear of raising taxes, but L.A. is hardly a low-tax haven. Instead, as a report issued earlier by City Administrative Officer Miguel Santana notes, while revenues are anticipated to grow 4.4 percent — faster than national GDP — expenditures have been growing at an even faster rate.

Nevertheless, some progress has been made in Los Angeles. The city's workforce is down 14 percent from peak levels. New pension tiers have been introduced for newly hired workers, and labor negotiators agreed to new employee contributions to pensions and health care. The city has also started rebuilding its reserves.

Los Angeles is certainly far from having solved its fiscal problems, though. Most of these changes were done with the city's back to the wall. It needs to find a way to continue down the path of fiscal responsibility, which means establishing and maintaining control of the budget over the long term, most critically when the immediate crisis passes and there's a cyclical upswing. That's when cities, and states for that matter, often reverse course on fiscal discipline and take out the shovel, digging even deeper holes by granting things such as politically popular but fiscally unsustainable pension promises. Instead, any fiscal improvement either should be banked or devoted to the most important of civic needs, like basic infrastructure fixes and improvements. This won't be easy in a city with such powerful unions. But fixing the budget to enable the investments and maintenance needed to keep L.A. competitive is critical.

So as unlikely a poster child for long-term fiscal sustainability as it may be, Kokomo stands as an example of what long-range and responsible political leadership can mean for the future vibrancy of a city. The city of Los Angeles — and a host of others — could learn a lot from it.

GOVERNING.COM

BY AARON M. RENN | NOVEMBER 2014

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[Can Chicago Ever Dig Itself Out of Its Pension Hole?]

Incoming Chicago Treasurer Kurt Summers is pledging to improve investment returns for the city's pension funds and reduce investment-management fees. Both are worthy goals, but he's the first to admit that they "aren't going to change the kinds of holes we have."

As treasurer, Summers will sit on the boards of all four Chicago pension funds, which are a mess. Combined, they have less than 33 percent of the funds needed to meet pension obligations. Two of them — the police and fire systems — are less than 30 percent funded.

In fiscal 2013, Chicago contributed $476 million toward its pension obligations while it paid out $1.8 billion in benefits. The city's $23.1 billion in total unfunded liability is nearly three times its $7.8 billion in 2013 revenue.

Chicago's pension debacle was largely precipitated by the fact that the payment schedule is determined by the state legislature rather than by complying with Government Accounting Standards Board (GASB) requirements. The state has a long history of exempting itself and Chicago from annual pension-contribution requirements.

According to a recent Pioneer Institute study that I mentioned in my last post here, "It is hard to imagine how Chicago can avoid a full-blown Detroit scenario … within the next 10-15 years unless the city both 1) finds a way to cut existing benefits and obligations and 2) starts contributing substantially more to its pension plans right away."

Under state law, Chicago will be required to more than double that $476 million pension contribution by 2016, and the annual tab is scheduled to continue rising rapidly after that. The city says it can't afford the higher contribution, but even the new payment is barely half of the $2.2 billion payment Chicago should make according to GASB rules.

The city plans to delay increasing its contributions in hopes that the legislature will enact changes to reduce the required payments. But while it's important for the city to take the time needed to craft a comprehensive solution to its pension problem, waiting for state help doesn't make much sense. Illinois faces the biggest pension crisis of any state, with $100 billion of its own unfunded obligations.

To make matters worse, arguments are scheduled for later this month in a legal challenge to the state pension-reform law enacted last December. The Illinois constitution prohibits diminishing or impairing public employees' retirement benefits, but the new state law raises the retirement age, reduces and suspends retiree cost-of-living adjustments, and limits the salaries on which pension benefits are calculated. Ominously, in an unrelated case, the state Supreme Court ruled this summer that retired state workers' health care is a pension benefit that is protected by the state constitution.

The moral of the story is that when you allow something to get as bad as Chicago's pension system has, there rarely are any good options for fixing it. Improving the Chicago pensions' investment performance and reducing fees — though important — will be the least of Kurt Summers' problems.

Together with radical pension contribution increases, the city will need to significantly cut the cost of its existing obligations. If the courts find that such a move runs afoul of the Illinois constitution, Chicago will find itself a long way down the frightening path that leads to becoming the next Detroit.

GOVERNING.COM

BY CHARLES CHIEPPO | NOVEMBER 14, 2014

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California Bond Costs at 2007 Low on Rainy-Day Vote: Muni Credit.

California won its lowest borrowing cost since 2007 in a $1.2 billion sale of general obligations, signaling that investors are rewarding Democratic Governor Jerry Brown's push to bolster the state's finances.

The deal yesterday was California's largest via auction in seven years. It included tax-free bonds maturing in November 2024 that priced to yield 2.4 percent, compared with 2.25 percent for benchmark debt, data compiled by Bloomberg show. The spread of 0.15 percentage point is down from about 0.4 percentage point in October 2013 and the lowest since April 2007, before the financial crisis led the state to resort to IOUs to make ends meet.

Through higher tax rates and a newly bolstered rainy-day reserve that socks away revenue during boom times, California's creditworthiness has improved more than any U.S. state since the recession ended in 2009. The three biggest rating companies have raised it four times in the past two years, including last week's boost by Standard & Poor's to A+, the fifth-highest mark.

"Jerry Brown is pushing through some substantive changes and reform that we think is going to put the state on solid footing for many years to come," said Scott Sprauer, who helps handle a California fund in Princeton, New Jersey, for MacKay Municipal Managers, which oversees $12.2 billion in munis. "They can continue to see increases in credit ratings in the years ahead."

Rating Reward

S&P raised the rating the day after voters re-elected Brown, 76, as governor, and approved a fiscal plan that he championed. The measure sets aside 1.5 percent of general-fund revenue each year into a rainy-day reserve, as well as capital-gains taxes that exceed 8 percent of the fund.

The approach addresses rating companies' criticism that California was failing to put aside money when the economy surged and relying too heavily on volatile capital-gains levies.

The decline in relative borrowing costs underscores the fiscal recovery. As deficits soared in 2009 and California covered expenses with IOUs, investors demanded a record 1.71 percentage points of extra yield to own its 10-year debt instead of AAAs, more than 10 times this week's level.

California's spreads are approaching those from higher-rated states. Ten-year bonds from Florida, graded AAA by S&P, yield 0.14 percentage point more than top-ranked munis, Bloomberg data show. Debt from Washington, graded one step below AAA, yields 0.17 percentage point more than the benchmark.

Crisis Benchmark

"Spreads have gotten to the point where they're almost at the pre-crisis levels," said Jim Noble, who manages a California fund in New York at Principal Global Investors, which oversees $4.5 billion in munis. "It's a lot of tightening in a short period of time."

The pricing looks even better as benchmark rates climb. Ten-year AAA yields rose to 2.26 percent today, the highest since Sept. 23, Bloomberg data show.

California has gone from a $25 billion deficit three years ago to a $3.9 billion surplus going into this fiscal year. Brown boosted spending in the world's eighth-largest economy to a record $156.4 billion this fiscal year while depositing $1.6 billion into a rainy-day fund, the first installment since 2007.

Voters have helped propel California's rebound. In 2012, they approved higher taxes on income and sales to limit cuts to welfare and education.

Valley Payday

The steeper taxes and a resurgent economy fueled by Silicon Valley have plowed $20 billion into the treasury and will produce an additional $24 billion before the sales-tax boost runs out at the end of 2016. The income-tax increase expires two years later.

Since the beginning of the fiscal year in July, revenue has exceeded Brown's projections by 4.5 percent, or $1.2 billion. Brown and lawmakers are also on schedule to pay off half of the $34.7 billion of loans, deferrals and accounting gimmicks used during the last decade to cover deficits.

The tax increase "was the first step that showed Jerry Brown was going to have the ability and political backing to push through measures to really shore up the state," Sprauer said.

California remains the most-indebted U.S. state, with $87 billion of bonds paid from the general fund, more than double a decade ago, according to data from the state. Voters last week approved $7.5 billion of bonds for water infrastructure.

Highlight Reel

Yesterday's deal was in three parts: $630 million of tax-exempt debt for capital investment, $306 million of tax-free refunding bonds and $270 million of taxable securities for new projects. The offering documents highlight the passage of the rainy-day reserve amendment.

The narrower spreads defy a broader weakening in munis as yields climb after an unprecedented streak of gains this year. State and local debt has declined about 0.2 percent this month, on pace for the first monthly loss since December, Bank of America Merrill Lynch data show.

The fiscal gains and demand from residents for tax-free debt offset the market decline, said James Welch at Principal Global. Debt of California issuers has earned about 9 percent this year, compared with 8 percent for the broader municipal market, Barclays Plc data show.

"It seems like a perfect environment for California to come to market," Welch, who manages munis for Principal from New York, said before the deal. "There's clearly appetite."

By Brian Chappatta and Michael B. Marois

Nov 14, 2014 8:20 AM PT

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Detroit Leaves Legacy of Tarnished Pledge for Muni Bond Buyers.

Detroit's bankruptcy exit plan sets the city on a path to fiscal redemption. For the $3.7 trillion municipal market, its legacy may be the tarnishing of a pledge that bond investors have held sacrosanct for decades.

Money managers overseeing more than $300 billion of munis say that with general-obligation holders recouping 74 cents on the dollar or less, the agreement undermines a bedrock assumption: that even distressed cities will make good on debt backed by their full faith and credit. The shift means greater scrutiny of legal protections, particularly as a locality's finances deteriorate.

A bond deal in June to finance lighting in Detroit and an offering last month backed by taxes in junk-rated Atlantic City, New Jersey, highlight the new demands. Both featured trustees for bondholders that would guard the revenue behind the debt in the case of a Chapter 9 bankruptcy.

"Lower-rated G.O.s are risky without a statutory lien on specific dedicated tax revenue," said John Miller, co-head of fixed income in Chicago at Nuveen Asset Management, which oversees $98 billion in munis. In Detroit, "G.O.s took a haircut, and it was bigger than other parts of their cost structure, so they were effectively subordinated."

Debt Detectives

U.S. Bankruptcy Judge Steven Rhodes on Nov. 7 approved Detroit's proposal to eliminate $7 billion of debt, determining the plan is fair and overruling objections of the remaining holdouts. Investors in the $1.1 trillion market for general obligations have monitored the proceedings since the city's July 18, 2013, court filing for signs of how different classes of bonds would fare in bankruptcy.

Holders of unlimited-tax general obligations will get 74 percent of the $388 million they're owed, while limited-tax debt recovers 34 percent of $164 million. The losses overturn investors' assumption that issuers would raise taxes as high as needed to pay the unlimited general-obligation debt.

The levels may not set a precedent for recovery in future cases because the figures emerged from settlements rather than a judge's ruling, Miller said.

The city's success in getting holders of debt tied to property taxes to agree to take less than they were due still alters the repayment equation for investors in lower-rated general obligations, said Chris Alwine at Vanguard Group Inc.

Recovery Risk

"The recovery values are not as high as they once were," said Alwine, who oversees $140 billion as Vanguard's head of munis in Valley Forge, Pennsylvania. "That should factor into wider trading levels for general-obligation bonds if they're at risk of any type of restructuring."

Issuers tied to struggling cities have lured investors with stronger pledges to keep borrowing costs down.

In June, the Michigan Finance Authority sold bonds for the Public Lighting Authority, which is responsible for illuminating the streets of Detroit. Offering documents showed that revenue backing the bonds is dedicated by state law, can't be diverted and is directly deposited with a trustee to pay investors. The debt is graded BBB+ by Fitch Ratings, three steps above junk. It priced in line with an index of BBB revenue bonds, Bloomberg data show, defying speculation the Detroit link would cause it to sell at speculative-grade levels.

Boardwalk Borrowing

Last month, New Jersey’s Casino Reinvestment Development Authority, created in 1984 to boost economic development and jobs in Atlantic City, opted for a similar structure as it issued $241 million of debt. The effort distanced the bonds from the resort town of 40,000, which had its rating cut to one level below investment grade by Moody’s Investors Service this year because of its dependence on gaming.

In the casino deal, New Jersey collects the taxes and the money then flows to a fund held by a trustee for bondholders, according to Fitch, which said the money couldn’t be touched by Atlantic City if it entered bankruptcy.

“In a declining community, you have to look at the legal status and legal structure of how your bonds are secured,” Miller said. “If they’re muddied or unsubstantiated, that presents some risk.”

The other threat to bondholders from Detroit’s exit plan, as well as the one approved in Stockton, California, last month, is how investors are treated relative to retirees.

Employees Favored

Judges in both cases found that protections state lawmakers had given to public-worker pensions don’t apply in bankruptcy because federal law trumps state law. Yet local leaders still fought for plans that favored employees over debt investors.

A key settlement will bring in as much as $816 million from charitable foundations and the state to prop up retirement plans, including police and firefighters. The deal preserved all or most of city workers’ pensions.

By contrast, some investors who settled hold about $1 billion in debt issued by the city in 2006 to bolster its retirement system. Those securities will be canceled, and investors and the insurers that guaranteed the borrowing will get $141 million in new notes and land instead.

The pension-debt holders, including hedge fund managers Aurelius Capital Management LP and and BlueMountain Capital Management LLC, had argued that because they’re being paid less than retired city workers, the plan is unfair. As part of the settlements, they’ve withdrawn those objections.

“Bondholders clearly have to take away that in cases such as these, where there’s municipal-bond debt and pension liabilities both at stake, that bondholders in many cases are going to be junior to pensioners,” said Peter Hayes, who oversees $122 billion as head of munis at New York-based BlackRock Inc. “The lesson is that politics trump law.”

By Brian Chappatta Nov 10, 2014 9:35 AM PT

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Infrastructure Initiatives Receive Widespread Support at the Ballot Box.

Voters across the country showed strong support Tuesday for infrastructure ballot measures.

Water infrastructure in California will receive a $7.5 billion boost after voters approved Proposition 1 Tuesday by 66.8 percent to 33.2 percent, according to the Sacramento Bee. The measure will allow the state to issue bonds to pay for the infrastructure improvements, which come in the midst of a drought that has withered water supplies, imperiled farms and deprived some Californians of reliable drinking water.

Texas voters overwhelmingly approved Proposition 1, an amendment to the state constitution moving money from the state's rainy day fund to the state highway fund, reported the Houston Chronicle. The rainy day fund is underwritten by the severance tax the energy industry pays.

Transportation experts say the amendment will bring an estimated $1.7 billion to Texas' highway fund. The new funds, however, cannot be used to fund toll road projects. If revenue in the state's rainy day fund falls below a set level, money will stop flowing to the highway fund.

Hamilton County, Ohio – home to Cincinnati – will increase sales tax by one-quarter of-one percent to finance the renovation of the historic Union Terminal after 61 percent of voters approved the referendum. The crumbling art deco train station houses the Cincinnati Museum Center.

Before the election, the museum and the city had informally agreed to form a P3 to insulate taxpayers from cost overruns and speed up the timeline for restoring the building.

"We will be the generation that will restore this building and create the legacies and the memories of tomorrow by restoring this iconic building," Museum Center CEO Doug McDonald told supporters on election night, according to WCPO Cincinnati.

Wisconsin voters approved by a 4-to-1 margin a measure preventing state lawmakers from raiding the state transportation fund for other programs. While state lawmakers stopped using transportation funds to close budget gaps in 2011, the amendment will create a firewall protecting transportation funding into the future, reported the Milwaukee Journal-Sentinel.

Maryland voters also approved implementation of a transportation lockbox, according to the Baltimore Sun. Voters approved Question 1, which bans diversions from the state's $4.6 billion transportation trust fund unless the governor declares a fiscal emergency and gets approval from three-fifths of the members in each legislative chamber.

NCPPP

By Editor

November 6, 2014

California's New Rainy Day Fund Rules to Be Closely Watched.

California Gov. Jerry Brown scored a second victory Tuesday night when voters approved his proposal to institutionalize California's savings habits and harness the state's notoriously wild revenue swings.

The measure, Proposition 2, was widely approved — 69 percent of voters cast a yes vote with 99 percent of precincts reporting. It requires lawmakers to set aside 1.5 percent of General Fund revenues each year for the state's budget stabilization fund until the fund reaches a full 10 percent of general fund spending. Unlike the current reserve funding requirement, which can be waived annually by the governor, suspending deposits or making a withdrawal from the fund would require that the governor declare a state of fiscal emergency. Additionally, for the next fifteen years, half of that 1.5 percent will be used to pay off long-term debt so California can balance its need to save with its need to pay down growing liabilities.

California's success with the measure will be closely watched by other states. Not only is the Golden State often a trendsetter for new policy, the notion of rainy day savings is becoming a more popular topic in state and local governments in general. As the economy gains distance from the recession and budgets stabilize, governments are paying attention to the savings funds they raided in 2008 and 2009 and are looking to shore them up again in preparation for the next downturn.

Chris Hoene, executive director of the California Budget Project, said Brown's popularity likely made the difference for California's rainy day fund Tuesday.

"He has managed the state's fiscal health out of the downturn and has received a lot of credit and accolades for that work," Hoene said. "He's now trying to ensure that future leaders will also be good fiscal stewards."

The new savings rules could also help California's credit rating. Ratings agencies have viewed the ballot measure favorably because the state would pay down debt and harness revenue volatility. The savings deposit rule means California will make deposits from excess capital gains revenues in years where revenues exceed 8 percent of all general fund revenue — a way of harnessing that revenue's volatility. From 2004 to 2014, the state exceeded that threshold seven times. The spread has ranged from 10.7 percent of general fund revenue to as low as 3.5 percent. A newly created separate reserve account for education would also benefit from these deposits.

However, ratings agencies have also said the proposition could hurt school district's spending flexibility and some education advocates lobbied against the ballot measure, saying the education funding component is poorly structured. Because of California's complicated rules for education funding, the education reserve fund wouldn't actually start receiving deposits for several years. The parent-led group Educate our State ran an opposition campaign warning that the amendment would essentially allow the state to "save money on the back of public education funding."

Katherine Welch, a board member for the group, told the San Jose Mercury News early Wednesday the plan was too rigid for schools. "We never thought that we were going to defeat this," she said. "Our goal always has been to raise awareness about how Sacramento continues to take money away from kids."

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 5, 2014

Detroit Comeback Hangs on Repairing Rickety Municipal Government.

Detroit's recovery from bankruptcy and a half-century of decay depends on whether it can squeeze out $840 million in savings and new revenue by making government more efficient.

Of the $1.7 billion allocated by Emergency Manager Kevyn Orr's court-approved plan, almost half must come from improving operations in a community where police lack computers, commuters lack buses and 80,000 buildings lack residents.

The ability to make the investment and achieve the savings during the next nine years is "the key to Detroit's future viability," said Charles Moore, an adviser to Orr, who helped draft the recovery program.

Orr's plan will test whether the biggest U.S. municipal bankruptcy can transform Michigan's most populous city into place where families and businesses move instead of flee. The money it provides may change the fate of a place once synonymous with American industrial might, and chart a path for other distressed cities.

Thirty-eight U.S. municipal bankruptcies were filed since 2010, mostly for special purpose and public-benefit corporations, according to Governing magazine. Eight were entire cities or counties, including California's Stockton and San Bernardino, and Jefferson County, Alabama.

Emptied Out

Stephen Eide, a senior fellow at New York's Manhattan Institute for Policy Research, which advocates less government spending, said Detroit will spur debate about the wisdom of using bankruptcy to heal a community.

"What will Detroit look like in two or three years?" he said. "If it's a smashing success, other cities are going to look at this and say, 'If Detroit got through this, maybe we can, too.'"

"This better come to something. What else can you try?"

Detroit, a former capital of auto-building and magnet for Southern blacks seeking a more dignified life, once had almost 2 million residents. Its 139 square miles (360 square kilometers) hold fewer than 700,000 now, according to the U.S. census.

The desolation has created ghostly neighborhoods, with rare occupied houses surrounded by ranks of hulks and nature making an inexorable return. Still, vibrant areas remain, and a new hockey arena and entertainment district are planned.

"We can transform the city and you can see clear progress in the restoration of downtown, the entrepreneurs who are flocking here, the massive building projects getting underway," Mary Barra, chief executive officer of Detroit-based General Motors Co. (GM), said in a news release.

First Things

Yet unless the city can increase and stabilize revenue, a new insolvency lies ahead, said Peter Hammer, a Wayne State University law professor. He said bankruptcy couldn't address the roots of the situation, such as racial divisions that left the city with a poorer population that's 83 percent black and isolated from wealthier suburbs.

"There was never anything in the process that would lead to anything other than ratcheting down city services," Hammer said of the bankruptcy exit plan. "Nothing in here gets you a tax base."

Swift approval became a paramount goal, rather than planning for revitalization, Eide said.

“Detroit tried to launch a pre-emptive strike and put a time limit on the process,” he said. “It was more motivated to do so because of its size and the level of contentiousness. There were huge risks that it could take forever.”

Duggan’s Challenge

Orr, appointed by Republican Governor Rick Snyder in March 2013 with sweeping power for municipal affairs, worked under an 18-month deadline before the city council could remove him. That occurred in September, when the council and Mayor Mike Duggan made Orr responsible for management only of the bankruptcy.

Duggan, now in charge of making Detroit run, must implement the restructuring.

Orr’s plan calls for spending $420 million on blight removal, an additional $252 million for police and $158 million more for the fire department.

It also requires $358 million in savings, $148 million to be squeezed from the police and fire departments. The plan also assumes $483 million in additional revenue from such sources as court and parking fees, fire-inspection payments, improved tax collections and federal grants.

Without that money, Detroit’s recovery will be fragile because it must pay its remaining debts first, consultant Moore said in an interview.

Helping Hands

He said Detroit must overcome a legacy of dysfunction that culminated in the 2013 conviction of former Mayor Kwame Kilpatrick on federal corruption charges. Kilpatrick’s administration borrowed $1.4 billion to bolster pensions, which backfired when an interest-swaps agreement went sour and added to a crushing $18 billion debt.

Moore said he was stunned to discover how degraded municipal functions had become and how many employees were untrained for their jobs.

“The city’s ability to improve services will be determined by the caliber of people that report to the mayor,” Moore said.

Last year, the city received $8 million from businesses to buy 100 patrol cars and 23 ambulances. The city is due to receive 50 new buses, paid for with a federal grant.

Leaner Force

Orr’s plan will nonetheless leave Detroit with second-class services, said Hammer, the Wayne State professor.

“What you have here is the stripping away of any notion that a city the size of Detroit should provide any social services,” he said. “The city will have a zoning and planning function, a police department, a fire department, and they will take out exit financing and spend a half-billion dollars on a bulldozer department to knock down abandoned buildings.”

Under Orr’s plan, the city will hire about 800 people to bump its work force to around 10,000, Moore said. That’s fewer than the 12,000 of a few years ago, though they will have better technology and training, Moore said.

“The services the city provides will be substantially improved,” Moore said.

Such an overhaul wouldn’t be possible without an emergency manager and the state law that empowered him, Moore said.

“Often, politicians don’t want to solve tomorrow’s problem today, since they tend not to be rewarded for it,” he said. “Having an emergency law, where a nonpolitician gets put in place and can make the right decisions, really helps.”

BLOOMBERG

By Chris Christoff

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Detroit Bankruptcy Plan Approval Opens Way for Revival.

Detroit won approval of a debt-cutting plan that backers say will allow the hub of the U.S. auto industry to exit its record $18 billion municipal bankruptcy and rebuild after decades of population decline and industrial decay.

The plan to eliminate $7 billion in debt is the only way to remedy the city’s failure to provide adequate services like police and fire protection, U.S. Bankruptcy Judge Steven Rhodes said in court yesterday in granting approval.

“A large number of people in this city are suffering real hardships,” Rhodes said. “It is inhumane and intolerable.”

Don’t Call It Motor City Anymore

With a $1.7 billion revitalization plan that taps into savings from newly eliminated debt, Detroit has enlisted charities, creditors and billionaires such as Quicken Loans Inc. founder Dan Gilbert to help rebuild, eliminate blight and prop up a beleaguered pension system. To succeed, the city must address deeper roots of its decline, said Erik Gordon, a professor at the University of Michigan Ross School of Business.

“Detroit has a new start in terms of debt relief that can quickly go sour if it doesn’t fix the underlying causes of the debt pile-up,” Gordon said before yesterday’s hearing. “A thousand young people moving into center-city apartments won’t support the cost of serving 500,000 other Detroiters.”

The city, once the nation’s fifth largest, filed for protection from creditors in July 2013 after years of decline. Since the 1950s, it has lost more than half its population amid racial strife and as the automobile industry moved jobs overseas.

Pension Hole

Long-term slippage in Detroit's finances gathered speed after 2006, when the city borrowed about $1.4 billion to fill a hole in its pension system. That debt and a drop in tax revenue eventually pushed the city into insolvency.

Last year, Michigan Governor Rick Snyder, a Republican, announced the appointment of Kevyn Orr as emergency financial manager to take over Detroit and solve its financial woes. His task was to find ways to finance everything from streetlights to ambulances, while cleaning up dilapidated neighborhoods.

Orr, a bankruptcy attorney who had once been a Democratic political appointee in the U.S. Justice Department, led a team of advisers from his former law firm, Jones Day, and financial consultants including Kenneth Buckfire, co-president of Miller Buckfire & Co. Amid public protests, Orr shepherded Detroit into court protection, where he negotiated cuts with pension systems, labor unions, hedge funds and bond insurers.

Creditor Groups

All major creditor groups eventually agreed to accept less than they were owed, in some cases just pennies on the dollar.

"I know we would not be standing here today" without Orr's work, Snyder said at a press conference yesterday after Rhodes ruled.

The ruling followed a two-month trial on the fairness and feasibility of Orr's plan, during which Rhodes heard from investment bankers, a court-appointed financial expert, the mayor and city workers. Yesterday, he called the plan an "ideal model" for other distressed municipalities.

Key to the plan is the so-called Grand Bargain, which will bring in as much as $816 million from charitable foundations and the state to prop up pension systems for retirees including police and firefighters.

In exchange, the city has agreed not to use its art collection to pay debts owed to unsecured creditors, including bond investors. Some investors and insurers bridled at the accord, saying it unfairly put the interests of public workers and civic boosters ahead of their claims.

Preserves Pensions

"The cornerstone of the plan is the Grand Bargain," Rhodes said. The deal, which preserves all or most of city workers' pensions, "borders on the miraculous," he added.

Detroit will use newly available money to fund about $1.7 billion in restructuring programs. In 10 years, it plans to spend $440 million on blight remediation and $439 million on police and fire protection.

Detroit has proposed borrowing as much as $325 million in exit financing to bankroll its emergence from bankruptcy.

Martha Kopacz, of Phoenix Management Services, told Rhodes that the plan was likely to succeed. Rhodes hired Kopacz to review the proposal and offer an opinion on whether it was feasible, a requirement of the U.S. Bankruptcy Code.

Detroit Mayor

Much of the rebuilding burden will fall on Mayor Mike Duggan, who took office in the middle of the case. The 56-year-old Democrat told Rhodes during the trial that Detroit has recruited top municipal and corporate executives to help carry out the changes.

Among those partnering with Duggan will be some of the bond investors and insurers who fought the city in court before settling during confidential mediation.

Financial Guaranty Insurance Co. will indirectly own and pay to redevelop the riverfront site of Joe Louis Arena, which will be demolished in 2017 when a new arena opens a mile away. FGIC will also get a share of $141.4 million in new notes.

A group of creditors including Aurelius Capital Management LP and BlueMountain Capital Management LLC, owed about $1.1 billion, will be in charge of building a hotel and retail space in a downtown that civic leaders view as a linchpin of economic recovery.

Rhodes said the deals were vital because they eliminated potential lawsuits that could disrupt the revitalization effort.

“For the city, the stakes in any of the creditor litigation were high,” Rhodes said. “Even a single loss to any creditor would compromise its goals in this case.”

Gilbert, Penske

Gilbert and fellow billionaire Roger Penske, both of whom have invested in the city, testified in favor of the plan.

Gilbert headed a task force on blight, which studied ways to clean up some of the most run-down neighborhoods. Gilbert-affiliated ventures own more than 60 buildings in downtown Detroit with more than 9 million square feet of space.

Penske, a former auto racer, compared the city to General Motors Co. (GM) — the automotive giant that went through a government bailout and reorganization in 2009 — saying bankruptcy has a “cleansing effect.”

The bankruptcy case cost taxpayers more than $132 million in fees for legal, financial and restructuring advisers, according to a September report from the city.

Jefferson County

That’s more than the second-biggest U.S. municipal bankruptcy, involving Jefferson County, Alabama, which listed more than $4.2 billion in debt when it filed in 2011. That case ended last year.

Ken Klee, the lead bankruptcy attorney for Jefferson County, called confirmation of Detroit’s plan “an historic event.” Still, he said, questions remain about whether the city’s “underlying economic challenges have been addressed.”

“The benefits to Detroit of confirming its plan are enormous, but the cost of the case was quite high,” he said in an interview.

Rhodes had a simpler message for city officials as the case concluded.

“Please make me right,” he said.

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

BLOOMBERG

By Steven Church

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Puerto Rico Sales-Tax Switch Leaves Muni Buyers in Dark.

Investors holding Puerto Rico's $15 billion of sales-tax bonds, the struggling island's main financing tool since 2006, are being left in the dark as officials work to expand the levy.

Officials are looking to swap a 7 percent sales tax for a value-added levy at each phase of a product's distribution, part of a strategy to cut personal and corporate-income taxes, the commonwealth's Government Development Bank said on an Oct. 30 investor call. The changes are intended to boost revenue and an economy that's struggled to grow for almost nine years.

Although the bonds account for 20 percent of the island's debt, lawmakers haven't filed a bill outlining potential changes, and the GDB hasn't released the rate for the new levy or an estimate of how much revenue it would generate. Investors want more details before buying or selling, said Robert Amodeo, who helps oversee $30 billion at Western Asset Management Co.

"There's not a lot of selling pressure, but there's really no one stepping up to buy it either," said Amodeo, head of munis in New York. "There's just not enough information in the market to take a strong position."

Cofina Reliance

Slowing issuance across the $3.7 trillion municipal market is also making bondholders reluctant to reduce holdings. Puerto Rico has relied on the sales-tax bonds, known by the Spanish acronym Cofina, since lawmakers implemented the levy in 2006. The debt's credit ratings are higher than the island's general-obligation grade.

Borrowings from Puerto Rico, which are tax-exempt nationwide, have traded at distressed levels for more than a year on concern that the commonwealth and its agencies won't be able to repay $73 billion of debt.

An index tracking the economy has shrunk by about 19 percent since July 2005, according to the GDB. Standard & Poor's said in a release today that it may lower Puerto Rico's rating again in the coming year if a weakening economy causes a "significant" budget deficit.

The territory's securities have lured hedge funds seeking junk yields, helping Puerto Rico beat the bonds of all but one U.S. state. Securities from the commonwealth have gained about 12 this year, beating the broader market’s 8 percent advance, according to Barclays Plc data. Only South Dakota’s 14 percent return is better among states.

Junk Drop

Ratings companies dropped Puerto Rico to speculative grade in February. After lawmakers passed legislation in June that would allow certain public agencies — excluding Cofina debt — to ask bondholders to take a loss, Moody’s Investors Service and Fitch Ratings also cut the sales-tax bonds to junk.

Moody’s and Fitch rate senior Cofina debt three steps below investment grade. S&P ranks the credit two steps above junk.

The commonwealth is allowed to replace the tax receipts securing the bonds with a different revenue stream, according to bond documents. Yet it’s rare in the municipal market for obligors to switch the pledge behind so much debt, said Bob Donahue, managing director at Concord, Massachusetts-based research firm Municipal Market Advisors.

“I can’t think of too many bonds — especially ones with $15 billion outstanding — that have gone through such a massive restructuring of the security pledge,” he said.

No Hiding

Any changes to the tax would protect the Cofina revenue and pledge, Melba Acosta, GDB’s president, said on the Oct. 30 call. Puerto Rico expects to collect $1.4 billion of sales-tax receipts in the year through June 2015. The first $670 million goes toward debt service, with the remainder flowing to the general fund.

Receipts would probably increase with a value-added tax, based on modeling by KPMG LLP, because the levy would be imposed at each stage of production and distribution, Acosta said in an e-mail.

The new approach “is expected to generate significantly more revenue than is currently generated by the current sales and use tax,” Acosta said in the e-mail.

Investors agree. A value-added tax on distributors and suppliers should boost revenue by reducing evasion, Amodeo and Donahue said.

“You’re not hitting Mom and Pop at the end of the chain,” Donahue said. “You’re hitting the companies and they can only hide so much.”

Broader Base

Retailers that don’t impose the sales tax or fail to report receipts reduce the government’s revenue. The tax’s collection rate has historically been about 60 percent, according to Moody’s. Puerto Rico last year budgeted a capture rate of 88 percent on highly regulated companies and 68 percent for other businesses, S&P said in an October 2013 report.

“If it broadens the goods and services that are subject to the tax that pays the bonds, that should be a positive,” said Bill Black, who manages Invesco Ltd.’s $7.3 billion High Yield Municipal Fund in Oakbrook Terrace, Illinois.

That optimism has yet to filter through to trading.

The most actively traded Cofinas in the past week, securities maturing in August 2046, changed hands today at an average price of about 80 cents on the dollar, to yield about 6.5 percent, or 3.5 percentage points above benchmark munis, data compiled by Bloomberg show. The price is below the 2014 peak of 87.3 cents on May 23.

Without knowing the new tax rate and estimated receipts, it's difficult for investors to decide on the bonds, Black said.

"It does certainly make us cautious about either adding or reducing our position," Black said. "We just don't have enough information."

BLOOMBERG

By Michelle Kaske

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With Bankruptcy Ending, Detroit Hears Warnings Not to Make Same Mistakes.

DETROIT—The judge who approved the city of Detroit's debt-slashing plan Friday warned officials not to make some of the same missteps that led to the nation's largest municipal bankruptcy case.

"What happened in Detroit must never happen again," U.S. Bankruptcy Judge Steven Rhodes said in a federal courtroom in downtown Detroit.

In his closing remarks after delivering a two-hour-plus oral opinion, Judge Rhodes made direct pleas to Michigan's governor, organized labor, city officials and the 688,000 people who call Detroit home. Judge Rhodes is expected to hold a hearing next week to set in place the final details of ending the bankruptcy case, including review of more than $140 million in fees.

The judge in his remarks Friday called on Michigan's governor to appoint highly qualified officials to a new financial oversight commission over the city's balance sheet. Judge Rhodes also expressed sharp concern about a potential conflict of interest on the commission, which allows the city's mayor and city council president to appoint themselves to the nine-member board.

But afterward, Detroit Mayor Mike Duggan defended the move, saying it had been approved by the state legislature and didn't pose a risk to the implementation of the city's restructuring plan. "He's going to find those concerns misplaced," the mayor said of the judge's misgivings.

The confirmation of the city's massive restructuring plan came more than 15 months after the city filed for Chapter 9 bankruptcy protection amid population loss, spiraling debt, and rising pension and health-care costs that forced the city into insolvency. The city earlier reached settlements with all of its major creditors. Some smaller creditors are still holding out and may appeal.

Relying on settlements that affect more than 100,000 creditors, the city's complex financial restructuring plan is legally reasonable, fair and equitable, the judge ruled.

He also said he heard and saw the deep anger and resentment of Detroit residents who felt as though their democratic rights had been trampled by a governor-appointed emergency manager who put the city into bankruptcy court in July 2013.

"I heard you. I urge you not to forget your anger," Judge Rhodes said, adding that anger should be transformed into constructive energy to help the city thrive again.

"We give it back to you with a fresh start," he told the city's elected leaders. "We hope we helped."

The city's restructuring road map calls for trimming $7 billion, or more than one-third of Detroit's estimated long-term debt, from its balance sheet. It was a rare milestone decision for cash-strapped cities, even among those that have sought bankruptcy protection.

The ruling however won't translate into a completely independent city. For at least the next dozen years, a new financial-oversight board will monitor the city's finances, with others watching its pension-fund investments.

"To put it simply, Detroit has a bright future," Republican Michigan Gov. Rick Snyder said at a news conference following the ruling. But "we have more work to be done" to improve the quality of life in the city.

Under the governor's direction, the city sought Chapter 9 bankruptcy protection on July 18, 2013, marking the nation's largest such filing. With the approval of the city's restructuring plan, Judge Rhodes is likely to issue a confirmation order within weeks, freeing the city from bankruptcy court.

Detroit's bankruptcy filing initially roiled unions and some financial groups after the city attempted to cut pensions sharply and restructure its municipal debt. But unions and pension groups dropped their legal fight after foundations and the state of Michigan stepped in to help make up shortfalls.

"While it has been a fast-track process through bankruptcy, it has not been painless," the city's pension trustees for police and firefighters said in a statement Friday. "It was an emotional, frustrating and expensive process that will help the city of Detroit shed billions in debt."

When Detroit made its bankruptcy filing, there were some concerns that banks and municipal bond investors might be reluctant to keep extending credit to shaky cities if Detroit was able to get out of certain deals that are generally considered rock solid in the financial world. But settlements with banks and bond insurers failed to upend the nation's $3.7 trillion municipal-bond market and significantly impair financing for other U.S. states and cities.

Still, some argue that Detroit could have trouble borrowing in the future, while others say the overall cost of municipal borrowing could grow since pension holders got a better deal than unsecured bondholders.

"Pension benefits were impaired, but recovery was higher than most other unsecured creditors," Moody's said in a report Friday. "The widely disparate treatment for unsecured creditors…leaves investors with more questions than answers for future bankruptcy cases."

The rating agency said that with the "absence of clear court opinions on the strength of each pledge, investors will therefore be more likely to negotiate with distressed cities in the future."

Municipal bankruptcies are still rare, and Detroit's trip through court was especially speedy. Late last month, the federal judge overseeing the two-year-long bankruptcy of Stockton, Calif., ruled that the distressed city can exit court protection without deeper cuts to its pension obligations.

Skeptics of the city's ride through bankruptcy court over 15 months say the exit plan doesn't ensure residents will return to Detroit or businesses will thrive.

"The Chapter 9 route has proven costly for Detroit, as it has for so many others, and its effectiveness at righting its ship upon emergence from bankruptcy remains in question," Standard & Poor's analyst Jane Ridley wrote Friday. "As Detroit enters postbankruptcy, it will be challenged to generate cost savings through operational restructuring while addressing a backlog of infrastructure and other needs."

She added that it will "still likely be difficult for the city to continue making the kinds of changes that will lead to the cost savings it needs to be operationally balanced."

On the plus side for advocates in the Detroit case, the bankruptcy plan scrapes roughly $7 billion of debt off the city's books but largely protects pensions, while reinvesting $1.7 billion in long-neglected city services.

One of the Detroit's most valuable assets, Detroit Institute of Arts, is leaving city hands, placed essentially into a separate trust through pledges equivalent to $816 million from foundations, corporations and the state of Michigan in an agreement known as the grand bargain.

The city's remaining debt load makes for little room for missteps, according to the court-appointed expert who cautiously endorsed the plan. The city's plan calls for borrowing $275 million in exit financing.

In the city's first months under bankruptcy protection, Mr. Orr proposed sharp cuts to city creditors. He wouldn't rule out asset sales, including the city-owned DIA. He said pension holders wouldn't be protected by state constitutional pension guarantees, and other bondholders could get as little as 10% of what the city owed them.

In the end, many creditors fared much better. Pension holders could see almost a full recovery under some scenarios, while some bondholders are expected to receive as much as 75% of the amount due.

Bond insurers hit the hardest settled for a combination of cash and city real- estate options that turned them from opponents of the city's reinvestment plan into partners in the city's renewal.

Since its bankruptcy filing, the city has shown signs of improvement, but enormous challenges remain. The city remains one of the nation's poorest and most unsafe. Neighborhoods outside Detroit's central core are beset by joblessness, unused vacant land and underperforming schools.

About 10 miles northwest of the federal courthouse where the city's future was mapped out, Ronda Morrison said she was both optimistic and cautious about what the years ahead held for her city. A lifelong Detroiter, Ms. Morrison inherited her father's shoe repair business and was determined to keep it going on Livernois Avenue, despite moving herself from her neighborhood home in north Detroit to downtown three years ago over safety concerns.

"We have two Detroits here. One works, and one doesn't," she said of the divide between a revived downtown and struggling outer neighborhoods. "I know we'll be turning around when you can feel it everywhere."

THE WALL STREET JOURNAL

By MATTHEW DOLAN

Nov. 7, 2014 6:21 p.m. ET

Write to Matthew Dolan at matthew.dolan@wsj.com

Finding $816 Million, and Fast, to Save Detroit.

DETROIT — Late one afternoon last November, leaders of some of the nation's top foundations were invited into a private meeting in a courthouse conference room here as Judge Gerald E. Rosen, the appointed mediator in this city's federal bankruptcy case, made an unheard-of request.

He wanted the philanthropic groups, some with ties to the city, to help rescue Detroit from bankruptcy by donating hundreds of millions of dollars to spare retirees from deeper pension cuts and protect the city's famed art collection.

The pitch went on for about three hours.

"My initial reaction was, this is a crazy idea," Darren Walker, the president of the Ford Foundation, remembered thinking as he listened that afternoon. "Eight hundred million dollars from a group of foundations? I thought it was rather over the top in its boldness," Mr. Walker said, adding of the mood in the room: "I think there was a collective gulp."

At the center of Detroit's swift exit on Friday from the nation's largest-ever municipal bankruptcy is a $816 million deal that has come to be known as "the grand bargain," an improbable arrangement hashed out in many months of behind-the-scenes negotiations with foundations, the State of Michigan and the Detroit Institute of Arts.

Mediation in the bankruptcy case was private, with participants bound to court-ordered confidentiality rules, but new details give a glimpse at how the bargain came together despite early uncertainty from foundations, headwinds in the state's Legislature, and vehement objections from some financial creditors who initially argued that the deal was unfair and improper.

The significance of the deal became clear on Friday as Judge Steven W. Rhodes of the United States Bankruptcy Court for the Eastern District of Michigan accepted Detroit's plan to leave bankruptcy after less than 16 months, allowing the city to shed $7 billion in debt and to invest about $1.7 billion into long-neglected services and repairs.

To reach this moment, retired general municipal workers had to agree to 4.5 percent cuts to their monthly pension checks, an end to cost-of-living increases, higher health care costs and a mandatory forfeiture of previous payments from the pension system that were deemed improper. Retired police officers and firefighters accepted smaller reductions. And, in an exit plan that was more a stack of negotiated and interconnected settlements than a court-ordered antidote, other creditors agreed to accept pennies on the dollar for their loans to the city.

But at the base of all those settlements was the grand bargain, which, in addition to preserving the museum's vaunted collection, allowed Detroit to grant all of its retirees a better deal than first expected. The arrangement moves the art collection into a private trust that is bankruptcy-proof, while the money from foundations, museum donors and the state goes to the pension plans over the next two decades.

“This is really different,” said Joel L. Fleishman, a professor of law and public policy at Duke University and an expert on nonprofit groups. “In terms of foundation giving, there is nothing comparable to the scale or purpose of this. There are plenty of examples to point to of foundations getting together on an issue, but I don’t know of a single example of an effort to come in and save a city from bankruptcy.”

While the bargain was widely praised among leaders here, including Judge Rhodes, it has also raised questions for some critics. With top foundations sending such large grants to Detroit, will there be less to give to other, smaller programs? And will other financially troubled cities now turn to foundations for answers to their problems, too?

The idea began with Judge Rosen, who is also the chief United States judge for the Eastern District of Michigan and who was appointed by Judge Rhodes, the federal bankruptcy judge in the case, to lead a team of mediators seeking settlements between the city and its many creditors.

The city’s problems were enormous — $18 billion in debts, miserable services and annual deficits. But two problems were among the most sensitive. City retirees, many of them barely getting by, were looking at significant cuts. And creditors seemed to be circling around the Detroit Institute of Arts, founded in 1885, with its widely respected collection of treasures by van Gogh, Matisse and others that some creditors argued should be sold to help pay off the city’s debts.

So for the mediators, the thought of solving both problems in a single swoop was tantalizing.

Not long after the city filed for bankruptcy in July 2013, Judge Rosen had jotted a note to himself — one some involved now point to as a historic document — with the words “state,” “art” and “pensions” and arrows between them.

Along the way, leaders of the museum agreed to raise $100 million from its donors. Those involved in talks said a smaller sum had been discussed until museum leaders got a personal request from Gov. Rick Snyder.

The state, too, was asked to provide $350 million over 20 years — a prospect that initially was met with skepticism from a Republican-held State Legislature, resistant to suggestions of a bailout for troubled Detroit.

In weeks of private conversations, though, one provision helped. As part of the deal, the state would be ensured oversight of Detroit’s finances even after bankruptcy by a commission including state appointees. Another factor also helped convince lawmakers: By the time the Legislature approved giving state money in June, the foundations had already pledged $366 million — surprising many, even themselves.

In the fall of 2013, Mariam Noland, the president of the Detroit-based Community Foundation for Southeast Michigan, ran into Judge Rosen in a deli near the courthouse. She said she had heard that he was working on the city’s bankruptcy case, and offered, somewhat offhandedly, her help. Not long after, Judge Rosen called. He asked her to call foundation leaders and invite them to Detroit for a meeting.

At first, Ms. Noland had doubts. “They needed a lot — and fast,” she recalled, referring to Detroit. “And those two things together don’t normally happen with foundations.”

In truth, when more than a dozen foundation leaders met with the mediators in the courthouse conference room, most seemed to have doubts.

But after the insistent pleas from Judge Rosen, the mood began to change. And after a dinner that followed with a smaller group at Ms. Noland's home, some came away convinced that Detroit needed their help.

Alberto Ibargüen, the president and chief executive officer of the John S. and James L. Knight Foundation, remembered driving Mr. Walker, who had been named president of the Ford Foundation only months earlier, back to his hotel that night.

For this to work, he remembered Mr. Walker saying, the Ford Foundation would need to "come in big."

"I said if you do $100 million, we should give $20 million," Mr. Ibargüen remembered telling Mr. Walker. "He said, 'I think we have a beginning of a deal.' "

To the boards of most of the foundations, the concept was peculiar. There was no program for a bankrupt city. And for Ford, based in New York, and Knight, based in Miami, Detroit's problems were remote. Yet, the Ford Foundation had its roots in Michigan, established in 1936 by the family that founded the Ford Motor Company.

And the Knight Foundation had ties to Detroit, too, one of the cities where family members had owned newspapers.

In a matter of months, Ford had pledged $125 million, the Knight Foundation $30 million, and the Kresge Foundation, which is based in Michigan, $100 million. And nine other foundations have pledged other sums.

"There are often skeptics who have given up on American cities," Mr. Walker said not long ago. "And this is a big mistake. We can't give up on our cities."

THE NEW YORK TIMES

By MONICA DAVEY

NOV. 7, 2014

NYT: 'Grand Bargain' Saves the Detroit Institute of Arts.

DETROIT — With his decision on Friday approving this city's federal bankruptcy plan, Judge Steven W. Rhodes — aided by nearly a billion dollars in private and state rescue money — ended an unprecedented threat to the Detroit Institute of Arts, whose world-class paintings and sculpture could have been parceled off at auction to help pay city debt.

Yet, in a very real sense, the ruling ends a threat to the museum's existence that stretches back not just two years, when the city began to tumble toward insolvency, but almost a century, to 1919. That was the year the donation-starved institute became a municipal department, linking its fortunes to those of a city whose finances would be highly unstable.

A plan to save the collection from sale — which came together over the last several months and is being called “the grand bargain” — raised more than $800 million from foundations, private donors and the State of Michigan essentially to ransom the museum from city ownership. The bargain provided the money to help save public workers’ pensions, as long as the museum was protected and owned by an independent charitable trust, as are most large American museums.

“It’s a wonderful feeling to know we’re not going to be under city ownership any longer,” said Annmarie Erickson, the museum’s chief operating officer. “There were times over the years when even members of our own board would say, ‘Why don’t we sell a piece of art to put a scab on our financial wounds.’ And you know that if your own board members come to that, you’ve been in deep trouble for a long time.”

Within months, or possibly weeks, the institute’s officials said, ownership of its Beaux-Arts building and collection will be transferred to a trust. And with the approval in 2012 by three surrounding counties of a tax to help pay for operations, the museum is on its soundest financial footing in many years.

But it is nonetheless emerging from the bankruptcy deeply wounded. It had to spend what Ms. Erickson, in an interview, would characterize only as “several million dollars” on lawyers who were prepared to defend the collection in court, and on arrangements for appraisals by Christie’s auction house and others that put price tags on paintings as the city’s creditors clamored for them to be sold. The museum’s fund-raising for its operating endowment — which stands at $119 million, far below that of other museums its size, with about $71 million more for acquisitions — was suspended during the bankruptcy threat. And because the museum itself was required to raise almost $100 million as its part of the “grand bargain,” it now faces many benefactors who have dug deeper into their pockets than ever before and may not be able to give again soon.

“When we redirect our efforts back toward our endowment, what are we going to find?” Eugene A. Gargaro, the museum’s chairman for more than a decade, wondered. “That’s a daunting challenge.”

Graham W. J. Beal, the museum’s director, president and chief executive, added, “Clearly it does take a number of major donors off the table for us.”

The museum’s long-range goal is to raise its endowment to $600 million — by contrast, that of the Cleveland Museum of Art is more than $700 million — to be able to support its annual operations once the county tax expires, eight years from now. But that goal has been set back by almost two years.

“It’s hard to say, but I would like to think that we’d be well north of $200 million now in the endowment, if this hadn’t happened,” Ms. Erickson said of the threat. “We just had our first strategic planning meeting since this all began. How do you plan for the future when you don’t know if you’re going to have a future?”

The museum’s future has been uncertain almost from the moment of its founding, in 1885. A few years after it opened its doors, it became enmeshed in a lawsuit that led to a loss of city appropriations, putting it in budgetary straits. In 1955, even as the automotive industry was booming, and Detroit’s population was near its high, the city stopped giving the museum money for acquisitions — and never provided any again. In 1973, during an economic downturn, the institute had to close temporarily.

And even during good times, such as a $180 million expansion and renovation several years ago, the museum couldn’t seem to catch a break: The discovery of asbestos led to $40 million in extra costs, Mr. Gargaro recounted.

At the same time, the museum always knew that it held one of the most lucrative portable sources of income in the coffers of a city that was on its way to being $18 billion in debt. Appraisals during the bankruptcy threat put the value of the collection at as much as $4.6 billion, and some individual works were highly attractive to those who wanted to monetize the collection; Pieter Bruegel the Elder's "The Wedding Dance," for example, one of only five Bruegels in American museum collections, could have been worth as much as $200 million if sold.

In interviews, Mr. Gargaro and others, including the museum's lawyers, described the last two years as harrowing, a situation so volatile that the institute was close several times to going to court to try to protect the integrity of its collection.

"As we learned more week to week, we made running decisions about the efficacy of filing and getting into court, or holding back until we felt it was necessary," Mr. Gargaro said. "Even in the worst moments, we hesitated to draw that line because once you did, you would be in a very different arena."

For months, the museum's lawyers and staff pored through old files to find donor histories for many of the collection's greatest works, looking for provisions that would, at the very least, tie up in court for years attempts to sell the works. It found, for example, restrictions imposed by the Italian government in the 1923 sale to the institute of a huge Tintoretto canvas, "The Dreams of Men," one of the museum's most important works.

"We would have been combing the archives for everything we could find if this had gone on," Ms. Erickson said.

On Friday, when Judge Rhodes's decision was read in United States Bankruptcy Court here, Ms. Erickson was there to witness the closing of a painful chapter in the museum's life, and perhaps the birth of a completely new era. Mr. Beal was not: He was finally getting back to his regular job, that of being a museum director, flying to the Middle East to address an international museum conference on the issue of audience development.

"I'll be sitting in the airport lounge," he said, "when the news — the good news, we hope — comes."

THE NEW YORK TIMES

By RANDY KENNEDY

NOV. 7, 2014

NYT: Plan to Exit Bankruptcy Is Approved for Detroit.

DETROIT — Less than 16 months after Detroit became the largest city in the United States to file for bankruptcy, a federal judge on Friday approved a plan intended to help it escape years of financial ruin and begin the hard work of becoming viable again.

"What happened in Detroit must never happen again," Judge Steven W. Rhodes of United States Bankruptcy Court in Detroit said as he approved a plan for the city to rid itself of $7 billion in debt and to invest about $1.7 billion into long-neglected city services. "This must never be repeated anywhere in this state."

The decision came with remarkable speed and with far less discord than many had foreseen given the size of the city and the complexity and depth of its financial woes.

Many bankruptcy experts had predicted that the closely watched litigation would take months or even years longer, as it has in smaller cities and counties. Vallejo, Calif., spent nearly three years in bankruptcy. Stockton, Calif., just received permission to emerge after 27 months. And Jefferson County, Ala., which spent a little more than two years in bankruptcy, now faces more litigation a year after its case was supposed to have ended.

After many months of private mediation sessions, Detroit's exit plan was more a deal than a court-imposed solution, largely agreed to by the major groups involved, including the city's retired workers and financial creditors. That significantly quieted the court fight and limited the possibility of years of appeals.

The ruling marks an end to one chapter for Detroit, which, when the case began, had accumulated roughly $18 billion of debt and was wrestling with annual budget deficits, miserable city services and a nonstop exodus of residents and investment dollars. The exit plan sets aside $1.7 billion over a decade to remove blighted buildings, to buy fire trucks and ambulances, and to upgrade the city's antiquated computer systems.

"Getting this resolved is a huge issue in terms of creating a great environment for the city, and not just the city but for the state, to all rally on focusing on growing Detroit," said Gov. Rick Snyder of Michigan, who approved the city's bankruptcy filing on July 18, 2013. "It really takes care of the city government issue and gets a normal context to be a more traditional government structure again."

The plan requires strict oversight of the city's finances in the years ahead by a commission that includes representatives of the state.

Detroit's price tag for lawyers, experts and other costs of the bankruptcy proceedings was $150 million. But the city's departure from bankruptcy does not mean an end to its challenges. While the court plan permits the city to free up additional money to make desperately needed improvements, it does not ensure that the city will not fall into financial distress once more, or that it will attract businesses that create jobs, or that it can lure enough new residents to end a decades-long population decline.

"We are starting this journey, not ending it," said James E. Spiotto, a bankruptcy lawyer and expert on municipal bankruptcy. "Bankruptcy is just debt adjustment, but that's not a solution," he said. "What you really need is the recovery plan. We can't lose sight of that. We won't know for five, 10, 15 years whether Detroit has solved its systematic problem."

To help him evaluate the city's prospects, Judge Rhodes hired his own fiscal-policy expert to decide whether the plan of adjustment was feasible, part of what is required for an exit plan to be approved. The expert, Martha E. M. Kopacz of Phoenix Management Services, said her research showed that the plan was feasible and that city officials were enthusiastic about making it work. But there were considerable risks, she said, and the speed of the bankruptcy proceedings had left Detroit with little margin for error.

To get one group of creditors to accept a settlement, Detroit's negotiators sometimes had to reduce what was available to satisfy others. To make pension cuts acceptable to retirees, for example, the city based its exit strategy on an assumption that pension investments would earn average annual returns of 6.75 percent, something Ms. Kopacz said was too aggressive for a fragile city that could not afford investment losses.

“I would make it 5 percent if I ruled the world,” she said at one point during the bankruptcy trial, under questioning by Judge Rhodes.

The assumed rate of return gave the retirees something to hope for — the possibility that even better results from the pension investments than the 6.75 percent assumed by the city would show that cuts were not needed after all and that a new deal could be negotiated with the cuts reversed. But if the pension investments do not produce the returns needed, the city will have to make up the missing money.

Over all, Detroit’s creditors settled on a wide range of losses, but none as far-reaching as the city had proposed in February as it began planning how to leave bankruptcy.

Some financial creditors, like the bond insurer Syncora Guarantee, will get about 14 cents on the dollar for their debts, a low recovery rate but not as low as the city had initially proposed. Syncora and Financial Guaranty Insurance Company had insured a type of debt that was never very secure to begin with, and the city contended that low recoveries were appropriate given the level of risk.

Late in the deal-making phase of the bankruptcy, Syncora and Financial Guaranty both had their recoveries sweetened with possible gains on real estate and infrastructure projects that Detroit promised to help them pursue on prime locations in the city. Bondholders who bought higher-quality bonds have been promised far better recovery rates.

The outcome for retirees was better than first expected in part because of a solution that Judge Rhodes said “borders on miraculous.” A so-called grand bargain, in which foundations, the state and the Detroit Institute of Arts pledged millions of dollars bolstered the pension system and gave the art collection new, bankruptcy-proof ownership.

In the end, retired general municipal workers accepted 4.5 percent cuts to their monthly checks, an end to cost-of-living increases, higher health care costs and a mandatory forfeiture of previous payments that were deemed improper. Retired firefighters and police officers accepted smaller reductions.

Even as Detroit was going through bankruptcy, city officials were racing to improve dismal services in a place where 40 percent of streetlights had been out, the average police response time was almost an hour, and 30 percent of buildings were dilapidated or headed that way. Kevyn D. Orr, the appointed emergency manager here since March 2013, said Detroit had improved “significantly” in a year: 1,000 new streetlights were being installed each week, police response times and clearance rates had improved, and hundreds of blighted buildings were being torn down.

Still, Mr. Orr, who has already returned much of his authority to Mayor Mike Duggan, acknowledged this week, “We’re not even close to being done.”

THE NEW YORK TIMES

By MONICA DAVEY and MARY WILLIAMS WALSH

NOV. 7, 2014

Monica Davey reported from Detroit, and Mary Williams Walsh from New York.

Royals Stadium Bonds Seen Winning From World Series: Muni Credit.

Taxpayers of Jackson County, Missouri, stand to come out winners even if the hometown Kansas City Royals see their dream of a World Series championship end tonight.

The county owns the Harry S. Truman Sports Complex, which is home to Major League Baseball's Royals and the National Football League's Chiefs. It plans to sell about $340 million of bonds tomorrow to refinance debt sold in 2006 to refurbish the venues, said County Executive Mike Sanders. Sanders says the deal will save about $32 million, with the cash going toward maintaining the complex, named for the 33rd U.S. president, who also served in local government.

The sale shows how communities nationwide are benefiting from refinancing in the $3.7 trillion municipal market, lowering debt costs with interest rates close to generational lows. Jackson County's savings may be magnified by the Royals' quest for their first championship since 1985, which may heighten investor demand.

"The spotlight and the attention that the World Series brings is not going to hurt from a timing standpoint," said Dan Heckman, a Kansas City-based senior fixed-income strategist at U.S. Bank Wealth Management, which oversees $120 billion including munis. "Its visibility will attract some additional buyers," especially individuals, said Heckman, who's considering buying the bonds.

Universities and sports-affiliated venues can lower borrowing costs by bolstering demand among individuals, who own about 60 percent of the municipal market. The University of Connecticut issued bonds in April as its men's and women's basketball teams were en route to national titles. Individual buyers placed the most orders in 18 years, with the state crediting the athletic success.

The Royals play the San Francisco Giants tonight in Kansas City. If the Giants win, they take the best-of-seven series and become the 2014 MLB champions. If not, the Royals host the decisive Game 7 tomorrow at Kauffman Stadium, where they've played 42 seasons.

'Opportune Time'

The county had been monitoring the bond market, and originally planned to refinance in mid-September, Sanders said. The decision to wait proved fortuitous, as benchmark muni yields have plunged in line with a rally across fixed-income markets amid concern that global economic growth is slowing.

The delayed sale will save about an additional $9 million, Sanders said.

"With everything going on with the World Series, this bond sale couldn't happen at a more opportune time," Sanders said.

Moody's Investors Service rates the issue Aa3, its fourth-highest level, citing the bonds' backing and the diverse economy of the county of about 680,000.

The bonds are backed by a countywide three-eighths-cent sales-tax approved by voters in 2006 to pay for stadium improvements, bond documents show. The tax runs through Oct. 1, 2031, bond documents say.

Tax Backing

The levy alone provides enough revenue for debt service, bond documents show. Yet on top of that tax, the state contributes $3 million a year toward bond payments and Kansas City supplies $2 million a year, providing "substantial coverage," said Jack Holland, managing director for Oppenheimer & Co., the lead underwriter.

The Chiefs, which play at Arrowhead Stadium, and the Royals in 2006 extended leases at the complex until 2031, bond documents show. The Chiefs contributed $125 million to the $400 million revamp of their facility, and the Royals contributed about $25 million of the $250 million that went toward their venue, according to bond marketing documents.

Renovations to the complex about 10 miles (16 kilometers) east of downtown Kansas City included improving restrooms and elevator service, and new video and scoreboards at Kauffman Stadium, bond documents show. The Arrowhead work included expanded suites, new entrances and a refurbished training center, according to the documents.

Among the 2006 sports-complex bonds to trade since the Series began Oct. 21 are securities maturing in December 2031, according to data compiled by Bloomberg. The debt changed hands Oct. 23 at an average yield of 1.79 percent, the lowest since it was issued. The debt is callable in 2016.

The refinancing deal is "a home run for bondholders," said Chris Ryon, head of the muni group at Thornburg Investment Management Inc. in Sante Fe, New Mexico. The company owns about $7.9 million of the debt, according to Bloomberg data.

Bloomberg

By Elizabeth Campbell and Brian Chappatta

Oct 27, 2014 5:00 PM PT

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New Jersey Town Weighs Sale of Water and Sewer Utilities.

Voters in Haddonfield, N.J., will consider a referendum Tuesday on whether or not the borough, located east of Philadelphia, should move forward with plans to sell the community's water and sewer utilities to a private company.

Haddonfield Borough officials decided to sell the utilities to Voorhees-based New Jersey American Water for $28.5 million, but the sale hinges on Tuesday's results.

"It's the most sensible thing to do," Commissioner John Moscatelli told the Courier-Post. "I anticipate rates might actually be lower given the high level of capital we would need to invest and the small base of accounts."

Opponents of the sale say the borough no longer will set rate increases or the schedule for repairs to the system.

The sale will "sacrifice local public control over services that are essential for public health and well-being," said resident Dan Bailiff, who opposes the sale.

New Jersey American Water will be subject to oversight by the state public utilities board that the borough's commissioners do not face, according to spokesperson Peter Eschbach.

"The three commissioners can do whatever they want," Eschbach said. "They recently raised rates 25 percent. Part of being a monopoly means we are subject to heavy regulation. For us to raise rates, we have to go through an exhaustive legal process overseen by a judge."

NCPPP

By Editor

November 3, 2014

State Will Not Try to Retake Indiana Toll Road.

A state official says Indiana will not attempt to reclaim the Indiana Toll Road, despite calls from lawmakers to take such action after its operator, ITR Concession Co., filed for bankruptcy protection last month.

Indiana does not want to assume the cost of operating and maintaining the 157-mile toll road across the northern part of the state, Kendra York, the state's public finance director, wrote Indiana Sen. Joe Donnelly (D).

"In sixty years of state operation, the Toll Road never covered its costs," York said, reported the Times of Northwest Indiana. "In 2005, the year before the road was leased, the state of Indiana did not collect sufficient tolls to support basic road treatments, or repair the deteriorating conditions of the highway and bridges. These improvements could not have been undertaken within INDOT's budget without neglecting other parts of the state highway system," she stated.

Before ITR — formed by a consortium of Cintra and Macquarie — took over the road in 2006, the toll rate had not increased for 20 years. After eight years of toll increases, the highway's profit margin is estimated to be about 82 percent, Donnelly said.

"It is important that the IFA [Indiana Finance Authority] uses its authority to ensure that the toll road is managed and operated appropriately and that passengers traveling across our state have access to safe roads and quality services," he told the Lafayette Journal & Courier.

NCPPP
By Editor
October 30, 2014

California's Brown Pushes Water Bond as Election Nears.

California Governor Jerry Brown is devoting the final days of what may be his last campaign for office promoting two ballot initiatives rather than himself.

Brown, a 76-year-old Democrat, has spent $10.7 million to help pass water bonds to ease drought and establish a new rainy-day reserve, according to filings through Oct. 23. The governor has used $3.8 million from his election fund as he faces Republican Neel Kashkari, a former Goldman Sachs Group Inc. (GS) executive, who trails by 21 points in a poll released yesterday.

"Save money, save water, vote for Props 1 and 2," Brown said at a Los Angeles high school Oct. 28 when a reporter asked about his campaign for an unprecedented fourth term.

Brown, who served two terms as governor from 1975 to 1983, has led a fiscal turnaround since he returned for a third term in 2011. The most populous U.S. state, which resorted to IOUs to pay bills in 2009, has gone from a $25 billion deficit three years ago to a record surplus, thanks to a surge in capital-gains taxes and temporary increases in income- and sales taxes.

Kashkari, 41, a former U.S. Treasury official appointed in 2008 to lead the $700 billion bank rescue known as the Troubled Asset Relief Program, is making his first election bid. Mary-Sarah Kinner, a spokeswoman for Kashkari, declined to comment on Brown's focus on the ballot measures.

Record Drought

Proposition 1 would authorize $7.5 billion in general-obligation bonds for water supply infrastructure, drinking water protection and watershed restoration. California has suffered through three years of below-normal rain and snowfall, leaving farmers to fallow fields and some areas to set mandatory restrictions on water use. Proposition 2 would require the state to set aside 1.5 percent of general-fund revenue each year for a reserve to cushion economic downturns.

Two weeks before the election, when other candidates might be campaigning, Brown left the state to attended his 50th reunion at Yale Law School.

"He feels confident that people will support him based on his record and his agenda," said Dan Newman, Brown's campaign adviser. "He campaigns like he governs, and goes to great lengths to avoid unnecessary spending."

Millions Left

The governor had $6 million more to spend on the propositions and $21 million left in his campaign coffers as of Oct. 23, according to data from the secretary of state's office. Kashkari has spent $6.2 million, giving $3.1 million of his own money, and had $841,714 in cash on hand in the same period.

The governor has appeared in advertising promoting the two propositions, paying for them out of his campaign fund.

"Propositions 1 and 2 will even out the boom and the bust," he says in one commercial. "Prop 1 saves water to prepare us for drought. Prop 2 sets aside money to prepare us for economic storms."

Brown, California's longest-serving chief executive and the oldest sitting U.S. governor, has also been state attorney general, secretary of state and Oakland mayor. His father, Pat Brown, served two terms as California governor.

While it's "highly unusual" for a gubernatorial candidate to spend his time and resources this way in the days leading up to the election, "this is a case where he figures he doesn't have to worry about re-election so he can focus on a couple of issues that will be very important during his next term," said Jack Pitney, who teaches politics at Claremont McKenna College in Claremont, California.

‘Last Campaign’

“This is probably the last campaign of his life so he’s liberated, he doesn’t have to undergo the same grind as other candidates,” Pitney said. “By this point, pretty much everybody in California knows what he or she thinks about Jerry Brown and a campaign isn’t going to change that.”

After months of prodding from Kashkari, Brown agreed to one debate, which took place last month.

Brown is favored by 54 percent of likely voters, compared with 33 percent for Kashkari, according to a Field Poll released yesterday. The phone survey of 941 likely voters completed Oct. 15-28 had a margin of error of plus or minus 3.4 percentage points.

The Field Poll of likely voters released today found 54 percent support for Proposition 1, to 22 percent against.

Donors to Brown’s propositions campaign include Sean Parker, founding president of Facebook Inc. (FB), who gave $1 million; L. John Doerr, general partner at venture capital firm Kleiner Perkins Caufield & Byers, who gave $875,000; and Reed Hastings, Netflix Inc. (NFLX) founder and chief executive officer, who gave $250,000.

The governor also has enlisted “First Dog” Sutter Brown, a corgi with his own Facebook page, to campaign for the two propositions in a “bark out the vote” effort, according to a news release from the California Democratic Party.

By Alison Vekshin

Oct 31, 2014 6:15 AM PT

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Fitch: CA Voter Initiatives Could Impact Budget and Credits.

Fitch Ratings-New York-31 October 2014: Voter initiatives in next week’s election could have an impact on California’s state budget, water credits and school districts, Fitch Ratings says. One initiative could impact water credits positively while a second could be positive for the state but negative for school districts.

California voters approval of Proposition 2 (The Rainy Day Budget Stabilization Fund Act) could help smooth the volatile tax revenues that have dogged the state budget in recent years. It would change the state’s existing requirements for the Budget Stabilization Account (BSA), a rainy day fund, by requiring the state controller to make annual deposits based on set parameters. Fitch believes this is an important measure for the state. The enacted budget for fiscal 2015 assumes continued economic recovery and steady revenue gains while emphasizing the uncertainty inherent in California’s volatile tax revenue system. That budget deposits $1.6 billion to the rainy day fund, the first deposit since fiscal 2008.

Proposition 2 could also restrict the ability of local school districts to save for unanticipated needs, leaving K-12 schools more vulnerable to potential funding declines. In addition to smoothing contributions to the rainy day fund, Proposition 2 would create a new state-level reserve for schools and set restrictive funding preconditions likely to render deposits to that reserve infrequent. Deposits would trigger a statutory cap on local school reserves in subsequent years, potentially reducing local savings before substantial balances have accumulated at the state level. This could result in a 6% maximum reserve, well below the current 20% average for Fitch-rated districts. Proposition 2 would be positive for the state, but may reduce financial flexibility for schools in future downturns.

Another proposition, the Water Quality, Supply and Infrastructure Improvement Act of 2014 (Proposition 1), would be generally positive for the state's water credits in the long run as it would incentivize increased investment in capital projects that improve the long-term reliability of California water supplies. The $7.454 billion bond is intended to fund state water supply infrastructure projects. It would also provide $5.7 billion of matching funds to support local projects. It would have no positive impact on the drought or water credits in the short term and will not address the protracted debate around the controversial Bay Delta Conservation Plan.

Detroit Bankruptcy Is Marked by Speed, City's Lawyer Says.

DETROIT—The nation's largest municipal bankruptcy case could well end up as one of its speediest compared with other large communities in financial dire straits.

Detroit is at the tail end of a weekslong trial to evaluate the merits of its proposed restructuring plan to trim $7 billion from $18 billion in long-term obligations identified in its Chapter 9 bankruptcy filing on July 18, 2013.

"It's hard to overstate the significance of the fact that that's only 15 months and eight days ago," the city's chief bankruptcy attorney Bruce Bennett told U.S. Bankruptcy Judge Steven Rhodes in a Detroit courtroom Monday during closing arguments.

By contrast, a similar case in Jefferson County, Ala., lasted two years, ending in 2013. Orange County, Calif., spent about 18 months in bankruptcy in the mid-1990s. A much smaller case in Central Falls, R.I., population 19,000, traveled through bankruptcy court in about 13 months.

In Detroit, the financial crisis has served as a kind of red flag for potential residents and businesses to stay away until the city's legal troubles end, Mr. Bennett said. "The end really is in sight," he told Judge Rhodes.

Monday's court hearing was in some ways anticlimactic because the city's major creditors, who once opposed the plan, have agreed to settle. "A consensual plan is remarkable and all of Michigan should be proud," said lawyer Robert Gordon, who represents the pension system supporting a majority of the city's retirees.

Judge Rhodes still must rule on whether the complex debt-cutting plan will help the city fix its balance sheet, as well as be generally equitable to its thousands of creditors, many of whom are likely to take a haircut.

The ruling is expected on Nov. 7, the judge said Monday. City officials hope Detroit could be out of bankruptcy court as soon as Thanksgiving.

The city's restructuring plan calls for a $7 billion reduction in debt, $275 million in new borrowing and a $1.7 billion reinvestment in removing blighted buildings and boosting police and fire services in the city of about 680,000.

Some individuals, however, continue to cry foul, saying Kevyn Orr, the city's emergency manager, acted improperly in cutting benefits to pensioners.

The proposed restructuring plan counts on the city receiving about $466 million over 20 years from private foundations and the state of Michigan to help protect Detroit's art collection from being sold. The plan also would use the proceeds to make up shortfalls in pension funding.

On Monday, Mr. Bennett argued that evidence presented by Detroit at trial showed that the city wasn't obligated to sell any of its assets, including its art collection, to satisfy the claims of creditors.

But even if the city were, Mr. Bennett said there was no evidence that the value of the collection would exceed the $466 million provided by foundations and the state of Michigan to cast off the city-owned Detroit Institute of Arts as a separate nonprofit in the municipality.

THE WALL STREET JOURNAL

By MATTHEW DOLAN

Updated Oct. 27, 2014 5:44 p.m. ET

Write to Matthew Dolan at matthew.dolan@wsj.com

WSJ: Parched Cities Share Water in West.

PHOENIX—A recent agreement by this city and Tucson, Ariz., highlights a growing trend in the drought-plagued Southwest: water agencies sharing resources to stretch limited supplies rather than going it alone.

Phoenix, which gets more water than it can store from the Colorado River, has agreed to send some of its surplus to Tucson, which needs it to lower pumping costs. In return, Tucson will give up part of its share of Colorado River water to Phoenix when needed. The deal finalized in early October comes despite long-standing rivalries between Arizona's two largest cities.

"Any rivalry between Phoenix and Tucson is so 10 years ago," Phoenix Mayor Greg Stanton said in an interview.

Water transfers between agencies have been picking up across the West in the wake of a drought that has ravaged the region for much of the past 15 years. During Texas' severe drought in 2011, more than 1.7 million acre feet of water were transferred between users, compared with an average of 150,000 annually between 2007 and 2009, according to a 2012 report by the Western Governors Association and Western States Water Council. An acre foot is 326,000 gallons, or about the amount of water used by a family of four in a year.

In August, the Metropolitan Water District of Southern California agreed to send treated water to Sierra Madre, Calif., as part of a deal with the Upper San Gabriel Valley Municipal Water District to ease that city's water shortage. Metropolitan, based in Los Angeles, will get repaid double what it sent in untreated water, as well as the right to buy water from the smaller agency though 2035.

“This is ushering in an era of cooperation where, typically in the past, each player has watched out and protected its own rights,” said Dave White, co-director of the Decision Center for a Desert City at Arizona State University in Tempe, Ariz.

Water exchanges have been used to some extent in the West for decades, but water experts say the numbers have been increasing in recent years. One reason, they say: The supply of Western water has shrunk amid drought even as the region’s population has expanded. The problem is particularly acute in the Lower Colorado River basin, where the Lake Mead reservoir, which provides water to about 20 million people in California, Nevada and Arizona, has fallen to 39% of its capacity.

With projections of continued declines in the Colorado River due to climate change—Arizona State scientist David Sampson said its flow could eventually fall to as little as 40% of its long-term average—local officials are looking at ways to increase the amount of water in storage. In California, voters Tuesday will decide whether to approve $7.12 billion in general obligation bonds for a raft of water projects, such as surface and underground storage.

Arizona has some of the most extensive underground storage in the West, with about 11 million acre feet of recoverable water—roughly four times what the state gets as its annual share from the Colorado River, said Thomas Buschatzke, assistant director of the Arizona Department of Water Resources.

Yet the water isn’t always readily accessible, nor cheap to withdraw. Phoenix, for example, can meet only 5% of its peak demand because its 18 active wells aren’t enough to pump the water out, said Kathryn Sorensen, water-services director for the city of 1.5 million. Phoenix gets about half its water from the Colorado River and half from a local tributary called the Salt River.

Tucson, by contrast, has more than 200 wells because its sole source of water is that taken from the Colorado River and stored underground with local groundwater. But the city of 526,000 pays $200 an acre foot to pump the water, a cost that will decrease as Phoenix water helps refill aquifers that remain at least 200 feet below capacity, said Wally Wilson, chief hydrologist for Tucson Water.

Since 2000, Tucson has spent $250 million building a network of wells and other facilities to inject its share of Colorado River water underground, part of a long-term plan to hedge against future drought. “We see this horizon where shortages are going to happen,” Mr. Wilson said during a tour of a water pond in the saguaro-covered desert outside Tucson.

Unable to use all of the city’s Colorado River water due to the lack of wells to store it, Phoenix officials in 2007 considered sending a surplus of 60,000 acre feet to store in Tucson, but dropped the plan amid the recession and legal questions, Mr. Buschatzke said. After taking office in 2012, Mr. Stanton pushed for the water transfer anew.

Under terms of the pilot deal between Phoenix, Tucson and a smaller Tucson-area agency, the Metropolitan Domestic Water Improvement District, Phoenix will ship its surplus water 100 miles south, where it will go into local aquifers. During future shortages on the Colorado, Tucson and the smaller agency will pump the water out for their customers while turning over part of their delivery of the river to Phoenix.

“It’s cities saying, ‘We are going to be in a leadership role in drought planning,’ ” the mayor said.

THE WALL STREET JOURNAL

By JIM CARLTON

Oct. 30, 2014 7:30 p.m. ET

WSJ: Bonds, Careers, Mentors at J.P. Morgan Public Finance Women's Forum.

After she left investment banking and before she became New York City's deputy comptroller for public finance, Carol S. Kostik went through a time when she was tired of bonds.

"I know, it's hard to imagine now," she said to laughter from the audience at J.P. Morgan Chase & Co.'s 2014 Public Finance Women's Forum. "I believe I even said, `I never want to see another bond again as long as I live.'"

Ms. Kostik said that her relationships with several of the women in the room helped her find her current position, where she has since managed the issuance of more than $90 billion in debt to fund city capital projects or refinance outstanding bonds, according to the city's website. She described it as "the best job I've ever had."

Ms. Kostic was addressing a group of about 200 fellow issuers, investors, lawyers and other industry professionals – mostly women – at the bank in New York, as part of a panel discussing the challenges facing issuers in the $3.7 trillion municipal-bond market. Other sessions included a market roundtable, a panel on navigating the regulatory landscape and a conversation with senior leaders. At J.P. Morgan, 34% of employees in the public finance business are women, the bank said. It's the second edition of the conference since it debuted in 2010.

"It's something I'd like to see happen every year," said Paul Palmeri, head of the public finance group.

Ms. Kostik's comments helped kick off a discussion that ranged from finding mentors and overcoming obstacles to the value of credit ratings and coping with increased regulation. Her fellow panelists including Madeline Bell, president and chief operating officer at Children's Hospital of Philadelphia; Paula Gold-Williams, chief financial officer at CPS Energy and Marian Zucker, president of the Office of Finance and Development for New York State Homes & Community Renewal.

Ms. Zucker advised younger women to make sure to have more than one mentor in case one leaves, a situation that happened to her when she worked as an investment banker years ago. She also advised them to worry less and not get their sense of self tied up in their work. Focus on building skills and your network, and it's not important to know the next step on the ladder, as long as you have the courage to take it when it appears, she said.

"If you're taking a business trip, tack on a day and go see where you're visiting," she said. "It really makes a difference."

Ms. Kostik earned another laugh saying that she's learned over time that she's not always right.

Asked how to help her people tell her bad news, Ms. Gold-Williams had a simple answer.

"I threaten them," she said. "Heavily." After the laughs, she said that practicing those hard conversations keeps them going. Ms. Bell said leaders have the opportunity to create cultures of transparency, where people know to come forward with mistakes and learn from each other.

When talking business, the panelists agreed that rating agencies still play an important role in the market and can provide a useful barometer for performance. They also said they were spending more time coping with regulation, which has increased since the financial crisis.

Ms. Zucker said she feels lucky because her team makes a difference in people's lives. And the job offers other satisfactions.

"Like Carol, I still love bonds," she said. "I can't help myself."

THE WALL STREET JOURNAL

By AARON KURILOFF

Indiana Toll Road Bankruptcy Plan Moves Forward.

A federal bankruptcy judge last week approved the Indiana Toll Road (ITR) Concession Co.'s reorganization plan, clearing the way for the company to pursue buyers for the 157-mile road.

The company will have until August 2015 to find a buyer for the road and use the proceeds to help pay off the company's $6 billion in debt.

A number of international infrastructure investors and pension funds have discussed joint ventures for bidding on the toll road.

If the ITR Concession Co. fails to find a buyer, the company could issue $2.75 billion in new loans or could obtain new financing and use the proceeds to pay off lenders. Regardless of a new buyer being found or a refinancing of the road, the reorganization plan calls for creditors to be paid in full.

Marc Kieselstein of Kirkland & Ellis, a bankruptcy attorney for ITR, expects the sale to move forward quickly. The company may find a buyer "long before" the August deadline, he told the Wall Street Journal.

By Editor October 31, 2014

Build America Mutual Hires Former Bear Stearns Muni Head Keating.

Build America Mutual Assurance Co. has hired Daniel Keating to help win business, as municipal-bond insurers add staff with the backing gaining popularity.

Keating, 64, was most recently chief operating officer for Samuel A. Ramirez & Co., and spent most of his 35-year career in public finance overseeing tax-exempt products at Bear Stearns & Co., New York-based BAM said today in a statement. As a senior managing director in his new role, which begins immediately, Keating will seek opportunities for the insurer to guarantee bonds with its AA rating, Standard & Poor's third-highest level.

Keating is "uniquely qualified to help us further our mission of building BAM into a municipal market utility serving issuers, dealers, and investors," Sean McCarthy, the insurer's chief executive officer, said in the statement.

As muni insurers capture the biggest share of the $3.7 trillion market since 2009, they've been hiring. MBIA Inc. (MBI) this month said it added analyst Tom Weyl from Barclays Plc for its National Public Finance Guarantee Corp. unit. John Hallacy last year joined Assured Guaranty Ltd. after stepping down as Bank of America Merrill Lynch's head of muni research.

Bloomberg

By Brian Chappatta Oct 27, 2014 7:18 AM PT

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Ohio Supreme Court Rules That Ohio Power Can Recover Transmission Service Charge From Former Customers Over A Three-Year Period.

On October 7, 2014, the Ohio Supreme Court unanimously affirmed a ruling by the Public Utilities Commission of Ohio ("PUCO") that permitted Ohio Power to recover $36 million in transmission costs from ratepayers who had "shopped" for alternative generation providers, in addition to those ratepayers who purchased generation service from Ohio Power, during the period of July 2011 through June 2012.

Under Ohio law, ratepayers are permitted to purchase their generation service from independent providers. As part of the implementation of this retail competition, state law required incumbent distribution utilities to transfer control of their transmission assets to an independent system operator. On October 1, 2004, Ohio Power transferred operational control of its transmission assets to PJM Interconnection, LLC ("PJM"). Ohio Power pays PJM transmission rates to service its load. Ohio law permits Ohio Power to recover these payments to PJM from ratepayers through a mechanism called the Transmission Cost Recovery Rider ("TCRR"), which must be approved by the PUCO.

During the period of July 2011 through June 2012, Ohio Power under-recovered its PJM transmission costs by $36 million, caused primarily by a substantial increase (from less than 10% to nearly 40%) in the number of customers in the utility's service territory choosing alternative generation providers. While Ohio Power would normally recoup any under-recovered amounts from its customers over subsequent TCRR periods, PUCO rules require that the TCRR be imposed only on those customers who purchase generation service from incumbent utilities, and not on those customers who "shop" for alternative generation providers.

In permitting recovery for the period in question, the PUCO reasoned that it would be unfair to require non-shopping customers to bear the entire burden of paying for the under-recovery, since the under-recovered costs were caused in part by those customers who sought alternative generation providers. It therefore authorized the recovery of the unpaid transmission costs from both shopping and non-shopping customers. The PUCO also ordered that, given the size of the unrecovered amount, the costs be collected over a three-year period to ease the burden on ratepayers.

In upholding the PUCO's order, the Ohio Supreme Court held that state law gave the PUCO discretion over how to design the cost phase-in, including the requirement that both shopping and non-shopping customers contribute their share of the costs, and the three-year implementation period. The court found that the group challenging the PUCO ruling—Industrial End-Users Ohio—had failed to demonstrate that the ruling was unjust, unreasonable, or unlawful.

Last Updated: October 17 2014

Article by Troutman Sanders

Troutman Sanders LLP

[Duane Morris: California Enacts Comprehensive Groundwater Management Legislation.]

On September 16, 2014, California Governor Jerry Brown signed into law a historic package of three bills—Senate Bill 1168, Senate Bill 1319 and Assembly Bill 1739—instituting comprehensive groundwater management in California. The legislation represents perhaps the most significant change to California water law since the adoption of the California Water Code and establishment of the state water rights structure in 1914. Prior to passage of the groundwater bills, California was one of only two states, and the only state in the western United States, that did not regulate groundwater rights.

Local Control

To implement comprehensive groundwater management, the three bills make significant additions and amendments to the California Water Code and Government Code. The goal of the legislation is to create a framework for "local control" at the basin, or subbasin, level over groundwater regulation while providing authority to the state to oversee the implementation and sufficiency of local groundwater regulation.

To achieve the goal of local control, the legislation requires the adoption of groundwater sustainability plans for designated medium- and high-priority basins. The legislation authorizes local agencies or combinations of local agencies to form "groundwater sustainability agencies" (GSA) with the power to develop and implement such plans, and to thereafter regulate pumping and groundwater use within basins with a state-approved plan. Certain adjudicated basins identified in the legislation are excluded from these requirements, provided they satisfy certain criteria for basin management.

Sustainable Groundwater Management

The purpose of the groundwater sustainability plans is to achieve, within 20 years, "sustainable groundwater management" of each basin to ensure that the basin is operated within its sustainable yield. Sustainable groundwater management is defined in the legislation as "the management and use of groundwater in a manner that can be maintained during the planning and implementation horizon without causing undesirable results," which include chronic lowering of groundwater levels and significant and unreasonable loss of groundwater storage, seawater intrusion, degraded water quality, land subsidence or adverse impacts on surface water. Sustainable yield “means the maximum quantity of water, calculated over a base period representative of long-term conditions in the basin and including any temporary surplus, that can be withdrawn annually from a groundwater supply without causing an undesirable result.”

Key Deadlines

- January 31, 2015. Department of Water Resources must categorize each basin as one of the following priorities: high, medium, low or very low.
- April 1, 2016. Local agencies managing certain designated adjudicated basins are required to submit a report to the state with information on pumping, water levels and related information regarding the basin.
- June 1, 2016. The Department of Water Resources shall adopt regulations for the evaluation and implementation of groundwater sustainability plans.
- January 1, 2017. The Department of Water Resources will develop and publish best management practices for the sustainable management of groundwater.
- January 1, 2017. The Department of Water Resources may update its designation of basins as high- or medium-priority basins, which are subject to critical conditions of overdraft.
  June 30, 2017. GSAs must be formed across California to regulate designated high- and medium-priority basins.
- January 31, 2020. Groundwater basins that have been designated as being in a state of critical condition of overdraft have to be managed under a groundwater sustainability plan approved by the Department of Water Resources.
- January 31, 2022. All other medium- and high-priority basins are required to be managed under an approved groundwater sustainability plan.

Within 20 years of the above plan deadlines, with “interim milestones” in increments of five years, by 2040 or 2042 respectively, each medium- and high-priority basin must achieve sustainability.

Groundwater Sustainability Agencies

Any local agency or combination of local agencies, with water management or land use responsibilities, overlying a groundwater basin, may elect to be a GSA for that basin or subbasin. Certain designated local agencies that already manage groundwater are deemed to have “exclusive” authority to form a groundwater sustainability agency within their boundaries. It is important to note that investor-owned utilities do not have authority to become GSAs, though they may participate in a GSA with the approval of the local agencies.

A local agency electing or combination of local agencies electing to form a GSA are required to submit notice to the Department of Water Resources within 30 days of formation.

Within 90 days of the Department of Water Resources’ posting of a notice to form a GSA, the agency filing the notice shall be presumed to be the exclusive GSA within the area described, provided that no other notice is submitted. The legislation does not address the process that will occur if multiple notices are filed by local agencies seeking to form GSAs with overlapping geographic boundaries. However, as noted below, the legislation allows a single groundwater sustainability plan to be developed and implemented by multiple GSAs or for multiple GSAs to develop and implement multiple plans pursuant to a coordination agreement covering the entire basin.

Among other powers, a GSA may require the registration of groundwater extraction facilities, the installation of water-measuring devices and the filing of annual statements of groundwater extractions; impose spacing requirements on new wells (to avoid pumping interference); impose operating regulations on existing wells; and control groundwater extractions by regulating, limiting or suspending extractions from wells or otherwise establishing groundwater extraction allocations. The GSA may also impose and enforce fees, including permit fees and fees on groundwater extraction, and seek civil penalties for violations of any rules, regulations or ordinances.

Groundwater Sustainability Plans

A groundwater sustainability plan for a basin may be either (1) a single plan covering the entire basin developed and implemented by one GSA, (2) a single plan covering the entire basin developed and implemented by multiple GSAs or (3) multiple plans implemented by multiple GSAs and coordinated pursuant to a coordination agreement covering the whole basin.

The groundwater sustainability plan has to include information regarding current and historical groundwater extractions, recharge locations, groundwater levels, water quality, subsidence, "groundwater-surface water interactions" and a general discussion of historical and projected water demands and supplies.

Preparation and adoption of groundwater sustainability plans are exempt from compliance with the California Environmental Quality Act (CEQA). However, there is no CEQA exemption adopted by the legislation for projects that would implement actions taken pursuant to an adopted plan.
State Authority

If a GSA is not formed or a groundwater sustainability plan is not adopted within established time limits, or if a plan is found to be inadequate or improperly implemented, then, under specified conditions, the State Water Resources Control Board can designate the basin as "probationary."

If the deficiencies in the basin are not resolved, the State Board may, in specified circumstances, adopt an interim plan for the basin until such time as local control can be returned. The interim plan may include restrictions on pumping, a physical solution and "principles and guidelines" for the administration of surface water rights that are connected to the basin.

Coordination with Land Use Planning

Planning agencies should "review and consider" a groundwater sustainability plan in connection with any adoption or amendment to a general plan to ensure close coordination and consultation between water supply or management agencies and land use approval agencies regarding the adequacy of existing and future water supplies.

Conversely, groundwater sustainability plans must take into account applicable elements of general plans.

The legislation provides that it shall not be interpreted as superseding the land use authority of cities and counties.

Given the extensive and historic changes enacted by the legislation, much is unknown regarding both the immediate effect of the bills on local agencies, as well as the long-term interpretation and implementation of the statutory provisions and corresponding, soon-to-be enacted regulatory provisions authorized by the legislation.

Potential short-term issues or implications of the groundwater bills include further debate and, possibly, litigation over the concepts and definitions of "sustainable groundwater management" and "sustainable yield"; a race by local agencies to form GSAs to ensure retained control over groundwater regulation in areas under their jurisdiction; issues concerning coordination among local agencies within a designated basin's boundaries; and effects of more intensive pumping by neighbors to GSAs that may cause groundwater management problems.

Last Updated: October 16 2014

Article by Colin L. Pearce, Jolie-Anne S. Ansley and Thomas M. Berliner

Duane Morris LLP

If you have any questions about this Alert, please contact Colin L. Pearce, Jolie-Anne Ansley, Thomas M. Berliner, any of the attorneys in our Energy, Environment and Resources Practice Group, any of the attorneys in our Water Practice Group or the attorney in the firm with whom you are regularly in contact.

Disclaimer: This Alert has been prepared and published for informational purposes only and is not offered, nor should be construed, as legal advice. For more information, please see the firm's full disclaimer.

Texas Residents Question State's Reliance on Tolling.

The rapid expansion of tolling to pay for transportation projects in Texas has stirred a backlash from residents weary of paying for the privilege to drive on one of the country's most extensive networks of toll roads.

Texas has built more than 500 miles of toll roads with much of the growth coming in the past 10 years, reports the Wall Street Journal. The state plans to build nearly 300 miles of additional toll roads as part of two dozen projects in the near future.

"It's almost impossible to get around without paying a toll now," said Bobby Tillman, a 63-year-old Texas resident, who spoke against a toll on U.S. Highway 75, a major north south artery in the state, at a public hearing last month. "We pay taxes for roads and bridges… if you can't afford it, don't build it."

State and local governments have taken a new interest in P3s in part because gas taxes, which are the primary source of funding for highways at both the federal and state level, have remained stagnant since the early 1990s.

With a drop in gas tax revenue available to finance highway construction, states see P3s as a new tool to fund much-needed expansions of their road systems.

"Often the public has not had a full understanding of the real costs [of building and maintaining highway infrastructure]," Todd Herberghs, executive director of the NCPPP told the WSJ's Risk & Compliance Journal.

While Texas lawmakers continue to back P3s for narrowing a $5 billion transportation-funding gap, even the state Republican Party is reconsidering the use of tolls to finance highway construction. The party amended its platform with anti-tolling language at a state political party convention in July.

"The truth is that most people are using and liking these toll roads," said John Crew, the majority owner of Texas Turnpike Corp. “If we don’t build these things, it’s not going to be pretty in a few decades.”

NCPPP

By Editor

October 23, 2014

[Mesa Prompts Bond Backlash as Debt Doubles Over 7 Years.]

Mesa, Arizona, which doubled its debt load over seven years to replace fire trucks, transform desert into parks and rebuild roads, faces a backlash as it asks residents for permission to sell $580 million more in bonds.

Mesa voters have passed 19 consecutive bond measures since rejecting one in 2000. Since then, the population has grown 16 percent to 458,000, making the community 15 miles (25 kilometers) east of Phoenix bigger than Atlanta and Miami.

As city leaders ask for approval of Mesa’s largest-ever bond package — backed by water, sewer, electrical and gas fees — opponents are knocking on doors and making phone calls urging a “no” vote. For the first time since at least 2000, they’ve written and paid for a ballot argument against a city bond plan. The resistance to more borrowing echoes a municipal-issuance slowdown nationwide, with sales about 6 percent below last year’s pace, data compiled by Bloomberg show.

“We’re talking to people around the city, and most of them are extremely concerned about the city’s debt,” said Tracy Langston, 42, a resident and volunteer for Vote Smart Mesa, which opposes the bond measures. “The policies of the current city leadership are not sustainable for the next generation. It’s our children and grandchildren who are going to have to pay for this.”

Desert Bloom

As the desert east of Phoenix bloomed into housing developments and shopping centers, Mesa’s population tripled since 1980. Officials used bonds to build roads, parks, a light-rail system, police and fire stations and a spring-training stadium for Major League Baseball’s Chicago Cubs, and until 2008 repaid the debt from the general fund. That year, the city began taxing property to pay voter-approved debt.

Mesa is the most-populous U.S. city that doesn’t tax property for government operations, leading it to rely on revenue from municipally owned electrical, gas, water and sewer utilities to support services including police and fire protection, said Mayor John Giles, a 54-year-old Republican. Some debt goes toward bolstering those utilities, with user fees repaying the obligations, Giles said by telephone.

Bondholder’s Content

The city has a reasonable amount of debt considering its developing suburban fringes and aging downtown neighborhoods, said Todd Curtis, who manages the $274 million Aquila Tax-Free Trust of Arizona from Phoenix.

“I don’t consider them big debt spenders,” Curtis said. “I’m quite content with Mesa debt from a credit perspective.”

Aquila owns about $4.5 million in Mesa utility bonds and would consider buying more if the bond measure is approved next month, he said.

Standard & Poor’s isn’t as sanguine about the borrowing. In May, the company cut Mesa to AA-, its fourth-highest grade, citing a “very weak” debt profile, with interest payments consuming 10 percent of the budget and the city relying on state transportation grants to cover debt payments for infrastructure.

In June, Mesa sold tax-exempt general obligations, including 10-year debt priced to yield 2.57 percent, or about 0.3 percentage point above benchmark munis, data compiled by Bloomberg show.

November Decision

The measure on the Nov. 4 ballot would build a water-treatment plant, repair electrical lines, replace water pipes and convert wooden power poles to steel, according to ballot arguments. The city is taking on debt because it postponed some improvements during the recession, Giles said.

“There’s no question this is a large bond issue,” he said. “The city will be paying down some of this bond debt soon because we’re selling some of the agricultural property we own” south of Mesa.

Mesa has about $4,700 in long-term debt per resident, third-highest among the eight Arizona municipalities with populations of 100,000 or more, according to the cities’ fiscal reports. Scottsdale and Phoenix have higher per-capita burdens, at $6,200 and $4,800, respectively.

City leaders in Mesa have relied on utilities to fund infrastructure that should be paid for with general obligations, to avoid overcharging residents and businesses on utilities, said Gene Dufoe, a 74-year-old resident who’s volunteered for the campaign against the bonds. Dufoe, who described himself as a conservative, said officials are testing the patience of residents for taking on more debt.

‘Legitimate Needs’

Opponents and backers haven’t run polls on the measure, which needs a simple majority to pass. Opponents raised $551 as of Sept. 15, the most recent campaign-finance deadline, according to filings with the city clerk’s office. The campaign to promote the bonds raised $350.

In a blog posting analyzing Mesa’s debt, Dufoe said former Mayor Scott Smith, who unsuccessfully ran for the Republican nomination for Arizona governor this year, was largely responsible for the borrowing increase. Smith took office in 2008, when the city’s long-term debt load was $1.1 billion, according to an annual fiscal report. By 2013 that had risen to $2.1 billion.

“They have legitimate needs,” Dufoe said. “I just don’t agree with how they’re paying for them.”

Smith, 58, president of an executive-consulting firm, said Mesa has borrowed to accommodate growth, and he disputed claims that the burden was high relative to population or property values.

“The question is what level of debt is appropriate can’t be measured simply with a raw number,” he said, adding that he supports the $580 million package.

His successor, Giles, said bond critics aren’t accounting for Mesa’s population growth and the need to finance water and power lines and services such as public safety.

“We are not overextended in terms of debt,” Giles said. “I can’t remember a bond not being successful in Mesa.”

Bloomberg

By James Nash

Oct 24, 2014 9:57 AM PT

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California Toll Road Sells $1.4 Billion in Bonds.

Deal Benefited from Last Week’s Sharp Rally in Credit Markets

The operator of a struggling toll road in southern California sold about $1.4 billion in bonds on Wednesday, capitalizing on a broad decline in yields that has whetted investors’ appetite for riskier bets.

It is the second billion-dollar sale for a toll road this month, after the Texas Transportation Commission’s $1.26 billion bond deal on Oct. 2, and the biggest since Texas sold about $1.45 billion in bonds in March, according to Ipreo data.

The San Joaquin Hills Transportation Corridor Agency, responsible for financing a 15-mile toll road in Orange County, Calif., was able to boost the deal size by 40%, a sign that municipal-bond investors are shrugging off worries about Detroit’s record bankruptcy and Puerto Rico’s economic woes as they pursue bigger returns.

Many toll roads ran into trouble after the 2008 financial crisis, when revenues fell amid declines in traffic. The California agency restructured its debt in 2011 and has hiked tolls every year since 2012 to appease existing bondholders, according to Moody’s Investors Service.

But the historically low yields on ultrasafe government debt and municipal bonds are bolstering the lure of toll-road debt and other riskier types of fixed-income investments. Investors in the recent weeks piled into safer types of debt, driving prices up and yields to fresh lows, amid worries about the pace of economic growth in Europe and in other parts of the world.

Last week, the average yield on municipal bonds hit 2.19%, the lowest level since May 2013, according to S&P Municipal Bond Index. Bond prices move in the opposite direction of yields.

In Wednesday’s deal, the San Joaquin agency priced most of the debt to yield between 4% and 4.45%. Proceeds will go toward refinancing bonds sold to build the highway, which opened in 1996 and runs between the cities of Newport Beach and San Juan Capistrano.

A $1.1 billion chunk of the bond deal is rated triple-B minus by Standard & Poor’s Ratings Services, one notch above “junk” status. Another $294 million part, rated “junk,” was priced to yield between 4.55% and 4.8%.

“With people stretching to get a little more yield, their timing is good,” said Howard Cure, director of municipal research at Evercore Wealth Management LLC, which supervises about $5.4 billion.

Toll roads are rebounding with the economy after the recession caused vehicle use to fall about 3% between 2007 and 2011, according to a report last week by Janney Capital Markets, which upgraded its outlook on the sector.

The San Joaquin toll road was originally proposed as a free highway funded through gas-tax revenues before lawmakers in the 1980s approved a plan to collect tolls to fund construction, billing it as a way to build highways without taxpayer money.

Usage and revenue growth, however, didn’t match projections. After the recession buffeted toll collections, the agency shored up its financial health by renegotiating with bondholders to stretch out some payments and agreeing to maximize toll collections.

The lower interest rate from Wednesday’s sale will allow the agency to slow the rate of toll hikes so they match the rate of inflation, said Amy Potter, the agency’s chief financial officer. “We’ve put together a debt structure that aligns well with how the road has performed,” Ms. Potter said, adding that the new bonds allowed the authority more breathing room to cover debt payments.

The sale leaves the agency with about $2 billion in debt, according to S&P.

THE WALL STREET JOURNAL

By AARON KURILOFF

Updated Oct. 22, 2014 6:30 p.m. ET

Munis Poised for Biggest October Gain Since 2000 Amid Bond Rally.

The $3.7 trillion municipal market is poised for its biggest October rally in 14 years, pushing yields to 16-month lows in defiance of historical trading patterns for the month.

State and local debt has earned 1.45 percent this month, on pace for the best October performance since a 1.5 percent gain in 2000, according to Bank of America Merrill Lynch data. Yields on benchmark 10-year munis have dropped 0.28 percentage point this month, the most since January, to 1.95 percent, data compiled by Bloomberg show.

The move contrasts with the past five years. Yields have jumped an average of 0.19 percentage point in October since 2009, more than all periods except June. The municipal market has joined a volatile October for financial markets: Stocks worldwide lost about $3.3 trillion in market value during the month through yesterday and 10-year Treasury yields dipped below 2 percent for the first time since June 2013.

“The market is going against investors’ expectations of higher rates — we’ve gone nothing but down,” said Peter Hayes, head of munis at New York-based BlackRock Inc. (BLK), which oversees $122 billion in local debt. “Rates are certainly getting close to their all-time lows again.”

For state and local bonds, the gains extend a streak in 2014 of no monthly losses, an unprecedented feat over the past 25 years. Fueling the advance, individuals have added to muni mutual funds for 14 straight weeks, the longest stretch since October 2012, Lipper US Fund Flows data show.

Munis' 9.9 percent return this year compares with 5.7 percent for Treasuries, Bank of America data show. That's pushed the ratio of 10-year muni yields to similar-maturity Treasuries to 88 percent, close to the lowest this year, Bloomberg data show. A lower figure signals state and local debt is growing costlier relative to federal debt.

Bloomberg

By Brian Chappatta Oct 17, 2014 8:07 AM PT

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Muni Weekly Issuance in U.S. Set to Hit 4-Month High.

Oct 17 (Reuters) – Issuance of new debt in the $3.7 billion U.S. municipal bond market is set to hit its highest level in four months next week, reaching $8.4 billion, as investors and issuers remain undeterred by the volatility that has hit financial markets.

Notable deals include $253.27 million for Atlantic City, New Jersey; $1 billion of toll revenue bonds from San Joaquin Hills, California, Transportation Corridor Agency; and $500 million transportation revenue bonds from New York's Metropolitan Transportation Authority (MTA).

The total issuance, which does not include notes, will be the highest since the week ending June 28, according to Thomson Reuters data. Nearly $6 billion on the planned issuance is made up of negotiated deals.

The high issuance is a vote of confidence in the market after a volatile period and a sign issuance may pick up after a slower year so far than last year. Year-to-date new issuance is down 7.6 percent compared to the same period in 2013.

San Joaquin Hills Transportation Corridor Agency's $1 billion issue of toll revenue bonds is to refund bond issues in 1993 and 1997, the agency said. Joaquin Hills Transportacion Corridor is a 15-mile segment of 18-mile State Route 73, which opened to traffic in 1996. It passes through cities such as Newport Beach, Irvine, and Laguna Beach.

A study commissioned by the agency projects toll revenue will grow by an annual 3.2 percent through 2050.

Janney Capital Markets this week upgraded its outlook on the U.S. toll road sector to 'stable' from 'cautious', saying toll revenues had stabilized although annual vehicle miles have not recovered to the 3 trillion peak clocked before the recession.

"This stability, combined with toll rate increases in most systems, has improved revenue streams, although debt loads have also grown," said Janney is a report dated Oct 15.

Barclays and Goldman Sachs are joint lead underwriters on the deal.

The New Jersey state authority that supports development in Atlantic City, the Casino Reinvestment Development Authority, is slated to sell $253.27 million of luxury tax revenue bonds next week, despite a triple-notch downgrade of other bonds from the same issuer to junk on Wednesday.

While Atlantic City's economy has struggled alongside its flat lining casino industry, some indicators have improved. The luxury tax, for instance, have had an average annual growth rate of 6.13 percent from 2004 to 2013, with only two years of decline during the recession in 2008 and 2009, the POS said.

Even so, annual trips to Atlantic City were down 4.4 percent in 2013 to 24.7 million.

The MTA's sale of revenue bonds will come in two segments. One is a $400 million in fixed rate bonds while the remaining $100 million will be made up of $100 million SIFMA floating rate tender notes. RBC Capital Markets is the underwriter.

NEW YORK Sat Oct 18, 2014 2:00am IST

(Reporting by Edward Krudy; Additional reporting by Hilary Russ; Editing by Grant McCool)

California High Court Refuses to Hear High-Speed Rail Case, Clears Way for Bonds.

Oct 15 (Reuters) – The California Supreme Court on Wednesday refused to hear a case challenging California's controversial high-speed rail project, clearing the way for the state to sell up to $9 billion in bonds to start building tracks and stations.

The refusal to revisit an appeals court decision favoring the project comes as the state is beginning demolition work on the first phase of the project, which is meant to eventually connect far-flung parts of the state from San Diego to San Francisco and Sacramento.

"We will continue to move forward aggressively to deliver the nation's first high-speed rail system," said Dan Richard, chairman of the California High Speed Rail Authority.

The plan to build the 800-mile system is a priority of Democratic Governor Jerry Brown, but has generated fierce opposition among Republicans, who say it is too expensive and predict it would be a boondoggle.

A group including a farmer, a landowner and the government of Kings County had asked the state to re-examine an appeals court decision allowing the state to sell municipal bonds to raise money for the project. Voters in 2008 approved the sale of the bonds to help pay for high-speed rail, now estimated to cost about $68 billion altogether.

"We're disappointed," said Timothy Bittle, director of legal affairs for the Howard Jarvis Taxpayers Association, an anti-tax advocacy group that had opposed allowing the state to issue the bonds. "The decision to incur such enormous debt and monumental undertaking deserves Supreme Court review."

A California appeals court in July rejected opponents' claims that the bond sale should not be allowed to go forward because it had changed too much since voters approved it, among other arguments. It overturned a lower court ruling that had put a stop to preparations for the sale.

The state Supreme Court's decision not to reconsider that ruling was made with six justices in favor and one opposed, said Lisa Marie Alley, spokeswoman for the high speed rail authority.

BY SHARON BERNSTEIN
SACRAMENTO, Calif. Wed Oct 15, 2014 8:20pm EDT

(Reporting by Sharon Bernstein; Editing by Cynthia Osterman)

N.Y.'s $1.6 Billion World Trade Debt Is Record for Unrated Deal.

A New York development agency plans to issue $1.63 billion of bonds this month for the 3 World Trade Center tower in Manhattan, in what is set to be the municipal market's largest unrated deal.

Developer Larry Silverstein is issuing tax-exempt debt for the 80-story tower through Liberty Development Corp., a subsidiary of the state's economic-development agency. The securities won't have credit grades when they're offered, according to a 2,684-page bond document released yesterday. It would be the largest issue without a rank from the three largest rating companies in Bloomberg data going back to 1990.

The offering, managed by Goldman Sachs Group Inc. (GS), was delayed for more than a year after the Port Authority of New York & New Jersey balked at guaranteeing the debt. The bonds will price in the last week of October, Bloomberg data show.

Rating companies don't have criteria for this type of transaction, though investors have seen similar offerings, said Marvin Markus, the lead investment banker on the deal at New York-based Goldman Sachs. The building is approximately 20 percent leased, according to the bank.

"There are no published criteria for a development like this, which has construction, lease-up and occupancy components," Markus said in a telephone interview. "This is not a brand new sector for the market."

Tax-Exempt Funds

Most commercial office developments don't have access to tax-exempt financing like Liberty Bonds, so developers generally use bank loans, Markus said. Liberty Bonds for 7 World Trade Center were also issued without ratings, and then refinanced into commercial mortgage-backed securities.

Dara McQuillan, a spokesman for New York-based Silverstein Properties Inc., didn't immediately respond to a request for comment on the deal.

In June, the Port Authority approved an agreement allowing Silverstein to use $159 million of insurance proceeds to finish the tower, which was stalled at eight floors. It is scheduled for completion in 2018.

Typical issuers of unrated debt in the $3.7 trillion municipal market include senior-living facilities, housing developers and corporate borrowers seeking tax-free financing. As with junk-rated securities, which are more prone to default, investors demand higher yields on the bonds.

Bond documents cite 118 investor risks, including the possibility the tower won't be completed, insufficient tenant leases and the potential for terror attacks that could reduce revenue.

Mortgage Backing

The bonds for 3 World Trade will be secured by a mortgage on the building, tenant leases and rents. In addition to debt and insurance proceeds, financing will also come from $55 million of equity from Silverstein, $210 million from the Port Authority and contributions from the state and New York City. Advertising firm GroupM is the main tenant.

Beginning in January 2021, 3 World Trade Center LLC will determine if any of the bonds can win an investment grade, and if so, will work to obtain such a rank, according to offering documents.

The federal Liberty Bond program was created after the 2001 terror attacks to revive Lower Manhattan with $8 billion of tax-free financing. Liberty Development previously issued $2.3 billion of Liberty Bonds for World Trade Center redevelopment. Goldman Sachs used the program to sell about $1.6 billion to finance a new headquarters.

Bloomberg

By Brian Chappatta and Martin Z. Braun

Oct 15, 2014 10:34 AM PT

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New York to Offer Debt Backed by Record Tax Receipts: Muni Deals.

New York this week is offering $1 billion in bonds backed by sales taxes for only the second time since 1995, as collections set a record high.

The issue through the Dormitory Authority of the State of New York, part of a program lawmakers approved last year, includes both tax-exempt and taxable securities. New York expects to collect $12.1 billion in sales-tax revenue this year, up from last year’s all-time high of $11.8 billion, deal documents show.

“We expect the sale to price extremely well, given the scarcity of New York state sales tax revenue bonds and the strong demand for high-quality bonds,” Morris Peters, a spokesman for the budget division in Albany, said by e-mail. “We expect rates to be extremely attractive for the state as benchmark yields are around historical lows.”

Standard & Poor’s gives the bonds the top rank, citing the state’s diverse economy. The company grades New York general obligations a step lower, at AA+.

Proceeds from the sale will finance roadwork and other projects, from the State University of New York Upstate Community College to the State Court Officers Training Academy in Brooklyn, according to deal documents.

The offering follows a $1 billion sales-tax deal in October 2013, where a tax-exempt 30-year maturity priced to yield 4.52 percent, data compiled by Bloomberg show.

Bloomberg

By Romy Varghese Oct 13, 2014 5:30 PM PT

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Austin, Texas, Has a Renewable Energy Plan; City-Owned Utility Isn't on Board.

Late this summer, the Austin City Council trumpeted its commitment to a progressive energy policy by calling for a dramatic expansion in solar power generation, earning accolades from environmental advocates across the country.

But the city-owned utility, Austin Energy, has balked at the council's proposal and said it would be too expensive for ratepayers. And since then, a debate has ensued over how to be politically progressive and economically practical at the same time.

Resolution 157, which council members passed in August amid controversy, directed Austin Energy to make sure that 65 percent of the city's energy needs are met with renewable resources in just over a decade. In less than three years, the resolution adds, the utility should strive to completely replace power generation from an old natural gas-fired plant with solar power.

Council members also said they are committed to keeping rates low. But the utility said the changes would not be affordable. Today, more than 20 percent of the power provided by Austin Energy is renewable, but much of it does not come at a profit — especially not solar, which is the City Council's chief target for expansion.

Paradoxically, that is in part because the city was a pioneer in generating renewable energy, and it secured long-term contracts years ago when the price of solar energy was far higher than it is now. And there are problems with generating lots of solar energy, like the variability of weather conditions.

"In a sense, it's a great problem to have because we're leading the state and probably most of the country when it comes to producing renewable power," said Robert Cullick, a spokesman for the utility. "But, there's a cost to that," he added — at least tens of millions of dollars a year.

To make up for the loss, the utility said it must generate cheaper power through other means and sell it into Texas' electric grid at a profit. So last week, Austin Energy presented a modified plan to the City Council: Lower the goal for renewable energy production to 50 percent of all generation by 2025 and build a newer, more efficient gas plant in place of the old one.

But Chris Riley, an Austin councilman who pushed for the original resolution, was skeptical of claims that natural gas was a clean enough form of energy.

"There are so many concerns about fracking and other gas extraction methods and the environmental problems associated with extraction," Riley said. "At this point, I don't even know if there's a way for us to have a plant that produces clean gas."

Council members have also pointed out that natural gas is still a carbon polluter, and their goal is to eliminate all carbon emissions from Austin Energy-owned power generation by 2030.

The utility's proposal may soon go through an independent review.

"Austin is in a better situation than places that are not in charge of their own utility," said Daniel M. Kammen, a professor of energy at the University of California, Berkeley. He said the City Council's goals were achievable, but that even if they are slightly too high, "aspirational" targets can spur more innovation.

Ross Baldick, a professor at the University of Texas at Austin who studies energy markets, said lofty goals only work up to a point.

In California, he pointed out, attempts to get to zero-emissions vehicles decades ago "were so unrealistic that they then were basically ignored."

"It's good to have aspirations," he said, "except if the aspirations are so far afield that they are simply going to be ignored."

BY THE TEXAS TRIBUNE | OCTOBER 17, 2014

By Neena Satija

Detroit Creditors Become Partners in Redeveloping City.

A milestone agreement in Detroit's record bankruptcy requires its last major creditors to help revitalize the city's downtown in return for cutting their losses from a $1.4 billion pension deal that went sour.

Financial Guaranty Insurance Co. would indirectly own and pay to redevelop the riverfront site of Joe Louis Arena — home of the National Hockey League's Detroit Red Wings — which will be demolished in 2017 when a new arena opens a mile away. FGIC would also get a share of $141.4 million in new notes in a deal announced yesterday in federal court in Detroit.

The agreement brings the city closer to resolving its $18 billion bankruptcy, and would put a group of creditors that includes Aurelius Capital Management LP and and BlueMountain Capital Management LLC, owed about $1.1 billion, in charge of building a hotel and retail space in a downtown that civic leaders view as a linchpin of economic recovery.

"There wasn't any more cash," Mayor Mike Duggan said in an interview yesterday. "They made an assessment that their best chance for a return was to participate in Detroit's redevelopment.

''The more successful their development is, the more of their claim they get back. It's great for both of us."

The deal is modeled after one the city struck with another bond insurer, Syncora Guarantee Inc. Both companies insured $1.4 billion of pension debt that won't be repaid under the city's debt-cutting proposal.

Instead, the bond insurers would collect cash, notes and land that they would use to help pay holders of the pension debt. Depending on the structure of the final deal, Aurelius and the other investors would indirectly own from 83 percent to more than 90 percent of the land under the FGIC deal.

No Deal

The debt holders have not yet agreed to a deal, but may do so in the next few days, said their attorney, Thomas Moers Mayer.

Requiring creditors to invest more in the city is at least rare, and may be unprecedented in a municipal bankruptcy, attorney James E. Spiotto said in an interview. The deal resembles a corporate restructuring, he said.

“To some degree it’s a lot like Chapter 11, where they are giving them a chance to buy equity in the debtor,” Spiotto said. “They have to put something into it to get something out.”

Mayer said the arena and its parking garage would be owned by a trust for the benefit of the debt holders and managed by FGIC.

‘The Joe’

Nicknamed “The Joe,” the hulking, windowless edifice was built by the city in the late 1970s to keep the Red Wings from moving to a suburb. It hosted the 1980 Republican National Convention, where Ronald Reagan was nominated candidate for president.

Built as part of a downtown revitalization plan, it now will give way to another one 35 years later.

The redeveloped site would bookend a commercial-entertainment district with a $650 million development anchored by the new hockey arena to the north. That project, led by billionaire Mike Ilitch, owner of the Red Wings, also would include a hotel, residential housing and retail establishments.

While Detroit continues to lose population, 10,800 jobs have been added in the central business district since 2010, when 52,100 people worked in the area, according to the Southeast Michigan Council of Governments.

Clearing Blight

The settlement would enable Detroit to carry out a rebuilding program that calls for spending of at least $440 million clearing blight from troubled neighborhoods.

During the hearing yesterday, Mayer told U.S. Bankruptcy Judge Steven Rhodes that the hedge funds pulled out when they learned of a last-minute change in the proposal.

Mayer said in an interview that his clients were ready to join the deal when they learned that an upfront cash payment of about $171 million would instead be spread out over several years.

Whether the hedge funds get the payment up front or over time, they are still getting more than what Detroit had initially proposed, Mayer said. The city had estimated pension bondholders would get back no more than about 10 percent of the $1.4 billion they are owed.

FGIC and the bondholders would have three years to build a hotel and the retail center on the site. The development may be completed by 2022, said Corinne Ball, a lawyer for the city.

Three Approvals

The deal needs at least three approvals before it’s final. New York state regulators that oversee FGIC must sign off, as must the Detroit city council or, if the council rejects it, a Michigan loan board that helps oversee Detroit’s finances. Rhodes has the final say on the settlement and the overall plan, which would shed about $7 billion of debt.

Detroit already reached settlements with other creditors, including public pension systems, under court-supervised mediation in the past year.

Rhodes scheduled a hearing for next week, saying he still plans to hear testimony from a court-appointed expert hired to examine the city’s proposal.

Detroit filed for bankruptcy in July 2013, following decades of decline. The city listed $18 billion in liabilities and said it couldn’t meet its financial obligations while still providing necessary services to the public.

At the center of the plan is an agreement with the state of Michigan and large philanthropies to protect Detroit’s art collection in exchange for hundreds of millions of dollars to shore up public pension funds. Some opponents said the art should be sold or used to secure loans to repay creditors.

FGIC agreed to drop all its objections to the plan under the deal.

“We are happy to report what has seemed like Detroit’s own version of the Gordian knot has been cut,” Ball said in court yesterday. “We now have it done.”

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

Bloomberg

By Steven Church and Chris Christoff

Oct 16, 2014 9:01 PM PT

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Detroit to Demolish Arena, Give Land to Creditor in Bankruptcy Case.

Financial Guaranty Insurance To Get Land of Joe Louis Arena, Home of Red Wings Hockey Team

Detroit is on the verge of a mostly amicable end to its historic bankruptcy case, with its largest holdout creditor unveiling a deal Thursday to stop fighting and instead take a major stake in the city’s revival.

Under the plan, the city will knock down its fabled but soon-to-be vacant Joe Louis Arena, home of the Detroit Red Wings professional hockey team, to make way for redevelopment led by Financial Guarantee Insurance Co., which the city owes about $1 billion.

Once marred by high vacancy and low prices, Detroit real estate has heated up in recent months, driven by renovations of long-vacant buildings and new buyers including Chinese companies. There are also several major construction projects under way, including a downtown light-rail line and a $400 million mixed-use development centered around a new home for the Red Wings.

The latest deal calls for turning into an ally the bond insurer that had once argued the city's debt-cutting plan was unworkable. FGIC also pushed for the city to consider selling its famed art collection to help pay off its debts.

The bond insurer is now planning to enter a new development deal for the right to build a hotel, riverfront condominiums and retail stores on the site of Joe Louis arena.

The arena site is considered prime in part because it is near the city's Cobo convention center, the home of the annual North American auto show, which is undergoing a yearslong renovation and expansion.

City officials said FGIC's rate of recovery on its claim—at about 13 cents on the dollar—is similar to some other bond insurers, but Detroit will tack on cash and real-estate inducements potentially worth close to $100 million.

By comparison, Detroit's debt-cutting plan gives the city's pensioners about 46 cents on the dollar for their $3.1 billion claim.

"It's a big day," said Bill Nowling, spokesman for Detroit Emergency Manager Kevyn Orr. "It's the last major hurdle before plan confirmation."

The Detroit City Council also must approve the development-rights deal, but any rejection could be effectively overridden by Mr. Orr and a state oversight board.

The city's broader debt-cutting plan still needs the approval of U.S. Bankruptcy Judge Steven Rhodes of the Eastern District of Michigan.

After a weekslong trial on the viability and fairness of Detroit's restructuring plan, Judge Rhodes is expected to hear closing arguments next week. A ruling could follow within several weeks and city officials hope Detroit could be out of bankruptcy court as soon as Thanksgiving.

Detroit filed for bankruptcy protection in July 2013 with an estimated $18 billion in long-term obligations.

Its current restructuring plan calls for a $7 billion reduction in debt and a $1.4 billion reinvestment in removing blighted buildings and boosting police and fire services in the city of about 680,000.

Most of the city's creditors, including municipal employees and retired workers, agreed to settle. Some individual objectors remain, arguing in part that the city's emergency manager acted improperly to cut any benefits to pensioners.

In addition to its size, the bankruptcy case drew note because Judge Rhodes earlier ruled that the city in bankruptcy court had the ability to cut future pension payments once thought to be guaranteed under the state constitution.

However, no other cash-poor major city has followed Detroit into Chapter 9, perhaps a recognition of the enormous costs involved in the year-plus endeavor.

Detroit also had the additional advantage of capitalizing on its storied history as an automotive capital. It was able through federal mediators to forge a unique “grand bargain” to use hundreds of millions of dollars from private foundations and the state of Michigan to help safeguard its world-class art collection and reduce the blow to its city pension system.

“The City all along has sought negotiated settlements with its impaired creditors that were not only fair and reasonable given Detroit’s financial situation, but also would allow it to exit bankruptcy solvent and able deliver basic services,” Mr. Orr said in a statement Thursday.

By revitalizing the former home of the Red Wings of the National Hockey League at the city-owned Joe Louis Arena along the Detroit River, FGIC is following the earlier example of another bond insurer who settled in return for a development deal involving a tunnel linking the city to Canada, nearby vacant land and a city parking garage.

“FGIC has always been, and continues to be, believers in Detroit’s long-term revival prospects, and this deal gives us the opportunity to participate in and help catalyze that revival,” Timothy Travers, chief executive of FGIC, said Thursday.

A statue of Joe Louis, the former heavyweight boxing champion, is on display in the nearby Detroit convention center known as Cobo Hall, won’t be affected by the real-estate deal, a city spokesman said.

THE WALL STREET JOURNAL

By MATTHEW DOLAN

Updated Oct. 16, 2014 6:22 p.m. ET

Write to Matthew Dolan at matthew.dolan@wsj.com

WSJ: What a Struggling Jail Means for Investors, Small Towns.

Rhode Island’s Donald W. Wyatt Detention Facility has struggled since officials at U.S. Immigration and Customs Enforcement pulled out their detainees in 2008, following the death of a Chinese national held there. That pullout happened shortly after the facility expanded to hold 770 detained people.

The detention center, which owes about $97.3 million in bonds, was taken over by an outside financial professional earlier this year.

The facility is supposed to kick in money to the city of Central Falls, R.I., which had its own financial problems and eventually filed for bankruptcy in 2011. When the city’s lawyers redrew revenue forecasts as part of its financial revival, lawyers pointed out that they hadn’t been getting—nor did they expect to receive—payments from the facility, which takes in detained people from Rhode Island, Connecticut, Massachusetts, New Hampshire, Maine and Vermont, according to its website.

An article in Wednesday’s Wall Street Journal shows how some cities and states that took on risk to build jails or prisons are hurting after crime unexpectedly fell and the inmate population declined.

While the reduction in crime and incarceration has many social benefits, municipalities are having a tough time finding new uses for prisons. Old office buildings can be converted to apartment buildings or hotels. Outdated government buildings can be used for retail or as schools.

Jails in particular also pose a risk to investors in the relatively safe and stable $3.7 trillion municipal bond market, and financial hardship can spread to the small towns where the facilities are often located.

Bonds that pay for jails have the second-highest default rate in the municipal sector, at 2.1%, behind retirement community debt, which has a 4.9% default rate, according to data from the research firm Municipal Market Advisors. Jail debt also has the second fastest-growing default rate, rising from 1.1% in the second quarter of 2013.

Eighteen jail bonds have defaulted since 2010, with a par value of about $400 million, said Matt Fabian, managing director at the firm.

To be sure, the jail bond sector is small, and its hardship is unlikely to infect the overall market. Jail bonds are often unrated and sought out by high-yield funds or others aware of their risks—not by mom-and-pop investors who make up most of the municipal bond market. “The impact on the market as a whole is small,” Mr. Fabian said.

The economy of a small town that extended municipal bonds to build a big facility, however, might not be so insulated.

The Glades County Detention Center in Florida—the largest employer in the 13,000-resident Glades County—has a fraction of the 114 workers it once employed after two rounds of layoffs, said Robert DeMann, chief deputy in the sheriff’s department.

County officials were preparing to build a 50-bed jail, but officials from U.S. Immigration and Customs Enforcement pushed for the much larger facility that eventually opened in 2007, Mr. DeMann said. The facility can hold 626 people but it has taken in far fewer inmates than that after the agency instructed its officers in 2011 to use discretion when deciding to detain people in order to save money.

“Obviously, we don’t have control” over how many people become detained, Mr. DeMann said, adding that the immigration-enforcement agency pays $80.54 a day for each detained person.

It’s unclear what will happen next. The facility dipped into it reserve money to make a Sept. 1 payment that was due to bondholders who extended $33 million to build the facility.

The Irwin County Detention Center in Ocilla, Ga., had trouble repaying $55 million in bonds sold in 2004 to pay for an expansion after it took in fewer-than-expected detainees. Hamlin Capital Management LLC and a fund managed by OppenheimerFunds Inc. forced the facility into bankruptcy in early 2012.

Local leaders then rallied to overthrow a national detention center operator that won a bankruptcy auction for the 1,200-bed facility, arguing that the operator might shut it down. In court papers, the county’s lawyer said that even though the winning $13,048,000 bid had a higher dollar value than another bidder’s offer, the effect of the potential closure would hurt the community.

“This will be devastating to Irwin County,” the county’s lawyer, Roy E. Barnes, in court papers filed in U.S. Bankruptcy Court in Atlanta, noting that the facility’s manager employed between 150 and 200 workers. Mr. Barnes said that the facility was the 9,500-resident county’s largest private employer.

A bankruptcy judge later declared the second-highest offer to be the best one.

THE WALL STREET JOURNAL

By KATY STECH and
AARON KURILOFF

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Detroit in Deal With Its Biggest Holdout Creditor in Bankruptcy Case.

Lawyers for Detroit said on Thursday that the city had reached a settlement with its biggest remaining holdout creditor, clearing a significant obstacle from its path out of bankruptcy.

The settlement would give the Financial Guaranty Insurance Company the rights to build a hotel, retail and condominium complex on the site of the Joe Louis Arena, a five-acre riverfront site that is now the home of Detroit's hockey team, the Red Wings. The team had previously announced plans to move to a new arena in a different neighborhood when its lease expires in 2017.

In addition, Financial Guaranty would obtain the rights to a parking garage on the site, and would receive two types of notes from the city with a total stated value of about $146 million. The city also agreed to provide about $20 million in "settlement credits" that Financial Guaranty can use to bid on other city properties that may come onto the market in the future.

The state government will contribute $6 million to defray the city's cost of demolishing the 35-yea--old hockey arena and removing contaminants. Any unused money would go to the insurer.

Corinne Ball, of the Jones Day law firm, said the deal represented "a significant investment in Detroit's future" that would round out the development of the city's waterfront, now a mix of attractions and fenced-off empty space. The hotel would cater to people attending events at the nearby Cobo Center, including an annual auto show.

"This will be, hopefully, another turning moment for this area of Detroit," Ms. Ball said.

The settlement, which must still be approved by the City Council, would end a dispute that has been threatening to unravel other important settlements that Detroit has reached with its thousands of creditors. Financial Guaranty had raised strenuous objections to the deal at the heart of Detroit's exit strategy, called the "grand bargain," which calls for using hundreds of millions of dollars in donated money to bolster the city's pension fund and to move the Detroit Institute of Arts to a bankruptcy-proof entity.

The insurer had argued that the celebrated art collection was an asset of the city that had to be used to help resolve all the city's debts, not just to benefit one class of creditors, the pensioners. Municipal bankruptcy rules say a plan of debt adjustment cannot discriminate unfairly among creditors in a similar class.

Timothy S. Travers, the chief executive of Financial Guaranty, said in a statement Thursday that he was satisfied the insurer was now receiving a recovery consistent with those of similar creditors.

He said Financial Guaranty had always believed in Detroit's prospects for revival, and "this deal gives us the opportunity to participate in and help catalyze that revival."

If the settlement is approved, Detroit will withdraw a lawsuit it filed earlier this year contending the debt that Financial Guaranty insured was incurred illegally and should be treated as null and void. It would have been unprecedented for a city to repudiate such debt in municipal bankruptcy.

The debt in question dates to 2005, when the city borrowed $1.4 billion to put into its pension system. Detroit was already in financial trouble at the time and did not have another way to make its required pension contributions. Financial Guaranty insured $1.1 billion of the debt. Another bond insurer, Syncora Guarantee, insured the remainder and settled its claims with the city last month.

Detroit's emergency manager, Kevyn D. Orr, had said the 2005 borrowing was illegal because it violated the city's legal debt limit through a convoluted structure of sham corporations. Financial Guaranty argued in response that if the borrowing were truly illegal, then the pension system would have to return the $1.4 billion to the investors who bought the debt. Had things ever reached that point, the pension system would have been at risk of handing over more money than it now stands to get through the "grand bargain," which a majority of Detroit's retirees have already voted to accept.

Mr. Orr is expected to present the new settlement to the Council in the next few days. His term as emergency manager has ended, but the City Council recently agreed that he should stay on, "solely for the purpose of executing documents and overseeing litigation related to the bankruptcy proceedings," according to a statement it issued with Mayor Mike Duggan.

The settlement gives seven institutions that hold the pension debt the right to opt into the deal along with Financial Guaranty. It was not clear on Thursday whether they would do so. The investors include European banks that bought the debt when it first came to market, and hedge funds that bought it at deep discounts as Detroit plunged toward bankruptcy.

If the settlement with Financial Guaranty is approved, Detroit's legal team will still have to convince Judge Steven W. Rhodes that the city is ready to leave the protection of bankruptcy court. Not only must the city have a plan of debt adjustment that does not unfairly discriminate among creditors, it must also show that its plans for the future are "feasible," a term that the bankruptcy code does not define.

Judge Rhodes has already selected a public-finance expert to testify on the feasibility issue, Martha E. M. Kopacz, of Phoenix Management Services, a firm that specializes in restructurings. The judge has also been asking experts whether the pension system will still expose Detroit to too much investment risk after the bankruptcy.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

OCT. 16, 2014

NYT: How the Big Tobacco Deal Went Bad.

SAN BERNARDINO, Calif. — WHEN was the last time you saw an anti-smoking ad?

In November 1998, the tobacco industry and 46 states reached what is known as the Tobacco Master Settlement Agreement (four states reached separate settlements). This group deal exempted the industry from legal liability for the harm caused by tobacco use. In return, the tobacco companies agreed to make annual payments, in perpetuity, to the states to fund anti-smoking campaigns and public health programs. The industry guaranteed a minimum of $206 billion over the first 25 years.

While a requirement that the states use these funds as intended was not written into the agreement, it was anticipated that they would do so.

They haven't.

Only a small fraction of the money has gone to tobacco prevention. Instead, the states have used the windfall for various and unrelated expenditures. In Alaska, $3.5 million in settlement money was spent on shipping docks. In Niagara County, N.Y., $700,000 went for a public golf course's sprinkler system, and $24 million for a county jail and an office building. And in North Carolina, in the ultimate irony, $42 million of the settlement funds actually went to tobacco farmers for modernization and marketing.

But that's not all: Nine states — Alaska, California, Iowa, Michigan, New Jersey, New York, Ohio, Rhode Island and West Virginia — and Washington, D.C., Puerto Rico and Guam decided to get as much of those annual payments as fast as they could by mortgaging any future payments as collateral and issuing bonds. They traded their future lifetime income for cash today — at only pennies on the dollar.

A typical bond is like an interest-only loan with a balloon payment in 30 years. But to avoid having to pay yearly interest payments, these 12 chose to issue capital appreciation bonds, deferring all interest payments and repayment for up to 50 years. Then the entire amount is due — with no plans made as to how it will be repaid. By the time these bonds come due, the legislators who approved them will be retired or dead.

Because of the high probability that these bonds will not ever be repaid, they had to be sold at well under their original $1,000 face value in order to attract investors. The 12 issued $22.6 billion in bonds, receiving only $573.2 million in cash. With compounded interest, they will have to repay $67.1 billion. Imagine borrowing $200,000 to buy a house today and your children having to pay back $234 million in 40 or 50 years. That's the scale of this problem. And some of the states went even further: Michigan will have to pay back more than 1,800 times the amount it borrowed.

The ownership of these bonds rests primarily with banks and mutual funds. According to Cezary Podkul, an investigative reporter for ProPublica, who has reported on this story (I helped ProPublica analyze the documents), these institutional investors are betting that the states will step in and bail out these bonds with some combination of all future settlement payments and taxpayer dollars. The idea is that the states won't risk the stigma of a default and will protect their relationships with the institutional investors and the bond brokers who also handle their municipal bonds. They will do this by sticking future taxpayers with the bill.

Looking at the continuing decline in cigarette sales and the corresponding payments, many analysts, including me, believe that defaults will begin to materialize by 2026. If all of the 12 try to stave this off and guarantee their bonds by pledging future tax or bond revenues, the investors will receive a breathtaking profit of 11,708 percent.

This isn't just a "what if" scenario: New Jersey and Rhode Island have already taken steps to reissue bonds with a guarantee of all their future tobacco settlement payments. Rhode Island is now being sued by Oppenheimer Funds to prevent this reissue, claiming that the state intends to divert some $20 million from earlier bondholders, including Oppenheimer. And as a result of New Jersey's guarantee of its bonds, with its implications for the future, its credit rating has been downgraded by Wall Street twice this year, from stable to negative.

The only people making money on these bonds are investment bankers who fooled state politicians into believing that ready money in their state coffers now was more important than any future consequences. The fact that only these 12 issued bonds tells us that a vast majority of states thought this was a dumb idea.

It won't be easy to fix it. The state legislatures are the only ones that can refuse to authorize a bailout or a guarantee of the bonds, and yet despite the ominous examples of Rhode Island and New Jersey, there is still active discussion of guarantees by other states. The only possible solution seems to be direct action by the voters — in the name of future taxpayers — who could call for and pass a referendum prohibiting the issue of new tobacco settlement bonds and stopping the restructuring of existing bonds without voter approval.

And as for those no-smoking ads? Tobacco-Free Kids reports that all together, the states will spend just 1.9 percent of their settlement payments and tobacco taxes on prevention programs this year. So don't hold your breath.

THE NEW YORK TIMES

By JIM ESTES

OCT. 6, 2014

Data Leak Releases Account Information from Bond Insurer MBIA.

A data leak from the Municipal Bond Insurance Association has exposed a large amount of customer information including account numbers, balances and account holder names, according to the blog KrebsOnSecurity.

The leak was caused by a misconfigured Oracle Reports database server, KrebsOnSecurity blogger Brian Krebs wrote. Instead of being accessible only to authorized users, the information was exposed on the Web, including some that had already been indexed by search engines.

MBIA, a company in Purchase, New York, that insures bonds and provides asset management advisory services, said it has taken the affected server offline.

"We have been notified that certain information related to clients of MBIA's asset management subsidiary, Cutwater Asset Management, may have been illegally accessed. We are conducting a thorough investigation and will take all measures necessary to protect our customers' data, secure our systems, and preserve evidence for law enforcement," MBIA spokesman Kevin Brown said in a statement.

Security researcher Bryan Seely of Seely Security discovered the data using a search engine, and the exposed data included information about the accounts of several public investment pools, the blog said.

MBIA has annual revenue of $1.64 billion, according to Yahoo Finance.

By Stephen Lawson

IDG News Service | Oct 7, 2014 12:56 PM PT

Stephen Lawson covers mobile, storage and networking technologies for The IDG News Service. Follow Stephen on Twitter at @sdlawsonmedia. Stephen's e-mail address is stephen_lawson@idg.com

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California Governor Signs Off on New Tax-Increment Financing Structure.

On September 29, Governor Brown signed legislation that is seen as creating a robust new financing tool which will expand the existing mechanism of Infrastructure Financing Districts ("IFDs") and replicate some of the functions of the state's abolished local redevelopment agencies. SB 628 (Beall; D-San Jose) authorizes local officials to create Enhanced IFDs and issue bonds to finance capital improvement projects and other specified projects of communitywide significance. Enhanced IFDs may include any portion of a former redevelopment project area.

The tax-increment financing structure could be used to finance, among other initiatives:

- The acquisition and redevelopment of industrial structures for private use
- Parks
- Recreational facilities
- Open space
- Environmental cleanups
- Low and moderate-income housing
- Sewage treatment and water reclamation plants
- Transit priority projects

Significantly, the new financing authority can also use eminent domain powers previously exercised solely by the now defunct redevelopment agencies under the Polanco Redevelopment Act.

Enhanced IFDs require a city or county to establish a governing board for the authority and adopt an infrastructure financing plan with project eligibility requirements. A city or county can create an Enhanced IFD without a vote; however, approval of 55% of the voters in the district is required to issue bonds. Authorization for creating the Enhanced IFDs depends on the completion of certain repayment obligations by successor agencies of the former redevelopment agencies formed by the city or county seeking to create the new district. In response to concerns from affordable housing advocates, successor agencies must remit to the state any low and moderate income housing funds. However, the precise scope and schedule of the repayment obligations remains to be determined by the Department of Finance ("DOF") through the required notice of completion from DOF and the state office of the Controller. This prerequisite may impact the timing of implementation of the districts.

Local governments may now have an opportunity to build and repair infrastructure by utilizing the tax-increment financing tools they had under redevelopment. Enhanced IFDs will not only support the development of public infrastructure, but can also provide a foundation for the private sector to help build California infrastructure through public-private partnerships.

Chicago Will Use $17 Million in Social-Impact Bonds for Pre-K.

The third-most-populous U.S. city will use about $17 million in social-impact financing to provide pre-K programs to 2,620 children over the next four years, according to a statement on the city's website. The model, also known as pay for success, is structured so that lenders, including Goldman Sachs Group Inc. (GS), are repaid only if students show "positive academic results," the city said.

"Innovative models like social impact bonds and Pay for Success programs allow the private sector to provide the capital needed to expand successful initiatives in our cities and communities, shifting the risk of achieving targeted outcomes away from the taxpayer and enabling governments to pay only for what works," Andrea Phillips, vice president of the urban investment group at New York-based Goldman Sachs, said in the city's statement.

With more than a dozen U.S. states and municipalities assembling social-impact bonds, including Republican-led Ohio and Democratic-controlled Colorado, the market will grow to $500 million by the end of next year, from about $80 million in May, according to the Rockefeller Foundation, a New York-based philanthropy. In addition, President Barack Obama requested $300 million in his 2015 budget to enable more social-impact bond arrangements.

Facing Backlash

Mayor Rahm Emanuel, who is running for re-election, faced a backlash after closing 49 under-performing public elementary schools last year, many on the South Side. Emanuel, whose budget recommendation is scheduled to be submitted to the city council this month, has asked his administration to explore options for improving education access for low-income students.

The program, which Chicago officials said is the fifth social-bond program in the U.S., is meant to increase students' readiness for kindergarten, improve literacy and lower the need for special-education programs.

Lenders will benefit from the savings that Chicago Public Schools will reap as less intervention is needed in later years, city officials said. Goldman Sachs Social Impact Fund and Chicago-based Northern Trust Corp. are the senior lenders, and the J.B. and M.K. Pritzker Family Foundation is the subordinate lender.

"There is nothing that's more important than our kids," Emanuel said in the statement. "Giving them a quality education from day one and helping provide their parents with the tools to be consistent and active partners in their children's education is the best investment any of us can make."

BLOOMBERG

By Elizabeth Campbell Oct 8, 2014 9:06 AM PT

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Government Gives Gas Stations Some Competition.

In an effort to offer residents cheaper fuel, Somerset, Ky., opened what's likely the nation's first city-run retail gas station this summer.

Everyone complains about high gasoline prices. One southeastern Kentucky town this summer decided to do something about it. In June, the town of Somerset opened what could be the nation's first city-run retail gas station. "The public is very concerned about cost," says Mayor Eddie Girdler. "We wanted to see if we could force competition into this field."

Municipalities are used to selling water and electricity; Girdler says that selling fuel was just a minor addition to city services. Somerset already had a fueling center for its own municipal fleet and for vehicles owned by other local governments. Drivers whose cars ran on compressed natural gas could fill up as well. Converting the facility to a retail operation cost the city about $75,000, out of an annual budget that runs close to $64 million.

Somerset doesn't plan to profit from the new enterprise; the fuel center is only meant to break even. That allows the city to charge less at the pump and, officials hope, to drive down prices at nearby private filling stations. So far, it seems to be working. Midway through its second month of operation, the city station and other gas stations in Somerset had prices that were almost 20 cents below the state average.

Of course, customers get what they pay for. The public facility lacks amenities like snacks or repair services. And there are no higher octane fuel options, just regular unleaded gas.

Girdler, a Republican, says the city's foray into retail gas sales is a way to help foster competition. But business groups say it actually interferes with the free market. "You have competition that is also taxing you," says Jeff Lenard, a spokesman for the National Association of Convenience Stores. "It is anything but a level playing field."

State Sen. Chris Girdler, a distant cousin of the mayor, wants to put in place a state law that would stop cities from selling gas and other retail products. "It's unfortunate," he says. "It's expanding government's footprint into an area beyond its traditional role."

GOVERNING.COM

BY J.B. WOGAN | OCTOBER 2014

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Criticism of Illiana P3 Mounts as Critical Vote Nears.

The fate of the Illiana – Illinois first P3 transportation project connecting northeastern Illinois and northwestern Indiana – could be determined Wednesday when the board the Chicago Metropolitan Agency for Planning (CMAP) votes on the its long-term transportation plan for the region.

Last year, CMAP's board rejected the Illiana proposal after the agency's analysis concluded the toll road is "broadly incompatible with the overall goals and recommendations" of its comprehensive plan, known as GO TO 2040. The analysis predicted a traffic shortfall which could leave tax payers on the hook for a $440 million to $1.1 billion shortfall, reported the Chicago Tribune.

“The project is wrong and it shouldn’t be in the plan,” said CMAP Chairman Gerald Bennett. “[The Illiana toll way is] a political plan that has been dropped on us by the governor.”

Bennett will seek to have the road removed from the regional plan, he announced Friday.

Following the rejection by CMAP, the Metropolitan Planning Organization Policy Committee, led by appointees of Illinois Gov. Pat Quinn (D), inserted the highway into the GO TO 2040, the metropolitan area’s long-term transportation strategy.

Illinois Secretary of Transportation Erica Borrggren on Friday defended the policy committee, saying the committee weighed the merits of the project and decided to add the Illiana to the plan.

“At this stage in the regional planning process, the upcoming CMAP board and Policy Committee votes are about consistent, reliable regional decision-making, not about the Illiana,” Borggren said in a statement.

Removing the Illiana from GO TO 2040 will require the vote of 12 of the CMAP board’s 15 members. But the Policy Committee has the final say for transportation plans and programs for the region and could reinstate the plan during its meeting on Thursday.

Public Works Financing Exclusive: San Antonio Water Board Unanimously Approves $3.4 Billion Water Supply P3 with Abengoa.

Editor’s note: Over the next year, NCPPP will republish two articles each month from the most recent issue of Public Works Financing, the journal of record on public-private partnerships in infrastructure development. For a limited time, NCPPP Members can receive a 10% discount on a subscriptions to and advertising within this outstanding publication. – PD

The mayor and city council of San Antonio, Texas will vote Oct. 30 on a water-purchase contract three-years in the making with a large Spanish water company that will increase consumer water rates by 16%. A yes vote will commit the political leaders of the south Texas city, 25th in size by metro area, to a $3.4-billion, 30-year contract for 50,000 acre-ft. a year of imported groundwater, enough to augment current city supplies by 20%, via a 142-mile, 54” pipeline along I-35.

If approved, the availability payment contract with Abengoa will dwarf any similar groundwater transfer contracts in the U.S. Only Poseidon’s 50-mgd seawater desalination projects in California match the 45 mgd in new water promised to San Antonio.

Abengoa’s website says it supplies drinking water to more than 6 million customers globally. The company has completed more than 50 pipeline projects and has successfully executed every design-build contract awarded. Abengoa has successfully financed more than 100 projects with a total investment value of $20 billion.

Abengoa will have spent about $40 million pursuing the project. Much of that venture capital went to securing long-term leases with 3,400 landowners for rights to their groundwater from two wellfields in Burleson County. The poor, rural county east of Austin has a population of 17,200. Half of the availability payments will go to landowners there.

Strong support by the business community saved the project earlier this year when the San Antonio Water System (SAWS) staff wanted to cancel the imported water procurement and pursue expansion of its ongoing groundwater desalination project. The big water agency pivoted quickly and Abengoa was selected on July 1 to negotiate a contract. The SAWS staff, led by Donovan Burton, chief of staff to CEO/President Robert R. Puente, produced a final draft that was unanimously approved by the SAWS board on Sept. 29.

City Council approval is not assured. The first-year cost of delivered water under its water purchase contract would be $2,239 per acre-ft, requiring an estimated 16% rate increase starting as early as 2019.

The city's existing supply from the nearby Edwards aquifer ranges in cost from $330 to $540 per acre-ft. Water purchased from a neighboring county is $1,224 per acre-ft. The estimated cost of potable water from the first phase of its brackish water desalination project, which started construction a few months ago, is $1,138 per acre-ft.

Mayor Ivy R. Taylor was appointed on July 22, 2014 after the sudden departure of Julian Castro to be President Obama's HUD Secretary. A 1992 graduate of Yale who holds a city planning masters from UNC Chapel Hill, she sits on the SAWS board and voted with the majority in favor of the Abengoa contract.

One close observer is optimistic: "Proponents have won the p.r. battle and any anti's on the council are boxed," he says.

SAWS's legal advisors are Hawkins, Delafield & Wood LLP and Norton Rose Fulbright; financial advisors are PFM, Estrada Hinojosa & Co., and Langley & Banack, Inc.

NCPPP
By Editor October 6, 2014

Public Works Financing is a monthly newsletter covering P3s in all infrastructure markets, since 1988. It is widely read and cited in the media, academic research, federal reports and congressional testimony.

Washington Bonds Beat Market as Federal Cuts Defied.

Even a budget-cutting Congress isn't hurting Washington's standing on Wall Street.

Debt of the nation's capital has returned 9.1 percent this year, beating 45 states and the 7.8 percent advance for the broader $3.7 trillion municipal market, according to Barclays Plc data. The city plans to sell $523 million of general-obligation bonds this week, its largest offering since last year's federal spending reductions began exerting a drag on the local economy.

The District of Columbia comes to market with its highest credit score yet after Fitch Ratings and Standard & Poor's raised its grades last month. Even though about one in four jobs are tied to the federal bureaucracy, industries such as health care and education are adding workers more quickly than the government is retrenching. At the same time, the municipality's savings have swelled.

"Even with the slowdown in the federal government, Washington has outperformed other cities" since the recession, said Paul Mansour, head of municipal research in Hartford, Connecticut, for

Conning & Co., which oversees about $11 billion in local-government debt. “A lot of people view the District of Columbia’s bonds as a cut above other city debt.”

‘High Quality’

Washington joins borrowers tapping demand for tax-exempt securities with the municipal market on pace to shrink for a fourth straight year. With less debt available, buyers have boosted prices on even the riskiest securities, and 30-year benchmark bonds yield 3.1 percent, close to the lowest since May 2013, data compiled by Bloomberg show.

“The municipal market is extremely expensive,” said Josh Gonze, a money manager in Santa Fe, New Mexico, at Thornburg Investment Management, which holds about $10 billion in munis. “There’s a high degree of interest in buying tax-exempt bonds and not a lot of supply. Even low-quality bonds aren’t having trouble being placed. So a high-quality issue like one out of Washington won’t have any trouble.”

The sale, set to conclude Oct. 8, is the district’s largest since November 2012, when it issued $751 million of bonds backed by income-tax revenue, Bloomberg data show.

School Projects

While borrowers including Pennsylvania and Chicago have had bond grades cut as they wrestle with fiscal strains such as rising pension costs, Washington’s standing has improved.

In 2013, its pension for police and fire personnel had more money than needed to pay for promised benefits, while its teachers’ plan was 90 percent funded, bond documents show.

On Sept. 29, Fitch and S&P raised Washington to AA, the third-highest rank, citing financial strength in the face of the pullback in federal spending.

Mayor Vincent Gray, a Democrat, said the upgrades give the city its highest ratings ever, and may save taxpayers millions in financing costs.

Treasurer Jeffrey Barnette said the bonds, more than a third of which mature in 2038, will refinance debt and pay for construction projects, including work on schools. The district may benefit from the rating boost and investor appetite for munis, he said.

“There’s just been demand across the curve, whether it’s long- or short-term,” he said in a telephone interview. “Any time you get better ratings there should be a better perception from the investment community.”

District bonds have earned 2.3 percent in the past three months, compared with 2.1 percent for the entire market, Barclays data show.

Federal Buoy

Washington general obligations maturing in June 2024 have traded in October at an average yield of about 2.3 percent, Bloomberg data show. That’s about 0.30 percentage point above benchmark debt, compared with an average yield spread of about 0.4 percentage point since April.

The district emerged from the recession that ended in 2009 better off than other cities, buoyed by government spending. By the end of last budget year, it had a surplus of $321 million. That boosted its rainy-day fund to $1.75 billion, equal to about a quarter of annual revenue.

The city has handled its finances well enough to contend with federal cuts, said Eric Kim, a Fitch analyst in New York.

"While the economy has slowed down a bit, there is still growth there because of the resilience of the private sector," Kim said. "From a fiscal perspective, they have managed things very well. There's a real sense of fiscal discipline."

Sequestration Blow

The pressure to curb federal spending has had an impact. When cuts known as sequestration were put in place, the city's economy, adjusted for inflation, shrank 0.5 percent in 2013, according to the Census Bureau.

The Obama administration began implementing automatic spending cuts across government programs last year as a result of an agreement with Congressional Republicans to reduce the federal budget deficit.

In 2014, revenue has grown 1.2 percent, trailing the district's 2.1 percent projection in part because of federal tax-law changes that caused forecasts to be overly optimistic.

Other indicators point to brighter prospects. The population swelled to 646,000 as of July 2013, up 41,000 from three years before, according to Census data. While the city lost 4,100 federal jobs in the year through July 2014, total payrolls still grew by 8,700 as employers in education, health-care and private business hired at a faster pace, city figures show. The median price of single-family homes and condos has also risen.

Even if tax revenue trails expectations, D.C. may still add to its surplus as a result of reductions elsewhere, said Hilary Sutton, an analyst in New York at S&P. A growing private economy buffers against financial pressures rippling down from the federal level, Sutton said.

"The sequester is a longer-term issue," Sutton said. "Given the strength of management, they will be able to manage through any revenue difficulties."

Bloomberg

By William Selway

Oct 5, 2014 5:00 PM PT

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Munis Gain In September Amid Wider Bond Fund Selloff.

Investors across the bond spectrum counted their losses in September.

General taxable domestic bond funds lost 1.60%, according to preliminary data from Lipper Inc.

Prices tumbled across the board, with declines in bond funds sensitive to interest rate news and fluctuations in yield spreads against Treasuries and well as foreign bonds. They were hurt by higher Treasury yields, wider spreads and a strong dollar, BlackRock officials said.

“There’s an expectation of Fed policy normalization,” said Jeffrey Rosenberg, chief investment strategist for BlackRock, which manages more than $1.3 trillion in fixed-income assets. A rise in interest rates by sometime in 2015 was signaled in Fed Chair Janet Yellen’s comments at the Jackson Hole summit in August and backed up by the Federal Reserve Statement of Economic Projections in September, he added.

As a result, investors edged out of rate-sensitive fixed income. Short- and intermediate-term debt funds backtracked 0.53% in September and 0.13% in Q3.

Concerns over falling inflation also negatively affected the performance of inflation-protected funds. They fell 2.35% and 2.15% in the same periods.

But among taxables, bond mutual funds offering foreign exposure were hardest hit.

The U.S. dollar rose about 3.8% against a basket of foreign currencies in September. The strengthening greenback hurt international fixed income, which is mostly denominated in foreign currency, Rosenberg said. Returns suffer as results from foreign currencies are translated into the more expensive greenback.

The euro and yen slid further as economic growth faltered in Europe and Japan, while surging in the U.S.

Emerging Markets

Emerging markets bond funds denominated in local currency slid most sharply: 4.6% for the month and 5% in Q3. International income funds lost 2.66% and 2.60% in the same periods. Hard-currency emerging markets funds — holding debt denominated in U.S. dollars or other major currencies — gave up 2.34% and 2.02%.

Investors lost appetite for risk in September. Longer-term Treasury funds fell 1.17%; corporate single-A rated funds fell 1.09%; and corporate triple-B rated funds lost 1.44%.

The retreat sharpened with lower credit-quality bonds.

High yield spreads — the difference in yield between high-yield bonds and a comparable Treasury — increased by 62 basis points to 425. With rate hikes likely, these riskier investments began to look even less relatively attractive than their risk-free counterparts, Rosenberg said.

High-yield funds lost 2.05% and 2.06% in September and Q3.

Relatively risky flexible income funds dipped 1.31% and 0.71%.

The yield curve steepened slightly in the quarter as the yield on two-year notes rose 10 basis points to 0.58%, while the yield on 10-year notes rose 17 basis points to 2.52%.

Looking forward, Rosenberg expects modest increases in rates over the next three to four months.

“There’s a potential for bigger increases in shorter maturity instruments,” he added.

Muni Moves

Tax-exempts fared relatively better, managing an overall average gain of 0.17% in September and 1.52% in Q3.

Short and intermediate municipal debt funds fared the worst. One big reason: the steepening of the municipal yield curve between one and 10 years.

"The 10-year part of the yield curve in munis underperformed significantly," said Christopher Alwine, head of the municipal bond group at Vanguard, which manages $750 billion in fixed-income assets.

That part of the yield curve tends to be most sensitive to changing market conditions, and its movement reflected anxiety about rising rates, he added.

Riskier municipal bonds outperformed in September. High-yield debt funds posted 0.58% and 2.40% gains for the month and quarter.

They were helped by the improved fiscal health and creditworthiness of the issuers, as well as the search for yield under current low rates. "Investors have bid up the price of lower-rated bonds," Alwine said.

Alwine owned a Metropolitan Washington Airports Authority revenue bond issued to finance a light rail project. The bond, with a 5% coupon, matures Oct. 1, 2053, and is rated BBB+ by S&P. Its total return in September was 0.5%.

By Investor's Business Daily, October 02, 2014, 06:33:00 PM EDT

MBIA Hires Tom Weyl From Barclays for Municipal-Bond Unit.

MBIA Inc. hired Tom Weyl from Barclays Plc to head efforts to win business at its municipal-bond insurance unit.

Weyl, formerly director of municipal research at Barclays, will start by year-end as managing director and head of new business development at MBIA's National Public Finance Guarantee Corp., the Purchase, New York-based company said today in a statement.

"We're pleased to welcome Tom to the company at this critical time as we seek to re-establish National as a leader in the new business marketplace," National Chief Executive Officer Bill Fallon said in the statement.

In August, National backed its first new bond offering since 2008, according to data compiled by Bloomberg. It guaranteed portions of a $1.8 billion deal from the Michigan Finance Authority on behalf of the Detroit Water and Sewerage Department.

Investors in the $3.7 trillion municipal market expected National to back new bonds after Standard & Poor's raised its rating in March to AA-, fourth-highest and one level below units of Assured Guaranty Ltd. and Build America Mutual Assurance Co., the market's primary insurers.

Before the financial crisis, insurers covered more than half the market. The companies were largely stripped of their top ratings in 2008 amid losses on guarantees of subprime-mortgage-backed debt. S&P said in March that insurers may double their market share to 8 percent of issuance this year.

Personnel Moves

Weyl is the latest muni analyst to bet on a bond-insurer revival. John Hallacy last year joined Assured as managing director of public finance after stepping down as Bank of America Merrill Lynch's head of municipal research.

Barclays hired Weyl in January 2012 after he spent 16 years at Eaton Vance Management in Boston. He previously covered health-care financial services at General Electric Capital, and was a money manager at Van Kampen Merritt Investment Advisory Corp.

Mark Lane, a spokesman at Barclays in New York, declined to comment. Weyl didn't respond to a voicemail left at his Barclays office number.

BLOOMBERG

By Brian Chappatta October 02, 2014

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Toyota Financial Follows Up a Green Bond With a Diversity Bond.

Toyota Financial Services recently issued what it called a "diversity & inclusion" bond, the latest in a series of issues that also included what the company said was the auto industry's first "green" bond.

What made the recent $350 million bond issue a "diversity & inclusion" bond was that Toyota Financial Services hired minority- and women-owned businesses as the lead underwriters.

What made the $1.75 billion green bond "green" was that the proceeds were to be used exclusively to fund consumer loans and leases for "green" vehicles that get at least 35 mpg or the equivalent for battery-powered cars.

Qualifying models included the Toyota Avalon Hybrid, Camry Hybrid, Prius, Prius c, Prius Plug-in, Prius v and RAV4 EV; Lexus CT 200h and Lexus ES 300h, Toyota Financial Services said.

The firms Toyota Financial Services used for the diversity bond included: CastleOak Securities, L.P.; Lebenthal & Co., LLC; Mischler Financial Group, Inc.; Samuel A. Ramirez & Company, Inc.; and The Williams Capital Group, L.P., the company said.

Lebenthal & Co. is led by Alexandra Lebenthal, president and CEO. The original firm, Lebenthal & Co., was founded in the 1920s. The brand became synonymous with tax-free municipal bonds dating back to the 1970s. It's a familiar name in the New York metro area, thanks to relentless radio advertising.

"The idea is, rather than go out and use traditional investment houses to help us sell our bonds, this is about the brokerage firms who help us sell our bonds in the marketplace all being owned by minority- and women-owned businesses," said Mike Groff, CEO of Toyota Financial Services.

"We are working with businesses led by African-American, Hispanic and female owners, and veterans," he said.

The latest diversity bond, which was announced last week, is the third such bond sold by Toyota Financial Services, and the first one in 2014, the company said.

The diversity bonds are just part of the funding mix for the auto lender. In a typical year, Toyota Financial Services has $20 billion to $25 billion in funding requirements, to refinance existing debt and to finance new asset growth, said Steve Howard, corporate manager, markets & liquidity.

"In terms of the total, it doesn't represent a huge percentage," he said. "But with other initiatives, it can definitely amount to an important category of our issuance."

Forbes

Jim Henry, Contributor

9/30/2014 @ 6:39PM

California Water Debt Seen Safe From Drought's Grip: Muni Credit.

While California's water reserves are dwindling amid an intensifying drought, there's no dry spell when it comes to buyers of debt issued by the agency running the water system supplying 25 million people.

The California Department of Water Resources, which oversees a network of reservoirs and aqueducts known as the State Water Project, is refinancing about $640 million of tax-exempt bonds today, said Perla Netto-Brown, the agency's Sacramento-based chief of fiscal services. It's the department's biggest offering since 2011, she said.

The sale is riding demand for California debt, which is on pace to beat the municipal market for the fifth straight year as the state's rebounding finances boost its standing on Wall Street. The department is shielded from the drought: Twenty-nine California agencies pay to use its network no matter how much water they receive.

"The severe drought in California should have no effect" on the refinancing, said Michael Johnson, managing partner in Solana Beach, California, at Gurtin Fixed Income, which oversees about $9.5 billion of municipal debt. "The underlying state water agencies are required to pay the department regardless, if they are delivered water or not. Also, the market is hungry for California bonds, so I would expect this deal to be well-received."

Dry Land

The year ended today is poised to be one of the driest ever for California, according to the Department of Water Resources. About 82 percent of the state is in extreme drought, the second-most severe classification, up from 11 percent a year earlier, according to the U.S. Drought Monitor. Eleven of 12 major reservoirs are below half capacity, state data show.

The Metropolitan Water District of Southern California, which provides water to about 19 million people, including Los Angeles, expects reserves to shrink to about 1.4 million acre feet by year-end, from 2.7 million in December 2012, said Gary Breaux, its chief financial officer. The figure measures the volume needed to cover an acre of land with one foot (30.5 centimeters) of water.

The district, dubbed the Met, is the largest of the 29 public agencies in the state that contract with the Department of Water Resources to use the system that delivers water, bond documents show. The allocation to the agencies is based on how much water is available, depending on the amount of rain, snowfall and reserves in a given year, Breaux said.

Fixed Charge

The department said in April that it expects to deliver 5 percent of the more than 4 million acre-feet of water requested by local agencies this year. The deliveries also help supply almost a million acres of irrigated farmland.

The Met and other agencies that contract with the department must pay a fixed portion, called the capital component, that covers areas such as debt service and the cost of the State Water Project, according to Netto-Brown. The only component of the bill that depends on the amount of water delivered is the transportation cost, she said.

Today’s bond sale is backed by revenue from the agencies’ payments, according to Netto-Brown.

“Our debt service is collected under the capital component, which is basically a fixed charge that’s not dependent on water deliveries,” Netto-Brown said.

Risk Reduced

Moody’s Investors Services rates the bonds Aa1, the second-highest grade. The nature of the contracts lessens the drought risk, and payment delinquencies or defaults aren’t likely, the company said in a Sept. 18 report. Standard & Poor’s gives the debt its top grade.

Department of Water Resources bonds maturing in December 2034 traded this month at an average yield of 3.14 percent, down from an average of about 3.5 percent during the previous half-year, data compiled by Bloomberg show.

The falling yields may deter some investors, said Craig Brothers, a money manager in Los Angeles at Bel Air Investment Advisors LLC, which oversees $2.8 billion.

“We’re not stepping aside because of the issues the state is having with water use and the drought,” Brothers said. “We would be stepping aside because the bonds are being priced at yields too low. It’s almost as if the credit is doing too well.”

The extra yield investors demand to own 10-year California obligations instead of benchmark bonds reached 0.19 percentage point this month, the smallest gap since 2007, Bloomberg data show.

The state’s finances are on the upswing. California has a projected surplus five years after logging a record deficit, and Moody’s raised its grade in June to Aa3, the fourth-highest level and the highest for California since 2001.

Today’s deal is expected to save the department about $50 million, according to Netto-Brown.

“We’re doing our small part on the finance side” to help the state’s water agencies, she said. “I can’t produce water, but I can produce savings for them.”

Bloomberg

By Elizabeth Campbell Sep 29, 2014 5:00 PM PT

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Detroit Should Be Able to Borrow After Bankruptcy - Consultant.

(Reuters) – Detroit should be able to access capital markets and borrow at a rate of around 5 percent after it exits bankruptcy, as long as its tax revenue remains stable, a city consultant said on Tuesday.

But even as Kenneth Buckfire, president of restructuring firm Miller Buckfire & Co, testified about the factors that will help Detroit woo investors, he said the city will have to educate the municipal bond market about the "New Detroit," once it exits the largest-ever municipal bankruptcy.

Buckfire, in testimony in U.S. Bankruptcy Court, said that the markets will respond well to Detroit's paring of its liabilities from $10 billion to $3 billion, 10-year cost certainties, and post-bankruptcy oversight.

Judge Steven Rhodes is currently conducting a hearing to determine the fairness and feasibility of Detroit's bankruptcy plan, part of which includes a $325 million exit facility financed through Barclays.

The facility will first be a private placement of variable-rate notes with the bank for 150 days, after which Barclays will sell the debt publicly. That five-month period will give Detroit the opportunity to present its post-bankruptcy conditions to rating agencies and investors, Buckfire said.

According to Buckfire, 5 percent is within a reasonable range for Detroit to expect to pay in interest. That is lower than yields demanded by investors for debt of troubled credits such as Puerto Rico, but still accounts for some risks Detroit could confront, he said.

The bankruptcy plan lays out how Detroit will reduce employee pension and retiree healthcare costs, making the city a better credit than other municipalities that have not addressed those liabilities, Buckfire added.

"The fundamental risk the city is facing" in capital markets is uncertainty over the stability of its tax revenue, he said.

There are few indicators how the $3.7 trillion U.S. municipal bond market will greet borrowing by the city that broke all records on municipal bankruptcy.

Detroit in August sold $1.8 billion of sewer and water revenue bonds offered with mostly 5 percent coupons. The bonds, paid off with revenue from Detroit's regional system and largely insured, were snapped up by investors. Detroit has not issued any general obligation bonds since filing for bankruptcy in July 2013.

"It is too early to tell whether or not Detroit would be able to go back into the market and pay about 5 percent after coming out of bankruptcy," said Municipal Market Data analyst Daniel Berger.

"Detroit is also hard to read because not much of its debt trades."

After filing for bankruptcy, the city defaulted on certain limited and unlimited-tax general obligation bonds it considered unsecured.

Buckfire said Barclays drew on the market to make a $120 million loan to Detroit earlier this year, and the deal was four times oversubscribed. He also said that with municipal issuance running low, there is strong buyer demand for bonds. Still, he repeatedly mentioned that reception will depend on how Detroit tells its "credit story."

Berger, of MMD, a Thomson Reuters company, said the 5 percent debt cost was "doubtful under current market conditions, but this market is hungry for tax-exempt, high-yield paper."

BY LISA LAMBERT

DETROIT, Sept 30, 2014 2:44pm EDT

(Additional reporting by Karen Pierog in Chicago; Editing by Leslie Adler)

U.S. Municipal Bond Sales Up 13.7% in September Year/Year.

(Reuters) – U.S. municipal bond sales in September totaled $21.47 billion, a 13.7 percent increase from a year ago, but 5.3 percent lower than in August, according to preliminary Thomson Reuters data on Tuesday.

September volume brought 2014's third quarter debt sales by states, cities, schools and other issuers to $70.46 billion, a 15.2 percent drop from the second quarter.

Year-to-date volume was $213.7 billion, down 10.4 percent from the same period in 2013. Refunding bonds outpaced new money debt at $116 billion versus $97.6 billion. However, refundings were 11.8 percent less than in the first three quarters of 2013.

Demand remains strong, with municipal bond funds reporting weekly net outflows just two times since early April, according to Lipper, a unit of Thomson Reuters. In the latest week, funds reported net inflows of $588.7 million.

CHICAGO, Sept 30, 2014 11:18am EDT

(Reporting by Karen Pierog; Editing by Chizu Nomiyama)

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10 U.S. Supreme Court Cases That Matter for State and Local Governments.

The U.S. Supreme Court will hear cases this term related to religious freedom in state prisons, taxes on railway carriers, traffic stops and more.

Gregory Holt, an inmate at the Arkansas Department of Corrections, wants to grow his beard as a practicing Salafi Muslim. But Arkansas Corrections restricts beard length to a quarter of an inch. In protest, Holt filed a petition, arguing that the policy is a violation of his religious liberties under the federal Religious Land Use and Institutionalized Persons Act. Holt's case is one of many scheduled to be heard by the U.S. Supreme Court in its next term, which begins Oct. 6.

Justices have already agreed to hear a host of cases that could affect state or local government. The disputes cover a range of issues, from a small town sign code that could be restricting free speech to a state regulatory board alleged to be violating federal antitrust laws.

In the Holt case, scheduled for a hearing Oct. 7, attorneys general from 18 states have written to support Arkansas, contending that "uniform grooming policies serve compelling interests in security, order, hygiene and discipline." Judges should defer to prison officials in balancing religious rights with public health and safety, the attorneys general say.

The attorneys general supporting Arkansas note that in other state prisons, inmates have hidden shanks, wire, rocks, razor blades and handcuff keys in their hair and beards. They also say that when inmates are allowed to grow facial hair and then shave it, the dramatic change in appearance poses a security risk, as prison guards might not recognize the inmate. If the court sides with Holt, the ruling will probably have narrow implications for prison grooming policies, but it could have larger meaning in terms of how prisons and jails balance safety concerns with religious liberties.

The State and Local Legal Center (SLLC) has identified 10 cases, including Holt's, that might affect state and local government. The center files amicus briefs with the Supreme Court on behalf of the National Governors Association, the Council of State Governments, the National Association of Counties, the National League of Cities and the International City/County Management Association. Below is an initial list of Supreme Court cases already scheduled for the next term that could matter for state and local government.

Lisa Soronen, the executive director at SLLC, also has curated a separate list of other relevant cases that the Supreme Court could decide to hear this term. For an even more in-depth review of upcoming cases with implications with states and localities, SLLC is hosting a free webinar Oct. 16.

North Carolina Board of Dental Examiners v. Federal Trade Commission

A state regulatory board composed mostly of dentists sent cease-and-desist orders to non-dentists performing teeth-whitening procedures and businesses selling teeth-whitening products. The Federal Trade Commission brought legal action against the board, arguing it was not immune from federal antitrust law. Two factors that may affect the court's ruling are the composition of the board (almost all private-sector professionals from the industry being regulated) and the lack of state supervision of the board's activity. The case could have implications for state and local government boards across the country.

Case No.: 13-534
Oral arguments: Oct. 14

Reed v. Town of Gilbert, Ariz.

A pastor at a local church posted temporary signs that the town manager said violated the sign code ordinance. The sign code imposes different restrictions on different types of signs, with greater flexibility for political or ideological messages than for notices of church gatherings. The court will have to decide whether local laws restricting speech based on content — but not on particular viewpoints — violate either the Free Speech Clause of the First Amendment or the Equal Protection Clause of the Fourteenth Amendment.

Case No.: 13-502

Oral arguments: To be determined

Integrity Staffing Solutions v. Busk

Former employees of Integrity Staffing Solutions, a warehouse company for clients like Amazon.com, say they should have been compensated for security screenings they had to endure as workers at the end of each work day, which could take up to 25 minutes. The petitioners argue that the unpaid time they spent going through security each day violated the federal Fair Labor Standards Act. While the dispute involves private workers at a private company, governments could be affected because security screenings are also common in courthouses, jails, prisons, state capitols and other public buildings.

Case No.: 13-433
Oral arguments: Oct. 8

Heien v. North Carolina

A county police officer in North Carolina pulled over a driver for having a broken rear brake light, based on a misunderstanding of state law. He thought the state required two functioning brake lights, but he was wrong. The traffic stop resulted in the officer finding a bag containing 54.2 grams of cocaine in the car. The court will have to decide if a traffic stop is permissible based on an officer's reasonable but mistaken understanding of the law.

Case No.: 13-604
Oral arguments: Oct. 6

T-Mobile South, LLC v. City of Roswell

The city council in Roswell, Ga., voted to deny an application by T-Mobile South to build a 108-foot cell tower in a residential neighborhood. The question before the court is whether a letter relying on council minutes as a rationale for denial meets a federal requirement for state or local government to justify in writing why it denied the construction of a wireless service facility.

Case No.: 13-975
Oral arguments: Nov. 10

Alabama Democratic Conference v. Alabama

Petitioners in Alabama claim that the purpose and effect of the state's latest redistricting was to dilute and isolate the strength of black and other minority voters. The question before the court is whether the state's redistricting amounted to an unconstitutional racial quota and racial gerrymandering in violation of the Voting Rights Act and the 14th Amendment's Equal Protection Clause. The case is combined with Alabama Legislative Black Caucus v. Alabama.

Case No.: 13-1138
Oral arguments: Nov. 12

Comptroller v. Wynne

A couple living in Howard County, Md., earned income in multiple states, but faced a county tax for money earned outside of Maryland.* The question before the court is whether the U.S. Constitution allows a state or locality to tax all the income of its residents, including income earned in other states. In general, states provide a tax credit for earnings from other states. The couple believes they are owed a credit for both state and county taxes. The Maryland comptroller says that a partial credit is warranted for state, but not county taxes.

Case No.: 13-485
Oral arguments: Nov. 12

Perez v. Mortgage Bankers Association

The question before the court in Perez is whether a federal agency must engage in a notice-an--comment procedure before it can make a major change to an agency rule. “Because state and local governments are often regulated by federal agencies or regulate in the same space as federal agencies,” Soronen wrote, “they generally prefer more opportunity to be informed of and comment on significant alterations to interpretive rules.”

Case No.: 13-1041
Oral arguments: Dec. 1

Kansas v. Nebraska and Colorado

The three states formed an agreement in 1942 for apportioning use of water from the Republican River Basin. Kansas argues that Nebraska has violated that agreement by using more than its share of water and owes Kansas money. The court will decide if Nebraska did violate the agreement and if so, what kind of relief is appropriate.

Case No.: 126, Orig.
Oral arguments: Oct. 14

GOVERNING.COM

BY J.B. WOGAN | OCTOBER 3, 2014

Fitch: California Redevelopment Agencies Return.

Fitch Ratings-New York-26 September 2014: California legislation likely to be adopted in the coming days will expand local government’s options for funding infrastructure projects. The law offers local governments a renewed ability to issue tax increment debt — an option eliminated by California’s dissolution of redevelopment agencies in 2012. However, the law restores this option under more limited circumstances and is unlikely to be utilized to the same degree.

California had over 400 redevelopment agencies prior to their dissolution in 2012 that received more than $5 billion of property tax annually and issued tens of billions of dollars in debt. Those redevelopment agencies addressed a broad range of urban improvements and were funded by local property taxes whether or not the district’s or town’s voters had approved them.

Redevelopment activities will be limited to infrastructure improvements under the new legislation. Financing will continue to come from growth in local property taxes, but the share of taxes due to schools will not be available to the new infrastructure financing districts, which will only have access to revenue from local governments that elect to join them.

Fitch expects that a requirement for voter approval of debt issuances by the new districts will also limit their utilization. The 55% approval threshold for new infrastructure debt is lower than the two-thirds requirement for most general obligation bonds (other than those supporting local schools), but is still likely to be a steep hurdle in many parts of the state.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

WSJ: Puerto Rico Bond Plans Slip Out.

Investors got an early peek Tuesday at Puerto Rico's plan to raise $900 million in its first bond sale since March, with the publication of some bond information on a website run by a Wall Street self-regulator.

The tax-and-revenue-anticipation notes will mature in June 2015 and have an interest rate of 7.75%, according to a notice posted on the Electronic Municipal Market Access website, which didn't include an official statement, an amount being borrowed or any price information.

The posting of the planned bonds' so-called Cusip numbers surprised some investors still waiting for the island's lawmakers to approve the deal. It was the latest twist in the saga of the financially troubled commonwealth, which has $73 billion in debt outstanding and in June passed a law allowing some public agencies to restructure their debts, leading investors to fear losses.

A spokesman for the island's Government Development Bank declined to comment.

Some investors have complained about Puerto Rico's lack of transparency, saying the island often provides confusing or inconsistent information to bondholders and gives information to some creditors but not to others.

Daniel Solender, head of municipal-bond management at Lord Abbett & Co., which oversees about $15.5 billion in municipal-related holdings, including some from Puerto Rico, said he rarely sees Cusips posted on the Electronic Municipal Market Access, or Emma, website before a deal's public release.

"The whole thing is kind of a bizarre situation," he said. "But it's a positive sign if they think they can get a deal done, given concerns about their access to the market."

A spokeswoman for the Municipal Securities Rulemaking Board, which oversees the website, said it isn't unusual for Cusips to appear on Emma in advance of a deal.

The sale would mark the first time Puerto Rico has raised money from the credit markets since the legislation passed by legislators in June that allowed some public agencies to restructure their debts. The island's power, water and highway authorities have almost $20 billion outstanding, according to Barclays. The law doesn't apply to Puerto Rico's general-obligation or sales-tax debt.

Puerto Rico last sold bonds in March, when a $3.5 billion sale was billed as crucial to give officials time to turn around the economy and reduce the budget deficit, which stood at about $2.2 billion when Gov. Alejandro García Padilla took office at the beginning of 2013. The sale came after major credit-rating firms downgraded Puerto Rico to junk status.

Puerto Rico's debt is widely held by mutual funds and individuals, and some analysts worry its problems could spread beyond the island. Overhauling the commonwealth's public corporations has become a priority for the administration of Gov. Padilla as it tries to restart the economy, eliminate budget deficits and reassure investors that its fiscal position is improving.

Some economic indicators are still bleak. The Puerto Rico Economic Activity Index was down 1.1% in August from the year-earlier month, reaching the lowest level in two decades, according to the commonwealth's Government Development Bank. The index also showed declines in electric-power generation and cement sales.

Some bonds from the March sale were trading at about 88 cents on the dollar this week, down from the 93 cents on the dollar that month.

Robert Donahue, managing director at the research firm Municipal Market Advisors, said that while issuers or their advisers will sometimes designate identification numbers in advance on the website, it is unusual that the Puerto Rico senate hasn't acted on the House-approved legislation authorizing the borrowing.

Lord Abbett's Mr. Solender said a successful short-term financing deal would show that the commonwealth still has access to credit, at a price, thanks in part to hedge funds that have teamed up to preserve the island's liquidity.

"If they can get this done, it's definitely a positive," he said. "They need liquidity. They need access."

THE WALL STREET JOURNAL

By AARON KURILOFF

Sept. 30, 2014 7:57 p.m. ET

S&P: Pennsylvania GO Debt Rating Lowered To 'AA-' On Weakened Financial Position and Increased Expenditure Pressures.

The downgrade reflects our view of the state's diminished financial flexibility and growing expenditure pressures due to inaction on pension reform and limited revenue growth.The GO rating reflects what we view as Pennsylvania's diverse economic base, which is recovering from the Great Recession, but is projected to experience below-average job and population growth during the next five years; good wealth levels, with personal income per capita at 103% of the nation in 2013; and moderate debt profile. Pennsylvania, however, expects debt levels to rise and exceed the rate of current debt retirement due to its planned issuance to fund aging infrastructure and provide economic stimulus. The economy continues to improve gradually, in our opinion, but not enough to alleviate some of the fiscal pressures the state is facing related to growing pension costs.

Junk Bonds Prove September Treasure as Defaults Ebb: Muni Credit.

The riskiest municipal bonds are beating the market for the longest stretch in 20 months as investors bet a strengthening economy will keep defaults at the lowest in five years.

Speculative-grade debt gained 0.9 percent through Sept. 25, more than any other rating class, Bank of America Merrill Lynch data show. If that holds, it would mark the third-straight month that junk-bond returns have topped those of the broad market, which is little changed in September.

Defaults are set to be the fewest since 2009, according to data from Municipal Market Advisors. Industrial development bonds, the type of debt that represents the most failures to pay in the $3.7 trillion market, have been buoyed by rising capital-goods orders and employment gains. Land-backed debt, also prone to default, is benefiting from the highest level of new-home sales in more than six years.

"A combination of an improving economy helping credit risk and the opportunity for credit spreads to improve suggests high-yield could be a good place to put money right now," said Dan Solender, who oversees $16 billion as director of munis at Lord Abbett & Co. in Jersey City, New Jersey.

The U.S. economy expanded in the second quarter at the fastest pace since the last three months of 2011. Companies stepped up investment and households increased spending, the Commerce Department said Sept. 26. Gross domestic product grew at a revised 4.6 percent annualized rate, up from a previous estimate of 4.2 percent.

Following Money

Investors have added to high-yield muni mutual funds in each of the past 10 weeks, the longest stretch since the period through July 2, Lipper US Fund Flows data show. Those funds have gotten about half of 2014 inflows as individuals seek extra yield with interest rates near generational lows.

The demand has depressed yields on 10-year revenue bonds rated BBB, the lowest investment-grade tier, compared with AAA munis. The 0.95 percentage point spread is near the lowest since at least 2012, data compiled by Bloomberg show.

The penalty could decrease further. Before 2008, the average spread was 0.52 percentage point, Bloomberg data show.

"Spreads can probably go tighter — the economy has been growing and default statistics are rather low," said Lyle Fitterer, who oversees $34 billion of munis at Wells Capital Management in Menomonee Falls, Wisconsin. "Inflows have been positive, there's been limited issuance within the sector and there's just limited yield out in the marketplace."

Defaults Decline

Forty-one muni issuers defaulted for the first time in 2014 through Sept. 24, down from 45 last year and 67 in 2012, according to MMA, a Concord, Massachusetts research firm. The figure probably won't reach 2013's total of 65, the lowest since at least 2009.

Investors are also returning to high-yield funds as the likelihood of mass selling ebbs, said Solender and John Miller at Nuveen Asset Management.

Detroit is reaching settlements in its record bankruptcy, including an agreement with holdout Syncora Guarantee Inc., while Puerto Rico's cash-strapped power authority, Prepa, has hired New York-based turnaround firm AlixPartners LLP. That signals to investors that the market's biggest distressed situations are contained, Miller said.

"Their potential to have a contagion effect on the market has gone way down," said Miller, co-head of fixed income in Chicago at Nuveen, which manages $97 billion of munis.

Few Options

Ten-year Puerto Rico general obligations yield 6.32 percentage points more than AAA munis, Bloomberg data show. That's more than six times as much as benchmark BBB revenue bonds, signaling that investors including hedge funds are demanding an outsized penalty for securities from the island.

High-yield buyers avoiding Puerto Rico have had to turn to BBB rated debt because few issuers have offered speculative-grade or unrated bonds this year, said Jim Colby at Van Eck Securities Corp. He runs a $1.2 billion exchange-traded fund focused on junk-grade munis, the largest of its kind.

Willing Cash

Any high-yield bond sale "would find a lot of willing cash ready to support it," Colby said in a telephone interview. Individuals added $262 million to high-yield muni funds in the week through Sept. 24, the most in a month, Lipper data show.

"There continue to be positive inflows into our space and we see precious few new issues to take up the slack," he said.

Investors put in $7.6 billion of orders last month for Detroit's $1.8 billion of water and sewer bonds, which had junk ratings from Moody's Investors Service, according to the city. Issuers from California to New York found buyers this month amid the year's largest wave of bond offerings.

Munis broadly rebounded in the second half of September and may avert their first monthly loss of the year. The gains in 2014 have flummoxed investors and strategists. Some predicted interest rates would rise, when instead they have declined.

Federal Reserve Chair Janet Yellen has warned investors that the central bank may raise interest rates sooner than they currently project. Even in such a situation, riskier debt may prove a good bet, Miller said.

"High-yield helps provide more income and cushion returns should there be further interest-rate increases," Miller said. "There's an attractive income stream, and credit is broadly still on an improving trajectory."

Bloomberg

By Brian Chappatta Sep 28, 2014 5:46 PM PT

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Railroad Tax Fight Lands on Supreme Court Docket.

The U.S. Supreme Court will weigh in on whether state sales taxes on fuel — which do not apply to trucking companies and barge operators — unfairly discriminate against railroads.

The justices, who begin their annual term at the beginning of October, agreed to hear a case pitting Alabama tax collectors against CSX Transportation, a major freight railroad. In doing so, they may finally settle a long-running debate on the rules states must follow when taxing railroads.

The Multistate Tax Commission, a group of tax agencies in 47 states, said in court documents that a lower court decision, which blocked Alabama from collecting sales taxes on railroad fuel, needed a closer look. The decision, they said, "has already imperiled a significant source of revenue for the states, and this uncertainty may be extended to other tax impositions as well if not resolved now."

Lawyers for the railroad say those worries are overblown. No other states joined Alabama in encouraging the high court to take the case. "The silence of the states hardly is surprising because … Alabama's taxing scheme is not common and very few states would be affected by the issue presented here," the CSX attorneys wrote last year in asking the justices to deny the appeal.

The dispute centers on a 1976 federal law, called the Railroad Revitalization and Regulatory Reform Act, which prohibits states from imposing taxes that "discriminate against a rail carrier" regulated by the federal government. CSX claims that Alabama is discriminating against it because Alabama exempts trucking companies and barge operators from its sales taxes. Alabama officials counter that the state's taxing scheme is fair because instead of paying the sales tax, trucking companies have to pay 19 cents per gallon in state fuel taxes.

The fuel tax and sales tax bring in roughly the same amount of money. The sticking point, however, is that municipalities can impose sales taxes on top of the state share with the exception of the state fuel tax on diesel for road use. Railroads pay more taxes on diesel when the price of diesel rises, CSX's lawyers contend, while trucking companies pay the same amount of tax per gallon of diesel no matter how expensive the fuel is.

This is actually the second time the high court has stepped into the Alabama dispute. In 2009, the court allowed the railroad's challenge to go forward over Alabama's objections. That first decision, however, did not settle some of the key questions about how the law should be applied. Since then, lower courts have reached opposite interpretations.

In order to determine whether railroads are being discriminated against, the court will need to decide to which taxpayer group railroads should be compared. In the Alabama case, for example, CSX argues that it should be compared to its competitors — trucking companies and barge operators. The state, however, says CSX should be compared to all other commercial and industrial entities, such as construction companies, which currently pay the same sales taxes CSX does.

CSX lawyers are confident the high court will rule in their favor. They point to other court decisions that struck down similar taxing schemes for railroad fuel in Louisiana, Minnesota, Missouri and Tennessee. Only six of the 23 jurisdictions CSX operates in tax railroad diesel fuel. Some of those, including Illinois and New York, impose the same taxes on road and off-road diesel.

The Supreme Court is expected to issue a decision on the case by the end of next June.

GOVERNING.COM

BY DANIEL C. VOCK | SEPTEMBER 22, 2014

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San Jose Election Tests Political Risk of Cutting Pensions.

The California city's November election will shed light on whether Democrats can risk the political fallout of cutting a prized union benefit to protect basic city services.

Local government isn't what it once was in San Jose. In 2001, California's third-largest city employed almost 7,500 full-time workers. After 10 consecutive years of spending cuts caused by budget deficits, the number is closer to 5,400. The public library system has lost more than a quarter of its staff, forcing branches to cut operations back from six days a week to four. The parks department has closed all but 11 of its 54 community centers. Public safety has taken a hit, too. The city has 300 fewer police officers and 200 fewer firefighters than a decade ago.

The obvious culprit is the Great Recession, which took its toll on city revenues. But in San Jose, the recession isn't the biggest fiscal problem. Pensions are. San Jose's pension costs currently take up more than 20 percent of the city's general fund, up from 6 percent in 2001. (The national average for big cities is estimated at about 12 percent.) For much of the last decade, San Jose's pension deficit created a depressing cycle in which total city spending rose each year despite annual service cuts. It hasn’t mattered that the public workforce has shrunk by 28 percent because the average cost of each remaining employee has grown by 85 percent due to the city’s commitments to retirees.

Chuck Reed, the city’s Democratic mayor, has been focused on pension problems ever since he first took office in 2007. In 2010, he announced that San Jose had reached a point of “services insolvency” and called for some of the most drastic changes to retiree benefits anywhere in the country. “I wish I had started sooner,” he says, “but it’s hard to convince people to do something before a crisis.”

In 2012, holding together a Democratic majority on the city council, Reed abandoned negotiation with public employee unions and pushed through a pension-cutting ballot measure. Voters approved the referendum with 69 percent of the vote. Two years later, Reed says he has no regrets about the decision, but concedes that “there’s a price to pay, especially if you’re a Democrat.” The passage of the pension measure angered union leaders and prompted the local Democratic Party to question Reed’s party loyalty. Now, as he prepares to leave office after two terms, they have an opportunity to hold one last referendum on the mayor and his pension tactics.

In November, voters will elect a new mayor and three city council members — just enough turnover to threaten the benefit cuts that were enacted in 2012. A group of labor-backed candidates who survived the June primary say they’ll unravel core elements of the pension measure if voters give them a chance.

The vote on pensions in San Jose will have far-reaching implications in California and beyond. Recently, state and local governments throughout the country have had to contend with unaffordable benefits granted to employees in flush economic times. The majority of places aren’t in as bad shape as San Jose, but a February review of state public pension systems by the Brookings Institution found that most hadn’t kept up with payments, leaving a nationwide funding gap of $2.7 trillion. “The political incentives to push funding responsibilities on to future generations were too tempting to withstand,” the authors of the review wrote.

The San Jose mayoral election will shed some light on what happens to elected leaders who are determined to do something about underfunded pensions. It will also test whether Democrats who have long relied on organized labor to win office can risk the political fallout of cutting a prized union benefit in order to protect basic city services.

Some of San Jose’s pension problems can be traced to decisions by the state of California. During Silicon Valley’s dot-com boom in the late 1990s, the California Legislature and then-Gov. Gray Davis enacted a law that lowered the retirement age for all state workers and elevated the maximum possible benefit for state public safety workers. Under the new law, a retired highway patrol officer as young as 50 could collect a lifetime of annual payments equal to 90 percent of his final year’s salary.

Legislators believed the state could afford to pay more expensive retirement benefits because they used optimistic forecasts of how much their pension fund investments would yield in returns each year. “They thought the stock market would keep going up forever,” Reed told a state commission in 2010. “It’s the greatest financial blunder in the history of California.” The legislature’s decision applied only to state workers, but it put pressure on local leaders to make similar offers to their employees. San Jose and other large cities felt they had to grant similar benefits or risk losing their best workers to jurisdictions with better retirement packages.

To be sure, factors outside city officials’ direct control also contributed to San Jose’s difficulty in keeping up with the rising cost of pensions. Retirees are living longer and collecting extra years of payments as a result. Revenue from property taxes and sales taxes fell far short of projections during the recession as real estate values dropped and residents had less money to spend. Nonetheless, many who have followed San Jose's pension controversy agree that the onus mostly rests on political leaders who spruced up benefits for public employees during an economic boom without anticipating what would happen if the economy tanked in the future. "The employees who receive the benefits did nothing wrong," says David Crane, a pensions researcher at Stanford University. "Politicians who curry favor make these promises and then can't fund them."

The package that Mayor Reed steered through in 2012, known simply as Measure B, sought to save money by reducing the city's obligation to spend on retirement benefits for both new and current employees. The part that has already gone into effect targets new hires, delaying their age of retirement, limiting cost-of-living increases and forcing them to cover half of the annual pension costs — up from the 25 percent workers had previously been paying.

A number of jurisdictions at the state and local level have cut the benefits of future hires. The boldness of the San Jose plan lay in its reduction in benefits for current workers as well. That is where the bulk of the projected $68 million in annual savings was expected to come from. But a county judge ruled in February that the city couldn't reduce its obligation to pay retirement benefits to current employees because the benefits amounted to a contractual right promised at the point of hiring.

Reed and a narrow majority on the current council want to bring the case before the state Supreme Court, where it is believed they would have a chance to win. The slate of labor-backed challengers running for council seats this year would prefer to settle out of court with the unions. The vote next month will determine whether the next mayor and council decide to continue pressing the pension reform case or forgo some of the biggest savings embedded in Measure B.

After work on a Tuesday night in August, labor's preferred candidate for mayor of San Jose walked into a room packed with new campaign volunteers. "We've already changed the entire dynamic of this election," Dave Cortese told them. "We're going to get swept into office with all of you because it's your city hall."

Cortese is running as an outsider challenging the city's political power structure. It's an unlikely role considering he has held elected office for the past 14 years, first as a San Jose city councilman and currently as a member of the Santa Clara County Board of Supervisors. He has a long business résumé that includes time as a lawyer, real estate manager and restaurant owner. Yet he has become the champion of public librarians, city electricians and cops who feel alienated by the political establishment and want a change in city hall leadership.

In June, Cortese finished first with 34 percent of the vote in an open primary that pitted him against four incumbent council members who supported Measure B. Cortese is a long-time critic of the measure. His opponent for mayor next month is one of its architects, Councilman Sam Liccardo.

Both are pro-transit, anti-sprawl Democrats and the grandsons of Italian immigrants, but their endorsements suggest different flavors of liberalism. Cortese has won the backing of just about every public employee union in the metro area, plus that of five former San Jose police chiefs. Liccardo counts among his supporters three of the last four mayors, the chamber of commerce and more than 50 CEOs from local businesses.

Cortese interprets his first-place finish in the primary to mean that voters have undergone a change of heart since Measure B passed. By his rationale, voters were more likely to favor cuts to public employee benefits in the years immediately after the Great Recession, when layoffs, pay freezes and furloughs were felt in the private sector as well. Today, with unemployment in the San Jose metro area down to 5.5 percent, Cortese believes the electorate will be more sympathetic to public workers who saw their benefits rolled back during the economic slump.

Cortese is also trying to tie Reed's budget and pension cutbacks to public safety problems in the city. Residents have voiced frustration over slow police response times and the lack of a burglaries investigation unit. Both were budget cut casualties.

Before the recession, the city had about 1,400 patrol officers — already a lean operation for a million residents — but now there are fewer than 1,000. Citizens want more cops on the street, but the police department is shedding officers and struggling to replace them. Case in point: The first class of police cadets hired after the passage of Measure B will graduate this fall. Of the original 50 cadets, only 13 remain. Many have either resigned or left for other departments. "You're not in a bubble," Cortese says. "It's a basic business principle. You can't offer your employees consistently less than everybody else."

It's impossible to discern how much pension reform has to do with police departures, especially since the biggest changes haven't gone into effect due to court battles. But even Measure B's most fervent champions admit that San Jose offers lower pay and benefits than neighboring jurisdictions. Liccardo says he'd like to slowly restore the value of benefits lost under Measure B, but to give them in the form of salary boosts, not long-term retirement funds. To that end, the council passed a 10 percent pay increase for cops last year and Liccardo says he is looking for other ways to build back the police force.

Any recruitment efforts, however, will be in spite of the disgruntled Police Officers' Association. Jim Unland, president of the union, says that since Measure B passed, "there's no one to work with over at City Hall" and his group has turned to campaign tactics in the hopes that by defeating council members who defied the union, they can re-establish some influence. The Police Officers' Association already singled out Councilman Pete Constant, a former cop who supports Measure B, by calling him a traitor and kicking him off the union's board of directors. "They completely turned against me," Constant says.

The union has also rejected several olive branches from the council, including an offer to pay more to Spanish-speaking officers and to those who earn advanced degrees. Most recently, the council considered asking voters to approve a specialized sales tax for public safety services, but the union rallied enough opposition to keep it off the November ballot. At this point, the union appears to be focused on a significant electoral victory rather than fighting for incremental concessions that Liccardo could tout as proof of his goodwill toward the aggrieved public workers.

The battle over Measure B is often portrayed as unions resisting all cuts to worker benefits, but Unland says that's not accurate. In the failed labor negotiations in 2012, both the police and fire unions offered concessions that look similar to the changes now in place for new hires — they just wouldn't budge on revising benefit packages for current employees.

Police officers recognize that pensions pose a financial problem to the city, Unland says, but they object to Measure B as the solution. Any cuts to retirement benefits, he says, should have been the result of labor negotiations. Instead, he argues, Reed, Liccardo and most of the council made changes to pay and benefits without the typical compromises that come from negotiating with workers.

It's possible to explain Reed, Liccardo and other Measure B-supporting Democrats in San Jose as having turned against the principles of their party, and some critics do make this accusation.

“They’re Democrats in registration only,” says Steve Preminger, chair of the Santa Clara County Democratic Party.

But Liccardo insists that pension reform has to become part of the Democratic agenda. Measure B represented the least painful way to preserve and restore core city services, he says, from paving roads to housing the homeless. Yes, retirement benefits will be worse for city workers going forward, but that sacrifice was the lesser of two evils. Liccardo sees the upcoming election as a choice between prioritizing employee benefits or city services. “I think the future of the Democratic Party hangs in the balance,” he says. “Democrats believe that government can be a force of good, but if you’ve got crippling debt, it renders government ineffectual.”

Although Liccardo finished second to Cortese in this summer’s primary, the numbers give him some reasons to be optimistic. Liccardo and other mayoral candidates who ran on a pro-Measure B platform collectively won 62 percent of the primary vote. Meanwhile, the city’s overall financial health has improved, allowing four new libraries to open, 900 streetlights to be turned on and 76 firefighters to keep their jobs after funding from a federal grant expired. Following a decade of neglected infrastructure maintenance, the city is also spending $16 million this year on paving roads. The restoration of services and staffing is partially due to Measure B: The portion of the law dealing with new hires, which survived a court challenge, began saving the city an estimated $20 million a year, starting in 2014.

While Liccardo works to convince voters that he deserves credit for the city’s incipient turnaround, Reed is already making plans to expand his pension crusade after he leaves office at the end of the year. He and three other California mayors want to place an initiative on the 2016 statewide ballot that would change the state constitution to give cities greater latitude in controlling pension costs. Until state law changes, he says, the risk of lawsuits is too great for smaller cities to deal with those costs.

GOVERNING.COM

BY J.B. WOGAN | OCTOBER 2014

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Moody's: Drought Will Have Little Impact on California Water and Sewer Utilities' Financial Health.

New York, September 17, 2014 — Drought conditions and water conservation measures will not seriously impact the credit quality of California water and sewer utilities, at least through 2016, says Moody’s Investors Service in a new report. Rate increases will largely be offsetting the decline in sales volumes the utilities are projecting.

“In the early years of the three-year drought, sales volumes and gross margins have actually increased,” says Moody’s Michael Wertz, an Assistant Vice President and Analyst. “Therefore, the utilities’ projected sales volume decline will typically lead to a return to normal financial performance, not the below-average performance the unusual severity of the drought might suggest.”

In a recent survey of Moody’s-rated California water and sewer utilities, which the rating agency summarizes in the report “California Water and Sewer Utilities’ Rate Increases Will Largely Offset

Drought's Financial Impact," Moody's finds the utilities on average expect an approximately 10% decline in water sales because of the drought, a significant difference from the 20% reduction in water usage the California governor is targeting. Only 16% of respondents report amending their scheduled rate increases in direct response to the drought and conservation measures.

Moreover, the drought has actually helped the operating performance of the utilities. Because a substantial portion of water in California is used for irrigation and landscaping, the lack of rainfall has led to greater use of utility water to make up for the lack of rain, driving up water sales and revenues.

Moody's says net revenues and debt service coverage reached three-year highs for both water and sewer systems in 2013.

But conservation measures are now cutting into volumes. In terms of financial performance, however, planned rate increases — averaging 5.3% in fiscal 2015 and 4.1% in fiscal 2016—will generally make up for the loss in volumes, according to the utilities.

Regardless of volumes, a key credit strength for the utilities is the fact they have unlimited authority to adjust rates without outside regulatory approval.

For more information, Moody's research subscribers can access this report at http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM175532.

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Fitch: California Water Rules to Create Winners and Losers.

Fitch Ratings-New York-22 September 2014: Legislation signed by the governor of California last week will benefit municipal water agency credits in the long-term by stabilizing supply and raising drought resiliency, Fitch Ratings says. However, the 10- to 20-year phase-in of the requirements comes too late to mitigate the supply pressures caused by the current severe drought and could hurt ratings of agricultural water agencies in the state in the mid-term.

The legislation requires local agencies to create and adhere to plans for sustainable groundwater management to battle chronic overdraft conditions. It creates agencies with the authority to require reductions in pumping and charge fees to support groundwater projects.

The long-term implementation of this legislation will not change existing supply pressure on California's water credits, but it should be positive for urban water providers in the long term. The new rules create incentives for California water agencies to invest in alternative water supplies like groundwater recharge, maximizing usage of surface water rights, conjunctive use, waste water recycling, and conservation. These investments will boost debt levels and water bills but will be more than offset for most issuers by supply reliability improvements. If well implemented, the legislation also will lower the risk that water agencies investments in stable supplies will be negated by overuse by neighboring communities through unadjudicated basins.

Over the long term, Fitch believes the legislation will pressure some agricultural water agencies by forcing some farmland out of production, weakening customer bases. The legislative call to more effectively manage groundwater will raise the value of the agricultural water agencies' services and stimulate investments in sustainable supplies. However, adapting to these changes will be very difficult for those that lack rate setting flexibility. We expect pressures on them to emerge sooner.

Fitch does not expect the legislation to have widespread impact on tax-supported credit ratings, even in heavily agricultural regions. While some agricultural land may be lost, it generally produces small amounts of tax revenue. Fitch also believes the impact of loss of agricultural jobs is likely to be very gradual and would be masked by broader cyclical economic factors in all but the smallest, most narrow agricultural economies that tend to lack public bond ratings.

The groundwater legislation continues a long tradition of state water policymaking in which droughts force the state and its local water agencies to make major investments in long-term supply reliability. In our view these investments are among the main reasons the current extreme drought impact has had little impact on credit ratings. However, the potential for greater impacts remains as the drought lingers.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Puerto Rico Wins With Worst Riskless Return: Muni Credit.

Debt of junk-rated Puerto Rico is beating the entire $3.7 trillion municipal-bond market in 2014 and all U.S. states. Take volatility into account and the securities come in dead last.

Bonds from the struggling commonwealth have generated a 12.1 percent total return this year through Sept. 15, beating the 7.4 advance for the broader market, according to S&P Dow Jones Indices. Yet after factoring in price swings using Bloomberg's risk-adjusted return calculator, Puerto Rico's gain is only 1.6 percent, compared with 4.7 percent for the entire market.

The last-place showing underscores the risk-reward tradeoff of the bonds, which are tax-exempt nationwide and carry yields rivaling those on Venezuela bonds. While the swings are luring hedge funds, traditional muni investors such as AllianceBernstein Holding LP and Vanguard Group Inc. are balking as the island tries to boost its economy and repay $73 billion of debt.

"We don't think we're being compensated enough at these prices to be a buyer, given the risks we see," said Guy Davidson, who helps manage $30 billion of munis at New York-based AllianceBernstein. "And that's even true for our high-yield funds."

Rally Temptation

A two-month rally in Puerto Rico debt hasn't been enough to draw AllianceBernstein back to the territory. The company cut its holdings to zero after Governor Alejandro Garcia Padilla's June proposal of a new debt-restructuring law, down from a 2 percent allocation at the start of the year, Davidson said.

"Their ability to pay this debt is largely going to be dependent on their economy starting to grow," Davidson said.

An index that tracks Puerto Rico's economy has contracted by 19 percent since 2006, according to the Government Development Bank, which handles the commonwealth's debt sales. Compounding the challenge, the population has shrunk for eight straight years, to 3.6 million, as people move to the U.S. mainland, according to U.S. Census data.

Puerto Rico bonds have rebounded from record lows set in July following passage of a law allowing some agencies, including the Electric Power Authority, to restructure obligations.

Restructuring Pick

Prepa, as the utility is known, picked New York-based turnaround firm AlixPartners LLP this month to help repair its finances. It must file a debt restructuring plan by March 2.

Uninsured Prepa bonds maturing in July 2040 traded yesterday at an average price of 56.36 cents on the dollar, up from a record low 38.14 cents on July 7.

Ten-year Puerto Rico obligations yield about 8.6 percent, equivalent to a taxable 14.3 percent for investors in the top federal income bracket, Bloomberg data show. Similar-maturity dollar-denominated bonds for Venezuela, which has the world's highest inflation rate and plunging foreign reserves, yield about 14.4 percent.

Those interest rates are attracting buyers of risky securities.

Hedge funds bought the bulk of the commonwealth's $3.5 billion general-obligation sale in March, the municipal market's largest speculative-grade borrowing ever. More than 60 alternative fund managers hold about $16 billion of commonwealth debt, according to an August Fitch Ratings report.

Yield Response

The price swings attract hedge funds because they're looking for price appreciation, said David Tawil, co-founder of hedge fund Maglan Capital LP, which holds the island's general-obligation bonds.

Puerto Rico "provides a pretty compelling investment opportunity," said Tawil, who oversees a $75 million fund in New York. "There's a fair amount of identifiable financial reforms that could go ahead and be carried out and yields would respond as a result."

A group of 28 hedge funds, including Brigade Capital Management LLC, Fir Tree Partners, Monarch Alternative Capital LP and Perry Capital LLC, hold more than $4.5 billion of Puerto Rico securities, according to Russ Grote, a Washington-based spokesman who represents the coalition at Hamilton Place Strategies.

The group is “a potential source of financing to assist the commonwealth and the governor as they continue their efforts to improve the island’s financial position,” it said in a statement last month.

Fund Pullback

Puerto Rico may need to tap that financing as it plans to sell $900 million of notes in the next 30 days.

The hedge funds and alternative investors are stepping in as mutual funds, which own about 17 percent of all municipal debt, have pulled back. About 57 percent of U.S. muni mutual funds hold Puerto Rico securities as of September, down from 77 percent in October, according to Morningstar Inc.

The $9.8 billion Nuveen High Yield Municipal Bond Fund, the largest U.S. mutual fund focusing on lower-rated munis, hasn’t held Puerto Rico securities since June 2013, according to John Miller, co-head of fixed income in Chicago.

Outside that fund, Nuveen holds $100 million of Puerto Rico debt, or less than 1 percent of its $94 billion of muni assets, down from 1.5 percent two years ago, Miller said.

The commonwealth’s history of selling bonds to repay creditors is deterring Nuveen, even with the high yields.

“The island does have an uncanny ability to continue to convince different constituencies to enable them to extend, borrow more, extend more, borrow more,” Miller said.

Vanguard’s weighting is below benchmark levels because of recurring budget deficits and a flagging economy, said Chris Alwine, head of munis in Valley Forge, Pennsylvania. The company oversees $140 billion of state and local debt.

“We haven’t seen the economic growth,” Alwine said. “There’s still progress to be made.”

BLOOMBERG

By Michelle Kaske September 16, 2014

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U.S. Backs Dakar Bonds in Model for Fast-Growing Cities.

The U.S. Agency for International Development said yesterday that it will guarantee Senegal’s first municipal bond sale of $41.8 million, part of a broader American effort to help stabilize an increasingly urban world.

The U.S. aid agency is guaranteeing 50 percent of the general-obligation bond issue for seven years, and will spend $8,360 to help Dakar, the Senegalese capital, list it on the regional stock exchange sometime in the next three or four months. It would be the first in sub-Saharan Africa, and the first non-sovereign-backed.

Instead, the bonds, announced at the aid agency's Frontiers in Development conference in Washington, will be backed by Dakar city taxes, with the expectation that all the proceeds will be used to pay the bonds. If there's a shortfall, the city has created a reserve account that can be tapped.

Dakar, with 3 million residents according to the CIA Factbook, is Senegal's largest city, economic hub and the business gateway to West Africa. The municipal bonds will be used to build a marketplace for about 3,500 street vendors, allow them to establish and grow their businesses and give the city a chance to collect rent and taxes.

With 1.5 million people a week streaming into cities, and almost 60 percent of the world's people expected to live in them by 2050, U.S. intelligence officials say urban growth could either boost Asian and African economic and political stability or generate contagious instability.

'Front Lines'

As municipalities struggle to meet the growing demand for services and infrastructure, central-government funding has often failed to keep pace. Finding ways to tap private investment could counter the failures that mire megacities with traffic congestion, failing infrastructure, entrenched criminal networks, deteriorating health and sanitation conditions and — the U.S. aid agency's concern — extreme poverty.

"Municipalities are on the front lines of battling extreme poverty, especially in a world where populations are exploding in cities and will in the future, and more central governments are reducing the amount of tax transfers that they send," said Michael Metzler, director of the agency's Development Credit Authority.

The shortage in central government funding and limited city tax bases "opens a space where private financing makes a lot of sense" for cities, Metzler said, "but a lot of them aren't able to access" it.

The agency's Development Credit Authority specializes in leveraging private capital to further economic development, sidestepping tightening federal budgets and departing from the traditional role of simply doling out aid. It encourages local banks in developing countries to make loans to underserved businesses that deal with agency priorities such as agriculture and energy by pledging to cover 50 percent of any losses.

Private Capital

Raj Shah, the agency's administrator, said the partnership with Dakar underscores how it's "working with engines of American innovation — like the Gates Foundation — to end extreme poverty. By unlocking the power of private capital, we can help local leaders like Mayor Khalifa Sall seize opportunities for broad-based economic growth."

The bond issue "will help diversify the city's capital resources at a lower rate for a longer maturity," Sall, the mayor, said in an e-mail. "Dakar is setting the example of how to find innovative and sustainable ways to finance major infrastructure projects in order to improve life for the urban population." Its success, Sall said, would create opportunities for his city, as well.

The preparations for issuing the bonds already have had an impact, Metzler said.

Gates Foundation

The Bill & Melinda Gates Foundation worked with Dakar to found a municipal financing unit aimed at selling the bonds. The unit has worked on strategic budgeting, financial forecasting and strengthening capacity for future bond sales.

The standards needed to meet investors' demand for transparency and effective management also will help improve governance, Metzler said.

"Once a city wants to enter these markets, it has to become transparent; it has to open itself up to critique; and then it has to improve any systems seen as lacking by potential investors," he said. "The city is much, much stronger today than they were when this transaction process started."

Sall heads a pan-African group of municipal leaders, and a larger goal of the issuance is to encourage other cities to explore loan guarantees as a way to access private capital, Metzler said.

BLOOMBERG

By Nicole Gaouette Sep 18, 2014 5:00 PM PT

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Reed Smith: Private Partnerships Can Work - Pittsburgh Penguins and Community Agree on Development Plans.

The Pittsburgh Penguins have finalized a groundbreaking agreement with local community groups after years of negotiations involving the development of the 28 acre site where the former Civic Arena once stood. The agreement provides for, among other things, the inclusion of minority participation in the development of the 28 acres and a percentage of affordable housing.

The announcement, made by City and County officials earlier this week, was a turning point in what has been a long process of negotiations between competing interest groups and stakeholders in the Hill District. In articles published in the Pittsburgh Post-Gazette and Pittsburgh Business Times, the team and local political leaders announced a wide ranging set of terms addressing the minority participation details and the percentage of affordable housing.

The full text of the Post-Gazette article can be found here.

The full text of the Pittsburgh Business Times article can be found here.

Last Updated: September 16 2014
Article by Gerald S. Dickinson
Reed Smith

This article is presented for informational purposes only and is not intended to constitute legal advice.

WSJ: In California, a Novel Use of Eminent Domain Hits Headwinds.

RICHMOND, Calif.— Morris LeGrande and Scott Barker would both benefit from a radical plan being eyed here to use the power of eminent domain to slash their home mortgages.

Yet the two homeowners occupy opposite ends of a debate over who should take responsibility for inflated housing debts—lenders or borrowers.

Without debt forgiveness, Mr. LeGrande says, he and his wife "have a decision to make as to how long we stay" in their house. Mr. Barker condemns the city's plan to chop his mortgage as "snake-oil stuff" that is "wrong on a number of levels." Both have loans that were among the 624 mortgages the city proposed forcibly purchasing last year.

Six years after the financial crisis spurred Washington to bail out entire sectors of the economy, few cities capture the unevenness of the nation's recovery quite like this industrial hub of 100,000 residents on San Francisco's East Bay.

Home prices in nearby San Francisco and Silicon Valley are setting new highs, but prices here still hover around 37% below where they were at their peak in 2006. More than a quarter of Richmond borrowers owe more than their homes are worth, according to a report prepared by researchers at the University of California, Berkeley, compared with 10% nationally.

How so many Richmond homeowners got so deeply in debt helps explain why the plan is so controversial. Borrowers often compensated for slowly rising incomes during the boom years by tapping rising home equity to pay for bills and repairs. Then when the market crashed, they were left with mortgage debt exceeding their homes' values.

Richmond Mayor Gayle McLaughlin wants to use the city's property-seizing powers of eminent domain—normally reserved for shared public purposes like building roads—to help homeowners like Mr. LeGrande dig out from huge housing debts. Other cities, including Newark and Irvington in New Jersey, have proposed similar plans but none has advanced as far as Richmond's.

Under Richmond's plan, the city would seize the mortgage—but not the home—with backing from a private firm. They would then reduce the loan principal and refinance into a new government-guaranteed loan. That would leave the borrower with a fixed payment and less debt.

But the plan has met a wall of protest from banks and mortgage-bond investors, who have sued to block the seizures. They fear the plan works only if cities are able to buy loans at deep discounts, and mortgage investors say the proposal would make them less willing to extend credit in Richmond.

Mr. Barker's experience gives some sense of the costs involved. The city proposed buying 10 loans last year in his neighborhood, developed in 2004 on a ridge overlooking the San Francisco Bay. While homes have sold in the $600,000 range over the past year, the city last year offered to pay as little as $231,000 for some loans.

The next few weeks could determine the plan's fate. The seven-member City Council is one vote shy of the state-required supermajority needed to begin eminent-domain proceedings. Backers have been working furiously to find another city willing to join them, holding talks recently with city leaders in San Francisco; creating a joint-powers authority with another city would require a simple majority.

Time is running out because November's elections could alter city leadership. Ms. McLaughlin, who is running for a council seat, isn't eligible to run again for mayor.

Mr. LeGrande, who bought in Richmond in 2004 after he tired of moving between rentals in Oakland, figures that he owes $250,000 more than his four-bedroom home is worth.

The 58-year-old jazz musician and his wife, Luajuana, put no money down for the $310,000 purchase of their four-bedroom home by taking out two loans. They refinanced the two loans into a larger one in 2005, using some of the proceeds to pay down a car loan, fix a bathroom and repair a fence, he says.

The LeGrandes refinanced again to avoid higher payments, but by 2008, they fell behind on the loan, which had swelled to $423,000. Their mortgage company modified the loan twice. But without more help, Mr. LeGrande said, "it becomes a bad decision to keep this house."

An extreme example: Doris Ducre, a 61-year-old laboratory technician, bought her parents' four-bedroom home here in 1999 and steadily increased her mortgage debt from $144,000 to $412,000 over eight years.

She says she and her husband used the proceeds of refinancing—after brokers took their cut—to fix her home. But the property today is worth far less today than the $385,000 they still owe.

"Right now, we're like renters. I don't own anything," she said. "The banks got bailed out, and the average person was left behind."

Meanwhile, even though Mr. Barker and his wife, Vivian, say it is in their interest to accept the city's help, they don't want it. They bought their home for $997,000 with 20% down in 2005, just as the market peaked. They recall neighbors who walked away from homes as the foreclosure crisis deepened.

"Who's going to want to invest in loans if someone like us, paying their loan, can get it written down?" said Mr. Barker, a software salesman who lost his job during the recession and was unemployed for 18 months. "There's a ton of people who got screwed, but I don't feel like this is the answer."

THE WALL STREET JOURNAL

By NICK TIMIRAOS

Sept. 16, 2014 1:16 p.m. ET

Write to Nick Timiraos at nick.timiraos@wsj.com

Muni Funds Can Take the Spotlight by Buying Green.

Municipal bond fund managers are finding they can stand out from the competition and lure new investors by taking advantage of this year's flood of green bonds.

While overall municipal bond issuance is 12% below last year's level, issuance of green bonds, which are devoted to funding sustainable and environmentally beneficial projects, has surged in 2014. Green bond sales in the first half alone, including municipal and other green bonds, has surged to

$20 billion, matching the total for the past 7 years, according to Bank of America.

Muni managers are turning to green bonds to meet rising demand from investors that's resulted in net inflows to municipal bond funds for most of the year, including 11 of the last 12 weeks according to Lipper FMI. Just last week municipal bond funds reported inflows of $470.3 million, even though the broader municipal market experienced a sell-off. Interest in green funds has grown even as some of them have underperformed benchmarks, as they attract investors who are motivated by a desire to promote conservation or help offset global warming, not just the prospect of earning a return.

Going green "is a differentiating feature, no doubt about it," Brian Kinney, head of the global beta fixed income team at State Street Advisors, referring to SSA's High Quality Green Bond Fund. "In the field of high quality bond funds, having a green specific portfolio is an interesting feature."

To date, no green bond fund has been devoted exclusively to munis. The ones in existence also include corporate and asset-backed bonds. Fund managers say going green has differentiated their funds from the non-green ones that contain bonds of similar maturities or ratings.

"Instead of working against 500 other mutual funds, we are working against a few," Benji Baily, fixed income investment manager at Everence, said in an interview when discussing Everence Financial's Praxis Intermediate Income Fund, which Everence calls a green fund.

This summer's muni green bonds included such deals as the New York Environmental Facilities Corp.'s $213 million green bond issuance and the DC Water and Sewer Authority's $300 million green century bond, both issued in June.

Morgan Stanley is expected to price a $350 million Massachusetts green bond on Thursday. The retail order period started on Monday and is scheduled to last three days.

Revenues from the bonds will fund projects ranging from clean water and drinking water, conservation and habitat restoration.

New Investors Buy In

Municipal issuers of green bonds this year have been able to attract buyers with the green product who had not purchased bonds from the issuing municipality, or municipal bonds at all, previously, The Bond Buyer reported in June.

Green bond fund managers said they have also been able to increase and diversify the type of investors in their funds by going green.

Kinney said that when State Street launched its fund in the spring of 2012, the initial demand did not come from the usual participants in the fixed income sector. He said investors interested in the fund were focusing mainly on the fact the fund was green, and that many of them had initially been invested in equity.

"It appears the kinds of people who have an interest in green [bonds] in general are people who are somewhat concerned about climate change, who have concerns about quality of life and who have concerns about having value in their portfolio, other than those just looking out for the best return," Delmar King, fixed income manager at Everence, said in an interview.

Kinney also said the market's interest in green products is growing.

"We are increasingly seeing questions from investors that may not have been trying to invest in green products in previous issues," he said.

Big Banks Push Clients Towards Green Funds

Part of the reason green bond funds have been able to attract a broad and diverse group of buyers is because some of the larger banks that do not have green bond funds in place have recommended to their clients to buy into investment groups' green bond funds.

"We have not seen competing funds at Bank of America, JP Morgan, and ones like that," King said. "Some of these large asset managers have been coming to funds like us and saying 'we would like to have you on our green platform, we would like your fund to be an option.'"

Kinney said his group has also had conversations with banks and other intermediaries to aggregate smaller orders to invest in funds like State Street's green bond fund.

"We are not speaking directly to smaller players or retail players, because our fund is designed to be invested in by institutional buyers," he said.

Mauricio Agudelo portfolio manager of taxable fixed income at Calvert Investment Management said that it was less of a transition for Calvert to start luring green bond investors to its Calvert Green Bond Fund. Calvert has dealt in socially responsible investing for over 30 years, and it has recognition in the industry for that type of investing, he said.

Green Bond Funds Do Not Outperform

These green bond funds have managed to stand out from their competition and attract new clientele without outperforming benchmark municipal or corporate bond funds with similar maturities.

The Calvert Green Bond Fund's year-to-date return is 3.07% as of September 12, according to the group's website Calvert.com. Everence's Praxis Intermediate Income Fund returned 3.95% for the same period, a spokeswoman for Everence wrote in an email.

Both of these funds that contain green bonds with intermediate maturities YTD returns are not as large as the S&P Dow Jones Intermediate Municipal Index which has returned 7.80% as of Sept. 12, or the Barclays Intermediate Term Corporate Bond ETF, which returned 4.22% YTD as of Aug. 30.

S&P Dow Jones Indices Green Bond Fund has only returned 2.06% YTD as of September 12.

A spokeswoman for State Street wrote in an email that information about State Street's green bond fund couldn't be provided.

THE BOND BUYER
BY HILLARY FLYNN
SEP 15, 2014 2:26pm ET

EPA Disqualifies $481m of Tappan Zee Bridge Loan.

ALBANY Gov. Andrew Cuomo said the state will appeal the federal government's decision Tuesday to strike down 94 percent of a controversial $511 million loan for the Tappan Zee Bridge replacement project.

The U.S. Environmental Protection Agency's regional office rejected using the loan for seven of 12 bridge-related projects, including $110 million slated for Hudson River dredging and $65 million to remove the current bridge between Rockland and Westchester counties.

In all, $481.8 million of the planned loan for part of the $3.9 billion bridge project was disallowed, according to a letter sent Tuesday to state officials by Joan Leary Matthews, director of EPA Region 2's Clean Water Division.

"If New York state spends either capitalization grant funds or recycled funds toward projects that EPA has determined to be ineligible, EPA will disallow those costs," she wrote.

The loan has been at the center of a months-long dispute between Cuomo's administration and environmental groups, who argued the loan was improper and not consistent with the fund it came from. And the loan could impact the final cost of the project — and how much tolls will need to increase to fund it.

The money was to come from the Clean Water State Revolving Fund, a pot of mostly federal funds that is reserved for financing sewer and clean-water projects, nearly always on the local level.

In June, the state Environmental Facilities Corp. — which administers the loan fund — unanimously approved the full $511 million loan, half with no interest and half at a low rate. The Public Authorities Control Board later cut that amount in half, but the Thruway Authority pledged to seek the rest at a later date.

Ultimately, the EPA agreed with the environmentalists, ruling Tuesday that the seven disallowed projects didn't comply with the goals of the loan program under the Clean Water Act.

Speaking to reporters Tuesday in New Paltz, Ulster County, Cuomo vowed to appeal the ruling. He said the rejection of the bulk of the loan wouldn't have an impact on the progress of the $3.9 billion construction project, which is scheduled to continue into 2018.

The state has 30 days to appeal to the EPA's disputes decision official.

"We'll go back and we'll appeal that," Cuomo said. "But remember again this was never part of the planning for the bridge financing in the first place. We'd like to get it done, but it's not like the bridge was dependent on it."

The Thruway Authority touted the loan as a way to help keep toll rates down on the Hudson River bridge, which connects Westchester and Rockland counties in the lower Hudson Valley. The state has already been approved for a separate federal Department of Transportation loan for up to $1.6 billion.

The Thruway has not revealed how much tolls will increase to help finance the project, and a long-promised task force to examine the toll has not yet been named.

The state may have an alternative plan, though. The state is receiving $4 billion in bank settlements over the next year, and Cuomo and state officials have indicated that a portion could go to transportation projects — perhaps to help fund the bridge.

The Environmental Facilities Corp. maintained that the latest loan was appropriate under the Clean Water Act because it would finance a project that would improve water quality in the Hudson, a national estuary. The bridge removal, for example, qualified because the span is covered in lead paint, the state authority argued.

The EPA ultimately disagreed.

Along with river dredging and removal of the old bridge, the federal regulator blocked loan funds for armoring the river bottom ($29.9 million), underwater noise protection ($48 million), a shared-use path ($66.7 million), Oyster bed restoration ($1.4 million) and the transfer of a falcon nest ($100,000), along with $160.7 million in engineering, design and legal fees.

Just $29.1 million of the loan was approved, with $14.4 million going toward stormwater-related projects.

Peter Iwanowicz, executive director of Environmental Advocates of New York, said the EPA decision "affirmed what we've said all along."

"These projects aren't eligible," he said. "We should have never been in this position where we're having this big kerfuffle about spending a half billion dollars on bridge construction when we have tens of billions of dollars of (clean water) projects that need to get done in the next decades."

Matthew Driscoll, president of the Environmental Facilities Corp., said the state is on solid ground to appeal the EPA's decision.

"The federal government has always given wide discretion to states in terms of these decisions," Driscoll said. "So today is really a departure from that because this is the policy that EPA has followed for over 25 years."

Jon Campbell, jcampbell1@gannett.com | @JonCampbellGAN 5:03 p.m. EDT September 16, 2014

JCAMPBELL1@gannett.com

Michigan Board OKs $450 Million Detroit Hockey Arena Bonds.

(Reuters) – The Michigan Strategic Fund board gave final approval on Wednesday for the sale of up to $450 million of 30-year revenue bonds for a downtown Detroit arena that will be home to the National Hockey League's Detroit Red Wings.

The financing plan calls for $250 million of tax-exempt bonds backed by increases in tax collections on real estate and personal property from the development. The bonds will be priced through underwriter Merrill Lynch.

Another $200 million of variable-rate taxable bonds backed by arena concession fee payments will be privately placed with Comerica Bank.

The Detroit Downtown Development Authority, which will own the arena, will hedge interest rate risk on the bonds through a swap agreement with a yet-to-be named counterparty. According to a briefing memo on the deal, the authority will follow federal financial reform regulations known as Dodd-Frank and engage an independent representative to conduct negotiations.

Interest-rate swaps ensnared many municipalities during the last financial crisis. Swaps associated with Detroit's pension debt soured when interest rates and the city's credit ratings dropped. The money Detroit subsequently owed to the swap counterparties helped push it to file the biggest-ever municipal bankruptcy in July 2013.

The Detroit Downtown Development Authority approved the financing on Tuesday.

The authority has been working more than a year on a “new multipurpose events center” of at least 650,000 square feet that will have 18,000 seats and retail space. It expects it to open in 2017.

A U.S. Bankruptcy Court judge is currently evaluating Detroit’s plan for restructuring its $18 billion of debt and obligations to exit bankruptcy. Anticipating the plan will win the judge’s approval soon, city leaders are talking about a revitalized city with less blight and more economic development.

In a briefing memo, Mark Morante, senior advisor at the Michigan Economic Development Corporation, described the arena as an “innovative facility that will act as a powerful generator of economic activity and be a good urban neighbor.”

He added that private parties will develop the area around the arena, making an “aggregate capital investment of at least $200,000,000 in projects.”

That development will occur concurrently with the arena work “to more rapidly generate jobs, positive economic impact and transformation of the district,” Morante wrote.

Wed Sep 17, 2014 6:36pm EDT

(Reporting by Lisa Lambert in Detroit and Karen Pierog in Chicago; Editing by James Dalgleish and Andre Grenon)

Fracking's Financial Losers: Local Governments.

Localities are forced to deal with much of the problems associated with fracking, while states and the federal government rake in all the revenue.

The shale gas market is an economic boon for the 30-odd states that permit fracking. The severance tax states impose on the process adds up. In 2010, it generated more than $11 billion. The flow of that revenue goes straight into state and federal piggy banks, as does increased corporate income tax revenue from energy companies profiting from fracking.

Localities, however, enjoy no such benefits. Instead, they get stuck with all the fracking problems: noise from blasting, storage of toxic chemicals, degraded water sources and heavy truck traffic, as well as the rising costs of cleaning up the detritus fracking leaves behind. North Dakota counties affected by hydraulic fracturing have reported to the state Department of Mineral Resources’ Oil and Gas Division that traffic, air pollution, jobsite and highway accidents, sexual assaults, bar fights, prostitution and drunk driving have all increased.

In addition, fracking, in many cases, negatively impacts property values, which in turn depresses property tax revenue. For property owners who own the rights to the oil and gas on their land, the effects of drilling can be offset by royalty payments. But localities have no revenue offset if properties lose value.

The financial risks posed by fracking have become significant enough to capture the attention of mortgage bankers and insurers, who appear to be adopting guidelines that forbid mortgage loans or insurance coverage on properties affected by drilling. According to a 2013 survey by business researchers at the University of Denver, persons bidding on homes near fracking locations reduced their offers by as much as 25 percent. In North Texas, the Wise County Central Appraisal Review Board reduced the appraised value of a family's home and 10-acre ranchette more than 70 percent. The board agreed to the extraordinary reduction as a result of numerous environmental problems related to fracking just one year after the first drilling rig went up on the property.

While a number of states continue to push to expand fracking, localities have some leverage. They control land use policies, zoning and property rights. Ironically, one of the earliest local-state challenges came from Exxon's CEO. As a homeowner in an upscale community in Bartonville, Texas, the CEO found himself at odds with a local fracking operation.

He filed suit to block construction of a water tower near his home — a tower that would increase fracking in the area — alleging it would create "a noise nuisance and traffic hazards."

The dispute in Texas is only the tip of the derrick, as it were. In New York, the state's highest court upheld the right of two of the Empire State's local governments to establish zoning laws that keep out fracking companies. The court's 5-2 decision was based solely on reaffirming the towns' rights to make their own zoning choices. In its ruling, the majority noted that the towns had engaged in a "reasonable exercise" of their zoning authority, that they had "studied the issue and acted within their home-rule powers in determining that gas drilling would permanently alter and adversely affect the deliberately cultivated small-town character of their communities."

In Colorado, where the cities of Boulder, Broomfield, Fort Collins and Lafayette have adopted antifracking measures, Gov. John Hickenlooper recently announced the appointment of a task force to develop recommendations that would reduce land use conflicts when oil and gas facilities are located near homes, schools, businesses and recreation areas. He would also ask the Colorado Oil & Gas Conservation Commission to dismiss litigation challenging the city of Longmont's ban on hydraulic fracturing and call on all parties to withdraw ballot initiatives on the topic. The task force will make recommendations to the legislature and issue majority and minority opinions.

GOVERNING.COM

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[Texas May Increase the Number of Toll Roads in the State.]

Even as billions of dollars in toll road projects are in various stages of development across Texas, state leaders say their home is still a hot spot for new toll projects.

That embrace was on full display this week at the International Bridge, Tunnel and Turnpike Association's annual conference.

"You have come to what I would suggest is the mecca of innovation on transportation infrastructure," Gov. Rick Perry said in a keynote address at the toll road industry's annual event. More than 900 people from 18 countries attended it, said Patrick Jones, the association's executive director.

Joe Weber, the Texas Department of Transportation's executive director, echoed other state officials when he described tolling as "vital" to the state's future mobility planning as Texas tries to close the gap on a road funding shortfall. The tax Texans pay on a gallon of gas — 38.4 cents — has not changed since 1993 even as road construction costs have risen sharply and cars have become more fuel efficient, reducing the amount of money raised. A state proposition on the November ballot, if it passes, is projected to raise a third of the agency's $5 billion annual shortfall by diverting some tax revenue from oil and gas production to the state highway fund.

Throughout the four-day conference, various attendees dismissed the possibility of federal or state lawmakers managing to find enough money to allow Texas to return to the days of a pay-as-you-go system for road construction.

"It's not like we're turning money away that could be used to build non-tolled facilities," said Mike Heiligenstein, the association's president and executive director of the Central Texas Regional Mobility Authority, which operates toll roads near Austin. "It just isn't there."

The conference took place about 20 miles from the State Highway 130 toll road, the southern portion of which is privately operated and sports the country's fastest speed limit at 85 mph. In July, Moody's Investment Service declared the SH 130 Concession Company, a partnership between Spain-based Cintra and San Antonio-based Zachry American Infrastructure, was in "technical default" because it had rescheduled a payment on $1.1 billion in debt.

Joseph Krier, chairman of the SH 130 Concession Company, said at the conference that traffic has come in below expectations but predicted that the road would eventually prove a wise investment as drivers look for an alternative to Interstate 35.

"We have a 50-year franchise on that road, and we are pretty confident that in the long term, this is going to be a huge transportation asset for the region," Krier said. "I-35 is going to become a parking lot."

Yet signs of a growing resistance to the state's increasing reliance on toll projects are emerging. In July, 12 elected officials representing North Texas' Collin County signed a letter to the Transportation Department opposing a proposal to convert high-occupancy-vehicle lanes on United States Highway 75 to high occupancy toll lanes, in which vehicles with just a driver pay a toll but those carrying multiple passengers could drive for free or at a discount.

"There is a strong feeling in our communities that they are already paying too much for travel upon our roadways due to tolling of the three major highway corridors in Collin County," the letter reads.

At a panel discussion titled "Texas: A Toll Industry Laboratory," the letter was cited by Kenneth Barr, chairman of the North Texas Tollway Authority, as a cause for concern.

"We're beginning to see some pushback on that," Barr said. "The challenge is our region added a million people in the last six years. If that's going to continue, we have to figure out how to build those roads. Without additional gas tax revenue, they're going to have to be toll roads."

Phineas Baxandall, a transportation analyst for the United States Public Interest Research Group, who was invited to speak at the conference as a tolling critic, said an increase in tolls dissuades the public from supporting an increase in the gas tax and can affect a community's development in unexpected ways.

"Toll roads don't just add new choices or benefits," Baxandall said. "Like any other transportation project, they also foreclose choices and impose potential harms. This shouldn't be discounted just because a transponder is involved."

BY THE TEXAS TRIBUNE | SEPTEMBER 19, 2014

By Aman Batheja

California Said to Begin Pricing $2.3 Billion General Obligation.

California began selling about $2.3 billion of general-obligation debt to individual buyers, with 10-year debt being offered at a yield of 2.52 percent, according to preliminary pricing information.

The yield is 0.24 percentage point above an index of benchmark municipal bonds, data compiled by Bloomberg show. The pricing data was provided by three people with knowledge of the borrowing who requested anonymity because the sale isn't final.

Moody's Investors Service rates California Aa3, fourth highest. Standard & Poor's and Fitch Ratings grade the state two steps lower at A.

BLOOMBERG

By Michelle Kaske and Brian Chappatta Sep 19, 2014 7:57 AM PT

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Texas Pension Cuts Hedge Fund Exposure by 1 Percentage Point.

The Teacher Retirement System of Texas, the sixth-largest U.S. public pension, cut its hedge fund allocation by 1 percentage point, three days after the nation's largest fund, California Public Employees' Retirement System, announced it would divest entirely from the asset class.

The board of the $126 billion Texas system approved the change today following an asset allocation study, Howard Goldman, a spokesman, said by e-mail. Texas will reduce hedge funds to 8 percent of the pension from 9 percent, according to board documents.

State pensions across the U.S. have turned to hedge funds to solve the growing problem of paying for retiree benefits. State funds last year had 75 percent of the assets needed to satisfy expected claims, according to Wilshire Consulting. States and localities in March faced a $1.4 trillion funding gap for meeting future benefits.

Besides reducing its bet on hedge funds, the Texas pension lowered the portion of assets it gives to equities by 4 percentage points and to fixed-income securities by 2 percentage points, while adding 5 percentage points each to risk parity and private markets, according to board documents. Risk parity is a strategy for investing based on allocation of risk and private equity and real assets.

"These new allocations are expected to be funded from a diverse set of asset classes across the trust in order to increase the overall probability that TRS will be able to achieve the 8 percent actuarial return target," according to a statement provided by Goldman.

Calpers, with assets of $298.8 billion, said Sept. 15 that it would eliminate its $4 billion allocation to hedge funds. The Sacramento-based pension said the investment vehicles were too complex, costly and small to affect performance.

Texas Teachers' has an unfunded liability of about $28.9 billion, meaning it has 80.8 percent of the assets needed to fund future payments to retirees.

BLOOMBERG

By Darrell Preston Sep 18, 2014 5:59 PM PT

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NYT: Detroit Reaches a Deal With a Key Creditor, but Others Balk at Plan.

DETROIT — A major opponent to Detroit's blueprint for shedding debts and remaking city services announced Monday that it has reached a settlement with the city and would now support Detroit's emergence from the nation's largest municipal bankruptcy.

But another of Detroit's holdout creditors was unable to reach a settlement on the same bankruptcy claim after several days of mediation, lawyers said on Monday, leaving uncertain how quickly the city could shed debts and emerge from reorganization.

Representatives for Syncora Guarantee, a bond insurer that had for months been vociferous in its objections to the city's proposed blueprint, told a federal judge overseeing Detroit's bankruptcy that it would now support the city. "This is a big day for Syncora and a big day for the city of Detroit," said Ryan Bennett, a lawyer representing Syncora, which has said its exposure in Detroit amounted to about $400 million.

David G. Heiman, a lawyer representing the struggling city, described the settlement as a significant step in bringing Detroit closer to departing court oversight "as soon as possible and to return the city to its citizens."

Still, representatives of Financial Guaranty Insurance Company of New York, another bond insurer, and some other creditors at the same ranking in bankruptcy, will miss out on a portion of the money that Detroit used to close its deal with Syncora. They made it clear that they intend to continue their objections to the city's reorganization plan, and sought a delay in the city's trial in order to further prepare their cases now that Syncora has settled and the city was preparing to file a revised blueprint including that settlement.

Last week, Syncora abruptly announced an agreement in principle with the city, a week into a trial over whether Detroit's exit strategy could be confirmed by the bankruptcy court. Until its announcement, Syncora was one of a few remaining opponents of Detroit's plan of debt adjustment, and one of the most insistent. Syncora went so far as to file a formal objection to the handling of the case under a team of mediators led by Gerald E. Rosen, who is also the chief judge of the United States District Court for the Eastern District of Michigan, the seat of Detroit's bankruptcy court.

Syncora argued that Judge Rosen was biased and his leadership of the mediation had given rise to a settlement plan that improperly favored Detroit's retirees over capital-markets creditors. Syncora retracted those objections on Monday and offered a full-throated apology to Judge Rosen.

When Syncora said last week that it had a preliminary agreement with the City of Detroit, the confirmation trial was halted until Monday, so that representatives of Syncora and other parties to the bankruptcy could attempt to agree on specific details of a settlement.

Preliminary outlines of Syncora's agreement said that it offered Syncora a stake in vehicle tolls from the tunnel that runs between Detroit and Windsor, Ontario, as well as interests in some land that would rise in value as Detroit's recovery went forward. But Syncora said Detroit had offered those items outside of the bankruptcy, in what it called a "redevelopment agreement." That meant that none of the assets being offered to Syncora would be shared with Financial Guaranty, or the other creditors that hold uninsured certificates in a 2005 borrowing which are now in default.

That left Financial Guaranty and the others with a far less satisfying settlement with Detroit, even though they were said to be getting the same recovery rate in the bankruptcy as Syncora, roughly 13 cents on the dollar. This outcome left Financial Guaranty and the other creditors to soldier on alone in their fight against the plan of adjustment. Although Financial Guaranty's claims were classified the same as Syncora's, its proposals for an acceptable settlement were different. For months, it has been making the case that the city's art collection should be included in the assets available for settlements, and it had been working with a lending consortium on a loan for Detroit that would be secured by the art.

Since early this year, Detroit officials have said they hoped to reach agreements with as many of their thousands of creditors as possible to speed the process of leaving bankruptcy, to avoid endless appeals over core issues like cuts to pensions and to be able to move ahead. For months, as Detroit reached deals with groups of creditors, including city workers and retirees, Syncora and Financial Guaranty had held out, becoming the city's most outspoken adversaries. Among their complaints about Detroit's plan to shed $7 billion and spend about $1.5 billion on city services: that it favored retirees as it forced much harsher losses on the investors who took part in the 2005 borrowing, and the two insurers themselves. The borrowing raised $1.4 billion to help fund the retirees' benefits.

As a trial opened here on Sept. 2, lawyers for the insurers made it clear that they had no intention of allowing the city's plan to win approval without an intense legal fight. Early estimates suggested the trial would run well into October, though a broad deal could shorten that significantly. Last week, too, deals were announced with Detroit's suburban neighbors for leasing the city's water system to a new regional authority, removing another impediment to a smooth departure from court.

NEW YORK TIMES

By MONICA DAVEY and MARY WILLIAMS WALSH

SEPT. 15, 2014

Chicago Shrinks Yields on $368 Million Water Bonds on Demand.

Chicago issued about $368 million of tax-exempt water bonds today, lowering yields from initial levels in the city's first such offering since 2012.

The deal includes a portion maturing in November 2044 that priced to yield 4.01 percent, down from an initial 4.13 percent, according to data compiled by Bloomberg. The yield is about 0.9 percentage point above benchmark 30-year municipal bonds. By comparison, an index of A rated revenue bonds due in three decades yields about 0.8 percentage point more than AAA munis, Bloomberg data show.

The pricing confirmed investors' expectations that the affiliation with Chicago, which bears the biggest pension burden among the most-indebted U.S. localities, would boost yields on the offering. Yet with interest rates in the $3.7 trillion municipal market close to generational lows, bond buyers are also seeking extra yield with riskier securities.

Yields on some maturities fell as much as 0.17 percentage point from preliminary levels. The second-lien debt has a Standard & Poor's grade of AA-, fourth-highest, while Moody's Investors Service rates it three steps lower, at A3.

Today's sale will pay for work on pumping stations and the replacement of water mains, some of which are more than a century old, according to bond documents and the city.

By Brian Chappatta and Elizabeth Campbell Sep 10, 2014 12:00 PM PT

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Detroit Creditors Seek Delay in Trial After Syncora Deal.

A group of Detroit creditors led by Financial Guaranty Insurance Co. asked a judge to push back for a week the trial on the bankrupt city's $7 billion debt-cutting plan.

FGIC, which faces claims on about $1.1 billion in Detroit pension debt it insured, and other creditors said in a filing yesterday that they wanted until Sept. 22 to consider their next steps in light of the settlement announced last week between the city and bond insurer Syncora Guarantee Inc.

On Sept. 10, U.S. Bankruptcy Judge Steven Rhodes halted a trial on the fairness of Detroit's plan after the city settled with Syncora, which backed more than $300 million of the pension debt. Rhodes postponed the trial until today to give time to work out the details of their agreement.

FGIC and other creditors were ordered to join Syncora and other creditors in mediation sessions last week by the chief federal judge in Detroit. In yesterday's filing, New York-based FGIC said it needed to make changes to its witness list and reconsider expert testimony after the Syncora deal.

Detroit's bankruptcy plan hinges on a bargain with philanthropic foundations and the state government, who agreed to shore up the city's public pension system with more than $800 million. In exchange, Detroit pledged not to use its art collection to pay debts.

FGIC has said the city could use the collection to boost payments to creditors whose claims the insurer may otherwise be forced to cover.

The creditor group asked Rhodes to hold a hearing today to consider the request for a delay.

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit)

By Steven Church Sep 14, 2014 9:26 PM PT

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Syncora Gets 13.7% in Detroit Bankruptcy Deal; FGIC Fights.

Detroit creditor Syncora Guarantee Inc. (SYCRF) will recover about 14 percent on what it's owed in a deal that includes $44.8 million in new debt, leaving bankruptcy holdout Financial Guaranty Insurance Co. the last major creditor opposing the city's debt-cutting plan.

Syncora has claimed it's owed more than $333 million. Under its agreement with Detroit, the bond insurer will get two sets of notes, a lease to operate a tunnel to Canada, land near the tunnel and the option for a long-term lease to operate a parking structure.

The deal is a "very favorable one to the city," David Heiman of Jones Day, a lawyer for Detroit, told U.S. Bankruptcy Judge Steven Rhodes at a hearing today after he disclosed the accord and Syncora's estimated recovery. The parties have "laid down their swords," he said.

While the settlement with Syncora may help speed Detroit's record municipal bankruptcy to completion, FGIC remains a significant obstacle, as it faces claims on about $1.1 billion in pension debt it insured. The city planned to almost wipe out that debt, offering holders only about 10 cents on the dollar.

Should investors in the pension debt take losses, FGIC may be forced to pay them. Cutting the debt is part of the city's plan to eliminate more than $7 billion in liabilities while shoring up its retirement system with money from the state and private donors.

Pension Debt

Syncora Guarantee insures more than $300 million of the pension debt and also holds some of the debt directly. The company also insured some tax-backed bonds. Shares of parent Syncora Holdings Ltd. fell 2.3 percent to $2.15 today.

FGIC and Detroit put together a tentative trial schedule after Rhodes asked lawyers to find a way to give the New York-based company time to collect information about the Syncora deal and hire an expert to testify against it.

The trial, in which the judge is considering the feasibility and fairness of Detroit's plan, continued today with the testimony of a pension expert.

Glenn Bowen of pension adviser Milliman Inc. said the city assumed its pension systems would earn about 6.75 percent over time, a figure that has been attacked by pension-bond holders as too low. Using that figure means the city would have to increase the amount of money it sets aside for its two pension systems.

7% Return

Other public pension systems assume they will earn more than 7 percent, the bondholders' attorney, Jonathan Wagner, said in court while questioning Bowen.

Bowen said public agencies will choose a higher or lower return estimate depending on their tolerance for risk. A higher number is riskier because if returns fall short, the agency would have to make up the difference to keep the pension system solvent, he said.

Tomorrow, the city may call Ron Bloom, a Lazard Ltd. vice chairman, who led President Barack Obama's effort to revive the auto industry. A loss of manufacturing jobs in Detroit contributed to the city's decline.

Detroit, a city of about 700,000, filed an $18 billion municipal bankruptcy last year, saying it was unable to provide basic services and still meet financial obligations. Since then, Emergency Manager Kevyn Orr has cut deals with city unions, retired workers and some bondholders to pay them less than they are owed.

Two Series

Under its pact with the city, New York-based Syncora will get two series of notes. The B notes will be worth about $23.5 million, while a series of C notes will be worth $21.3 million and bear a 5 percent interest rate.

The C notes will be tied to parking revenue. The company will also have the option to take over and develop additional parcels for development that will be disclosed in the next few days, lawyers for the city said today at the hearing.

Ryan Bennett of Kirkland & Ellis, an attorney for Syncora, told the judge his client planned to withdraw its objections to the city's debt-reduction plan.

"This is a big day for Syncora and a big day for the city of Detroit," Bennett told Rhodes.

Detroit's bankruptcy plan hinges on a bargain with philanthropic foundations and the Michigan government, who agreed to contribute more than $800 million to the city's public pension system. In exchange, Detroit pledged not to use its art collection to pay debts.

FGIC has said the city could use the collection to boost payments to creditors whose claims the insurer may otherwise be forced to cover.

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

By Steven Church Sep 15, 2014 2:31 PM PT

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USDA Announces Loan Guarantee to Help Innovative Company Turn Waste Into Renewable Jet Fuel.

LAS VEGAS, Sept. 4, 2014 – Agriculture Secretary Tom Vilsack today announced that USDA has closed on a loan guarantee to Fulcrum Sierra Biofuels, LLC to build a biorefinery to produce jet fuel from municipal solid waste.

“This represents a huge step forward in the development of clean, renewable, job-creating American fuels,” Vilsack said during a speech at the National Clean Energy Conference. “The nation is entering a new energy age that will make us more energy independent, cut carbon pollution and strengthen our economy, especially in rural communities where clean fuels will be produced.”

USDA is awarding Fulcrum a $105 million Biorefinery Assistance Program loan guarantee through Bank of America, N.A. to construct a facility in McCarran, Nev., to convert municipal solid waste to biodiesel jet fuel. USDA Rural Development’s loan guarantee represents less than half of the $266 million project cost. The plant is expected to produce 11 million gallons of fuel annually.

This is the first loan guarantee USDA has made for the production of bio jet fuel.

Fulcrum will produce synthesis gas from 147,000 tons of municipal solid waste and catalytically convert it to synthetic paraffinic kerosene/jet fuel through a proprietary technology. The plant will be the first of what the company expects to be several bio jet fuel plants throughout the country.

Last month, Cathay Pacific Airways announced that it is investing in Fulcrum Bioenergy Inc., the parent company of Fulcrum Sierra BioFuels, LLC, and has negotiated a long-term supply agreement with Fulcrum for 375 million gallons of sustainable aviation fuel over 10 years. This would represent about 2 percent of the airline’s annual fuel consumption.

USDA awarded the first loan guarantee in 2009 to Sapphire Energy in New Mexico. Sapphire has already paid off its $54.5 million loan guarantee. The program’s current portfolio includes Fremont Community Digester, located in Fremont, Mich., which received a $12.8 million loan in 2011 to convert food and agricultural waste to biogas that is used as fuel to generate electricity. INEOS New Plant Bioenergy, located in Vero Beach, Fla., received a $75 million loan in 2011 to produce cellulosic ethanol from woody biomass and municipal solid waste.

USDA is negotiating three additional loans for biorefineries in Iowa, North Carolina and Oregon. These loans would provide financing to produce renewable fuels from woody biomass, municipal solid waste and energy grasses such as switch grass, miscanthus and arundo donax. One of these ventures will retrofit an existing corn ethanol facility to produce cellulosic ethanol.

Biorefineries have broad economic and environmental implications. They lower greenhouse gas emissions, reduce dependence on foreign oil, give businesses and consumers more energy options and create jobs.

Congress established the Biorefinery Assistance Program in the 2008 Farm Bill. It reauthorized and extended the program in the 2014 Farm Bill. The 2014 Bill expands the program to include bio-based renewable chemicals and bio-based product manufacturing. USDA staff are working on regulations to set forth upcoming application terms for additional loan guarantees under the program.

The 2014 Farm Bill builds on historic economic gains in rural America over the past five years, while achieving meaningful reform and billions of dollars in savings for taxpayers. Since enactment, USDA has made significant progress to implement each provision of this critical legislation, including providing disaster relief to farmers and ranchers; strengthening risk management tools; expanding access to rural credit; funding critical research; establishing innovative public-private conservation partnerships; developing new markets for rural-made products; and investing in infrastructure, housing and community facilities to help improve the quality of life in rural America. For more information, visit www.usda.gov/farmbill.

Cleveland Clinic To Issue Rare 100-Year Bond.

The Cleveland Clinic is seven years away from celebrating its centennial, but apparently it's already pretty sure it's going to be around for another hundred years, as it's gearing up to sell $400 million worth of 100-year bonds. It will become "the first not-for-profit healthcare system, and one of the few in the US municipal market, to issue century bonds," according to Moody's Investors Service, which is assigning an Aa2 rating to the bonds that will mature in the year 2114. Moody's writes today that the Cleveland Clinic has what it takes to pull off a rare century bond:

The Cleveland Clinic Health System's national reputation, high demand for advanced patient services and exceptional fundraising capabilities support the staying power needed to meet a 100-year obligation. Given the rapidly changing and challenging dynamics of the healthcare industry, very few hospitals and health systems in the country exhibit these strong characteristics to manage the risks related to an ultra-long obligation….

CCHS's strong investment position and moderate amount of century bonds relative to total debt mitigate risks related to the expensive call provisions of century bonds and decreased balance sheet flexibility. The modest amount of century bonds is a key factor in minimizing the risk for healthcare systems; higher exposure to century bonds, even for a large healthcare system with similar characteristics as CCHS, would be viewed as a negative credit factor. Among the largest not-fo--profit healthcare systems in the country, Cleveland Clinic has the strongest relative investment position, providing ample resources to call the bonds if needed.

Moody's says issuing century bonds today will lock in historically low interest rates but notes that such bonds "are extremely expensive to call because make-whole provisions are more costly than call provisions for tax-exempt debt." Moody's again:

The bonds are structured with an optional redemption allowing the system to redeem the outstanding bonds at a "make-whole redemption price," which is typically the present value of the remaining scheduled payments of principal and interest to the maturity date, discounted at a stated spread above Treasuries. In contrast, traditional tax-exempt debt is usually structured with a 10-year call feature that would enable an issuer to redeem the debt at par after 10 years.

As you'd expect, few issuers are able to convince investors they'll be around a century from now, and century bonds tend to be confined to sovereign governments, large public institutions and a few select corporations and financial institutions with investment-grade ratings and loooooonnng track records. Past issuers include Mexico, the University of California system, Dutch agriculture bank Rabobank, and U.S. companies such as Norfolk Southern Corp., Walt Disney, Coca Cola, Ford, and JC Penney.

BARRONS

By Michael Aneiro

Fitch: California Proposition 13 Costs San Diego Hotel Tax.

Fitch Ratings-New York-12 September 2014: A recent state appellate court ruling that invalidated a hotel tax in San Diego offers the latest example of the far-reaching effects of Proposition 13 on California's local governments, Fitch Ratings says. The tax was intended to fund a major expansion of the city's convention center and was struck down on the basis that it had not been approved by local voters as required since its enactment in 1978.

The San Diego ruling will likely affect only a small number of potential future financings, but highlights the enduring impact of Proposition 13. California's local governments continue to face obstacles to raising new revenues as a result of this 35-year old voter initiative while expenditure requirements, fueled by population growth and rising employee pension and health care costs, continue to soar. The resulting imbalance between revenue and expenditure growth remains a defining feature of local government finance in the state.

The San Diego case involved a class of financing put in place by California's legislature in 1982 as a means for local governments to support growth despite the new limitations of Proposition 13. Named for its legislative sponsors, Henry Mello and Mike Roos, the Mello-Roos law enabled local governments to establish community facilities districts with authority to issue debt backed by taxes on future property owners to fund schools, parks, infrastructure, and municipal services. The financing mechanism has been especially popular in the state's fastest growing communities. More than $20 billion in Mello-Roos financings were completed in California between 1992 and 2012.

Most Mello-Roos districts are established for undeveloped land with no residents, and are unaffected by the new decision. In districts with existing residents the original Mello-Roos law required an affirmative vote of two-thirds of the electorate for the imposition of new taxes, but allowed such elections to be limited to landowners when the tax was borne by them alone. In San Diego's case, the new tax was limited to hotel owners and lessees, but the court determined that under Proposition 13 all registered voters in the city should have a say in the election. A previous, similar hotel financing for a San Jose convention center appears to be grandfathered.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

WSJ: Detroit to Transfer Water Department to Regional Authority.

DETROIT—The Motor City moved one step closer to settling the details of its historic bankruptcy, sealing a deal Tuesday to put its water and sewer system that falls outside city limits under regional control.

The deal calls for Detroit to maintain its own water and sewer system within the city. A new regional authority with appointees from the suburbs would lease its portion of the system from the city at a cost of $50 million a year for the next four decades. The authority also would set up a $4.5 million annual fund to aid residents who have trouble paying their water bills.

Annual rate increases will be capped for all customers at 4.5% over the next 10 years. Members of the new Great Lakes Water Authority will need a supermajority—five of six votes—to make its biggest decisions, including any move to increase customer rates or approve major contracts.

The authority's lease payments to the city could be used to issue as much as $800 million in new, state-backed bonds. That financing would help the city rebuild its aging infrastructure that saw 2,000 water-main breaks last year alone, according to Detroit officials.

The move to put a large chunk of one of the nation's largest water systems into the hands of an authority in southeast Michigan comes as the city considers unloading other assets to reach deals with outstanding creditors in its debt-cutting plan, according to a person familiar with the talks.

Time could be running short for Detroit Emergency Manager Kevyn Orr, whose term is set to expire at the end of the month. Detroit Mayor Mike Duggan said Tuesday that Mr. Orr could leave his post but remain as a bankruptcy adviser, adding that talks over Mr. Orr's future are active. It is unclear whether Michigan Gov. Rick Snyder, who appointed Mr. Orr, intends to appoint a successor while the city struggles to exit the nation's largest municipal bankruptcy.

After the city filed for Chapter 9 protection in July 2013, Mr. Orr said an outright sale of Detroit's water department, which serves nearly 40% of Michigan's population, was unlikely. His preferred plan called for leasing the water system to a new regional authority, which he said would bring in $47 million a year to the city for 40 years.

Until now, suburban leaders had balked at their potential share of future costs for system improvements and unpaid water bills, saying they were concerned any future contribution to the system would be used by the city to pay off its large debt owed to Detroit pension holders.

In an interview, Oakland County Executive L. Brooks Patterson said the 1.2 million people he represents had grave concerns about assuming responsibility for the city's water problems. But they also wanted a greater say over the parts of the system stretching through the northern county.

Under pressure from a federal judge, Detroit's mayor and leaders of the city's three suburban counties unveiled the pact at the federal courthouse where the city is defending its debt-cutting plan at a bankruptcy trial. Presiding Judge Steven Rhodes, who officials feared had the power to force changes to the water department unilaterally, has been encouraging the city and its suburbs to reach a compromise during months of closed-door talks.

Messrs. Snyder and Orr also endorsed the terms of the deal, which must be finalized by Oct. 10 by local legislative approvals.

"The extraordinary bipartisan cooperation is aimed at creating a sustainable, regional water system that also provides necessary and crucial updates to the aging infrastructure, brings relief to residents and taxpayers by capping future rate increases and creates a fund to help customers in need throughout the region," said Mr. Snyder, a Republican running for re-election this November.

The Detroit Water and Sewerage Department provides about 600 million gallons of water a day to Detroit and 127 suburban communities in seven counties. It has nearly $1 billion in annual revenue.

But like its city, the department has faced challenges. Until last year, it operated for decades under federal court oversight sparked by alleged violations under the Clean Water Act. A former department director pleaded guilty in 2012 to conspiracy as part of the corruption investigation into convicted ex-mayor Kwame Kilpatrick. Thousands of delinquent customers in Detroit have seen their water shut off in unpaid-bill disputes.

Before Tuesday's announcement, the system had been planning five-year capital-improvement projects to replace water mains and upgrade treatment plants and pumping stations expected to cost roughly $1.4 billion. Lawyers for surrounding suburbs challenged Detroit at its bankruptcy trial over how the city planned to finance those improvements without massive rate hikes, but those objections are now expected to be withdrawn, officials said.

Last month, Detroit sold about $1.8 billion in bonds tied to its water system to buy back existing debt and make system improvements, likely saving money through lower interest rates, according to city officials.

THE WALL STREET JOURNAL
By MATTHEW DOLAN
Updated Sept. 9, 2014 4:21 p.m. ET

Judge Agrees to Delay Detroit Bankruptcy Trial.

A federal judge agreed on Wednesday to delay Detroit's bankruptcy trial to give the city and its fiercest opponent a chance to finish a major settlement that could speed an end to the city's court fight over its future.

A tentative deal with Syncora Guarantee, a bond insurer that said its exposure in Detroit amounted to hundreds of millions of dollars, was announced Tuesday, and Judge Steven W. Rhodes agreed to halt the trial, which began last week, until Monday so details of the deal could be worked out. A final settlement with Syncora could permit Detroit, the largest American city ever to file for bankruptcy, to emerge from court far more quickly and smoothly than expected.

For months, as the city reached deals with other creditors, including city employees and retirees, Syncora had been the most forceful and public critic, and its legal objections to the city's plan for eliminating $7 billion in debts threatened to keep Detroit in litigation for months, even years.

Describing "an agreement in principle" between the city and Syncora, newly filed court documents emphasized the significance of the deal, noting, "if this agreement is finalized within this time period as we expect, it will profoundly alter the course of the proceeding and the litigation plans of the remaining parties."

There remain significant objectors to the city's plan, and the still-unfinished details of Syncora's agreement could prove vexing, but city officials expressed optimism. "Anything that shortens the time that we're in court, that limits the objectors that we have, is good for the city," said Bill Nowling, a spokesman for Detroit's emergency manager, Kevyn D. Orr. "We're not just giving Syncora anything. They're going to have to make investments." In a written statement, James H. M. Sprayregen, a partner in the Chicago law office of Kirkland & Ellis who has worked on behalf of Syncora, described the agreement as "an acceptable resolution for all concerned."

A person with information about the negotiations, which have taken place under strict, court-ordered secrecy rules, described an unusual set of circumstances that ultimately became the basis of Syncora's deal — one that will give the insurer a stake in vehicle tolls from the tunnel that runs between Detroit and Windsor, Ontario, as well as some nearby land.

As a creditor in an earlier bankruptcy of a company called American Roads, Syncora settled its claims by taking ownership of the company in a debt-for-stock exchange. One of American Roads' assets was a five-year lease on the Detroit-Windsor tunnel. Under the new agreement with Detroit, Syncora would extend its concession by 20 years, to 2040. Some additional land adjacent to the tunnel would also go to Syncora, giving the insurer the chance to cash in on prime riverfront development projects.

A memo summarizing the agreement for Detroit's City Council, signed by Mr. Orr, described some elements as options available to Syncora. The insurer would have the option of leasing a parking garage for 30 years, for instance, if it would invest $13.5 million in repairs over the first five years of the lease. That lease would give Syncora a 40 percent return on its investment, the memo said, and one-fourth of that would be shared with Detroit.

Syncora now stands to get a recovery rate of 20 percent to 25 percent on its bankruptcy claims.

That would be a little more than double what Detroit had offered Syncora and another bond insurer with similar claims, the Financial Guaranty Insurance Company, of New York. Both insurers stood to receive 10 cents on the dollar, or less, under Detroit's proposed bankruptcy-exit plan, one of the lowest recoveries in the blueprint.

It was uncertain as of Tuesday evening whether Financial Guaranty would accept the new terms. And negotiations with other parties in the coming days will determine whether the deal goes through. Two banks that underwrote the 2005 borrowing that Syncora helped insure, Bank of America and UBS, must still decide whether to release Syncora from its obligations as an insurer.

All along, the city's plan to emerge from bankruptcy had drawn objections from creditors who said they were to receive vastly different recoveries on their claims. Those involved with $1.4 billion of certificates the city issued in 2005 — like Syncora — could have come away with little or nothing, while city workers with pensions would take comparatively smaller losses. Yet if settlements with Syncora and others are completed, this case may not provide a judge's reasoned answer to a question some in the municipal bond industry have been awaiting: whether a city may shelter municipal retirees even as it forces tougher losses on bondholders and other financial-markets creditors.

Earlier on Tuesday, Detroit reached an agreement with its suburban neighbors to lease its water system to a new regional authority, a move that, like the tentative agreement with Syncora, could remove further opposition to Detroit's bankruptcy plan.

Under the lease agreement, the city would receive $50 million a year for 40 years, then use the money to repair the vast, aging water and sewer system. Detroit would still hold title to its more than 7,000 miles of water mains and sewer pipes, while the newly created Great Lakes Water Authority would give officials of three nearby counties more say over how the system is run and what it charges customers.

The deal also calls for using $4.5 million a year to help struggling Detroit residents stay current on their water bills. Detroit cannot afford such an assistance program on its own, and city officials in recent months have been sharply criticized for turning off some residents' water when they fell too far behind.

THE NEW YORK TIMES
By MONICA DAVEY
SEPT. 10, 2014

As Promised, S&P Lowers Ratings on Tendered Detroit Water and Sewer Bonds.

In the world of municipal bonds, a promise is supposed to be a promise except, as some Detroit bondholders are finding, when a city goes through the largest municipal bankruptcy in history.

But a promise is a promise when it comes to the Standard & Poor's credit rating agency, which on Thursday made good on a previous announcement that it planned to lower the rating on Detroit water and sewer bonds that were turned in early by investors.

S&P had rated the bonds as "CC," which was already deep into junk status. But Thursday's drop to "D" status moves the bonds down another two notches to the junkiest of junk ratings.

The new rating — which S&P announced it would apply last week — is only on those classes of bonds that were submitted as part of the city's tender offer to redeem old water and sewer bonds for new ones. In some cases, the new bonds will pay less than the full value of the old bonds, and S&P considers it an impairment of the debt.

Since the tender offer was made under the threat that Detroit would lower the rate on the bonds and take the option to pay them off early without paying investors for such a "call provision," S&P considers those bonds to have been tendered in a "distresses exchange."

In general, bonds rated lower than "BBB" by S&P are considered non-investment grade, and many large institutional investors, mutual funds and others won't buy them.

The bonds were exchanged after the city announced a surprise tender offer on Aug. 7 aimed at refinancing $5.2 billion of outstanding water and sewer bonds. About $1.5 billion of those bonds were tendered for exchange to new bonds, and the city then dropped its threat to impair the rest of the untendered bonds.

The move is expected to lower the Water Department's cost of borrowing and free up as much as $50 million in cash from bond reserves. Overall, the water department says the tender offer will save the water department more than $107 million in today's dollars over the life of the new bonds.

The old, untendered bonds will continue to be paid as scheduled by the city, and won't be considered distressed, S&P said. Those bonds also have been removed from the city's bankruptcy proceedings. The ratings service will grade those bonds "BBB," its lowest investment-grade rating.

Besides refinancing the tendered bonds, the city's new bond issue includes $190 million in additional bonds to pay for capital improvements to the water system.

The Detroit News
Brian J. O'Connor

Atlantic City's Casino Closings Squeeze Homeowners: Muni Credit.

Atlantic City, the junk-rated New Jersey gambling destination, is increasing pressure on homeowners to meet municipal-bond payments as one third of the seaside resort's casinos go dark.

The $261.4 million municipal budget for 2014, with 14 percent of revenue dedicated to debt service, includes a 29 percent increase in property taxes. That's atop a 22 percent boost approved last year for the struggling city of 40,000.

Republican Mayor Don Guardian plans to sell $140 million of debt by year-end to satisfy tax appeals for casinos, which opened in Atlantic City in 1978 and pay about 70 percent of property levies. Residents still paid an average of $5,273 annually in 2013, and as the gambling resorts shut the city is leaning more on those property owners.

"The city is stressed," said Howard Cure, head of muni research at New York-based Evercore Wealth Management LLC, which oversees $5.2 billion. "The remaining casinos, are they going to also appeal their taxes and is the city prepared for that?"

State Backing

The planned financing will probably be costlier than a $62.9 million issue in November, said Michael Stinson, Atlantic City's finance and revenue director. New Jersey will back the securities under its Qualified Bond Act, with payments tied to $20 million in state aid. The program will earn the bonds a credit grade that is one level below the state's, even though Moody's Investors Service cut the city's debt to junk in July.

"The borrowing costs are going to be attributable to the market and what the rating agencies have rated the city's debt," Stinson said by phone on Aug. 26. "We're certainly not a non-investment grade enterprise, especially with the Qualified Bond Act — it's going to be a help."

Revel Casino Hotel, which closed yesterday, is the third gambling destination to shut this year, after Caesars' Showboat on Aug. 31 and the Atlantic Club in January, as new facilities in nearby states siphon away business. Trump Plaza, to be shuttered Sept. 16, will be the fourth, leaving eight establishments operating. The three most recent closings will eliminate about 7,300 jobs, according to UNITE HERE Local 54.

The city faces payments to casinos that have appealed tax bills after the recession that ended in 2009 eroded property values.

Poverty Level

About 30 percent of residents live in poverty in the city, where the homeownership rate is 34 percent, about half the state average, according to Census data. Some owners are Vietnamese immigrants who will lose their jobs as poker dealers and expect to join the ranks of the city's unemployed. The 9.5 percent June jobless rate compares with the 6.6 percent state average.

"Choosing between paying the taxes and buying food, I'm sure most people will choose to buy food for their family," Emily Vu, a certified public accountant who has led the Vietnamese community to form a group called the Atlantic City Tax Appealers, said by phone on Aug. 18.

Atlantic City was the No. 2 U.S. gambling destination until 2012, when it was overtaken by Pennsylvania. Moody's on July 23 cut the city two steps to Ba1, the highest speculative grade, with a negative outlook, citing pressure from gambling in neighboring states, closing casinos and tax appeals. The rating applies to $245 million of general obligations.

Bond Declines

The extra yield investors require on some city debt has risen since the downgrade. Investors last week demanded 2.7 percentage points of yield spread to own tax-exempt Atlantic City bonds maturing in December 2025 rather than benchmark debt, up from an average of about 1.6 percentage points from January through June, data compiled by Bloomberg show.

The city's bonds may cheapen more as officials try to diversify the economy beyond gambling, reduce workers and cut spending, said Justin Land, who helps manage $3.5 billion of munis at Naples, Florida-based Wasmer Schroeder & Co.

Further declines may create a buying opportunity, Land said. New Jersey's Division of Local Government Services has a history of helping fiscally stressed cities such as Camden and Newark function and pay bondholders, he said.

"New Jersey has a pretty defined and strict oversight over local municipalities in terms of support when they get into trouble," Land said.

Revenue Erosion

Total Atlantic City casino revenue for the first six months of 2014 was $1.87 billion, or 3.5 percent less than a year earlier, according to data from the state Division of Gaming Enforcement.

Governor Chris Christie, a 51-year-old Republican in his second term, has invited casino representatives, elected officials and labor leaders to a Sept. 8 meeting to chart a turnaround based on retail, entertainment, tourism and other non-casino revenue. In 2010, the governor announced a five-year plan to revive the city, including $261 million in tax breaks to Revel and the creation of a state-run tourism district.

"We're going to talk about a plan to help those folks who may lose their job," Christie told an audience in Long Branch on Aug. 19. "We can't look at this as a disaster."

About 20 New Jersey municipalities have state-backed qualified debt, the sort that Atlantic City will issue, which "gives investors added confidence that they will be paid in full," Tom Neff, director of the Division of Local Government Services, said by e-mail.

Debt Payments

They include Harrison, whose involvement in the financing of a stadium for Major League Soccer's Red Bulls led to a Moody's rating of Ba1, the same as Atlantic City; and Salem, rated Ba3, two steps lower, burdened with redevelopment debt.

"Atlantic City's budget has appropriated funds to make their debt-service payments in 2015 and state law requires adequate budget appropriations for debt service in the future," Neff said. "The division will enforce these laws."

Though the New Jersey backing gives towns access to lower-cost lending, the program saw its own credit slip this year after Moody's cut the state's general-obligation debt to A1, its fifth-highest level. The rating, which Moody's said reflected revenue shortfalls and higher benefits costs, is second-lowest among U.S. states, behind Illinois.

On May 15, two days after it acted on New Jersey, Moody's downgraded the qualified financings for 17 towns to A2, with a negative outlook, saying the grades are linked to the state's.

The program should still keep down Atlantic City's borrowing expenses, Cure said.

"There will be a premium that has to be paid, but it will be cheaper than if Atlantic City tried to go out on its own," Cure said.

By Elise Young and Michelle Kaske Sep 2, 2014 5:00 PM PT

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Colorado Joins Campus Arms Race With Stadium Deal: Muni Credit.

The University of Colorado is joining the athletic-facilities arms race with a $155 million football stadium overhaul as it seeks to revive a struggling program and keep pace with conference competitors.

The public university sold a record $304 million of tax-exempt bonds last month, according to data compiled by Bloomberg. It will use $100 million for the stadium on the flagship Boulder campus, and $25 million will go toward a parking garage. The rest will refinance debt and fund projects such as a $49 million student village, bond documents show.

Colorado switched conferences in 2011, joining the Pac-12 when it signed a record $3 billion TV broadcasting contract. The West Coast grouping's 12 members have been pouring money into facilities, leading athletics-related debt to more than triple from 2005 to 2012, according to the Knight Commission on Intercollegiate Athletics.

"Facilities expansion has played such a large role in athletics spending," said Amy Perko, executive director of the commission, which has sought to rein in the cost of college sports and increase graduation rates for athletes. "The consequence has been concern about that spending, especially when there's a flatline on the academics side."

Bowl Dreams

Athletics spending per athlete by universities competing in football's top echelon rose 40 percent from 2005 to 2012, adjusting for inflation, outpacing a 6 percent jump in academic outlays per student, according to the commission, funded by the Miami-based Knight Foundation. More than three-quarters of the 127 schools subsidize sports with student fees and other institutional revenue, Perko said.

While the securities Colorado sold last month are backed by revenue such as tuition and other student fees, the athletics department in Boulder is required to pay back its share of the debt with resources such as ticket sales, said Ken McConnellogue, a spokesman for the university. While the football program generated an $11 million surplus last year, the athletics department had a deficit of about $8 million, according to a state auditor's report.

'Arms Race'

"Everyone is aware of the arms race," said McConnellogue. "Under our position as a new member of the Pac-12, facilities matter and our facilities have not been upgraded in some time."

Boulder is the largest of the four campuses in the system, which has a combined student body of about 58,000. State funding for higher education in Colorado has been falling — it accounted for 4 percent of Boulder's operating revenue in 2013, down from 16 percent in 1990, according to the university.

As a result, Boulder has sought to broaden its appeal to out-of-state students, who accounted for almost 37 percent of enrollment last school year and pay almost $46,000 a year in tuition, room and board, more than twice in-state rates, according to the university.

Moody's Investors Service rates the University of Colorado bonds Aa2, third-highest. The system's debt load has risen 50 percent since 2009 to $1.9 billion, Moody's said. McConnellogue said much of that debt is related to construction on the Anschutz Medical Campus, financed in part by gifts from billionaire Philip Anschutz.

'Top Tier'

"The university is top tier and the credit is terrific," said Ron Speaker, president of Equus Private Wealth Management LLC, a municipal bond investor in Carbondale, Colorado, with about $103 million in assets.

The university sold 10-year debt to yield 2.32 percent, equivalent to a taxable interest rate of 3.84 percent for investors in the top federal tax bracket, according to Bloomberg data. U.S. Senator Charles Grassley, an Iowa Republican, has criticized the use of federally tax-exempt bonds for college football stadiums, questioning the public value.

Football is a hallowed tradition in Boulder, dating back to 1890 and integral to the school's out-o--state appeal. While the Buffaloes won a national title in 1990, they have struggled lately, posting the worst record in school history at 1-11 in 2012. Mike MacIntyre, a new coach, went 4-8 last year. His salary of $2.4 million a year is more than twice his predecessor's compensation, and his contract stipulates that the school move to revamp the stadium.

New Seats

The university last month raised the cost of the project to $155 million from the $142 million approved in December. The tally includes removing aging bleachers and installing loge boxes and club seats. The work also includes building an indoor practice field, weight-training and locker rooms and new athletics offices. Capacity will fall to about 50,500 after the project, from around 53,600 now, according to the school. Fundraising and corporate sponsors will cover some of the costs.

The project will "maximize the competitiveness and academic performance of student athletes," the school said in a prospectus for the bond sale. "Planned facilities improvements will create a more efficient and productive department, enhance recruitment, assist in retaining top talent, and foster an environment to support ongoing fundraising for intercollegiate athletics."

The University of Washington, which is also in the Pac-12, sold tax-exempt bonds in 2012 and lent $246.5 million to its athletics department for a $281 million football stadium overhaul. The University of California, another conference member, reopened its stadium in 2012 after spending $321 million replacing bleachers with seats, building a training center and making upgrades to meet earthquake codes.

Nike Founder

The University of Oregon, also in the Pac-12, built a football training center that opened last year. Plans from 2012 put the price tag at about $68 million, paid for through donations from Phil Knight, a founder of Beaverton, Oregon-based Nike Inc. (NKE)

Outside of the conference, Colorado State University in Fort Collins wants to raise $110 million in donations for a $254 million venue to strengthen its football program and raise its profile nationally. Texas A&M University has embarked on a $450 million redevelopment project.

While spending is largely driven by television revenue, the cost side of college sports grew more complicated after a federal judge ruled this year that the National Collegiate Athletic Association must scrap rules designed to prevent student athletes from being paid like professionals.

“Expenses go up and up with these programs,” said Andrew Zimbalist, a sports economist at Smith College in Northampton, Massachusetts. “It’s a tough game to keep up.”

By Michael McDonald Sep 2, 2014 7:07 AM PT

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Florida's I-4 Ultimate Project Reaches Financial Close.

Florida Department of Transportation (FDOT) and the lead members of the I-4 Mobility Partners on Friday signed a concession agreement and reached financial close on the I-4 Ultimate Project outside of Orlando, which will be developed through a P3.

The $2.3 billion project calls for reconstructing 21 miles of I-4 and 15 major interchanges, constructing more than 140 bridges, adding four variable priced toll express lanes in the median and completely rebuilding the general use lanes along the entire corridor. The project sponsors will finance, design, construct, operate and maintain the project under the 40-year concession agreement.

Construction will begin in the first quarter of 2015.

Skanska is a 50 percent stakeholder of I-4 Mobility Partners and plans to invest $73 million in the project. The company is responsible for 40 percent of the design/build phase of the project, expected to net $900 million for its U.S. subsidiary.

“As Florida’s largest transportation project ever, and the largest greenfield public-private partnership in the U.S. market to date, the I-4 Ultimate is [a] demonstration of how P3s can solve critical infrastructure needs and how Skanska can be part of the solution,” Johan Karlström, CEO and president of Skanska, said in a release.

A joint venture between Jacobs Engineering Group and HDR will be responsible for delivering final project design, including roadway/traffic control, drainage, structures, intelligent traffic systems, signing and signalization, lighting, landscaping and aesthetics, according to a release.

“We are delighted to be on the team selected to deliver this historically significant project for FDOT,” said Randy Pierce, vice president of the Jacobs Group.

I-4 Mobility Partners is comprised of Skanska Infrastructure Development and John Laing (concessionaire); Skanska, Granite, Lane as the construction joint venture; and HDR and Jacobs as the design joint venture.

West Virginia Plans for First P3 Highway Project.

West Virginia plans to advertise a request for qualifications for the first P3 project under the state’s recently enacted legislation for a 3.3 mile segment of the Coalfields Expressway.

“A solid infrastructure helps provide our communities with additional economic development opportunities, and the public-private partnership concept is a great example of how state government and the private sector can work together to improve the quality of life for our residents,” said Gov. Earl Ray Tomblin (D) said in a statement.

The Coalfields Expressway project is multi-lane expressway connecting the I-64/I-77 interchange at Beckley, W.Va. and U.S. 23 near Grundy, Va.

“Our state is breaking new ground with this partnership agreement,” said Rep. Nick Rahall (D). “It is most welcome news for the Coalfields Expressway, but it is equally promising news for other highway projects as well. Innovative financing is a true asset in attracting every available federal and other funding dollar to build our highways and the jobs that come with them.”

The state legislature passed Senate Bill 190 authorizing P3s in their 2013 session and it took effect on July 1, 2013.

Los Angeles Plans P3 to Build New Streetcar Line.

A proposed streetcar line in downtown Los Angles may cost $55 million less than originally projected, lowering the price tag to $270 million, according to the final draft of the URS Corp. report.

Despite the project’s lower cost estimate, the city is planning to rely on a P3 to finance at least $100 million of the project.

Two years ago, voters living in downtown approved a special tax district which could raise up to $85 million. In addition, city officials hope to receive a $75 million construction grant from the Federal Transit Administration.

The project faces an uphill battle for federal funding since transit projects costing more than $250 million must compete for federal dollars against most expensive transit proposals, reported the Los Angeles Times.

The city plans to finish the streetcar line’s environmental review documents by spring 2015, and officials hope to receive the $75 million grant in the summer of 2016, allowing the project to begin by 2019.

S&P: Certain Detroit Water and Sewer Dept. Revenue Bond Ratings Could Differ From Others, Depending on POA Implementation.

CHICAGO (Standard & Poor’s) Aug. 1, 2014—Standard & Poor’s Ratings Services said that its ratings on certain CUSIPs of water and sewer revenue bonds issued by the city of Detroit could differ from its ratings on other similar CUSIPs, based on their treatment in the final Plan of Adjustment (POA) or earlier, if we become certain that the list of CUSIPs subject to impairment would not be changed.

Should the POA be executed in its current form, certain currently outstanding CUSIPs would be exchanged for new CUSIPs with different interest rates or call provisions. Because of these potential differences, we would likely view the exchange as distressed, with the rating on the outstanding to be affected CUSIPs being lowered to ‘CC’ from ‘CCC’. Moreover, when the actual exchange is executed, we would likely lower the rating on the affected CUSIPs to ‘D’ from ‘CC’. The POA also designates certain CUSIPs as “non-impaired” with no changes to any payment terms. The non-impaired CUSIPs will likely carry a different rating than those that were impaired through the distressed exchange and we would likely raise our ratings on the non-impaired CUSIPs to a level we think appropriate based on our view of the fundamental credit quality of the water or sewer system. The rating assigned to the non-impaired CUSIPs would reflect our view of the then-current credit conditions of the water or sewer system, rather than the rating of the CUSIPs pre-bankruptcy.

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Detroit Ends Week With Witness From Stockton Bankruptcy.

Detroit ended the first week of trial on its $7 billion debt-reduction plan by calling a witness who has previously argued against the kind of cuts the city says it needs to rebuild.

Charles Moore, Detroit’s top restructuring adviser, is a favored specialist both of distressed government agencies, who call upon him to justify trimming their obligations, and of bondholders fighting such cuts. In Detroit yesterday, he advocated cuts, saying the city must erase some of its debts to free up money for new investments.

If Detroit’s proposal is rejected, “it is unclear to me how the reinvestment initiatives would be funded,” Moore told U.S. Bankruptcy Judge Steven Rhodes, who must determine whether the plan is fair and feasible.

Moore, a senior executive with the financial advisory firm Conway MacKenzie Inc., took the opposite position in May in the bankruptcy of Stockton, California. In that case, Moore was hired by affiliates of money manager Franklin Resources Inc.

Back then, he testified that the California city “can afford to pay Franklin a significant percentage, if not all,” of its obligations. Both Detroit and Stockton are trying to win court approval to pay their retired workers much more than investors.

Detroit, a city of about 700,000, filed a record $18 billion municipal bankruptcy last year, saying decades of decline left it unable to provide basic services while still meeting financial obligations.

Unusual Deal

Rhodes is being asked to weigh an unusual deal in which wealthy donors and Michigan lawmakers agreed to shore up the city’s public pension system with more than $800 million. In return, Detroit agreed not to use its art collection, which includes pieces by Pablo Picasso and Vincent van Gogh, to pay creditors.

Moore isn't the only professional hired by Detroit who is also fighting Stockton's debt-cuts. Its main law firm, Jones Day, represents Franklin in the Stockton case.

"Reaching opposite conclusions in two different cases is not inconsistent," said Dale Ginter, a lawyer who represented retirees in Vallejo, California's bankruptcy. "The facts of each case are always different," he said in an e-mail. "Stockton, for all its problems, pales in comparison to Detroit."

Lisa Johnston, a spokeswoman for Birmingham, Michigan-based Conway MacKenzie, didn't return an e-mail seeking comment on Moore's testimony.

10 Cents

Detroit has proposed paying 10 cents on the dollar to investors who hold $1.4 billion of pension-related debt. Bond insurers Syncora Guarantee Inc. and Financial Guaranty Insurance Co. oppose the plan, which might force them to cover investor losses.

Stockton, a city of 298,000 about 80 miles (130 kilometers) east of San Francisco, filed for bankruptcy in 2012 after spending too much on downtown improvement projects and seeing its property-tax revenue plunge in the housing crisis. Creditors filed $1.18 billion in claims.

It has proposed paying Franklin affiliates as little as 1 percent of the $36 million they are owed. Municipal debt investors are watching both cases.

Moore has also studied Puerto Rico's pension system on behalf of public employee unions and helped bond insurer National Public Finance Guarantee Corp. negotiate a deal with Jefferson County, Alabama, which last year ended the second-biggest U.S. municipal bankruptcy.

Remove Blight

In testimony yesterday, Moore went over Detroit's spending plans for the next 10 years. Using the savings from reducing debt, the city plans to repair its crumbling neighborhoods, beef up police and fire protection, and improve bus service.

Some of the $87 million the city plans to spend on public transportation will go to hiring more drivers and setting up a security service for drivers and passengers. Bus drivers call 911 for police help 30 times a month, Moore said.

Moore also discussed an employee savings plan that sapped the city's pension system. About 91 percent of eligible employees participated in the plan, which guaranteed a minimum interest rate on accounts and drained about $450 million from one of the city's two pension funds over 10 years, he said.

The city wants to claw back some of the payments by reducing pensions as much as 15.5 percent, depending on how much interest an employee was paid.

Finance Chief

Earlier in the week, Detroit's chief financial officer, John Hill, told Rhodes the city wouldn't be able to free up the funds for $1.7 billion in new investment unless it was able to cut some of its current obligations. Hill was the first of about 25 witnesses the city plans to call.

Syncora and other plan opponents have said Detroit is violating the bankruptcy code by failing to put similar claims on equal footing. They said the city could use its art to pay some debts, either by selling it or borrowing against it. Detroit has repeatedly said the collection isn't on the table.

Moore will return to the stand Sept. 8 to face more questions from creditor attorneys. The city is next scheduled to call Beth Niblock, its chief information officer, followed by Caroline Sallee, an adviser with Ernst & Young LLP, and Police Chief James Craig.

Among other witnesses the city may call is Ron Bloom, the Obama administration's former car czar, who helped reorganize Detroit-based General Motors Co.

Bloomberg
By Steven Church
Sep 5, 2014 9:01 PM PT

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

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Fitch: TX Supreme Court Decision Could Benefit School Districts.

Fitch Ratings-Austin-03 September 2014: If the state Supreme Court upholds a lower court ruling on the constitutionality of the state's K-12 school funding program, the state legislature will likely be forced to increase state funding for school budgets, revise the funding system to equalize the benefits, and change the local property tax structure and address its limitations, Fitch Ratings says. In general, we believe such changes would benefit districts in the state, though the benefits will vary and a revised equalization approach may produce both winners and losers. If the state Supreme Court overrules the judge's ruling, many districts will continue to operate with less state funding as a result of the 2012-13 biennium cuts. Late last week a state district court found that the current funding technique violates the state constitution.

The districts' cost-cutting efforts began in 2012, and for some time we have cited the lack of local tax-rate flexibility as a programmatic credit concern. These pressures have been exacerbated due to rapid enrollment growth in fast-growth districts, as the state's economy continues its strong post-recession recovery.

School funding has been one of many perennial growth-related challenges faced by the state in recent decades, with past court decisions requiring state legislative action to adjust education funding. Although the timing of a final Supreme Court decision is unknown, the state continues to benefit from significant fiscal flexibility, including from its large reserve balances.

The district court judge found that the finance system prevents the delivery of an adequate education to all students in the state and does not provide enough money for a "general diffusion of knowledge." The judge also found the system essentially creates a statewide property tax over which districts have little discretion, while inefficiently distributing education dollars. The ruling was the product of the consolidation of six lawsuits representing 75% of Texas school children. The judge for the case agreed to re-open testimony in January 2014 after the Texas Legislature restored $4.5 billion in school funding in its 2013 session. The increased funding levels apply to school district budgets in fiscal 2014 and 2015.

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

NYT: Infrastructure Cracks as Los Angeles Defers Repairs.

LOS ANGELES — The scene was apocalyptic: a torrent of water from a ruptured pipe valve bursting through Sunset Boulevard, hurling chunks of asphalt 40 feet into the air as it closed down the celebrated thoroughfare and inundated the campus of the University of California, Los Angeles. By the time emergency crews patched the pipe, 20 million gallons of water had cascaded across the college grounds.

The failure of this 90-year-old water main, which happened in July in the midst of a historic drought, no less, was hardly an isolated episode for Los Angeles. Instead, it was the latest sign of what officials here described as a continuing breakdown of the public works skeleton of the second-largest city in the nation: its roads, sidewalks and water system.

With each day, it seems, another accident illustrates the cost of deferred maintenance on public works, while offering a frustrating reminder to this cash-strained municipality of the daunting task it faces in dealing with the estimated $8.1 billion it would take to do the necessary repairs. The city's total annual budget is about $8.1 billion.

Los Angeles's problems reflect the challenges many American cities face after years of recession-era belt-tightening prompted them to delay basic maintenance. But the sheer size of Los Angeles, its reliance on the automobile and, perhaps most important, the stringent voter-imposed restrictions on the government's ability to raise taxes have turned the region into a symbol of the nation's infrastructure woes.

"It's part of a pattern of failing to provide for the future," said Donald Shoup, a professor of urban planning at U.C.L.A. "Our roads used to be better than the East Coast; now they are worse. I grew up here. Things are dramatically different now than they used to be."

There are constant reminders of the day-to-day burdens that the dilapidating infrastructure poses here.

The city is battling a class-action lawsuit from advocates for disabled people because of broken sidewalks that are almost impossible to navigate in a wheelchair, and challenging for all pedestrians trying simply to make it home. The average car owner here spends $832 a year for repairs related to the bad roads, the highest in the nation, according to a study by TRIP, a nonprofit transportation research group based in Washington. Families here routinely spring for expensive strollers to handle treacherous sidewalks.

City officials estimate that it would cost at least $3.6 billion to fix the worst roads, $1.5 billion to repair the sidewalks and $3 billion to replace aging water pipes.

"From a ratepayer's point of view, it can appear overwhelming," said H. David Nahai, an environmental lawyer and the former head of the Los Angeles Department of Water and Power. "We need increases for the streets and the sidewalks. We need increases for the water structure. Pretty much right now we are in a time of transition. That can be frightening."

The problem is exacerbated by cutbacks in federal spending on public works. "The sense is that more and more, we are going to be doing things alone," said the mayor, Eric Garcetti.

Close to 40 percent of the region's 6,500 miles of roads and highways are graded D or F, meaning they are in such bad shape that for now city officials are concentrating maintenance efforts on roads that are in better shape, and thus less costly to fix. More than 4,000 of the 10,750 miles of sidewalks are in severe disrepair, according to Los Angeles city officials.

More than 10 percent of the 7,200 miles of water pipes were built 90 years ago. The average age of a city pipe is 58, compared with an optimal life span of 100 years. While that may not sound so bad, at the current level of funding it would take the Department of Water and Power 315 years to replace them.

Marcie L. Edwards, the general manager of the department, said that the pipes were not in as dire shape as those in some other cities, and that the department had spent more on replacing pipes. Even with more money, she said, there are limits on how fast her department can move.

“Our system is by no means falling apart,” Ms. Edwards said. “We live in a very densely populated environment. These are big jobs that are incredibly impactful on neighborhoods and congested streets.”

Still, the water main break was unsettling because, unlike the war-zone-like patches of streets and sidewalks that have been cast asunder by tree roots in some neighborhoods here, this was a hidden problem until it was revealed in a geyser to motorists waiting at a traffic light. As such, it has become a symbol of the larger problem.

“People don’t think about the fact that there are pipes under the ground that are 100 years old until one blows,” said Mike Eveloff, a leader of Fix the City, a civic group pushing for repairs. “You don’t hear a politician say, ‘I’m going to make your pipes work.’ ”

And here, as in other cities, the demand for public works comes as the costs of municipal pension plans are shooting up — a confluence that has alarmed business leaders.

“Once those payments are made, there’s not much money left, if any, to invest in infrastructure,” said Gary L. Toebben, president of the Los Angeles Area Chamber of Commerce.

The challenge also coincides with a push by city leaders to move Los Angeles away from its historic reliance on cars, with heavy investment in its expanding mass-transit system and bicycle lanes. In an interview, Mayor Garcetti said that any public works campaign would have to factor in that change.

“We have to build a city that people can be happy to walk in and drive in, but we also have to account for the transit revolution that’s coming,” he said. “If we spend billions and billions on car-only infrastructure — ignoring pedestrian, bicycle and transit users — we may look back 10 years from now and say, ‘Whoops, maybe we should have tied all those things together.’ ”

California is also known for being averse to taxes. Earlier this year, city officials debated asking voters to approve a plan to add half a cent to the 9-cent city sales tax. That would raise enough for the $3.6 billion in road reconstruction but just $640 million of the $1.5 billion needed for sidewalk repairs.

City Council leaders and Mr. Garcetti decided against putting anything before voters, probably until November 2016, to give the city more time to come up with a plan that has a chance of winning.

“I think people quite frankly are paying enough taxes right now,” said Mitchell Englander, a Republican councilman and leader of the repair effort. “We’ve got to do things differently. They don’t trust politicians.”

Kevin James, a conservative talk-show host who ran for mayor last year and was appointed by Mr. Garcetti to lead the Board of Public Works, said a sales-tax increase was needed to deal with a serious threat to the city’s well-being.

“A lot of people are going to say they feel overtaxed,” Mr. James said. “I’m not saying we’re not. But it means going to the voters, as I am prepared to do on behalf of Mayor Garcetti, to make the economic argument that $26 a year, which is what you would spend on a half-cent sales tax increase, is a lot better than $830 a year to fix your car.”

Funds to replace water pipes would come, presumably, if the Department of Water and Power gained approval from the City Council to increase water rates. Because of the drought, the typical city resident’s monthly bill for water has risen to $60, from $34.85 in the fall of 2011, reflecting the higher cost the department had to pay to purchase water.

"The longer we wait, the more expensive it's all going to be." said Mr. Nahai, the former head of the Department of Water and Power.

THE NEW YORK TIMES
By ADAM NAGOURNEY
SEPT. 1, 2014

[CA Lawmakers Could Make it Easier to Pay for Local Infrastructure Before Session Ends.]

It's hard to remember a summer with more urgent reminders of the need to invest in the state's aging infrastructure—from ninety-year-old water mains spectacularly bursting in Los Angeles and dams cracking in the Sierra foothills to difficult daily commutes in cities like San Jose, where even in the heart of Silicon Valley, nearly 60 percent of local streets are now in "poor" condition. All this, of course, was before the biggest earthquake to hit the Bay Area in 25 years rattled buildings and buckled roads from Napa to Vallejo.

With less than a week remaining in this year's legislative session, the California Economic Summit is urging lawmakers to give local governments more power to do something about all of this—distributing a letter that encourages the Legislature to act on a bill, SB 628 (Beall), that would provide local agencies with a more robust infrastructure development tool known as "Enhanced Infrastructure Financing Districts" (EIFDs).

Accompanying the letter is a How-to Guide for Using SB 628's Enhanced Infrastructure Financing Districts that details how local and regional agencies could use this new authority to invest in everything from sidewalk repair and water infrastructure to the implementation of sustainable communities plans.

Senator Beall's bill combines language that has been circulating in the Legislature—and that was also pushed this week by Assembly Member Roger Dickinson—with a range of proposals recommended by the governor in his budget earlier this year. This updated legislation, which was moved out of the Assembly Committee on Local Government this morning, gives local leaders a far more robust infrastructure investment tool than they currently have at their disposal. "The elimination of redevelopment agencies doesn't leave us with the flexibility to address a lot of local needs," Senator Beall told the Assembly committee this morning. "This bill is a consolidation of ideas to expand the financing tools [used by redevelopment] to utilize IFDs for a broad array of uses…It also expands the opportunities for city governments to accomplish their economic development goals."

Summit Leaders on What EIFDs Can Do

"These proposed EIFDs would give communities more authority to build the infrastructure California needs and a set of funding mechanisms they can use to pay for it," says Mark Pisano, a senior fellow at USC's Price School of Public Policy who coauthored the Summit report and who is one of more than a dozen economic development experts signing onto the Summit letter.

"These financing districts would not only be able to build all public infrastructure, they could also serve as a platform for multiple funding streams—and provide a foundation for the types of public-private partnerships that we know can be successful in developing infrastructure," says Sean

Randolph, president and CEO of the Bay Area Council Economic Institute, who serves as co-lead of the Infrastructure action team. "The new districts can also do a lot to encourage the types of policy integration we'll have to see to successfully implement regional sustainable communities strategies."

There's no question local governments need this type of authority—especially in the absence of redevelopment. The Legislature has spent the last two years discussing a variety of proposals for increasing local infrastructure investment—and wrestling with the difficulty of financing needed projects. By some estimates, the state will need to invest $765 billion in the next 10 years on everything from transportation and energy to water and school facilities, but the state and local governments only have the resources to pay for about half of this amount.

While state government is unable to fill this gap, the Summit's Infrastructure action team has concluded that existing public resources must be complemented by a new working relationship among the public, private, and non-profit sectors.

"The new Enhanced Infrastructure Financing Districts," says Pisano, "present a unique opportunity to begin this work."

How to "Enhance" Local Financing Tools

In its step-by-step guide, the Summit explains why, showing how local and regional agencies can access the wide variety of new funding streams that will be available to EIFDs. The guide notes four areas, in particular, where EIFDs can improve local infrastructure development:

- **Reduce vote requirements:** While current law requires a two-thirds vote to form an Infrastructure Financing District, the new EIFDs could be formed—and could use a range of existing financial tools—without going to voters. Only issuing tax increment bonds would require a vote, with a vote threshold of 55 percent.
- **Expand financing authority:** The new EIFDs would allow local leaders to support infrastructure projects through multiple funding streams, including a full complement of existing public mechanisms (tax increment authority, benefit assessments, and fees), as well as private investment and procurement.
- **Increase investment in different types of infrastructure:** The enhanced districts would be able to build every type of infrastructure: transportation, water, flood control and storm water quality management, transportation, energy, public facilities, energy, and environmental mitigation—so long as a direct connection can be established between the needed infrastructure and its users. The paper also provides a case study of how this type of modeling has been conducted successfully by regional planners in Southern California.
- **Allow more flexible institutional collaborations:** SB 628 also would give communities more flexibility to accommodate regional growth by making infrastructure investments across jurisdictions through Joint Power Authorities.

Whether a public agency is interested in upgrading sidewalks and streets for stormwater collection or expanding transit stations and building affordable housing, the new EIFDs could help—in a way no other financing mechanism currently does. "While existing, single-purpose funding makes it difficult to achieve all of these outcomes, they could be accomplished using the full range of tools provided by an EIFD," says Pisano.

If structured correctly, in other words, these new districts could play an important role in driving sustainable growth by connecting a vast number of infrastructure projects with an array of new funding streams.

This will not only empower local leaders to address local infrastructure issues—it could also begin to provide California with a way to take on one of its preeminent fiscal challenges.

But only if the Legislature acts. And soon.

AUGUST 27, 2014
BY JUSTIN EWERS

Supply-Demand Dynamics Should Support Muni Market.

Despite the headline news surrounding a small handful of municipal issuers, the muni market has performed well this year and remains underpinned by strong supply and demand dynamics. It's one of the key themes identified by the MacKay Municipal Managers (MMM) team at the beginning of the year and, if anything, it's playing out even more decisively than they predicted.

First: the supply side. New muni bond issuance is heading for all-time lows. In the first six months of 2014 it was 15% below year-ago levels. Continued austerity measures mean that state and local governments are issuing less debt. We have seen municipalities bypass issuance in the bond market because they're getting increasingly favorable terms on direct loans from banks.

Meanwhile, demand has come roaring back. Institutional investors (life insurance companies, pension funds, total return taxable bond funds etc.) have been the first to flock into the muni market this year, drawn by attractive yields. More recently, retail investors have followed. We have now seen around $9 billion in net positive municipal mutual fund flows, compared with $70 billion in net outflows in 2013 when investors were spooked by events such as QE tapering, rising rates and headlines related to Puerto Rico and Detroit.

So the scenario we're facing is more investor money chasing a smaller pool of available bonds. The amount outstanding in the muni market is expected to shrink for the third consecutive year. Expectations were for net negative supply at $29 billion in 2014, but the MMM team thinks the contraction could be more than that.

Much of the retail demand is coming from baby boomers, who have now begun transitioning towards retirement and are increasingly looking for tax-exempt income. They are realizing that higher taxes on both earned and unearned income have resulted in an increase in the value of tax-exempt municipal bonds. Income tax rates at both the federal and state level have risen about 24% over the last two years, while capital gains taxes have risen 60%. As I have discussed in an earlier post, higher taxes make munis more attractive. "Investors are recognizing that the taxable-equivalent yields on muni bonds are exceeding historical equity returns while maintaining very low default rates," says Bob DiMella, co-head of the MMM team.

The volatility around Puerto Rico's debt restructuring is a reminder that investment in credit sensitive markets requires professional guidance. As we've seen consistently with headline news in the muni market, the tide rises and falls and, with the right credit work, the market offers relative value opportunities to active managers.

Overall, we've seen attractive returns year-to-date. For example, the Barclays Municipal Bond Index returned 6.18% through July 31. All else being equal, the supply/demand picture is likely to continue to support returns going forward.

FORMBES
Jeffrey Phlegar, Contributor

Puerto Rico Lures Franklin as Equity Funds Buy Junk: Muni Credit.

Franklin Resources Inc. (BEN) is leading money managers in adding junk-rated Puerto Rico bonds to mutual funds that focus on equities or other asset classes, even as the island's main power utility moves to restructure.

The companies bought general obligations as prices on Puerto Rico securities set record lows this year on speculation the U.S. territory and its agencies would be unable to repay $73 billion of debt. The firms join hedge funds and other non-traditional buyers of municipal bonds who are purchasing the securities for their higher yields.

Investors are more comfortable holding the general obligations after lawmakers passed a balanced budget in June and shielded the bonds from a law allowing some public agencies to negotiate with investors, said Gregory Whiteley, who manages government debt in Los Angeles at DoubleLine Capital LP, which oversees about $52 billion. In trading yesterday, some obligations reached a six-month high.

"I don't think there's any immediate prospect for a default or a restructuring related to the general-obligation debt," said Whiteley, whose company owns Puerto Rico general obligations. "At the same time, it's got a pretty attractive yield."

Distressed Holding

Puerto Rico securities, which are tax-free nationwide, have been trading at distressed levels for about a year. The island's economy has struggled to expand since 2006 and its population has shrunk for eight straight years as residents move to the U.S. mainland.

Lawmakers in June approved a law that would allow certain public corporations, including the Electric Power Authority, to ask bondholders to take a loss. General obligations, bonds repaid with sales-tax revenue and debt of the Government Development Bank are exempt from the measure. Puerto Rico's constitution requires that it repay general obligations before other spending.

Prices sank after Governor Alejandro Garcia Padilla proposed the restructuring bill June 25. Electric Power bonds maturing in July 2040 traded July 7 at an average of 38.14 cents on the dollar, a historic low, data compiled by Bloomberg show. General obligations sold in March at 93 cents on the dollar traded as low as 84.4 cents July 3.

Franklin's Fund

The decline attracted Franklin, Whitebox Advisors LLC and DoubleLine mutual funds that include equities among their biggest holdings.

As of June 30, Franklin had $185 million of the March general obligations across 11 funds, including $72.5 million in its $25.5 billion Franklin Mutual Global Discovery Fund (TEDIX), according to Bloomberg data. The fund allocates 87 percent of assets to stocks, including Apple Inc. (AAPL) and Merck & Co. (MRK)

Stacey Johnston Coleman, a spokeswoman at San Mateo, California-based Franklin, declined to comment.

While equity funds typically don’t buy munis, they do purchase distressed securities for potential price gains, said Russel Kinnel, director of manager research at Morningstar Inc. in Chicago.

“From an equity perspective, it’s very depressed and maybe you get a better price down the road and that’s the appeal,” Kinnel said. “They’re simply betting that it’s overdone.”

Equity Strategy

Minneapolis-based Whitebox had $4.6 million of the March general obligations in its $1.1 billion Tactical Opportunities Fund (WBMIX) as of April 30, the latest data reported to Bloomberg.

The fund invests 62 cents of every dollar into stocks and sells the same amount short, according to Jason Cross, global head of equity strategies. Holdings include offshore rig contractor Transocean Ltd. (RIG), Bloomberg data show.

“If you look at where Puerto Rico yields are, compared to almost anything else in the world at this point, those yields look really attractive,” said Paul Twitchell, global head of event strategies at Whitebox.

DoubleLine holds $2.5 million of the March general obligations in its $140 million Multi-Asset Growth Fund (DMLIX), Whiteley said. It’s the fund’s first purchase of munis, he said. The company bought at about 89 cents on the dollar, for a tax-exempt yield of about 9 percent, Whiteley said.

Yield Cushion

“At 9 percent you can suffer a fair amount of price erosion over the course of a year and still be ahead, but ultimately I think the general-obligation debt will be OK,” he said.

The fund directed 34 percent of assets to mortgages and 22 percent to equities as of June 30. Munis accounted for 1.5 percent, all in Puerto Rico.

The March general obligations, which mature in July 2035, traded yesterday at an average of 91.6 cents, close to the highest since May 9, Bloomberg data show. The tax-exempt yield of 8.9 percent compares with an average taxable yield of 6.43 percent on similar-maturity corporate bonds rated junk, according to Barclays Plc data.

General obligations maturing in July 2026 reaching 78.9 cents yesterday, the highest since February.

The Electric Power Authority, the largest U.S. public-power utility by customers and revenue, must release a plan by March 2 to restructure its debt as part of an agreement with bondholders and creditors to extend bank loans that finance fuel purchases. The utility is also moving to reduce costs across operations.

Prepa’s Challenge

Fitch Ratings on June 26 cut the agency, called Prepa, to CC, its third-lowest speculative grade. The utility used $41.6 million of reserves to pay bondholders July 1 after tapping money for capital spending to buy fuel.

Prepa bonds maturing July 2040 traded yesterday at an average of 50.1 cents after falling to a record of 38.1 cents July 7.

Puerto Rico securities have rebounded as investors look to pad returns with riskier debt as muni yields approach generational lows.

Munis sold on the island have earned 8.5 percent this year through Aug. 25, beating the 7.3 percent gain for the broader $3.7 trillion municipal market, according to S&P Dow Jones Indices. That compares with the S&P 500's 9.7 percent advance in 2014, including dividends.

'Beaten Up'

Bethesda, Maryland-based Calvert Group Ltd. had $500,000 of the March general obligations in its $1 billion Calvert Balanced Portfolio (CSIFX) as of April 30, Bloomberg data show. It has sold that debt and replaced it with taxable Government Development Bank bonds, said Matt Duch, a money manager at Calvert. The fund directs about 61 percent of assets to stocks, including Apple and FedEx Corp. (FDX)

The price declines piqued Calvert's interest, Duch said.

"They had been unfairly beaten up," he said.

The exclusion of commonwealth general obligations, Government Development Bank bonds and sales-tax debt from the restructuring law lured buyers, Whiteley said.

"What they want to do is make clear a strong commitment to repaying their general-obligation debt in full," Whiteley said. "If that means the holders of some of the debt of other Puerto Rico agencies are at greater risk than they had before, then that's the way it is."

By Michelle Kaske Aug 26, 2014 5:00 PM PT

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BlackRock Favors Long Bonds at Priciest Since 2012: Muni Credit.

When it comes to the longest-dated municipal bonds, value is in the eye of the beholder.

The securities are delivering the best returns in the municipal market as yields approaching five-decade lows lead investors to take on more risk. The gains have driven yields on top-rated 30-year munis to 0.92 percentage point above debt due in 10 years, the smallest gap since December 2012, data compiled by Bloomberg show. The bonds have also grown costly compared with federal debt: Last week, interest rates on benchmark 30-year munis fell below those on similar-maturity Treasuries by the most since May 2013.

Yet Peter Hayes, who manages about $122 billion as head of munis at New York-based BlackRock Inc. (BLK), isn't ready to call an end to the rally. If history is any guide, he has reason to stand his ground — the extra yield on 30-year munis shrank to as little as 0.6 percentage point in 2006 and 2007.

“Even given the magnitude of the flattening we’ve seen, there’s still a lot of value in the long end,” said Hayes, whose firm is the world’s largest asset manager.

The $3.7 trillion municipal market is set to gain for the first eight months of 2014, an unprecedented streak that’s driving benchmark yields toward the lowest since 1965. Investors are buying long bonds in the face of a Wall Street consensus that fixed-income yields will rise as the economy recovers.

Forecasters’ Bane

At year-end, analysts at Morgan Stanley and Barclays Plc forecast rising interest rates and a second straight year of losses in 2014. In April, Citigroup Inc. and a range of fund managers suggested selling after the market’s best quarter since 2011.

The drop in interest rates is a boon for issuers looking to lock in financing for decades. Longer-dated bonds typically command higher yields than shorter maturities to compensate for the added risk of the lengthier holding period. The gap approached a record high last year amid speculation that interest rates would rise as the Federal Reserve curbed bond purchases.

The median forecast in a Bloomberg survey of 50 analysts is for 30-year Treasury yields to rise to 3.83 percent at the start of 2015 from 3.13 percent now. In March, the projection for the same time period was 4.3 percent.

Historical Context

“Everybody was thinking about rates going higher and positioning portfolios for that type of scenario,” Hayes said last week on Bloomberg Radio’s “Bloomberg Surveillance” with Tom Keene and Michael McKee. “And what happened? Rates only have gone lower.”

The current yield curve isn’t unusual by pre-recession standards. From 2001 to 2007 the average difference in yield between 10- and 30-year munis was 0.92 percentage point.

The same can be said for the relationship between 30-year munis and Treasuries. The ratio of the yields, which ended last week at 99.6 percent, averaged 96 percent from 2001 through 2007, Bloomberg data show. The figure is a gauge of relative value and has historically been below 100 because investors are willing to accept lower yields to benefit from munis’ tax exemption.

Payoff Math

For investors in the highest federal income-tax bracket, the 3.12 percent yield on AAA 30-year munis is equivalent to a taxable rate of about 5.2 percent.

“When you look back historically at how many basis points you’re getting paid to move out the yield curve, it’s still by historical standards fairly substantial,” Hayes said.

In shorter maturities, state and local bonds are costlier than their federal counterparts.

Benchmark 10-year munis yield 2.2 percent, or about 92 percent of the rate on Treasuries. At the five-year maturity, the ratio is about 68 percent, the least since March 2010.

At Wells Fargo Advisors, Dorian Jamison doesn’t see the need to look to longer maturities.

Bond buyers should consider seven-year AAA munis, which yield about 1.7 percent, because that represents more than half the rate of 30-year debt, he said in an Aug. 20 report. Another option would be 15-year securities, which yield more than 80 percent of bonds due in twice the time, he said.

For Hayes at BlackRock, betting on long bonds makes sense as municipal credit quality is improving while analysts have ratcheted back expectations for higher yields.

“People are a little less worried about rates going up in the near-term,” Hayes said. “When you look at all the factors that can upset the market, most of them have been taken out.”

By Brian Chappatta Aug 25, 2014 5:00 PM
08/26/2014

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Munis’ August Rally Drives Yields to 15-Month Low on Supply Drop.

Municipal bond yields are set to end the month at the lowest levels since May 2013 as investors face the slowest issuance calendar since December.

States and cities have scheduled about $2.9 billion of bond sales during the next 30 days, 56 percent below this year’s average, according to data compiled by Bloomberg.

At 2.17 percent, benchmark 10-year muni yields are falling amid a broader fixed-income rally.

Tax-exempt debt is following Treasuries (USGG10YR) in a rally because of a “flight to safety” amid the conflict in Ukraine, said Dan Toboja, senior vice president of muni trading at Ziegler, a broker-dealer in Chicago. “We haven’t seen the deals this year to match up with the demand that we have.”

The $3.7 trillion municipal market has gained about 1.2 percent this month through Aug. 28, matching the advance in federal securities, Bank of America Merrill Lynch data show.

The ratio of yields on 10-year munis to the interest rate on Treasuries, a measure of relative value, is about 93 percent. That’s up from 89 percent at the end of July. A rising figure shows that munis are trailing Treasuries.

Individual investors added about $446 million to muni mutual funds in the past week, the seventh straight week of inflows, Lipper US Fund Flows data show.

By Elizabeth Campbell Aug 29, 2014 8:35 AM PT

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[Supreme Court Preview for Cities.]

Even though the Supreme Court's next term won't officially begin until October 6, the Court has already accepted about 40 of the 70 or so cases it will decide in the upcoming months.

For a more detailed summary of all the cases the Court has accepted so far affecting cities, read the [State and Local Legal Center's Supreme Court Preview for Local Governments.]

Here is a quick highlight of what is on the Court's docket right now that will affect local government:

Reed v. Town of Gilbert, Arizona and T-Mobile South v. City of Roswell will likely have the most impact on the day-to-day operations of local government. Reed deals with the constitutionality of the Town of Gilbert's sign code while the Court in T-Mobile will determine what is required under the Telecommunications Act to deny a cell phone tower siting permit "in writing."

To date the Court has only agreed to hear only one Fourth Amendment case. Heien v. North Carolina involves whether a traffic stop is permissible under the Fourth Amendment when it is based on an officer's misunderstanding of the law.

Of interest to cities that operate jails, the issue in Holt v. Hobbs is whether a state prison grooming policy violates the Religious Land Use and Institutionalized Persons Act because it prohibits an inmate from growing a half-inch beard in accordance with his religious beliefs.

The Court has accepted three tax cases affecting local government this term. Comptroller v. Wynne involves the constitutionality of a state failing to offer residents a tax credit for all income taxes paid to another jurisdiction. Alabama Department of Revenue v. CSX Transportation involves whether a diesel fuel sales tax is discriminatory against railroads in violation of the Railroad Revitalization and Regulation Reform Act (4-R). And in Direct Marketing Association v. Brohl the Court will decide whether a challenge to the constitutionality of Colorado's attempt to collect more tax revenue from online purchases can be heard in federal court.

No Supreme Court term would be complete without one Fair Labor Standard Act (FLSA) case. Integrity Staffing Solutions v. Busk ask the straightforward question of whether the time employees spend in security screenings is compensable under the FLSA.

While the question presented in Perez v. Mortgage Bankers Association sounds academic, this case will have a practical impact on local government. The issue is whether a federal agency must engage in notice-and-comment rulemaking pursuant to the Administrative Procedure Act before it can significantly alter an interpretive rule that interprets an agency regulation.

AUGUST 22, 2014

by Lisa Soronen

About the author: Lisa Soronen is the Executive Director of the State and Local Legal Center and a regular contributor to CitiesSpeak.

[WSJ: Bankrupt Detroit Sells $1.8 Billion in New Water-and-Sewer Bonds.]

Bonds Received Enough Demand for Bankers to Lower Some Yields Slightly Throughout Day

Detroit sold about $1.8 billion in bonds tied to its water-and-sewer system on Tuesday, marking a key part of the city's efforts to improve its finances since filing for bankruptcy last year.

Proceeds from the bonds, sold through the Michigan Finance Authority, will be used to buy back existing debt and make improvements to the water-and-sewer system, which also serves surrounding communities. The system is currently operated as a city department, and officials have said the debt deal could save the city millions of dollars, in part, through lower interest rates.

Bankers on Tuesday's debt deal, led by Citigroup Inc., C +0.43% received enough demand for the bonds to lower some yields slightly throughout the day. A 2023 bond offered a yield of 3.24% and a 2037 bond offered a yield of 4.52%. Many of the bonds, to be paid back from water and sewer revenues, carried insurance.

Earlier this month, the Detroit Board of Water Commissioners approved a plan to repurchase up to about $5.2 billion in outstanding water-and-sewer debt. Investors holding about $1.5 billion worth of the debt obliged.

Some water-and-sewer bondholders were poised to face reduced returns through Detroit's bankruptcy case, with the city proposing to lower the interest rate on some of the bonds. As part of the repurchase offer, however, the city said it wouldn't impair any of its remaining water-and-sewer debt.

A news release earlier this month said the city launched the buyback plan because "risks related to the department's future cost of borrowing prompted consideration of alternatives."

Detroit's bankruptcy filing, the largest municipal bankruptcy on record, sent tremors through the $3.7 trillion municipal-bond market as buyers feared they could see losses on their municipal investments, which traditionally have been viewed as safe. Detroit filed for bankruptcy after years of economic decline and a sharp drop in its population.

A hearing to approve the city's plan of debt adjustment, a necessary step before the city can emerge from bankruptcy, is scheduled to start Friday, according to a bond prospectus. Detroit previously reached agreements with other groups of bondholders, who agreed to take some losses.

The rating firms were split on how to grade the new water-and-sewer bonds. The highest rating from Moody's Investors Service was Ba2, two notches into junk territory. But Standard & Poor's Ratings Services gave the deal a triple-B-plus grade, which is investment grade.

Scott Garrigan, a director at S&P, said the system still provides "a needed municipal service to a wide population base that is much more diverse than just the city of Detroit."

Some investors sat out the sale. Kathy Bramlage, director at Treasury Partners, which oversees about $8 billion and is a division of HighTower Advisors, said there is still a lot of uncertainty around the bonds, given discussions to create a new regional wate-and-sewer authority that would be independent of the city.

"It's got the name," she said, referring to Detroit's less-than-stellar reputation. "You're going to have to explain to customers why you're putting that name into their account."

THE WALL STREET JOURNAL

By MIKE CHERNEY
Aug. 26, 2014 6:27 p.m. ET

WSJ: Detroit to Borrow $275 Million to Exit Municipal Bankruptcy.

City Secures $275 Million in Financing Through Barclays Capital; Deal Likely Needs OK From Federal Judge

DETROIT—The city of Detroit said Thursday it had secured a way to obtain $275 million in exit financing through Barclays Capital Inc. to help the city emerge from municipal bankruptcy protection.

The deal would retire $120 million postpetition financing that was previously arranged by Barclays and approved by a judge in April. Detroit said it would use the remaining funds to support some of the city's reinvestment and revitalization initiatives as well as to repay some existing creditors.

A federal judge likely still needs to approve the financing.

Separately, Detroit sold about $1.8 billion in bonds tied to its water and sewer system earlier this week.

Last year, Detroit became the largest city in the country to seek Chapter 9 bankruptcy protection, with the aim of restructuring more than $18 billion in long-term obligations.

On Thursday, city officials said in a statement that the Barclays deal came after a number prospective lenders expressed interest in lending to Detroit, "underscoring the city's viability as an attractive investment."

The exit financing will be done by issuing financial recovery bonds after Detroit leaves bankruptcy protection, possibly as soon as this year. The bonds would be issued by the Michigan Finance Authority.

"Detroit continues to make steady progress in returning to firm financial footing and becoming an attractive place to invest once again," Detroit Emergency Manager Kevyn Orr said in a statement.

Earlier borrowing had been backed up through income-tax revenue and the future sale of assets. Creditors, however, had questioned the need for a new loan in a city where risky borrowing was seen as a driving force behind the bankruptcy. The city didn't immediately release the terms of the expanded deal.

THE WALL STREET JOURNAL
By MATTHEW DOLAN
Aug. 28, 2014 3:37 p.m. ET

Nevada Moves Forward with I-15 Expansion, but Rejects P3 Model.

The Nevada Transportation Board discarded a plan Monday to finance an expansion of a section of Interstate 15 in downtown Las Vegas by entering into a public-private partnership, and instead decided to finance the plan using government-issued bonds.

The board unanimously approved a “design-build” model and will find a single firm to plan and build the project and also approved issuance of $564 million in bonds to pay for the construction portion of the project.

The board will now set a budget for purchasing the right-of-way needed to move forward with the project; a decision is expected at a future meeting.

The project, expected to cost between $1.2 billion and $1.5 billion after the state acquires the right-of-way, should be complete by 2020.

The shift in approach came as the Nevada Department of Transportation changed its recommendation to the board after documents showed the projected cost under the P3 had increased from $602 million to $740 million over the past year. The biggest drivers of the price jump stemmed from higher interest rates, expansion of the scope of the project and increased maintenance costs, according to the Las Vegas Sun.

The project, the most expensive in Nevada’s history, would have been one of the first uses of a P3 to fund a transportation project in the state.

NCPPP
By Editor August 20, 2014

Ferguson Unrest Exposes Struggle to Recover: Muni Credit.

Violent unrest that captured global attention is revealing Ferguson, Missouri, as a city still struggling to mend its finances more than five years after the end of the longest U.S. recession since the 1930s.

The community of 21,000 outside St. Louis proposed a budget for the year beginning July 1 that showed expenses outpacing revenue by $3.8 million, according to a notice from the city clerk. Ferguson had projected a $7.3 million gap in the prior fiscal year. Its general fund balance had been bolstered in previous years by bond sale proceeds, city documents show.

With a poverty rate that’s more than doubled since 2000, Ferguson will also have to contend with losses associated with the aftermath of the Aug. 9 shooting death of an unarmed black teenager by a police officer. The protests shut down businesses, exacerbating the city’s challenges in an era of constrained municipal resources that Moody’s Investors Service calls the “new stable.”

“These events have grown so out of proportion to the size of the city that a lot of it is no longer in their control,” said Howard Cure, the head of municipal research at New York-based Evercore Wealth Management LLC, which oversees $5.2 billion. “Because of the scale of the city — it’s so small — it can have a disproportionate effect on their finances.”

‘Extraordinarily Slow’

Cities, counties and school districts across the U.S. have cut costs and don’t expect economic conditions to return to pre-2008 levels, according to Moody’s. The collapse of U.S. home prices in the 18-month recession that ended in June 2009 squeezed local budgets because property taxes are usually their largest source of revenue.

Ferguson acknowledged in its budget last year that “the recovery has been extraordinarily slow” and it has struggled to collect revenue. After 2007, the city lost almost $1.5 million annually in sales taxes and hasn’t fully recovered, according to the document.

Amid the tumult, Ferguson officials were unavailable via telephone, e-mail and at City Hall to respond to inquiries about the financial implications of the violence and protests.

City Manager John Shaw didn’t respond to messages seeking comment. Finance Director Jeffrey Blume directed a reporter at City Hall to City Clerk Megan Asikainen, who didn’t respond to messages seeking comment.

Ferguson has a “commitment to rebuild and enhance the West Florissant business district,” the city said Aug. 19 in a statement.

Underwater Mortgages

The poverty rate in Ferguson was about 22 percent in 2012, the most recent available, up from 10.2 percent in 2000, according to Census Bureau data. While Ferguson’s median income in 2000 was on par with that of Missouri, in 2012 it fell about $10,000 behind the state’s figure of $47,300.

The St. Louis area has been among the slowest to recover from the downturn, according to a December report on localities from Moody’s. Loan balances exceed house values on about 25 percent of owner-occupied homes, the 10th-highest percentage nationwide of so-called underwater mortgages.

Before protesters took aim at police by hurling bottles and Molotov cocktails, looters ransacked businesses along West Florissant Avenue. That prompted more than a dozen to board up their doors and windows or face destruction, costing the city needed revenue.

Robin Shively’s Corners Frameshop & Gallery on South Florissant had only four customers in the week after the shooting. Realtor Pearce Neikirk is advising some clients to consider taking homes off the market until the situation improves.

Federal Aid

To offset the losses, community members are crafting a plan to patronize a part of Ferguson’s downtown that hasn’t been affected, said Denny Coleman, chief executive officer of the St. Louis Economic Development Partnership, which aims to expand business in the city and county.

“Everybody is sensitive to the fact that these small retailers have a short-time span when they can be down for business,” Coleman said in an interview. “They have to be up and operating on a very consistent basis in order to keep their head above water, much less make a good living.”

The municipalities affected, including Ferguson and neighboring Dellwood, haven’t tallied up all the potential losses, according to Coleman, who said there’s some hope that federal assistance might replace lost tax revenue.

Fiscal Strains

Ferguson has faced fiscal strains before. In May 2013 a tornado left property damage and widespread power outages, costing the city almost $600,000 on storm recovery, budget documents show. It offset some of the expenses with assistance from the Federal Emergency Management Agency.

While natural disasters often prompt federal and state help, it’s unclear what commitment, if any, Missouri and the U.S. government may make to assist Ferguson, Cure said.

Bond proceeds covered revenue deficiencies in the 2012 and 2013 fiscal years, budget documents show. This year would mark the first since 2010 that the city didn’t issue new debt, data compiled by Bloomberg show.

The city’s most recent municipal-bond sale was a $9 million issue of certificates of participation in January 2013, Bloomberg data show. Moody’s rates the debt A1, the fifth-highest level of investment grade. Proceeds helped pay for renovations to the police department and community center, according to city documents.

Debt Service

The most-recent Ferguson debt that traded is due March 2021, Bloomberg data show. The general obligations, rated one step higher than the certificates, changed hands July 22 at a yield of 1.5 percent, or about 0.09 percentage point more than benchmark munis with a similar maturity.

Debt service grew to $2.88 million in the 2014 fiscal year from $2.52 million in 2012, according to budget documents.

At a board meeting on Aug. 21 of the Ferguson Special Business District, owners of small businesses described the slowdown.

Eileen Dyall said less than half the usual clients are coming into her independently owned Curves location. Ferguson Bicycle Shop owner Gerry Noll said it’s the same for him, though it’ll be months before he knows the full impact.

“A lot of businesses might have to shut their doors,” Noll said. “A lot of businesses, the cash flow won’t support like a month of bad sales.”

By Brian Chappatta and Elizabeth Campbell Aug 24, 2014 5:00 PM PT

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Billionaire Arnold’s Pension Push Makes Him Workers’ Bane.

When Kentucky, with the country’s second-lowest funded pension system, set out to bolster the plan last year, it sought recommendations from Pew Charitable Trusts, funded in part by Houston billionaire John Arnold.

Kentucky’s worker retirement plan, squeezed by investment losses and shortchanged for years by the state, had just 30 percent of what it would need to pay the benefits due as employees retire in the years ahead. So the state’s lawmakers decided to cut long-term retirement benefits for newly hired workers, just as the Philadelphia-based Pew suggested.

Arnold, 40, a former hedge-fund manager and Enron Corp. commodities trader, has inserted the Houston-based Laura and John Arnold Foundation into political fights over how to deal with the rising cost of state and local government pensions. A Democrat who says he has raised money for President Barack Obama, Arnold sees such benefits as unsustainable.

“Many public pensions are poorly designed, allowing elected officials to underfund benefits and shift massive market risk onto state and local governments,” Arnold wrote in response to e-mailed questions. “The problem is only getting worse. Governments have a history of delaying tough decisions until an emergency.”

Pension Gap

U.S. state and local pensions have shortfalls of at least $1.4 trillion because of stock market losses and the failure to set aside enough to cover future retirement checks. That’s been a drain on governments since the recession, with officials forced to pump more money into their pensions just as they were cutting spending on schools, roads and other services.

In Detroit, indebted pensions were part of the city’s $18 billion bankruptcy, which is threatening to cut payments to retirees. In New Jersey, Governor Chris Christie this year decided to skip $2.4 billion in payments to the worker pension plan as he faces a new round of budget shortfalls. Illinois, the lowest-rated U.S. state, had its rating outlook cut to negative by Standard & Poor’s last month because of doubts that a decision to reduce benefits will survive legal challenges.

National Effort

Arnold has pushed for overhauls in 30 cities and states, including Rhode Island, Kentucky and San Jose, California. Arnold says he and his wife have spent about $12 million on the pension debate since 2008.

Public workers who oppose what they see as his push to cut pension benefits estimate his contribution to be at least four times as high.

“His foundation is spending a lot of money on public pension issues and they’re spreading it to a lot of different groups,” said Keith Brainard, the Georgetown, Texas-based research director with the National Association of State Retirement Administrators in Washington. “It’s clear that they’re trying to affect the debate.”

Arnold has angered public workers, who say his campaigns are gutting negotiated pension benefits they earned and need to ensure secure retirements.

“Every time we have a new offensive against pensions, Arnold is behind it,” said Jordan Marks, executive director of the National Public Pension Coalition, a group in Washington that supports public workers. “John Arnold is involved in a number of attempts to eliminate pension plans around the country.”

Foundation’s Goal

The foundation’s goal isn’t to cut benefits for workers, said Josh McGee, vice president of public accountability.

“Laura and John Arnold Foundation believes those who have dedicated their lives to public service deserve to be part of a sustainable system that places them on a path to a secure retirement," said McGee. "Pension reform must establish a fair, workable plan to pay down the accumulated pension debt as quickly as possible, require governments to pay their pension bill in full every year, and create a retirement savings system going forward that is affordable, lasting, and fair."

The coalition estimates Arnold has spent $52 million, when it factors in everything, including expenditures that aren't described as related to pensions in disclosures made on his Web site. Arnold said 3.8 percent, or $12 million, of the $320 million by his foundation, in campaign contributions, and in charitable giving has gone to the pension debate. Either amount is minuscule compared with what unions have paid to maintain the status quo, he said.

Hedge Fund

Arnold shut down his Houston hedge fund, Centaurus Energy, which traded energy commodities, in 2012, after about 10 years. Before that he worked in Enron's wholesale division, where he was head of natural gas derivatives. Laura Arnold had worked in several places as a corporate attorney. After he wound down the hedge fund, he and Laura created the foundation.

Arnold said he is trying to use his estimated $2.9 billion fortune to clean up a legacy of bad policy decisions by state and local officials where "special interests or market failures have led to poor government policy. "

It's part of a larger push by his foundation, which has made $261 million in grants for everything from poverty and criminal justice to education and the functioning of state and local government, to "improving our society," Arnold said in a March 31 commentary published on the Chronicle of Philanthropy's Web site in response to critics.

Union Donations

Arnold said in his e-mailed response that the most influential parties in the debate over pensions are "unions, their leaders and the politicians who depend on their donations."

"Organized labor has spent millions funding research reports that support the status quo and billions on the political process to support elected officials who reject reform," wrote Arnold. "Virtually everyone involved in the debate on public pensions has had financial or political interests in the outcome. We do not."

Bringing change to pensions would be difficult without the support of Arnold and his foundation, said San Jose Mayor Chuck Reed, who worked to reduce his city's pension obligation and also has pushed to reduce pension liabilities statewide. Arnold's foundation helped bring legal and financial expertise to both, Reed said.

"If you don't do something the problem is just going to get bigger and bigger and eventually the governments could end up in bankruptcy," said Reed. "I'm glad they decided to focus part of their expertise on pensions. Their advice is extremely valuable."

Unfunded Liabilities

Arnold, through his foundation, has paved the way for legislation that cuts the risk and ultimate cost of pensions. Even so, states such as Kentucky are still grappling with large unfunded liabilities because cuts apply only to new workers.

"The most pernicious problem in any state with a significant funding shortfall is that they have failed to make contributions as required," said Monique Morrissey, an economist with the Economic Policy Institute, a Washington research institution that focuses on the role of low- and middle-income workers in the economy. "There's a large hole in many states because of years of systematic underfunding."

That is one reason Arnold's foundation works with groups such as Pew, the Brookings Institution and the Reason Foundation to help government officials understand the magnitude of pension commitments and develop changes that will allow them to continue to offer benefits, Arnold said in the e-mail.

'Lasting Improvements'

"We support organizations that help governments make decisions based on evidence and data to produce concrete, measurable, and lasting improvements to society," Arnold said.

It's the same objective stated by some of his partners.

"We share the goal to help states design and adopt retirement systems that are fair, affordable and fiscally sustainable—while at the same time preserving governments' ability to recruit and retain a talented public-sector workforce," said Greg Mennis, director of public sector retirement systems, for Pew, in a prepared statement.

In Kentucky, restructuring the retirement plan led to "a fair and effective retirement system" that will improve its fiscal health, Pew said.

As a state, Kentucky has the second most-underfunded pension plan in the U.S. behind Illinois, with about 47 percent of the assets needed to cover future estimated payments to retirees, according to data compiled by Bloomberg.

Cash Balance

Last year, Kentucky switched new employees to a so-called cash balance plan, which pays benefits based on how the money is invested instead of what employees earned and how long they were on the job.

The legislation, which passed with bipartisan support, put the state on course to "honor the commitments made to state workers and retirees" and addressed "financial uncertainty that threatened our state's credit rating," said Governor Steve Beshear, in an April 4, 2013, statement.

Under the restructuring, workers' benefits don't increase as sharply with years of service as they do under the previous plan, according to a report from the Urban Institute, which also has received funding from Arnold's Foundation. Though employees with short tenures may accrue more money in the short term, those who work 35 years would only receive three-fifths as much as they would under the traditional plan, according to the Urban Institute report.

Lawmakers came together in part because of a Pew report. "We relied on Pew as a source of objective information," said Representative Jim Wayne, a Louisville Democrat who was on the committee considering changes. "It was not objective. We gutted the pension program for new hires.'

The plan also many not solve the state's underfunding problem as intended, Brainard said. That's because only newly hired workers are covered under the plan, meaning the outstanding obligation for currently retired workers and existing employees continues.

‘‘Switching to a different type of plan doesn’t address the existing unfunded liability,” Brainard said.

Bloomberg
By Darrell Preston
Aug 22, 2014 1:12 PM PT

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Detroit Water Board Approves Buying Back $1.47 Billion Bonds.

The Detroit Board of Water Commissioners unanimously approved a proposed buyback of the city’s water and sewer bonds after reaching deals with enough investors to proceed with a planned debt refinancing next week.

Owners of bonds from the Detroit Water and Sewerage Department agreed to sell back $1.47 billion, or about 28 percent, of the system’s $5.2 billion in outstanding debt, the board’s advisers said today. Refinancing the bonds will save $241 million over 26 years, with about $11 million in annual savings for the first 19 years.

The plan allowed investors to part with their securities at a known price and protects them against losses in federal court. It will also free up cash for the city and potentially speed its emergence from bankruptcy.

The buyback’s success means the Michigan Finance Authority is on track to issue bonds next week to replace the old debt. It also plans to issue $150 million in additional bonds to finance improvements to the sewage-disposal system.

The deal must still be approved by Detroit Emergency Manager Kevyn Orr and U.S. Bankruptcy Judge Steven Rhodes.

Exiting Bankruptcy

Should the refinancing move forward as planned, investors and bond insurers would drop their objections to the water and sewer portions of Detroit’s debt-cutting plan, according to court records. That may shorten the bankruptcy trial and make it easier for the city to win approval of its proposal.

The water and sewer bondholders are among the final obstacles to the resolution of the bankruptcy after the city reached agreements with general-obligation investors and pensioners during 13 months under court protection.

Bondholders had balked at the city’s debt-adjustment plan, which seeks to cut interest rates on some securities or scrap provisions that protect investors from being forced to resell bonds before they mature. The proposal led the three biggest credit raters to lower their grades on the bonds to junk.

Once the refinancing is done, any original debt still outstanding will be unaffected by the proceedings. In contrast, about 43 percent of the water and sewer bonds would be impaired under the bankruptcy debt-cutting plan, Fitch Ratings said in a report yesterday.

By Chris Christoff and Brian Chappatta
Aug 22, 2014 1:30 PM PT

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FT: Hedge Funds Spark Review of Puerto Rico Economy.

Hedge funds speculating on Puerto Rican bonds are claiming that a 60-year miscalculation of economic statistics may have caused investors to underestimate the island's ability to pay down its $70bn of debt.

Figures for the country's gross national product could have been distorted by multinational companies using Puerto Rico as a manufacturing centre to pay less tax, the funds say, citing government sources and economists.

Puerto Rican authorities are now reviewing how they calculate GNP, amid concern that their methods are decades out of date. One calculation designed to capture the island's economic growth in inflation-adjusted terms has not been overhauled since 1954, according to government sources.

Part of its review is focused on the value of exports, which include goods manufactured by the Puerto Rican divisions of multinationals and sold to other subsidiaries. These internal "transfer pricing" arrangements can be heavily affected by companies' attempts to cut their tax bills. By paying higher prices for goods from Puerto Rico, for example, they can reduce profits for tax purposes.
However, these artificially higher prices can misrepresent Puerto Rican inflation, and cause too large an inflation adjustment to be made to GNP.

According to a presentation circulating among certain hedge funds, this incorrect inflation adjustment has served to understate Puerto Rico's economic performance. They claim that the country's GNP may have grown by between 3 per cent and 11 per cent in real terms since 2005, rather than having shrunk by 11 per cent as official data suggest.

This argument is being highlighted by the hedge funds as they attempt to convince other investors that the island is strong enough to stave off a default. Trading in Puerto Rican debt is now dominated by these funds, after more conservative investors fled the island before its bonds were downgraded to junk status this year.

In July, the Puerto Rican government said "certain significant deficiencies" meant real GNP could have been either "overstated or understated for several years".

Funds including Fir Tree Partners, Perry Capital, Monarch, Brigade Capital and Davidson Kempner – who together hold $4.5bn of Puerto Rican debt – have been putting pressure on the island's government to improve the quality of its economic data and take other measures to restore confidence.

In recent weeks, they have offered additional financing to the administration of Governor Alejandro

Padilla while it works to restructure the debt of several publicly-owned utilities.

Hedge funds rarely participate in the $4tn US municipal bond market but began snapping up Puerto Rican debt last year when prices slumped. Fitch Ratings, the credit rating agency, estimates they now hold $16bn of the bonds.

“The presence of crossover buyers, such as hedge funds, in this market is a positive,” said Yuriy Layvand, Fitch analyst. “These type of buyers help support markets in times of price stress.”

After rising as high as 9.3 per cent in December, average yields on 20-year Puerto Rico general obligation bonds, which move inversely to prices, traded at 7.87 per cent this week, according to Thomson Reuters MMD.

By comparison, the average yield on municipal bonds with similar maturities stands at 2.87 per cent.

Financial Times
By Stephen Foley and Vivianne Rodrigues in New York

Detroit Seeks Water-Bond Sellers to Escape Default: Muni Credit.

Detroit’s water and sewer department is set to find out today if it will succeed in striking a deal with bondholders to avert a possible default.

The Detroit Water and Sewerage Department is giving investors until 5 p.m. Detroit time to decide whether to sell back $5.2 billion of bonds. The move is part of a plan by the system to borrow through new securities with lower interest rates, using the savings to bolster the finances of the bankrupt city.

The proposal would allow bondholders to part with their securities at a known price — in most cases 100 cents on the dollar or more — rather than risk losses in federal bankruptcy court. Emergency Manager Kevyn Orr would win sought-after savings for the Motor City if investors agree to the deal, which may help the city win court approval of its plan to cut debt and exit bankruptcy.

“The goals are all sort of intertwined with each other, and we think it has a win-win concept behind it,” said John Miller, the co-head of fixed income in Chicago at Nuveen Asset Management, which oversees $92 billion of munis. He said the company plans to sell back some Detroit water debt. “The city would get some benefits, bondholders would get some benefits and the users of the system would also get some benefits.”

Puzzle Pieces

Water and sewer bondholders are among the final pieces of the bankruptcy puzzle for Detroit, which has reached agreements with general-obligation investors and pensioners after 13 months under court protection.

Under the offer, each individual water and sewer bond can be resold at a given price. If enough are sold back, the Michigan Finance Authority will issue new debt with lower interest rates to purchase the tendered securities.

While Orr hasn’t sought to force the department’s bondholders to write down what they’re owed, his plan for emerging from bankruptcy would cut the interest rates on some securities or eliminate provisions that protect investors from being forced to resell bonds before they mature. The plan led the three biggest credit raters to lower their ratings on the bonds to junk.

Tossing Junk

The success of the repurchase plan is no sure thing: Standard & Poor's rates the water and sewer securities CCC, eight levels below investment grade. If the buyback goes through, the department's finance team says it'll request investment grades on the new bonds because they won't be affected by the bankruptcy proceedings. Without a higher rank, the city may not be able to borrow at a low enough rate to complete the refinancing.

About $1.4 billion of the $5.2 billion of debt has been tendered as of 11 a.m. Detroit time, according to an online tally from Bondholder Communications Group LLC. The Michigan Finance Authority, which may begin pricing the new water and sewer securities on Aug. 26, released two sets of offering documents yesterday that total 1,136 pages and left the deal size blank.

Citigroup Inc., the lead underwriter on the bond deals, said in a presentation to Detroit's board of water commissioners this month that the success of the tender offer should earn back investment grades for the system. Yet "there can be no assurance as to this outcome," and the grades could fall to D, representing default, in the tender process.

Default Tightrope

The water department's financing team "will stress to the rating agencies that the Tender Offer is voluntary and not 'distressed,'" according to the presentation, which said grades should be released Aug. 25, the day before the deal prices. A least one bond insurer will back some of the new securities, according to offering documents.

Even if the refinancing is successful, some investors would still be accepting less than they would eventually be paid. Research firm Municipal Market Advisors, which keeps its own tally of muni failures, said if the utility doesn't make all scheduled principal and interest payments, it would fit its default definition.

"The city is hoping to avoid the characterization of its DWSD restructuring as a default by having bondholders agree to be defaulted upon," according to the MMA report. The plan is "attempting to walk a very technical line in rating agency definitions of 'default' and 'distressed exchange.'"

Sewer Savings

Fitch Ratings won't consider the tender offer a distressed exchange, the New York-based ratings company said today in a report.

Moody's Investors Service declined to comment, said Thomas Lemmon, a company spokesman. Scott Garrigan, an S&P analyst in Chicago, said he will gauge the rating effect and whether it should be considered a distressed exchange once the tender is finalized.

Offering documents don't list ratings. As recently as July 2013, S&P rated senior-lien water and sewer bonds A+, the fifth-best investment grade and 13 steps above the current rank.

"If they're extricated from the bankruptcy, they become the original credit they were, and in some ways stronger because they lowered their debt service costs," said Tom Metzold, co-director of municipal investments at Eaton Vance Management, which oversees $24 billion in local debt, including Detroit water and sewer bonds. He said he may sell some back.

The system's outstanding bonds with the highest interest rate mature in July 2033, data compiled by Bloomberg show. The $150 million in debt has a 7.5 percent coupon, meaning the city pays $11.25 million to investors annually. Lowering the rate to 5 percent, for example, would curb payments by $3.75 million a year.

119 Cents

More than 75 percent of those high-cost securities have been tendered. Investors were enticed with a repurchase price of 119.1 cents on the dollar, the highest offer of any debt, according to a report from Wells Fargo Advisors. The bonds, backed by Assured Guaranty Municipal Corp., hadn't traded that high since March 2013, Bloomberg data show.

"The city buying back these bonds in a way that is voluntary is in a sense like bidding your bond out on the open market because you don't want to deal with it anymore," said Patrick Stoffel, a municipal analyst at Wells Fargo in St. Louis. "It speeds along potentially the whole trial because it seems like there would be quite a few legal challenges to the city trying to impair bonds through bankruptcy."

Water and sewer bondholders balked at the prospect of being impaired in bankruptcy because their payments are backed by a secure revenue stream from the utility, rather than a full faith and credit promise like general obligations.

The water department's tender offer takes a cram down off the table and averts what could have been an undesirable example of impairing bondholders in bankruptcy, Nuveen's Miller said.

"From a precedent perspective, maintaining the sanctity of the special revenue pledge is a good thing," Miller said. "Separate and apart from that, it's also good to have the asset out of bankruptcy. We're positively predisposed towards the whole macro plan."

By Brian Chappatta Aug 21, 2014 8:34 AM PT

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[California $4 Billion School-Bond Push in Jeopardy: Muni Credit.]

California lawmakers are pressing to add a $4.3 billion school-bond measure to a November ballot already crowded with a $7.1 billion proposal to sell debt to ease a crippling drought.

The school bill, pending in the senate, would fund a program created in 1998 that's responsible for building more than 55,000 classrooms, according to Assemblywoman Joan Buchanan, a Democrat. While Governor Jerry Brown would have to sign the measure into law to put it on the ballot, his finance office says the most-populous state shouldn't take on more debt.

Investors in the $3.7 trillion municipal market see a potential missed opportunity, given that California's bond costs have fallen to pre-recession levels as the state enjoys a record surplus and its highest debt rating since 2001.

"Borrowing costs are the lowest they've been in a decade for the state," said Michael Johnson, managing partner at Gurtin Fixed Income Management LLC, which oversees $9.3 billion in Solana Beach, California. "If it's out there, the market is definitely buying it."

California voters have approved about $35 billion in general-obligation bonds since 1998 to build or renovate public-school classrooms. The last was in 2006, for $10.4 billion of general obligations. Those funds have dried up, leaving the state with no new construction funds for the last two years, according to Buchanan's office.

No Position

Brown, a 76-year-old Democrat seeking re-election in November, hasn't taken a position on the school-bond measure, said Evan Westrup, his spokesman. Last week, he signed a bill to place a measure on the November ballot asking voters to approve bonds for water projects as the state grapples with a third year of drought.

The governor has made reducing budget costs a centerpiece of his administration since taking office in 2011. A surge in revenue, mostly from capital gains and temporary increases on income and sales taxes, has taken the state from a $25 billion deficit three years ago to a record surplus.

Moody's Investors Service raised California to Aa3 in June, the fourth-highest grade and the highest since 2001.

The extra yield that buyers demand to own 10-year California debt rather than top-rated securities shrank to 0.22 percentage point this month, the smallest since August 2007, according to data compiled by Bloomberg.

Department's Opposition

Even with the falling interest rates, California's Department of Finance said it opposes the school-debt proposal.

"It creates new general-fund costs when the administration is focused on paying down existing obligations and saving for a rainy day," the department said in a June analysis of the bill.

In the fiscal year that began in July, the state will pay $3 billion in debt service on general obligations issued for school projects, the department estimated.

"A new bond would add to those costs, crowding out other state priorities," the department said in the analysis.

Universities already have authority to use state appropriations to issue bonds for construction, the department said. What's more, the existing school-construction program for K-12 is overly complex and costly for the state and local school districts, the department said in its January budget summary.

'Reasonable Expenditure'

Borrowing for education is "a reasonable expenditure" since the state already incurs debt for water projects and high-speed rail construction, Buchanan, a former San Ramon Valley School Board member who sponsored the bill, said in a telephone interview.

About $3 billion of school construction and upgrades are being stalled by a lack of funding, according to a report from the Sacramento-based Center for Strategic Economic Research.

That work could produce more than 15,000 new jobs, $990 million in wages, $100 million in state and local tax revenue and add more than $2.5 billion to California's economy, the report said.

"General-obligation bonds are a way of dealing with a large investment and dealing with that now and paying it just like a mortgage over a period of time," said Tom Duffy, chief lobbyist for the Coalition for Adequate School Housing in Sacramento. "That has been acceptable under prior administrations."

Campaign Funds

His group has $459,788 in a campaign account aimed at advancing the ballot measure, with $81,450 in contributions this year through June, according to state data. Group members include school districts, county offices, architects, developers and construction managers.

Without the bond measure, the fees that districts charge developers to help pay for school construction would rise and would get passed down to buyers of new homes, said Dave Cogdill, president of the Sacramento-based California Building Industry Association.

"If we're successful in getting a bond out of the legislature and signed by the governor, we're very confident that it will be approved by the voters," Cogdill said.

By Alison Vekshin Aug 18, 2014 5:00 PM PT

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Casino Bonds' Value Goes Up.

Improvement of company that insures them spurs buying of controversial notes

A recent spate of purchases of Detroit's questionable casino revenue bonds has boosted the value of the city's possibly doomed debt by as much as 72 percent. But the sudden popularity of Motown bonds has nothing to do with the state of the city's finances, its landmark bankruptcy case or even the outlook for a negotiated settlement.

Instead, investors are buying up the bonds because of an improvement in the financial condition of the company that insures them.

"With any insured bond, the price reflects a bet on the recovery percentage on that bond if it defaults and the insurance company's ability to pay," says William Glasgall, program director for the Volker Alliance, a nonprofit focused on government policies.

The bonds are the controversial certificates of participation, or COPs, that give investors a chunk of Detroit's casino tax revenue. The city is arguing that the deal that created the COPs under the Kilpatrick administration was illegal, and that the bonds should be wiped out. While the city has settled with insurers over other Detroit bonds, it has made no public offer of any kind on the COPs.

Normally, an investor holding an insured bond wouldn't worry. Even if the bankruptcy judge allows the city to completely stiff bondholders on the COPs, the investors would collect all the guaranteed principal and interest on the same schedule between now and 2035, when the bonds mature.

But the insurer of much of the COPs in question is Financial Guaranty Insurance Co. of New York. FGIC, as it's known, insured not only Detroit's controversial casino revenue bonds, but also a lot of bonds based on risky mortgages that were issued during the housing bubble. FGIC took huge losses, eventually filing for Chapter 11 bankruptcy reorganization, and now operates under a rehabilitation plan administered by the state of New York.

Because of the financial hit FGIC took when the housing bubble burst, the company's assets are depleted. It's also barred from writing new bond insurance policies, which limits FGIC's ability to bring in new revenue. Instead, the company is in what's called "run-off mode," limited to managing its assets and claims, and paying just a fraction of the full value on the policies it already issued. Under its rehabilitation plan, FGIC initially pays 15 cents on the dollar when a bond goes into default.

Ultimately, the payout goes up if FGIC can do better than expected on its investments, has fewer than expected claims or finds other sources of income. And FGIC has found a good one: suing the big banks that churned out what were supposed to be ultra-safe bonds but were actually risky bets on a pile of toxic mortgages guaranteed to go bad.

On April 16, FGIC announced a settlement of $584 million — in cash — with Bank of America on mortgaged-backed debt FGIC had insured. In addition, FGIC has announced separate settlements with the Bank of New York Mellon, which acted as trustee on the issues. FGIC has already received $307 million under the completed settlements and will get about $48 million more if two more proposed settlements are reached.

That's nearly $1 billion of new cash on hand that means FGIC will have more money than expected to cover any losses on the bonds it insures, including the Detroit COPs.

"FGIC will have less losses than what they reserved," says Lisa Washburn, a bond analyst with Municipal Market Advisors. "FGIC isn't going to do as badly as anticipated."

When investors noticed the improvement in FGIC's balance sheet, they went on a shopping spree. The 2006 Series A COPs traded as low as 38.5 cents on the dollar in July 2013 when Detroit declared bankruptcy, according to data from Electronic Municipal Market Access.

The debt didn't trade for nearly a year, then dropped to 37.75 cents in March, just before FGIC settled with Bank of America. Then, this month, more than $53 million worth of the certificates were purchased at 56.25 cents on the dollar, an increase of 49 percent.

Series B bonds in the same issue had traded as low as 25 cents on the dollar in March. By July, the price had jumped to slightly over 43 cents, a gain of 72 percent. By comparison, certificates from the same Series B issue insured by the bond insurer now known as Syncora Guarantee, gained just 7 percent in the same time frame.

"FGIC is a bond insurer that crashed," Glasgall says. "When a insurer defaults, it's not necessarily going to pay off 100 cents on the dollar. It's going to pay a percentage of the liability."

Overall, investors looking at the COPs need to balance more than just the bond insurer's health. Other considerations include what they think the city may offer if it makes a settlement, and an early payment discount. With a financially sound insurer, the value of the bonds today might be 70 cents on the dollar.

If investors think the city will settle for 20 cents and FGIC can cover just 15 cents from insurance, they'd value the bonds at 35 cents on the dollar. But when FGIC's ability to pay more increases, so does the market price for the bonds.

Although the bond trades don't list the buyers and sellers, one industry expert who asked not to be identified because he isn't authorized to comment, said the buyers of FGIC-backed COPs were hedge funds. The large private investment pools have become active buyers of distressed municipal bond debt in the past few years. The sellers, according to a report in the Wall Street Journal, were European banks that bought Detroit bonds at nearly full value and took big losses on them after the city declared bankruptcy.

Now that the European banks are undergoing stress-testing to gauge their safety, those banks may have wanted to dump the low-value, distressed Detroit debt to reduce their risk, especially when they could get more money for the bonds than the value listed on the banks' balance sheets, explains James Spiotto, managing director of Chapman Strategic Advisors LLC.

"Its math," Spiotto says. "In a regulated environment, banks have to carry the debt at a discounted value. They've written it down and can realize some value now."

While that's good news for the European banks, and maybe for investors who think they'll profit thanks to FGIC's improved financial condition, the jump in bond prices says absolutely nothing about the legality of the casino revenue certificates, the outcome of Detroit's bankruptcy or the city's financial future.

"When all the bond insurance companies were rated AAA, it kind of didn't matter, because you expected to get your full 100 cents on the dollar back," Glasgall says. "Since the bond insurance industry collapsed, it's become a play on the insurer's balance sheet."

Brian J. O'Connor
Detroit News Finance Editor
August 16, 2014 at 1:00 am

WSJ: Puerto Rico Power Bonds Rally on Loan-Delay Deal.

Puerto Rico Electric Power Authority bonds rallied on Friday after the cash-strapped utility announced a deal with creditors to delay loan payments into next year while working on a voluntary plan to revamp its business.

The authority, known as Prepa, postponed payments on $671 million it owed banks on lines of credit through the end of March, while committing to appoint a chief restructuring officer by Sept. 8 and complete a five-year business plan by Dec. 15. Prepa said the agreement will enable it to use $280 million held in its construction fund to pay expenses and capital improvements. The authority had faced a deadline Thursday to extend the loans, which are used to buy fuel for its generators.

Some investors cheered the news, with the price of some bonds rising almost 10%. A $1.4 million block of Prepa bonds maturing in 2035 traded Friday at 53 cents on the dollar, up from the 48.25 cents on the dollar where a similar-size chunk traded earlier this month. Yields went to 11.063% from 12.096%.

“It’s definitely rallying based on the lines of credit that were extended,” said Tim McGregor, director of municipal fixed income at Northern Trust, whose team oversees $23 billion in municipal bonds. “It’s a large move for a regular municipal bond, but this bond’s been experiencing a lot of volatility.”

Market experts said the authority’s deal with creditors would buoy the rally in municipal bonds overall this year, given that headlines surrounding any contentious restructuring could have scared mom-and-pop buyers away from the larger $3.7 trillion market. Municipal bonds have so far returned 6.8% this year, according to data from Barclays.

“The contagion risk to the muni market potentially emanating from Puerto Rico is more or less off the table for this year, and is really increasing a municipal rally which we already had anyway,” said John Miller, co-head of fixed income at Nuveen Asset Management LLC, which oversees about $90 billion in municipal bonds.

Prepa is at the vanguard of Puerto Rico’s long-running financial difficulties. The agency is seeking cash to fund operations and pay lenders, even as the commonwealth struggles with high unemployment and a weak economy.

Puerto Rico lawmakers in June approved legislation allowing some public agencies, including the island’s power, water and transportation authorities, to restructure their finances. Those three agencies have almost $20 billion in debt, according to estimates from Barclays PLC. The law doesn’t apply to Puerto Rico’s general obligation or sales-tax debt.

Puerto Rico has about $73 billion in total debt, which is widely held by mutual funds and individuals and some analysts worry its problems could cause losses for investors nationwide. The price of some bonds from the power authority fell as low as about 37 cents on the dollar and some were trading before Thursday’s extension at about 49.5 cents on the dollar.

Overhauling the island’s public corporations has become a priority for the administration of Gov. Alejandro García Padilla as it tries to restart the economy, eliminate budget deficits and reassure investors that the U.S. commonwealth’s fiscal position is improving.

A report by the Federal Reserve Bank of New York last month recommended strengthening the performance of the island’s large, heavily indebted public corporations. “For any financial reform agenda to be successful, it must confront this issue head-on,” the report said.

Mr. McGregor said trading Friday was likely being driven by hedge funds, and that his group doesn’t own Puerto Rico debt. Mr. McGregor said Puerto Rico still has too much debt versus revenue, for his firm to step back into Puerto Rico bonds.

The agreements announced Thursday “buys them some more time, and when they are struggling like they are, time is an asset they needed for sure,” he said.

By AARON KURILOFF And MIKE CHERNEY
Aug. 15, 2014 2:53 p.m. ET

Detroit City Council Backs Orr's Plan to Refinance $5.2B in Detroit Water Bonds.

Detroit — City Council approved orders Thursday from Emergency Manager Kevyn Orr that seek to refinance about $5.2 billion in bonds for the water department.

The panel voted 6-0 in favor of the resolutions during a special meeting convened during its summer recess. Council members Gabe Leland, Mary Sheffield and Andre Spivey were absent.

The plan, adopted last week by Detroit Water and Sewerage Department commissioners, has the potential to free up cash for Detroit’s restructuring and potentially speed an exit from bankruptcy court.

Officials have said the plan would lower the utility’s interest rate, reduce costs and potentially save customers across the region millions of dollars.

It would give secured water bondholders a chance to have the city buy back the bonds. By doing so, the city could issue new bonds and refinance up to $5.183 billion of debt.

Detroit Corporation Counsel Melvin Hollowell said the council’s approval was required under bankruptcy rules, and they had 10 days to act.

“We want to thank the City Council for coming off of recess to do this on such short notice,” he said. “It was important for the taxpayers and for the bankruptcy process. A very quick turnaround was required.”

The amount of savings for the city depends on how many bondholders accept the offers. The tender offer is slated to last until Aug. 21.

The plan was conceived following talks with federal mediators, the state, Orr, the Michigan Finance Authority, Citigroup and First Southwest Co.

It is an alternative to the city’s treatment of water and sewer bonds in Detroit’s current plan of adjustment. Hollowell said it will be included in an upcoming amended plan.

Under its bankruptcy plan, the city wanted to reduce the interest rate on certain bonds and eliminate a provision preventing Detroit from forcing bondholders to tender their bonds prematurely.

The tender offer to bondholders is optional so the success of Detroit’s plan — and potential savings — depends on market response and bondholder participation, officials with the state Treasury Department have said.

U.S. Bankruptcy Judge Steven Rhodes issued an order late Wednesday delaying the bankruptcy trial until Aug. 29.

The council also approved separate resolutions to adopt the issuance, terms and conditions of a series of complex bond deals outlined in the city’s debt-cutting plan.

In addition, a three-year, $1.5 million contract to outsource the administration of Detroit’s automobile and general liability claims was approved by council members Thursday in a 5-1 vote. President Brenda Jones voted no.

Orr submitted the contract Aug. 7. It required a council vote because it constitutes a transfer of a city function.

The vote came after the city’s interim finance director, John Naglick, confirmed for council members that the contract for York Risk Services Group Inc., was not competitively bid.

Rather, he explained, the contract award was based, in part, on a prior request for proposals for a separate contract to outsource the handling of Detroit's workers' compensation claims. That three-year, $2.4 million contract was approved by the council in a 6-2 vote last month.

York is a subsidiary of CMI, the company hired to administer the workers' compensation claims.

The city has been paying out about $60 million a year in claims among automobile, workers' compensation and other general liability, including police, sidewalks and buses.

The city has about 3,400 claims, Holowell said.

Christine Ferretti
The Detroit News

Record Bonds Lure Michigan Cities as Pension Plug: Muni Credit.

Michigan municipalities, facing a year-end deadline to borrow for retirement costs, are planning record bond sales to pay for workers' health care and pensions.

The Detroit suburb of Macomb County plans a $270 million sale of municipal debt, its biggest ever, to finance retiree health-care costs, while Kalamazoo is considering a historic $100 million bond offer for similar expenses. Bloomfield Hills plans to borrow a record $17 million for pensions. The law allowing the practice expires Dec. 31.

U.S. states and cities are struggling with how to pay for promises to workers after the recession ravaged their finances. Yet few communities see debt as the answer — sales of revenue-backed pension bonds have tallied $356 million this year, data compiled by Bloomberg show. Interest rates close to five-decade lows are making it more attractive to pursue the risky strategy of investing borrowed funds in financial markets.

"We can't afford to wait," said Peter Provenzano, Macomb County finance director. "Timing the market is difficult. You could sit on the sidelines and miss out on an opportunity."

Michigan Twist

Municipalities have sold pension bonds since 1985, led by Illinois and California, according to the Center for Retirement Research at Boston College. This year's issuers include Orange County and the city of Riverside, both in California.

Investing borrowed cash to pay for health expenses is a new twist in Michigan, where 284 municipalities owed a combined $12.7 billion in unfunded liabilities for retiree medical care, according to a 2013 Michigan State University study. About half didn't require employee contributions.

The practice of issuing debt for retirement costs draws criticism from Matt Fabian, managing director at Municipal Market Advisors, as a maneuver that avoids difficult decisions.

"Pension-obligation bonds are almost always a terrible idea," said Fabian, whose research firm is based in Concord, Massachusetts. The borrowing shows a lack of political will to raise taxes or reduce benefits, he said.

The risk for investors is pronounced in Michigan, where Detroit is seeking bankruptcy relief by favoring city pensioners over bondholders, including holders of securities issued to finance pensions, Fabian said.

Timing Risk

From the issuer's standpoint, the sales' timing dictates the success of pension bonds, according to a July analysis by the Boston College center. Reinvested proceeds must earn more than it costs to service the debt, which is typically taxable.

Because of stock-market gains following the recession that ended in 2009, the majority of pension bonds have generated positive returns as of February 2014, according to the center. That's a reversal from mid-2009, when the financial crisis left most of the deals in the red. The analysis is complicated because many of the securities have 30-year maturities, according to the center.

"You really don't know until that end date of the bonds how it turns out," said Jean-Pierre Aubry, assistant director for state and local research at the center.

Grand Rapids won't use debt to finance $135 million in unfunded health-care liabilities, said Scott Buhrer, the city's chief financial officer.

Bull Market

"The best way to have odds in your favor is to do this when stock prices are depressed," Buhrer said. "We're in the latter stage of a bull market."

Michigan didn't allow such borrowing until a 2012 law, which limits sales to local governments with at least a AA credit rating, third from the top, and requires state approval. A bill to extend the law for a year awaits action in the house after passing the senate. Republican Governor Rick Snyder supports the extension, said his spokeswoman, Sara Wurfel.

Borrowing for retirement costs works when coupled with benefit changes, said John Axe, a bond attorney based in Grosse Pointe Farms, Michigan.

Axe said he represents six municipalities that are considering borrowing for the expenses, though he declined to name them.

Macomb County is paying half the recommended $30 million annual expense for current and future health-care costs, and won't be able to afford the premiums by the mid-2020s, said Provenzano, the finance director. The bonds will allow the county to keep up with projected cost increases, he said. The plan projects that debt proceeds will earn an average of 7.5 percent annually.

Proactive View

"We're being proactive about this," Provenzano said.

Money from the issue will be invested over the course of a year to adjust to swings in financial markets, he said.

The county has a AA+ grade from Standard & Poor's, its second-highest level. With 850,000 residents, Macomb abuts Detroit's northeast border and is dominated by 155 auto plants and suppliers, and the General Motors Technical Center in Warren. The county's $53,628 median household income compares with about $48,500 statewide.

Oakland County, which also borders Detroit, sold $350 million in general-obligation bonds last year to refinance debt issued in 2007 for retiree medical benefits.

Investments from the 2007 issue gained more than projected, resulting in overfunding for health benefits, said Robert Daddow, county deputy executive. The refinancing will save at least $125 million over the 13-year bond repayment, he said.

Plan Closed

The county also reduced costs by closing its defined-benefit health plan to new hires in 2006, Daddow said.

Kalamazoo may sell as much as $100 million of debt to partly finance $188 million of retiree health-care liabilities. A city panel this week recommended the bonds and negotiations with retirees and unions to lower medical costs.

The city pays $6 million annually from its $50 million general fund toward retiree health care.

If investment returns fall short of repaying the debt and health insurance, the city would renegotiate with employees for savings, said Tom Skrobola, Kalamazoo finance director. Without revenue from borrowing, the city won't keep up with rising medical costs and demands for other city services, he said.

"We've had great success with bargaining, but it's not enough," he said. "It has to be a combined approach."

By Chris Christoff Aug 14, 2014 5:00 PM PT

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Build America Mutual (BAM) Awarded Highest S&P Rating.

Build America Mutual (BAM) announced in July that Standard & Poor's (S&P) has rated the company AA with a stable outlook, which is the highest rating S&P currently assigns to financial guarantors. Endorsed by the National League of Cities, Build America Mutual Assurance Company is the nation's first mutual municipal bond insurer and has upheld an AA rating year after year.

For more than 150 years, S&P's Rating Services has provided high-quality market intelligence, including credit ratings, research and thought leadership. "S&P's rating action recognizes BAM's progress in winning broad acceptance for our guaranty and the inherent strength of our capital model as a mutual insurer, and we look forward to continuing to add issuer members, who use our guaranty to achieve more efficient and lower-cost access to the capital markets," said Seán W. McCarthy, BAM's Chief Executive Officer.

The S&P report said BAM's rating reflects the company's "extremely strong capital adequacy and very strong competitive position." BAM's high-quality insured portfolio, in which 85 percent of the credits are rated A or higher, was also recognized as a credit strength. BAM has no exposure to credits rated below investment grade, including Puerto Rico and other U.S. territories, and its underwriting guidelines include limits on exposure to any single risk, as well as geographic concentration and exposure to credits that could be impacted by natural disasters.

Other factors cited by S&P in support of the rating are BAM's conservative, low-risk investment strategy, strong enterprise risk-management controls and veteran management team. S&P has rated BAM AA, which is the highest rating S&P currently assigns to financial guarantors, since it was founded in 2012.

"NLC is pleased to endorse BAM because BAM is uniquely situated to provide cities and towns not only access to municipal bond insurance that will facilitate their financing and reduce their costs, but also the unique benefits of membership in a mutual insurance company," said NLC Executive Director Clarence E. Anthony. "The S&P rating further affirms the value that BAM brings to the municipal bond issuers and bond holders," he added.

As of August 2014, BAM has written more than 1,200 policies, insuring more than $8.9 billion of municipal securities. The present value of the interest savings it has delivered to issuers exceeds $100 million.

JULY 31, 2014
By Rasheeda Mitchell

NYT: Bond Insurer Syncora Claims Mediator Favors Detroit's Retirees.

One of Detroit's chief remaining adversaries in bankruptcy said the city's exit strategy was tainted by what it called the biases of its chief mediator, whose job it was to impartially negotiate out-o--court settlements of as many of the city's debts as possible.

Syncora Guarantee, a bond insurer, said in a court filing on Tuesday that instead of setting aside his sympathies, the chief mediator, Gerald E. Rosen, had said repeatedly that he believed he ought to get the best outcome possible for a single group of creditors — the city's retirees.

The chief mediator in Detroit's case is also the chief judge of the United States District Court for the Eastern District of Michigan, where the historic bankruptcy is being handled. A spokesman for the court said Judge Rosen was on the bench and unavailable to comment on Tuesday.

Syncora said it believed that the chief mediator was acting out of good intentions. But, it said, in the hard knocks world of bankruptcy law, such compassion must be carefully weighed against the requirement that similar creditors be treated in roughly the same way. Syncora is an unsecured creditor, as are Detroit's retirees, but Syncora has been offered not only a worse deal than theirs but also one of the worst in the whole bankruptcy: Detroit wants to repudiate debt that Syncora insured, dealing it a total loss of hundreds of millions of dollars.

A lawyer representing Syncora in bankruptcy, James H. M. Sprayregen, said in an interview that he was unaware of any other municipal bankruptcy case in which debt sold on the capital markets had been repudiated. Usually, such debts are restructured or "impaired," which is what is Detroit proposes to do with its other outstanding bonds.

He said it seemed “the height of chutzpah” that the city sought to repudiate the debt that Syncora had insured because that debt was taken on to replenish the municipal pension fund.

As one example of what Syncora said was the bias driving the mediation, the objection cited remarks that Judge Rosen made at a news conference this year in which corporate donors and city officials described their efforts to keep the treasures of the Detroit Institute of Arts from being sold to pay the city’s creditors.

“None of this would be possible without all of us keeping a clear vision firmly in mind about who this is really about,” Judge Rosen said. “It’s about Detroit’s retirees, who have given decades and decades of their lives, devoted to Detroit.”

Syncora’s objection also asserts that Judge Rosen “personally lobbied the Michigan State Senate” to make an appropriation for the retirees contingent on “advancing the mediators’ agenda.”

“Regrettably, but truly, it could not be clearer that the mediators — rather than mediating discrete disputes — designed and later executed a transaction in furtherance of their own personal vision of what was important to protect and for whom,” the objection states.

With Detroit scheduled to seek approval of its plan for emerging from bankruptcy this month, Syncora’s objection offers a preview of some of the issues likely to be thrashed out in court. To finish the case, Detroit’s bankruptcy judge, Steven Rhodes, will ultimately have to decide whether the city’s plan meets certain fundamental criteria — whether it is in the best interests of the creditors, for instance, whether it is feasible and whether it treats equally situated creditors roughly the same.

Syncora said Detroit’s current plan failed the tests and should be rejected because it funneled “every dime” of available resources to the retirees, “at the exclusion of all other creditors of equal rank.”

“The court must reject the plan to preserve the integrity of judicial and mediation processes,” the insurer said in its objection.

In addition to Judge Rosen, it said, another member of the team of mediators working on the bankruptcy — Eugene Driker — had at least the appearance of a conflict of interest. Mr. Driker’s wife was a longtime trustee of the Detroit Institute of Arts and now serves in an emeritus role.

Mr. Driker’s personal connection with the museum was disclosed to parties to the bankruptcy when he joined the team of mediators. No one appears to have objected until now.

The art museum has turned out to be the linchpin of a far-reaching arrangement known as the “grand bargain,” crafted with the help of Detroit’s team of mediators. It calls for outside donors — including companies and foundations — to help pay the cost of transferring the city’s prized artwork to a new nonprofit entity, where none of Detroit’s creditors would be able to lay claim to it.

At the time the grand bargain first began to take shape, many of the city’s retirees, and their unions, were themselves calling for the art museum’s liquidation, because without a source of fresh money, they faced cuts to their pensions.

The cuts promised to be drastic because the city pension system was about $3.5 billion short when Detroit declared bankruptcy last summer. Companies with pension plans are required to participate in a federal insurance program, and in bankruptcy after bankruptcy, the federal government has stepped in to keep retirees from losing their benefits. But states and cities with pension plans never joined that program, so retired public workers face a frightening degree of exposure in municipal bankruptcy.

Mr. Sprayregen said he had nothing against Detroit's retirees. "We wish them large recoveries," he said. Instead, "we're concerned about the massive politicization of this case, and that it has been made to look as if it is Detroit versus Wall Street."

With another bond insurer, the Financial Guaranty Insurance Company, Syncora insured part of a borrowing Detroit undertook in 2005, to raise $1.4 billion for its municipal pension system.

Detroit now argues that the borrowing was a sham transaction, illegal from the outset because the city had already used up its legal borrowing capacity by 2005. It says the deal was structured in a convoluted way to make it look as if the city was not really taking on more debt, and it should be treated as if it never happened.

Mr. Sprayregen said that if so, the municipal pension system should give up the $1.4 billion it received and return it to the investors who were lured into the transaction.

By MARY WILLIAMS WALSH
AUGUST 12, 2014 3:31 PM

Detroit's Bankruptcy Plan Opposed by Creditor Syncora Guarantee.

City Hopes to Wipe Out or Reduce Billions in Debt; Trial to Start Next Week

DETROIT—A major Detroit creditor on Tuesday objected to the bankrupt city's plan to wipe out or reduce billions of dollars in debt, saying the idea should be scrapped before a trial scheduled to start next week.

New York-based Syncora Guarantee said in a court filing that the plan, put together by state-appointed emergency manager Kevyn Orr and attorneys hired by the city, is unfair, will be too costly to defend, and will ultimately fail.

That would "squander a once-in-a-lifetime opportunity to revitalize one of America's most treasured cities," the filing says.

The largest municipal bankruptcy in U.S. history is set for trial on Aug. 21.

A city spokesman couldn't immediately be reached to comment Tuesday.

Detroit filed for bankruptcy protection a year ago, saying it had no way to pay off at least $18 billion in debt. Syncora's claim is for about $400 million, and it is tied to an interest-rate swap deal on pension bond debt.

In 2009, Detroit pledged money from casino revenue taxes as collateral to avoid defaulting on past pension debt payments. The swaps allowed Detroit to get fixed interest rates on pension bonds with two banks.

The swaps are backed by Syncora, which acts as a trustee and makes payments from casino revenue to parties involved in the swaps. Syncora unsuccessfully tried to keep up to $15 million of casino tax revenue each month in a bank-held trust. Mr. Orr has said the money is crucial in paying for city services.

A primary point in Syncora's objection is a court-mediated agreement between the state, major corporations and foundations that promises more than $800 million over 20 years to support city retiree pensions. The so-called “grand bargain” would stave off the sale of city-owned pieces in the Detroit Institute of Arts to help pay off the city’s debt.

Retirees had to vote to approve the deal to see lower cuts to the pensions during Detroit’s bankruptcy.

“While no one questions that the mediators, in their own eyes, pursued what they believed was the best course for the city, the road to an unconfirmable plan is paved with good intentions,” Syncora wrote in its objection. “The plain truth is that the mediators in this case acted improperly by orchestrating a settlement that alienates the city’s most valuable assets for the sole benefit of one creditor group.”

The objection also said the city refused to provide Syncora with timely and complete documents on settlements in Detroit’s debt plan

Syncora said that after adjustments for interest rates, it would get about 5 cents on the dollar for its debt under Orr’s plan.

Detroit’s bankruptcy trial “looks like it will go through late September, if not further,” said James Sprayregen, a Syncora lawyer.

Syncora’s hope is that it can reach an agreement with the city before the trial starts. If Mr. Orr’s plan is confirmed at trial, it eventually would be overturned on appeal, Mr. Sprayregen said.

“Before more scarce resources are squandered, we’d rather get to a consensual deal,” he said.

Associated Press
Aug. 12, 2014 3:05 p.m. ET

WSJ: Puerto Rico Paying $9 Million for Power Bond Forbearance.

The forbearance agreement Puerto Rico announced Thursday with holders of its power company bonds highlights a number of the conflict points between opposing parties in the island’s complex restructuring. It will also cost the cash-strapped commonwealth about $9 million in fees to creditors, according to regulatory filings.

The deal marks a cease-fire, for now, between Puerto Rico, which is preparing to restructure about $8.6 billion of bonds owed by the Puerto Rico Electric Power Authority, or PREPA, and fund managers that own the bonds. Three funds – Franklin Templeton Investments, OppenheimerFunds Inc. and BlueMountain Capital Management – have sued Puerto Rico’s governor alleging the island’s new debt restructuring law is illegal.

Under the deal, which expires March 31, investors and bond insurers controlling more than 60% of PREPA’s bonds agreed not to take action on potential defaults on the terms of the bonds. The forbearance allows Puerto Rico to postpone payments on short-term bank loans and to use $280 million of restricted cash to fund operations.

In exchange, PREPA will keep current on bond payments, pay the forbearance fees and make its financial activities more transparent to bondholders that agree to the forbearance.

The power company must provide investors monthly cash reports and bank statements, weekly cash-flow updates, notification of any changes to its bank loans and information on its oil purchases exceeding $50 million annually, among other things.

The exhaustive financial reporting requirements reflect years of investor frustration over a perceived lack of transparency in how Puerto Rico communicates to the market. The stipulation concerning changes to the bank loans exposes tension between bond holders and PREPA's banks, Citigroup and Scotiabank, over who has priority claim on the utility's assets.

PREPA's 7% bond due 2043 jumped 10% today to 52 cents on the dollar, according to Electronic Municipal Market Access.

3:55 pm ET
Aug 15, 2014
By MATT WIRZ

San Bernardino Starts Bondholder Talks Two Years After Bankruptcy.

RIVERSIDE Calif. (Reuters) – San Bernardino, California, has begun face-to-face talks with some of its biggest creditors – bondholders and insurers – for the first time, two years after filing for bankruptcy in a case that has slowed to a crawl in the past 12 months.

Paul Glassman, an attorney representing the city, said in a court hearing on Thursday that an all-day mediation session was held on Aug. 5 with Ambac Assurance Corp, the insurer of $50 million of pension obligation bonds issued to the city in 2005.

Ambac was also negotiating on behalf of Erste Europäische Pfandbrief-und Kommunalkreditbank AG, the holder of the bonds, and Wells Fargo Bank, the bond trustee and the flagship bank of Wells Fargo & Co. Details of the negotiations are subject to a judicial gag order.

Glassman said the city will begin talks soon with another creditor, bond insurer National Public Finance Guarantee Corp, a unit of MBIA Inc.

San Bernardino, a city of 205,000 people located 65 miles east of Los Angeles, filed for bankruptcy in August 2012 with a budget deficit of $45 million.

The city is one of a handful of municipal bankruptcies being closely watched by the $3.7 trillion U.S. municipal bond market. Bondholders, public employees and other state and local governments are keen on understanding how financially distressed cities handle their debts to Wall Street, compared with other creditors like large pension funds such as Calpers, during Chapter 9 protection.

Stockton, another California city that declared bankruptcy around the same time as San Bernardino, is significantly closer to exiting Chapter 9. Detroit, Michigan, which filed the biggest municipal bankruptcy in U.S. history in July 2013, filed a plan of adjustment to deal with its $18 billion of debt in February.

'TENTATIVE' POLICE PACT

San Bernardino has also reached a “tentative” deal with the police union – the city’s biggest – after months of closed-door negotiations, Glassman said. He added that the deal represented “significant progress” in the city’s attempt to issue a bankruptcy exit plan, known as a plan of adjustment.

In June, the city reached a deal with its biggest creditor, the California Public Employees’ Retirement System (Calpers).

San Bernardino has imposed significant cuts in pay and other benefits on its police and firefighters.

While the police have now reached a deal with city leaders – details are also subject to a judicial gag order – the firefighters have not.

A request by the firefighters’ union to impose a January deadline on the city to issue a plan to exit bankruptcy was rejected by U.S. Bankruptcy Court Judge Meredith Jury, who is overseeing the case.

Mark Angelov, an attorney for Ambac, said no progress was made in the mediation session, adding that “the case has been going on a long time. If there continues to be no progress, we may well ask for a deadline for the city to file a plan.”

By REUTER
SAUG. 14, 2014, 7:24 P.M. E.D.T.

(Reporting by Tim Reid; Editing by Jan Paschal)

Your Three-Step Municipal Bond Workout.

The municipal market has been on a tear this year. And I’ll be the first to admit – we didn’t necessarily expect it. In fact, few people anticipated interest rates would fall (and bond prices rise) as they have in the first seven months of the year. Munis also benefited from an imbalance in supply and demand, which helped support pricing, and from a collective “ouch” from taxpayers when they saw their 2013 tax bills. Tax-exempt munis looked that much better.

So, what’s next? We think it’s time to protect those gains rather than reach for more. We also think it makes sense to prepare for more volatile interest rates than we’ve seen over the past several months, particularly as the Fed gets closer to abandoning the zero-interest-rate policy it put in place in December 2008. More precisely, we’d suggest three actions to consider now:

1. Flex more muni muscle with a flexible municipal fund. “Unconstrained” investing has gotten quite a bit of press this year. My colleague Rick Rieder wrote about it here , and BlackRock recently published a new paper on the topic. It’s a concept that’s just taking hold in the muni space, and we think it makes a lot of sense. Essentially, an unconstrained municipal strategy, such as our own Strategic Municipal Opportunities Fund , is a flexible, one-stop solution that invests across the entire municipal spectrum. It’s not limited to bonds of a particular credit quality or maturity date. Importantly, we are able to manage interest rate risk by adjusting our duration as needed in an effort to mitigate the losses that accompany a rise in interest rates. It’s a kind of flexibility not previously available, and we think it can add a lot of diversification to your muni allocation at a time when market uncertainty demands a high level of adaptability.

2. Work the barbell. The middle portion of the municipal yield curve (short and intermediate maturities) is looking relatively pricey at this juncture. For that reason, we suggest a barbell

approach that favors maturities below two years on one end (for trading flexibility) and above 15 years on the other for some potential yield pick-up. While short-term and intermediate munis are looking expensive, we think longer maturities continue to appear attractive versus Treasuries and, we believe, represent absolute and relative value.

3. Leave the heavy lifting to the pros. And by "heavy lifting," I mean credit research. While overall creditworthiness is improving across the municipal landscape, and municipal bonds in general have had lower default rates than corporate bonds, no two issuers, credits, you name it, are exactly alike. You need to understand issuers' ability to pay back debt, but also their willingness . This isn't easily assessed, and there's the potential for new precedents to arise out of cases such as Detroit . Professional eyes are priceless here, as a wrong move (particularly if you're buying individual bonds) can make or break a muni portfolio. Our credit research team offers insight in their quarterly Municipal Credit Highlights.

Overall, municipal bonds continue to be a favorable fixed income option here at BlackRock, as noted in our Mid-Year Outlook . Munis remain a high-quality asset class offering yields that today rival those of Treasuries and many corporate bonds before tax – and look even better after. Caution is warranted after the market's more than 6% gain through July, but in our estimation, that does not diminish munis' appeal.

By BlackRock, August 14, 2014, 09:00:43 AM EDT

You should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus and, if available, the summary prospectus contain this and other information about the fund and are available, along with information on other BlackRock funds, by visiting our website at www.blackrock.com or from your financial professional. The prospectus should be read carefully before investing.

The opinions expressed are those of Peter Hayes as of August 15, 2014, and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of any individual holdings or market sectors.

Bonds and bond funds will decrease in value as interest rates rise and are subject to credit risk, which refers to the possibility that the debt issuers may not be able to make principal and interest payments or may have their debt downgraded by ratings agencies. A portion of a municipal bond fund's income may be subject to federal or state income taxes or the alternative minimum tax. Capital gains, if any, are subject to capital gains tax.

USR-4361

The views and opinions expressed herein are the views and opinions of the author and do not necessarily reflect those of The NASDAQ OMX Group, Inc.

Read more:
http://www.nasdaq.com/article/your-three-step-municipal-bond-workout-cm380049#ixzz3APRPWwyB

U.S. Municipal Bond Trading Torpid in Second Quarter.

Aug 14 (Reuters) – Traders slammed on the brakes in the U.S. municipal bond market during the second quarter of 2014, with the amount of debt changing hands down more than 10 percent from a year earlier, Municipal Securities Rulemaking Board data released on Thursday showed.

Volume fell 11.8 percent to $739 billion in the quarter from $838 billion in the second quarter of 2013. The number of trades dropped 17.6 percent to 2.24 million from 2.72 million in the same period a year earlier, according to the MSRB, which collects all trading data through its Electronic Municipal Market Access platform.

The secondary market moved in step with the primary in the quarter that ended in June, with supply of new debt falling 15.7 percent, Thomson Reuters data shows.

So far in 2014, Puerto Rico has dominated both supply and demand, as its junk rating, economic troubles and fiscal worries help push up yields on its debt and attract hedge funds and other atypical municipal investors.

The $3.5 billion of bonds it sold in March were the biggest issuance in the first half of 2014, and the bonds have whipped through the secondary market.

In the second quarter, they were the most active security when measured by the number of trades, at 1,531. By par amount, they were the fifth-most-traded, with volume of $2.89 billion.

In the first quarter, the bonds led the secondary market, with $7.65 billion changing hands in 2,363 trades.

Bonds sold by the island’s sales tax financing corporation, often considered the safest among Puerto Rico credits, were the fourth-most active security in the second quarter when measured by par amount, with volume of $3.5 billion.

East Baton Rouge Parish industrial development bonds, from Louisiana, were the most-active security by dollar amount, with $4.54 billion worth traded.

With interests rates rising and prices falling, as well as uncertainty caused by Puerto Rico and bankrupt Detroit, the municipal bond market has been shrinking for nearly a year. The total amount of outstanding municipal debt is now the lowest since 2009.

It is also shifting to a buyer’s market, the MSRB data showed.

The majority of trades, 959,920, were purchases, followed by inter-dealer trades – when a dealer moves a bond from one side of the ledger to the other – at 764,764. Meanwhile, sales numbered 512,224 and their share of trades, 22.9 percent, was lower than a year earlier, when they represented 23.5 percent of activity.

Nonetheless, the average daily volume of customer purchases, $5.8 billion, was 11 percent lower than the average in the second quarter of 2013.

Buying could continue into the third quarter. Many bonds’ principal and interest payments are made during the summer, and in the past investors have put that money back to work in the municipal market.

BY LISA LAMBERT
Thu Aug 14, 2014 10:47am EDT

(Reporting by Lisa Lambert; Editing by Dan Grebler)

NYT: Chief of Arizona Firefighters' Group Pushes for Cut in Pensions.

Bryan Jeffries, the chief of Arizona's firefighters' association, has argued that his members — and the state's police officers, too — should volunteer to cut their own pension benefits.

PHOENIX — Bryan Jeffries, the chief of Arizona's firefighters' association, has been arguing to anyone who will listen that his members — and the state's police officers, too — should volunteer to cut their own pension benefits.

Mr. Jeffries, a fourth-generation Arizonan who has been a firefighter and a city councilor, says that first responders have a special obligation to protect the public not only from physical peril, but also from financial ruin. Cutting pensions for firefighters and police officers would help save their woefully underfunded retirement plan and bail out towns and cities that are struggling to keep up with their mandated contributions, he says.

"It is critical for our state, for the taxpayers and for the next generation that will be here long after we are gone, that we repair this," said Mr. Jeffries, whose group, the Professional Fire Fighters of Arizona, works on political issues relevant to its membership. "I know intellectually that with these ballooning payments, I feel a direct conflict with the oath I took to protect the citizens."

His unusual proposal has been a touchy subject for many of the people whose pensions would be cut, because defined benefit pension plans are viewed as compensation for doing dangerous work and a lure to recruit new public servants. And despite the growing shortfall in the statewide pension plan that has put stress on cities and towns, which must make up the difference, politicians have been nevertheless wary of attacking these benefits, for fear of alienating two powerful constituencies and to sidestep questions about why they lavished such generous pensions on them in the first place.

"When you see policemen and firemen putting their lives on the line, you want to make sure that when they retire, they receive a reasonable retirement," said Jeff Dial, a Republican state representative from the Phoenix area who supports the firefighters' initiative.

But among the 236 employers in Arizona's $6.1 billion Public Safety Personnel Retirement System, which covers about 31,000 active and retired first responders, just 39, have fully funded pension plans. An additional 21 plans are less than 40 percent funded, a rate so low that if they operated in the private sector, they would be at risk of being taken over.

The growing unfunded liabilities have forced cities and towns to pick up the tab. Tucson, for instance, contributes the equivalent of 51 percent of its first responders' payroll, up from about 11 percent a decade ago. That means if a firefighter's salary is $60,000, Tucson must pay about $30,000 more toward his pension. For most police officers and firefighters, pensions make up the bulk of their retirement income, because they do not collect Social Security.

The Arizona pension system has been eroded by ill-fated investments, provisions that have steered money to retirees instead of replenishing the plan, and budget woes that have led cities to cut the size of their fire and police departments, leaving fewer employees to pay for retirees. Municipalities forced to pay higher contributions have had to raise taxes and take other difficult steps.

"The costs of the plan put additional pressure on budgets, especially when we're still trying to recover from the recession," said Rene Guillen Jr., a legislative director at the League of Arizona Cities and Towns. "That could mean that money that could go for raises or new personnel might have to be redirected for covering the costs of retirements."

In 2011, Arizona lawmakers passed a law that undid several benefits in the first responders' pension plan, including one that gave any investment gains in the fund above 9 percent per year to the retirees instead of keeping it in the fund as a cushion against the years when it lost value.

The law, though, was overturned in court this year because it was ruled to violate the state's Constitution, which includes a clause that says that there cannot be any impairment of benefits in the first responders' pension plan.

As the law was being appealed, financial conditions deteriorated further, so Mr. Jeffries and his predecessor at the state firefighters' association, Tim Hill, proposed raising the number of years that new first responders will need to begin collecting a pension, increasing member contributions and trimming cost-of-living increases. Mr. Jeffries says that the measures will save taxpayers tens of millions of dollars and could return the pension plan to full funding in 18 years.

To put the plan into effect, Mr. Jeffries wants to change the Constitution to allow for this one-time fix. This would reassure first responders that lawmakers could not make even more dramatic changes later.

Critics, though, call this strategy a half-step.

"If they were serious and genuine about wanting policy makers to manage these systems to keep them as opposed to running them off a cliff, then what they would have advocated for was the removal for the pension clause" from the Constitution, said Kevin McCarthy, president of the Arizona Tax Research Association.

Either way, Mr. Jeffries has a lot of work to do before his proposals are acted on.

First, he must persuade several police groups to agree. Joe Clure, the president of the Phoenix Law Enforcement Association, which represents 2,400 police officers, has worked with the firefighters on their initiative, but is wary of moving too hastily. "What you worry about is it opening Pandora's box and making all sorts of changes," Mr. Clure said. "We are offering up our own haircut."

Gov. Jan Brewer declined to call a special session that would have allowed lawmakers to authorize a ballot measure in November to change the Constitution. Lawmakers might revisit the issue this year or in 2015, but Mr. Jeffries said he and the police were willing to collect the signatures needed to put the constitutional amendment to a vote.

In the meantime, Mr. Jeffries has hired Ryley Carlock & Applewhite, a prominent law firm in Phoenix, to help him sell his plan. Mr. Jeffries has visited fire stations around the state where, he says, he has received little pushback from first responders. City managers and mayors, some of whom have been hamstrung by the pension crisis, have also welcomed the proposals.

"Pensions are not sexy things or easy to sell to voters," said Fritz Behring, the city manager of Scottsdale, who favors the firefighters' plan, even though his city is in relatively secure financial shape. "The average citizen doesn't have those benefits and resents it. If voters have a choice to cut benefits, they will."

In many parts in the country, police and firefighter unions have fended off efforts to change their pension plans. But first responders in Arizona operate in a right-to-work state where the Legislature has huge sway, anti-union sentiment runs high and the Tea Party has clamored for greater fiscal responsibility.

Fueling the resentment are reports of public servants who retire with six-digit pensions by exploiting rules that let them cash in unused vacation and sick days. Sal DiCiccio, a Phoenix councilman who favors giving new city employees 401(k) plans, published a list of the 50 highest pensions for retired city public employees.

“The whole system has been gamed by everyone,” Mr. DiCiccio said. “I’m supportive of pensions for police and fire, but people don’t expect that” kind of abuse.

While the most egregious cases make headlines, most pensions for first responders are modest. The average pension for a first responder (not including those on disability or paid to survivors) is $52,600, assuming they worked 23.6 years and were 51.3 years old when they retired, according to the pension fund administrator.

That does not include the cost-of-living increases — of up to 4 percent, compounded annually — or the fact that some first responders start second careers, sometimes in government, that pay them a second pension.

The possibility that frustrated voters will demand even more drastic changes drives the firefighters. Mr. Jeffries said his members worried that “something dramatic is going to happen, and they’ll wake up and they’ll have nothing,” he said.

By KEN BELSON
AUG. 11, 2014

Philadelphia Schools Seek to Tax Smokers for Funds: Muni Credit.

Philadelphia’s schools are counting on smokers to fill a budget gap that threatens to extend the summer vacations of the city’s children. Any fiscal gains may be as ephemeral as a puff of smoke.

The district, the nation’s eighth-largest, needs state lawmakers to allow the city to levy a new tax of $2 per pack of cigarettes. A delay may lead to firings or push out the first day of school, said Superintendent William Hite Jr. He said he will decide by Aug. 15. The deadline underscores the precarious condition of the district, which educates about 200,000 students and owes $3.3 billion of municipal debt.

Even if legislators approve the tax, proceeds won’t cover the shortfall for the year that began in July, said Matthew Stanski, the district’s chief financial officer. What’s more, revenue relying on cigarettes may decline along with smoking, said John Donaldson, who helps manage $750 million of munis at Haverford Trust Co. in Radnor, Pennsylvania.

“It’s not a sustainable, long-term foundation for funding,” said Donaldson, Haverford’s director of fixed income, who let his last district holdings mature last week.

Confronting Costs

Even as a nationwide economic recovery has buoyed cities and states, urban school districts such as Philadelphia and Chicago are struggling to cope with rising costs for areas such as pensions and health care. Philadelphia, the nation’s fifth-most-populous city, in December won its highest Standard and Poor’s rating, A+, four below the top. Yet Moody’s Investors Service in May called the school system “a deterrent to economic growth.”

“Longer-term, it could impede the city’s progress and the city’s strong comeback,” said Alan Schankel, managing director at financial-services firm Janney Montgomery Scott LLC in Philadelphia. The city, whose population started to rebound in 2006, needs to attract employers and people who would want to raise children there, he said.

Mayor Michael Nutter, a Democrat, said during a state senate committee hearing in Philadelphia Aug. 6 that when he meets business executives, “increasingly, people are asking me, what’s going on with schools? How am I going to have the necessary workforce to expand and grow my business?”

Investor Assurance

While children in the city of 1.5 million may not be confident of returning to school as scheduled on Sept. 8, bondholders have more assurance in getting repaid.

The district’s debt is issued under a system in which aid can be diverted to bond trustees before the obligations are due, said Tom Lemmon, a Moody’s spokesman.

The program “provides good security for bondholders,” said Kathleen Evers, managing director of municipal credit analytics at BMO Capital Markets in New York.

Moody’s may cut the district’s credit mark of Ba2, two steps below investment grade. Yet it’s not doing the same for the bonds, ranked A1, fifth-highest, because of the state program.

Philadelphia district securities maturing in September 2020 traded Aug. 7 with an average yield of about 2.2 percent, or 0.69 percentage point above benchmark munis, lower than the average gap of about 0.80 percentage point for the past five months, data compiled by Bloomberg show.

The district’s woes stem from climbing mandatory expenses as Pennsylvania cut aid from 2010 through 2012, Moody’s said.

Charter Expense

The system, which doesn’t have authority to raise its own revenue, must cover the cost of charter-school students. In this year’s $2.55 billion spending plan, charters take up 31 percent, compared with 18 percent in fiscal 2011, according to a district presentation. Pension and health-care outlays account for 11 percent, compared with 7.5 percent in 2011.

In response to the financial strains, the district, which faces an $81 million budget gap for the fiscal year that began in July, has closed 31 schools and last year fired 3,790 workers. It employs about 17,000 as of December. State and city lawmakers extended a 1 percent city sales tax that was set to expire in June, bringing the district an estimated $120 million this fiscal year.

Canceled Vote

The proposed new cigarette tax, which city council passed last year, would provide about $7 million a month, Stanski said. Although the Pennsylvania House was scheduled to vote Aug. 4 on a bill enabling the move, it canceled its session. Some representatives concluded that the bill, passed by the senate with provisions that weren’t applicable to Philadelphia education, needed vetting because of the additional items, said Stephen Miskin, a spokesman for House Republican Majority Leader Mike Turzai.

The state assembly is scheduled to return Sept. 15. Republican Governor Tom Corbett on Aug. 6 said he’s advancing $265 million in already budgeted state aid for the district. The disbursement doesn’t assure a timely school opening, Hite said alongside the governor at a news conference in Philadelphia.

The delay in authorizing the cigarette tax “is eroding public confidence in public education and hindering the city’s economic prospects,” Hite said later at the state senate committee hearing.

School officials had estimated that if the tax were in place by September, proceeds would generate at least $65 million for the fiscal year, Stanski said. Even that wouldn’t fill the budget gap.

Asked if there were other revenue options, Stanski said, “not at this time.”

Bloomberg
By Romy Varghese
Aug 7, 2014 5:00 PM PT

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Detroit Bankruptcy Judge Tours City Whose Fate He’ll Decide.

The federal judge overseeing Detroit’s bankruptcy case took a 58-mile tour of the insolvent city, less than two weeks before he will open a trial over its proposed debt-cutting plan.

U.S. Bankruptcy Judge Steven Rhodes treated the tour yesterday as an official court hearing, with a court reporter making a transcript of the event while lawyers supporting and opposing the plan rode along. The goings-on were taped by a videographer.

“The judge did not ask any questions,” court spokesman Rod Hansen said today in a phone interview. The route was decided by the city after it had been reviewed by creditors who plan to fight the city during the trial that starts Aug. 21.

Robert Hertzberg, a bankruptcy attorney for the city, participated in the tour along with the former councilman Gary Brown, who now works for Mayor Mike Duggan.

Before the tour began, the judge sealed references to the route, the date and other details. In court he said he didn’t want the tour disrupted in case the plans became public before the event was over.

The city organized the tour as part of its presentation of evidence in support of the debt-cutting plan. The goal was to show Rhodes the challenges the city faces and what progress it has made so far.

During the tour, the judge saw some of the city’s older neighborhoods, including the blight-strewn Brightmoor area as well as the construction site of a streetcar line on Woodward Avenue in downtown, where redeveloped buildings have attracted new business.

Detroit filed for bankruptcy last year, saying decades of economic decline left it without enough revenue to provide basic services.

The trial is scheduled to conclude the fourth week of September.

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

Bloomberg
By Steven Church Aug 9, 2014

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WSJ: Detroit to Offer Refinancing for $2.7 Billion in Water Debt.

The city of Detroit through its water and sewerage department plans to offer to exchange about $2.7 billion worth of debt and replace it with lower interest-rate, but better secured debt as part of a cost savings move, said a person familiar with the matter Wednesday.

The proposed debt tender offer comes as the city of Detroit works to exit from municipal bankruptcy filed in July 2013 with an estimated $18 billion in long-term liabilities. Closed-door negotiations are ongoing between the city and its suburbs to turn the city water and sewerage department over to a regional authority, which could mean additional funds for the cash-poor city, this person said.

The state of Michigan still needs to sign off on the offer, the person said. The idea is to shore up the chances for repayment while yielding up to $100 million in savings to reinvest in the water system serving Detroit and its suburbs. Details of the offer are expected to be released publicly Thursday, this person said.

The offer comes just weeks before the city is expected to defend its debt-cutting plan for the city in federal a bankruptcy court. Several creditors oppose the plan to cut about $7 billion in debt, arguing in part it favors pension holders over some bondholders and doesn't adequately cash in on the city's famed art collection.

By MATTHEW DOLAN
Aug. 6, 2014 7:39 p.m. ET

NYT: A Start-Up Helps Towns Market Their Property.

Two public policy graduates at the Kennedy School at Harvard University are trying to build a business of helping municipalities with a task at which they are notoriously deficient: managing and marketing their real estate portfolios.

Called OpportunitySpace, the start-up works with municipal governments to put their publicly owned real estate holdings in a public online database. Specifics about each property, such as square footage, assessed value and delinquent taxes, are linked to its address. The parcels are mapped geographically.

The developers, Cristina Garmendia and Alexander Kapur, say their 2013 master's thesis spawned the business, which is nearing the end of its incubation phase at the Harvard Innovation Lab. The mission of OpportunitySpace, they say, is threefold.

A public database can help governments better leverage what has often been “a lazy asset,” Mr. Kapur said. It can give developers an easy way to find upfront information about available properties, and it can provide transparency around publicly owned buildings and land, that way generating more creative thinking around development possibilities.

“It just seems like the knowledge set for how to invest and develop is limited to such a select group of people that there’s an opportunity to use technology and data to open up access to this market,” Mr. Kapur said. “More competition, more ideas, more visibility, more market transparency will create better outcomes.”

Though many of its features are still in development, OpportunitySpace just completed a pilot program with four Rhode Island municipalities, including Providence. The city’s inventory — 1,363 publicly owned parcels, including parks and recreational areas — is now posted online. Mayor Angel Taveras said he hoped to eventually make the site accessible from a smartphone.

“We’re trying to remove barriers to redevelopment, making it easier for anyone to find properties available,” the mayor said. “We’re using technology to provide critical information.”

Developers tend to want to do a lot of “quiet research” before opening a conversation with a municipality about a particular property, said Lawrence J. Platt, a commercial real estate broker, developer and consultant in Providence. They typically use online listing services like LoopNet and CoStar to search for opportunities, but the fees can be prohibitively expensive for municipalities, he said.

For that reason, he described OpportunitySpace as “a very logistical starting place” for municipalities trying to market their properties. “It’s a chance for communities to get into the game in a more cost-effective way,” he said.

Most cities are “fairly disorganized” when it comes to keeping track of their real estate holdings, said Ted Smith, the chief of civic innovation for the Louisville Metro Government, in Kentucky, which was the host city when Mr. Kapur and Ms. Garmendia began developing OpportunitySpace. And, he added, the geographic information systems that municipalities do use, such as Esri, are not public.

Louisville is using OpportunitySpace to showcase an old, vacant armory downtown that is ripe for redevelopment. “Our aim was to raise the visibility of that armory before some savvy developer that was clearly pro-forma-driven grabbed it up and pursued whatever vision that they had,” Mr. Kapur said. “There has been a lot of community engagement and discussion around this property.”

The database also supported a Louisville-sponsored contest seeking suggestions for creative uses for publicly owned vacant lots. Louis Johnson, an urban designer, worked with a winning team that he said used OpportunitySpace to pinpoint lots in a postindustrial neighborhood they knew to be experiencing a resurgence. In partnership with a nonprofit group, Anchal, Mr. Johnson is building a demonstration garden to introduce people to plants that can be used to make natural dyes.

Mr. Kapur and Ms. Garmendia said they were working on layering in additional property information. Other features in the works include maps showing where public investments, subsidies or abatements are focused, master plan details and zoning maps.

Users can also register to receive alerts about certain properties, Ms. Garmendia said. “Say you specialize in redeveloping lighthouses or schools,” she said. “You can register to receive an alert when and if those properties go up for sale."

The OpportunitySpace plan calls for charging cities a manageable subscription fee, but will generate much of its revenue by selling more sophisticated levels of data to the private sector.

"The success of the venture will depend a lot on how much demand there is for this information and whether it will really make things better," said Archon Fung, the academic dean of the Kennedy School and the adviser on the students' thesis. While the Kennedy School is not known as a start-up generator, Mr. Fung said that students were becoming more hands-on in their approach to public policy problems.

"More and more you're seeing projects like these where they're trying to solve a public problem like voting, education, real estate development," he said, "not by advising but by developing a bottom-up, start-up solution."

By LISA PREVOST
AUG. 5, 2014

Detroit Gateway Seizes Chance on Record Airport-Bond Gain.

The agency that runs the main airport serving bankrupt Detroit is set to offer $107 million of debt as airport bonds extend an unprecedented winning streak relative to the $3.7 trillion municipal market.

The Wayne County Airport Authority will use proceeds from this week's borrowing to rehabilitate airfields and improve roadways and terminals at the Detroit Metropolitan Wayne County Airport, offering documents show. It will be the first deal for the facility, a Delta Air Lines Inc. (DAL) hub about 22 miles (35 kilometers) southwest of downtown Detroit, since the Motor City filed a record municipal bankruptcy in July 2013.

The issue may avoid the stigma attached to the city. Airport bonds are rallying as a rebounding economy encourages travel. The debt has gained 7.9 percent this year through July, beating the market's 6.8 percent advance, Bank of America Merrill Lynch data show. It would be the fourth straight year of outperformance, a record since the data begin in 1993.

"Airport debt is trading on the moon right now," said Lyle Fitterer, who helps oversee $34 billion of munis at Wells Capital Management in Menomonee Falls, Wisconsin. "Wayne County is a very large hub for Delta, and it's not going away. I don't think people are really fearful of that credit at all."

Detroit Separation

Detroit's $18 billion Chapter 9 bankruptcy has increased the focus on bondholder protection as some investors prepare to receive as little as 11 cents on the dollar on the city's debt. Offering documents for the airport deal highlight that the authority is an independent legal entity from Detroit.

The documents specify that the airport, 17th-busiest in the U.S. last year, serves an area beyond Detroit, whose population has declined 60 percent since the 1950s.

The region of 10 Michigan counties "continues to exhibit a strong economic recovery and provide a positive environment for new and growing businesses" even with Detroit's bankruptcy, according to the statement.

Terry Teifer, chief financial officer of the airport agency, said in an interview that he has spoken with investors to offset “a negative perception because of what’s going on in Detroit.

‘‘We’re well-situated, and the airlines are all doing much better,” he said. “We feel really strongly about our game plan for the airport.”

Delta Dominant

Through the first six months of the 2014 operating year, which began Oct. 1, enplanements were up 1 percent from the period a year earlier, offering documents show. An enplanement is a revenue-generating passenger departing from or arriving at an airport.

Delta and its connecting carriers account for about 79 percent of the airport’s passengers. The Atlanta-based airline on July 23 posted second-quarter profit that beat analysts’ estimates, buoyed by U.S. demand.

Delta’s profit is one example of how the airline industry is rebounding from the 18-month recession that ended in 2009, said Burt Mulford, who helps oversee $2 billion of municipal bonds at Eagle Asset Management in St. Petersburg, Florida. It’s no coincidence that 2011 marked the start of the four-year rally in airport debt, he said.

Airports Lifted

“There’s a pretty high correlation between air travel and the overall health of the economy — more people are traveling and the airlines are becoming more profitable,” he said. “When the economy was beaten up in 2007, 2008 and 2009, airports were a risky sector.”

U.S. gross domestic product rose at a 4 percent annualized rate in the second quarter, Commerce Department figures showed last week. That exceeded the 3 percent median estimate of 80 economists surveyed by Bloomberg.

The recovering economy is lifting airport debt more than other areas of munis.

Securities backed by airport revenue, with average ratings four steps below AAA, lost less than the market last year amid the worst slump for munis since 2008, Bank of America data show.

The 2014 rally has included debt for the Detroit airport. Some of the agency’s most-traded bonds of the past month mature in December 2023, data compiled by Bloomberg show. The average yield fell to a record low 2.11 percent July 30, according to Bloomberg Valuation data.

Investment Grade

Those bonds have a junior lien and ratings four steps above junk from Moody’s Investors Service. The debt is insured by National Public Finance Guarantee Corp.

This week’s offering of senior-lien securities, with the sixth-highest investment grade, includes a $73 million tax-free portion and a $35 million segment that is subject to the alternative minimum tax. The proceeds will fund projects included in a five-year capital improvement plan.

Airfield work, rehabilitation and reconstruction make up almost half the cost of projects financed by the sale, offering documents show.

About $75 million of the debt matures in 25 or 30 years. Bonds maturing in more than 22 years have gained 12 percent this year, on pace for the best annual return since 2011, according to Bank of America data.

Airports are “still one of the sectors with spread, and the structure on the Wayne County deal is mostly longer paper,” Fitterer said. “Anything that has yield to it right now is seeing good demand.”

By Brian Chappatta Aug 3, 2014 5:00 PM PT

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Rhode Island Refunds Tobacco Bonds as Rally Sputters: Muni Deal.

Rhode Island is selling $594 million in debt backed by tobacco-company payments as the segment is losing some luster while it beats the $3.7 trillion municipal market this year.

The state’s Tobacco Settlement Financing Corp. is refunding securities this week that are backed by funds from a 1998 settlement between U.S. states and cigarette companies to cover health-care costs related to smoking, bond documents show.

The revenue behind the bonds relies on cigarette sales. Rising taxes and increased regulation may curb payments made by cigarette companies to states, according to bond documents. Domestic cigarette shipments fell 4.9 percent last year, the steepest drop since 2010, according to data from the National Association of Attorneys General.

There is less risk associated with falling sales in this deal given its “ability to withstand an approximately 8.3 percent year-over-year decline in cigarette shipments,” Standard & Poor’s said in a report.

S&P ranks $335 million of the bonds maturing from 2015 through 2024 with an A mark, the sixth-highest grade, and those due from 2025 through 2034 get A-, one level lower. The securities maturing after 2034 are rated BBB+, the third-lowest investment grade.

Risk Horizon

The longer-dated bonds have lower grades because the increased duration means greater risk to the industry, S&P said in its July 25 report.

Phillip Morris USA, Reynolds American Inc. (RAI) and Lorillard Inc. (LO) struck an agreement with 46 states in 1998 that mandated the companies pay more than $200 billion to resolve their liability in litigation over health-care costs resulting from smoking. About $94 billion of municipal debt is backed by these payments, which are based on cigarette shipments.

While tobacco bonds have outpaced the rest of munis this year, they trailed the broader market the past two months. Since the end of May, tobacco bonds have lost 1.7 percent, while munis added 0.1 percent. For all of 2014, tobacco bonds are still up 11 percent through July 31, compared with 6.3 percent for the market.

Thomas Mullaney, the state’s budget officer, didn’t immediately respond to messages left at his office in Providence requesting comment on the sale.

By Elizabeth Campbell Aug 3, 2014 5:30 PM PT

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Record Rally Revived With Least Issuance Since 2001: Muni Credit.

July 31 (Bloomberg) — The rally in the $3.7 trillion municipal market is picking up momentum, extending an unprecedented streak of gains as issuance sputters to the slowest pace in 13 years.

Bonds of U.S. states and cities have earned 0.3 percent this month, after climbing in each of the first six months of 2014, a record run to start a year, according to Bank of America Merrill Lynch data beginning in 1989. In June, the debt returned 0.003 percent.

The issuance slowdown and steeper tax bills are outweighing concern that struggling Puerto Rico, whose bonds are held by 66 percent of U.S. muni mutual funds, may restructure some obligations. Inflows to muni mutual funds totaled $844 million the past two weeks, Lipper US Fund Flows data show. That marks a recovery after the U.S. territory's June move to allow public corporations to cut their debt through negotiation spurred investors to yank $790 million in a week, the most since January.

The Puerto Rico law "hit our market, but it was pretty isolated in terms of fund flows," said Mark Sommer, who helps oversee about $29 billion of munis at Fidelity Investments in Merrimack, New Hampshire. "The market has built up resilience over the last several years to the difficulties faced by some of these high-profile credits."

Supply Slide

This month's diminished sales calendar is part of a yearlong slide in offerings, with supply 16 percent below the 2013 clip. States and cities are set to borrow about $21 billion this month, the least for July since 2001, according to Alan Schankel, a managing director focusing on muni research and strategy at Philadelphia-based financial-services firm Janney Montgomery Scott LLC.

The scarcity has helped fuel outsize gains. The municipal market has climbed 7 percent this year, its strongest start since 2009 and beating Treasuries and corporate bonds. The trend may extend into August as bondholders receive cash to reinvest.

Bond payments to investors, including cash from refinanced debt, will outpace issuance by about $6.5 billion next month, the most for August since 2011, said Peter DeGroot, head of municipal research at JPMorgan Chase and Co. in New York.

"Supply is nowhere near enough versus the cash flows," Tim McGregor, head of munis in Chicago at Northern Trust Corp., which oversees $30 billion of the bonds, said in an interview. "August supply won't pick up in a meaningful way."

Local Frugality

The dearth of debt helped push benchmark 30-year interest rates to the lowest since May 2013 this week, data compiled by Bloomberg show. Even with borrowing costs close to generational lows, municipalities are reluctant to issue as they grapple with fiscal strains left from the 18-month recession that ended in 2009.

States, counties and school districts are being "quite frugal with issuing debt," said Terry Fettig, who manages about $150 million in munis as co-director of fixed-income investments at Windsor Financial Group LLC in Minneapolis. It's challenging to find bonds for clients who want state-specific, high-quality credits, Fettig said.

"With rates where they are, I think it's an opportune time" to borrow, Fettig said. "The second part of the year is going to be much more challenging."

The consensus on Wall Street is that yields will rise this year as the economy strengthens. Interest rates on 10-year Treasuries will climb about 0.4 percentage point to 3 percent by year-end, according to the median forecast of 67 analysts in a Bloomberg survey.

Tax Fuel

Developments in Puerto Rico may still put the brakes on the rally. The island's new debt restructuring law spurred one of six weeks of fund outflows in 2014. Junk-rated Puerto Rico has $73 billion in debt when counting its agencies, most of which is tax-exempt nationwide. In comparison, Detroit's record bankruptcy last year tallied $18 billion.

In 2014, new tax laws are fueling investors' appetite for local obligations. Some top earners faced levies on bond interest payments as much as 24 percent higher than in 2012.

"A lot of the credit worries exacerbated by Detroit and so on have receded," said Schankel at Janney. "I don't see investors as concerned about that. They want to buy tax-free bonds."

By Elizabeth Campbell and Brian Chappatta July 31, 2014

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Muni Liquidity Suffering But Monoline Insurers Making a Comeback.

The municipal bond market has endured two detrimental downward trends since the financial crisis: the drying up of bond inventory held by banks and dealers, and the demise of monoline insurers, who once insured over half of the muni market. Robert DiMella of MacKay Municipal Managers, who manages the MainStay Tax-Free Bond Fund (MTBAX), says declining inventory will continue to pose a problem for market liquidity, but sees monoline insurers making a comeback this year.

DiMella calls the inventory reduction "very significant," noting that capital commitment to muni bonds by big banks has dropped to $9 billion as of June from $50 billion only two years ago, largely due to of tighter regulations and reduced risk appetite among banks. That can make it tougher to find a buyer when you want to sell, and it makes the market more susceptible to sharp swings in sentiment, like when munis saw protracted outflows last year following Detroit's bankruptcy filing and Puerto Rico's financial problems.

"This risk is going to stay with us," DiMella says, noting that other areas of the bond market face similar inventory issues. "We don't have big crossover buyers from other asset classes stepping in and absorbing technical imbalances. You have to run your operation with a greater amount of liquidity in your portfolio."

DiMella says the relatively recent advent of municipal exchange-traded funds "has exacerbated the problem, because you have a highly liquid product like an ETF that trades on an exchange investing in a less liquid muni bond."

DiMella identifies the re-emergence of monoline insurers as a key muni-market theme for the rest of 2014. These companies aim to maintain high credit ratings and "wrap" lower-rated, less liquid muni bonds for a fee, with investors benefiting from the higher credit rating, lower default risk and reduced need for individual credit research. But most monolines were felled by bad bets on mortgage securities during the financial crisis. DiMella says the market is re-emerging thanks to some favorable court rulings, with some companies achieving double-A ratings.

"The average retail investor is getting much more comfortable with insurers again when they see that they're not losing money in Detroit's wrapped bonds," he says, noting that MacKay has an overweight in insured munis.

Can DiMella imagine insurers regaining the same prominence they had before the financial crisis? "No," he says. "We don't foresee that, and don't foresee them getting back to triple-A ratings either."

Barrons
July 30, 2014, 4:31 P.M. ET
By Michael Aneiro
